LECTRA

2017 Financial Report

Summary

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 44th fiscal year, ended December 31, 2017.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 27, 2018, which in addition discusses in detail the financial statements and other disclosures relating to the parent company Lectra SA and presents its report on the Group's corporate social, environmental and societal responsibility information in the framework of the "Grenelle II" Act. It is also separate from the report of the Board of Directors to the Extraordinary Shareholders' Meeting of April 27, 2018, which explains the reasons underlying the draft resolutions submitted for approval by the shareholders. These documents are available, in French only, on the Company's website, lectra.com.
Detailed comparisons between 2017 and 2016 are based on 2016 exchange rates ('like-for-like'), unless stated otherwise.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 2017

Uncertain Macroeconomic, Geopolitical and Currency Conditions

In its February 9, 2017 report and its 2016 annual report, the Company stated that it had entered 2017 with stronger operating fundamentals than ever and a reinforced balance sheet. Nevertheless, persistent macroeconomic, geopolitical, political and currency uncertainties, together with increased risk, were liable to continue to weigh heavily on businesses' investment decisions.
Macroeconomic and geopolitical conditions were indeed challenging throughout the year, in particular: the consequences of the US elections on trade relations with Mexico; fragile political and economic situations in Brazil and Turkey; terrorist attacks or the risk of attacks in a growing number of countries; the Chinese boycott of Korean cars following deployment of a missile defense system in South Korea; and the strong appreciation of the euro against the US dollar and many other currencies. This context prompted many companies to postpone their investments.

Strong Growth in Orders for CAD/CAM Equipment and Software

Overall, orders for new systems amounted to €123.7 million, up €9.7 million (+8%) relative to 2016. Orders for new CAD/CAM and PLM software licenses increased by 14%, orders for CAD/CAM equipment and accompanying software by 9%, and orders for training and consulting decreased by 2%. Excluding *FocusQuantum*, orders for new systems increased by 15%.
At the same time, in 2017 the Company proceeded with its first sales of software with a Software-as-a-Service (SaaS) model, to a deliberately limited number of customers, in selected test countries. These sales correspond to total annual subscriptions of €0.3 million. If the sales had been made in the form of perpetual licenses, they would have represented an additional €0.6 million in orders for CAD/CAM and PLM software licenses.
Orders increased in all regions: by 14% in the Americas (+5% in North America and +75% in South America), 11% in Europe, 2% in Asia-Pacific, and 20% in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.).
Orders increased by 15% in the fashion and apparel market; they decreased by 1% in the automotive market; and increased by 19% in the furniture market and by 1% in other industries. These markets accounted for 48%, 36%, 11% and 5% of total orders, respectively.
The Company considers it has strengthened its competitive position in most of its market sectors and geographic markets.
At actual exchange rates, orders for new systems increased by 7%.

Revenues and Earnings up Sharply, in Line With the Company's Objectives

The Company's objectives for 2017, stated at the beginning of the year, were to achieve a growth in revenues by 6% to 12% and in income from operations by 7% to 15%, like-for-like.

Revenues totaled €277.2 million, up by 8% relative to 2016 (+7% at actual exchange rates).
Income from operations reached €39.3 million, up €3.7 million (+10%) and the operating margin was 14.2%, up 0.3 percentage points. At actual exchange rates, income from operations rose by 5% and the operating margin narrowed by 0.1 points.
Consequently, these results fall within the range of the objectives for revenues and income from operations communicated on February 9, 2017.
Moreover, these results are a new historic record.
Net income reached €29.3 million, up by €2.6 million (+10%) at actual exchange rates.

Very Strong Growth of Free Cash Flow

Free cash flow amounted to €33.2 million, compared to €23.8 million in 2016.

A Zero-Debt Company, a Particularly Robust Balance Sheet

At December 31, 2017, consolidated shareholders' equity amounted to €151.2 million (€132.6 million at December 31, 2016), the highest level ever.
The Company has been debt free since March 31, 2015.
Cash and cash equivalents, and the net cash position, totaled €98.1 million, up sharply compared to December 31, 2016 (€75.7 million). This is also a record level, which will enable the Company to self-finance its internal and external development.

Acquisitions and Partnerships

The company made no acquisitions in 2017 and did not enter into any new strategic partnership agreements.

2. ASSESSMENT OF 2017-2019 STRATEGIC ROADMAP: FIRST PROGRESS REPORT

The successful completion of the previous two roadmaps (2010-2012 and 2013-2016), combined with the success of the €50 million Investments for the Future program over the 2012-2015 period, have enabled the Company to build its new strategic roadmap for 2017-2019 on particularly robust foundations. The strategic roadmap—first published in the Financial Report dated February 9, 2017—constitutes the initial stage in the evolution of Lectra over the next ten years. Its objectives are to reinforce Lectra's global leadership and ensure sustainable growth, while preserving its short-term profitability.
The first year of the roadmap was successfully executed on the whole. The main sections of the roadmap are summarized below; each is followed by the corresponding initial progress report.

Four Major Trends Will Shape Lectra's Market Sectors and Geographic Markets

Across the world, Lectra's customers face fast-changing economic and societal conditions, with wide regional variations. At the same time as pursuing their quest for operational excellence—more crucial today than ever—Lectra's customers must adapt to emerging trends set to significantly impact their future.
First, the Millennials. Born between 1980 and 2000, this generation represents the largest population of working age in history, and in a few years will equate to the largest number of consumers in the world. Brought up in a digital world, Millennials are shaking up rules, behavior, needs and demands in terms of deliveries, quality, patterns of consumption, product personalization and respect for the environment.
Secondly, the digitalization of business. Made possible by an entire ecosystem of new technologies, from the cloud to mobility, and from augmented reality to artificial intelligence, the digitalization of processes and objects, now connected, is set to have a greater impact on organizations than the Internet. The process of analyzing and exploiting the data generated—big data—will expand the range of possibilities, from improving operations to building new business models.
Thirdly, the emergence of Industry 4.0. This concept, articulated in Germany in 2010 to tackle growing competition from emerging countries, has spearheaded today's fourth industrial revolution. Since then, many countries have launched similar initiatives to modernize industrial tools, with a view to building smart factories. Examples include 'Manufacturing USA' in the United States, *Industrie du Futur* (the factory of the future) in France, and 'Made in China 2025' in China. Founded on the digitalization of industrial processes—from design to production—Industry 4.0 is charting a new organization for factories, increasing their flexibility while making better use of available resources.

Real-time communication between different participants, objects, production lines and services is at the heart of Industry 4.0.
Lastly, China's evolving economy. The country is accelerating its transition towards a growth model firmly anchored in consumption, added-value and productivity. While this evolution will create new opportunities, substantial challenges for both Chinese and non-Chinese companies will also emerge, with global consequences. Major Chinese industrial apparel companies are moving up the value chain. The most advanced are developing their own brands and launching first on the Chinese market, before entering international markets in certain cases. China is intent on retaining its dominant position on the global industrial stage, with the government propelling factories towards full modernization. For its automotive industry—already world number one—by 2020 China is expected to account for nearly a third of all light vehicles produced in the world. In parallel, China is already the world's number one consumer of cars, with enormous growth potential. Indeed, its premium segment is set to overtake the United States in 2020. Finally, the furniture market, dominated by local brands, will continue to grow in step with the rise of China's middle class. Furniture exports are expected to decline progressively as a proportion of total output.

Progress Report

These four main trends and their impact were confirmed in 2017; indeed, going forward they constitute the main evolutions for the environment of Lectra customers across the world.

Lectra, an Indispensable Player in Industry 4.0

Industry 4.0 presents an unprecedented opportunity for Lectra, calling for the integration of smart solutions and services, and the replacement of production plants incompatible with connected factory concepts. The combination of Software-as-a-Service (SaaS) with the cloud are opening up new horizons for innovation. Factories are at the heart of the value chain, propelling a new digitalized lifecycle for products for the benefit of consumers. With Industry 4.0, mass production will leave more and more room for large scale personalized—and profitable—manufacturing, with greater quality and no added costs or delays. This shift will drive all businesses to integrate modular solutions and connected, smart services, an essential condition of continuing competitiveness in the digital age. Fashion and apparel, as well as automotive and furniture manufacturers will have to ramp up their transformation, adopting the technologies and services shaping Industry 4.0.
With ten years' experience in the industrial Internet of Things, combined with its expertise in software solutions to automate and optimize the design and development of fashion collections, Lectra is in a formidable position to help customers step into this new industrial age. Lectra is the only player in its industry to propose a complete added-value offer, compatible with Industry 4.0 and critical to its deployment, across all market sectors and geographic markets.
In 2007, Lectra blazed a new trail when it fitted over a hundred sensors to its *Vector* automated cutter. Its capacity to develop and program its own electronics enables the Company to manage in real time information emitted by the many hundreds of thousands of sensors installed in current generations of *Vector*, *Versalis* and *FocusQuantum*. It also creates a high entry barrier for competitors, still reliant on standard electronic boards. In total, over 3,400 Industry 4.0-compatible machines are in operation across 2,100 production sites worldwide.
By accelerating the integration of available new technologies, Lectra aims to significantly boost the value of its offer, reinforce its premium positioning, and hold onto its competitive edge.
Thanks to new cloud services, which Lectra started to develop in 2016 and plans to enrich over the next three years, and by adapting its equipment to Industry 4.0 best practices, the Company will optimize customers' cutting room performance for each type of manufacturing and material. Customers will be able to maximize cutting operations throughput by anticipating production orders very early in the process, reduce total costs, and continually improve processes with new key performance indicators.

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

Progress Report

The large number of reports from experts published in recent months confirm that Industry 4.0, associated with digital technologies and data, has transformed how all companies operate and create value. As this industrial revolution proceeds, growing numbers of companies will create fully digital value chains around products. To remain competitive tomorrow, players in the fashion and apparel, automotive and furniture industries will have to reinvent themselves and work increasingly in ecosystems.

This paradigm shift in business models confirms the relevance of Lectra's value proposition. The Company has everything required to achieve its ambition to be an indispensable player in Industry 4.0.

Finally, in 2017 Lectra continued to develop its new cloud-based services and to carry out pilot tests with customers. These services will be included in the new software offers progressively commercialized in 2018; they will be compatible with all cutting machines sold since 2007, and with the latest releases of nearly all software.

Developing the Business Model for Profitable and Long-Term Growth

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

The roadmap's five strategic objectives are:

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

By implementing a SaaS business model, Lectra will afford customers greater flexibility by offering them access to its software offer through subscription or pay-per-use. At the same time, the progressive migration of customers under software evolution and online services contracts to SaaS offers with greater added-value will further boost software revenues. This process will have no material impact on the Company's cash position.

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

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

- Finally, the digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

Progress Report

The Company has decided to sell its future software offers exclusively with the SaaS model, while existing software will be sold using both the current approach (perpetual licenses with evolution contracts and online services) and in SaaS mode.
Accordingly, the Company anticipates that most sales of its existing software over the next two years will be in the form of perpetual licenses.
While the new software offer marketed from 2018 onwards will have an increasingly positive impact on recurring revenues and income, the deployment of the SaaS business model for existing software will have a negligible impact on Lectra's revenues and cash position in the short term.
The transformation of new software license sales into recurring subscriptions by deployment of the SaaS model will accordingly be a very gradual process: SaaS sales in total revenues will depend essentially on ramping-up new software offers. The Company has therefore decided to adjust its fourth strategic objective, which is now: "to progressively launch new software offers in SaaS mode".
Finally, the growth accelerators that contributed to the Group's dynamic activity in 2017 should continue to support revenue growth in 2018.

Macroeconomic Assumptions

The roadmap was based on macroeconomic forecasts known on February 9, 2017. These suggest a slight pick-up in global growth over the three years. However, geopolitical tensions, new fiscal and regulatory measures following elections in 2016 and 2017—notably in the United States and Europe—and the possible calling into question of free trade agreements, as well as fresh currency turmoil, could breed uncertainty and impact businesses' investment decisions and pace throughout the period.
However conditions turn out, businesses in Lectra's different market sectors and geographic markets will have no choice but to adapt and deploy technologies compatible with Industry 4.0 in response to the new challenges linked to the four mega trends outlined previously.

Progress Report

Uncertainties related to geopolitical, fiscal and monetary matters have continued to weigh on corporate investment decisions (see chapter 1).

Financial Objectives

Taking into account expected macroeconomic conditions and the impact of developments pertaining to Lectra's business model over the following three years, the Company had set the following financial targets for 2017-2019 (based on like-for-like comparisons):
- 6% to 12% annual organic revenue growth, reflecting increased revenues from new systems and higher recurring revenues (SaaS, recurring contracts, consumables and parts);
- 15% annual operating margin before non-recurring items, potentially lower in the first two years reflecting the acceleration of Lectra's shift to the new SaaS business model.

These objectives will accompany maintaining a security ratio equal to or greater than 80%.
The Company indicated at the start of 2017 that these objectives would be subject to review over the three-year period in light of potential uncertainties, notably economic and political, and in the case of one or more targeted acquisitions.

Progress Report

In 2017, on a like-for-like basis, revenue growth and income growth are in line with the Company's strategic roadmap.
The operating margin before non-recurring items rose slightly and was in line with the year's objective, while the security ratio of 84% was particularly solid.
The Company had specified that these objectives were set on a like-for-like basis, including the assumption of an exchange rate of $1.10/€1.
In light of the appreciation of the euro in 2017 against most currencies—particularly the dollar and the yuan—and continuing exchange rate volatility, the Company has decided to replace its second financial

objective, for 2018 and 2019, by: "Growth in operating margin equal to or greater than revenue growth". This objective is again on a like-for-like basis.

Increased Investment in the Design and Development of Lectra's Offers

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

Today the Company believes it has the necessary resources to achieve its growth potential. Recruitment of sales and pre-sales consultants (239 people) together with marketing, services, production and administrative positions, will from now on grow more slowly than growth in revenues.

Progress Report

R&D investments came to €25.6 million in 2017. In parallel, during the course of the year, the Company implemented an innovation team, at a cost of €1 million in 2017. In total, investments in R&D and innovation increased by 18% and came to 9.6% of revenues. Employees dedicated to R&D and innovation increased by 62 people in 2017.

In total, the Group's headcount increased by 107 in the year, to reach 1,657 collaborators on December 31, 2017. In 2018, the Company intends to pursue its policy of substantial investments in innovation, to further extend its technological lead and its value proposition.

Use of Available Cash

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

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

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

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

Progress Report

The financial structure at December 31, 2017, is particularly strong.

Thanks to the strength of its business model, the Company had a higher than expected positive net available cash position of €98.1 million at December 31, 2017.

The Company will declare a dividend in respect of FY 2017 8.6% higher than the dividend in respect of FY 2016 (see chapter 6).

3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2017

With an average exchange rate of $1.13/€1, the US dollar was down 2% compared to 2016. The average rate for the yuan was 4% lower.

Currency changes mechanically decreased revenues by €3 million (-1%) and income from operations by €1.7 million (-4%) at actual exchange rates compared to like-for-like figures.

Revenues

Revenues totaled €277.2 million, up 8% like-for-like and 7% at actual exchange rates.

They increased in all regions: +9% in Europe, +7% in Asia-Pacific, +2% in the Americas, and +25% in the rest of the world. These regions respectively accounted for 42% (including 7% for France), 26%, 25%, and 7% of total revenues. In 2016, these regions respectively accounted for 41% (including 7% for France), 26%, 27%, and 6% of total revenues.

Revenues From New Systems Sales

Revenues from new systems sales (€123.1 million) increased by 10% and accounted for 44% of total revenues (43% in 2016):

- Revenues from new CAD/CAM and PLM software licenses (€16.6 million) increased by 20% and accounted for 6% of total revenues (5% in 2016);
- Revenues from CAD/CAM equipment and accompanying software (€90.9 million) increased by 8% and accounted for 32% of total revenues (33% in 2016);
- Training and consulting revenues (€13.2 million) increased by 16% and accounted for 5% of total revenues (4% in 2016).

Revenues From Recurring Contracts, Consumables and Parts

Recurring revenues (€154.1 million) increased by 6%. They accounted for 56% of total revenues (57% in 2016).

Revenues from recurring contracts—which represented 57% of recurring revenues and 32% of total revenues—totaled €88.4 million, a 7% increase:

- Revenues from CAD/CAM and PLM software evolution and online services contracts (€38.4 million), up 6% compared to 2016, represented 14% of total revenues;
- Revenues from CAD/CAM equipment and accompanying software maintenance and online services contracts (€50 million), up 8%, represented 18% of total revenues.

In parallel, revenues from consumables and parts (€65.8 million) increased by 4% and represented 24% of total revenues (25% in 2016).

Order Backlog

At December 31, 2017, the order backlog for new systems (€24.8 million) was up €0.5 million relative to December 31, 2016, like-for-like, but decreased €1 million at actual exchange rates.

This backlog comprised €18.5 million in orders for new software licenses and CAD/CAM equipment, including €16.1 million for shipment in Q1 2018, and the remainder over the rest of the year, and €6.3 million for training and consulting, to be delivered as projects progress.

Gross Profit

Gross profit amounted to €201.9 million, an increase of €13 million compared to 2016.

The overall gross profit margin was 72.8%, down 0.6 percentage points relative to 2016, primarily due to changes in the sales mix. At actual exchange rates, the overall gross profit margin decreased by 0.9 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 overhead costs.

Overhead Costs

Total overhead costs were €162.7 million, up €9.3 million (+6%) compared to 2016.

The breakdown is as follows:

- €144.2 million in fixed overhead costs (+5%);
- €18.5 million in variable costs (+13%).

At actual exchange rates, total overhead costs increased by 5%.

R&D costs (€25.6 million) are fully expensed in the period, included in overhead costs and represented 9.2% of revenues (€22.6 million and 8.7% for 2016). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France, net R&D costs amounted to €17.7 million (€15.5 million in 2016).

Income From Operations and Net Income

Income from operations was €39.3 million, an increase of €3.7 million (+10%) like-for-like and €2 million (+5%) at actual exchange rates compared to 2016.

This increase in income from operations stems from the positive impact of the growth in recurring revenues (€7.2 million) and in revenues from new systems sales (€6.2 million). These impacts were partly offset by the increase in fixed overhead costs (€7.1 million), by the decrease in gross profit margins (€2.6 million) and from the adverse impact of currency fluctuations (€1.7 million).

The operating margin was 14.2%, up 0.3 percentage points like-for-like and down 0.1 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.3 million. Foreign exchange gains and losses generated a net loss of €0.6 million.

After an income tax expense of €9.2 million, net income amounted to €29.3 million, up €2.6 million (+10%) at actual exchange rates. The net tax expense for 2017 takes into account the following non-recurring elements: tax profits to the amount of €1.2 million following cancellation by the French Constitutional Council of the 3% tax on dividends, and €0.4 million due to recognition of an increase in the deferred tax position of Lectra Inc. (USA), and a €1 million expense arising from revaluation of the deferred tax position of Lectra SA (in France) and Lectra Inc. following the tax reforms enacted in both countries, which will gradually reduce corporate income tax rates.
Net earnings per share were €0.93 on basic capital and €0.90 on diluted capital (€0.86 on basic capital and €0.84 on diluted capital in 2016).

Free Cash Flow

Free cash flow amounted to €33.2 million, up €9.4 million compared with 2016, at actual exchange rates. This includes the receipt of €6.3 million relating to the 2013 French research tax credit (€5.1 million in 2016 relating to the 2012 French research tax credit).
The research tax credit (€7.6 million) and the competitiveness and employment tax credit (€1 million) for 2017, applicable in France, were accounted for but not received. After including the share of the research tax credit not offset against Lectra SA's tax expense for the period (the competitiveness and employment tax credit having been charged in full), free cash flow would have been €31.4 million, excluding reimbursement of the 2013 research tax credit.

Shareholders' Equity

At December 31, 2017, consolidated shareholders' equity amounted to €151.2 million (€132.6 million at December 31, 2016), after payment on May 5 of the dividend of €11 million (€0.35 per share) declared in respect of FY 2016.
The Company is debt free. Cash and cash equivalents, as well as net cash position, totaled €98.1 million (€75.7 million at December 31, 2016).
The working capital requirement is negative €5.5 million. This includes a receivable of €19.7 million from the French tax administration (*Trésor public*) corresponding to the research tax credits recognized since fiscal year 2014 (€21.6 million at December 31, 2016), which have not yet been received or offset against income tax. Restated for this receivable, the working capital requirement was negative €25.1 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 from the French tax administration. If unused in the ensuing three years, they are reimbursed to the Company in the fourth year.

4. RISK FACTORS— INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

This chapter describes the main risks facing the Group 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 Group 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 in descending order of priority, according to whether they are of high, secondary, or low importance.
Risks in 2017 were more or less identical to those described in the 2016 Management Discussion.
Risk management and internal control are defined by the parent Company, Lectra SA, which implements them in the parent company and subsidiaries, taking into account their specific characteristics including their size and their relationships with Lectra SA.
They are fully implemented as rapidly as possible in the new subsidiaries, and generally within two years from the startup of activity of these 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 and respecting its culture, values and ethical standards.

The Group regularly reviews its internal control and risk 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 self-assessment for internal control processes, and harmonization of the financial reporting information system are all part of this program.

4.1 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, 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 environment together with the organizational changes rendered necessary by the evolving nature of its markets. 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, financial results, ability to achieve its goals, or reputation, and considers that there are no other significant risks than the ones discussed below.
The Group has for many years endeavored to take these risks into account in the conduct of its operations, to avoid impairing its ability to grow.
The key factor protecting the Group is its business model, and in particular:

- a balance of risks, which benefit from natural hedging because of the distribution of business activity over market sectors and geographic markets with cycles that are different from each other, and the very large number of customers throughout the world;
- a balanced revenue mix between revenues from new systems sales, the company's growth driver, and revenues from recurring contracts, consumables and parts, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions.
- the generation of significant annual free cash flow enabling the Group to finance its future growth out of its own cash, with its structurally negative working capital requirement.

The gross profit generated by recurring revenues alone covers more than 80% of annual fixed overhead costs (this ratio was 84% in 2017).
Finally, uncompromising ethics in the conduct of business and respect for each individual are part of the Company's core values.

4.1.1 Macroeconomic Environment Risks

The solutions marketed by the Group represent a sometimes sizable investment for its customers. Decisions depend in part on the 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 cycles.

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.
The economic development of the countries where the Group operates is mixed, and for some of them their political, economic and monetary situation either has deteriorated or is at risk of doing so.
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 even more heavily on their investment decisions—and hence on Group revenues and earnings—than the deteriorating macroeconomic conditions.
In 2017, for instance, the uncertainty regarding future trade agreements between the United States and Mexico, and South Korea's depolyment of its missile shield, which had a negative impact on its relationships

with China, both had an adverse effect on the level of activity in those countries.
Brexit-related risk is not of material importance to the Group, the United Kingdom having accounted for less than 3% of consolidated revenues over the past three fiscal years.

Risks Related to Geographic Markets and Market Sectors

Apart from periods of severe economic crisis, the risks associated with the Group's business activity are naturally hedged by the international reach of the Company's sales and services, and by their range over large market sectors (chiefly fashion and apparel, and automotive, which respectively accounted for 46% and 39% of revenues from new systems sales in 2017) 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, which are forecast to generate a major share of total global growth in the coming years, the Group is well placed to turn this into a vehicle for dynamic growth.
In 2017, as in 2016, almost 50% of total revenues were generated in five countries: the United States (11%), Italy (11%), China (10%), Mexico (9%), and France (7%). The corresponding figures in 2016 were respectively 14%, 9%, 11%, 9% and 7%.

4.1.2 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 between 25 and 30%. In the area of software, it faces competition from a growing number of companies specialized in a specific field, which sometimes makes them appear more attractive to customers.
The Company invests heavily in research and development, which accounted for 9.2% of revenues in 2017, before deduction of the research tax credit, 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 in other sectors, moreover, there is a risk of a disruptive technology or business model unsettling its market positions.
As a corollary of this policy, the Group 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 seeks to identify any and all illicit use of its patents pirated copies of its software and takes the necessary legal action to protect the Group'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 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; 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. A technical, logistic, or financial failure on the part of an important supplier 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, and the Company applies the principle of dual-sourcing for all parts and strategic components prior to selection and then continuously. The assessment is then updated at regular intervals, the frequency depending on the criticality of the supplier's product.

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 parts.

The economic value of the land and buildings comprising the Bordeaux-Cestas site currently exceeds its historical cost of €13.5 million, but the site figures in the statement of financial position at December 31, 2017 for a net value of €6.4 million only. Therefore, there is no risk of impairment.

4.1.3 Market Risks

Because of its international presence, foreign exchange risk is the main market risk to which the Group is exposed.

Specific Foreign Exchange Risks

The Group is exposed to financial risks resulting from variations in certain currencies against the euro, a substantial proportion of its revenues being denominated in these different currencies.

The impact of these fluctuations on the Group's activity and financial statements is especially significant since the site where final assembly and testing of the equipment it produces and markets takes place, 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 2017, 43% of the Group's consolidated revenues, 85% of its cost of sales, and 66% of its overhead expenses were denominated in euros. These percentages were respectively 32%, 9%, and 11% for the US dollar, and 7% (a portion of revenues generated in China being invoiced in US dollars or in other currencies), 2% 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 in two ways:

a) An 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 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, an impact on competitiveness;

b) A 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.

Nearly all foreign-currency positions in the Company's statement of financial are hedged by forward sales and purchases of currencies.

Sensitivity to US dollar fluctuations and other currencies is shown in note 33 to the consolidated financial statements.

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), or more generally under the new share repurchase program submitted for approval by the Shareholders' Meeting of April 27, 2018 (see chapter 10) and is therefore not subject to stock market risk.

4.1.4 Information Systems Security 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 Group's operations.

In order to reduce these risks, the Group has placed a manager in charge of maintaining the security of information systems, 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 in real time of data and systems in two remote data centers guaranteeing business continuity in the event of a shutdown of one of the two centers. Each center has its own technical protection systems (with access control, backup generator, surge protector, redundant climate control, and a permanently monitored fire control system on constant alert), together with a double Internet connection and a private network with all subsidiaries. The system was tested under actual conditions several times in 2017.

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.

The 2017-2019 roadmap calls for the progressive ramp-up of the Company's SaaS offer. This will entail additional risks for the Group, inherent in these online services. In particular, these include the risk of a long interruption in the provision of services, or the loss, theft or destruction of customers' data. These risks are taken into account in product design and development processes, and in operating processes, through the deployment of procedures, methods and tools that are shared across all teams.

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.

4.1.5 Customer Dependency Risks

Each year, revenues from new systems, which accounted for 44% of total revenues in 2017, are generated by a very large number of customers (around 1,300 in 2017) and comprise both sales to new customers and extensions or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for 32% of 2017 total revenues, are generated by around 6,000 customers. Finally, sales of consumables and parts, which accounted for 24% of 2017 total revenues, are generated on a large proportion of the installed base of nearly 6,800 cutters.

There is thus no material risk of dependence on customers, as no individual customer represented more than 5% of consolidated revenues over the last three-year period 2015-2017, the 10 largest customers represented less than 20% of revenues combined, and the top 20 customers less than 27%.

4.1.6 Legal and Regulatory Risks

The Group markets its products in more than 100 countries through a network of 31 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 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 Transfer Pricing Guidelines). Adequate documentation setting forth Group policy in this regard has been put in place.

R&D activity qualifies for the French research tax credit (*Crédit d'Impôt Recherche*), which in 2017 represented €7.6 million, or 30% of the total corresponding expense, 19% of income from operations, and 26% of net income. Any significant reduction or abrogation of this tax credit would therefore have an impact on Group income.

The December 30, 2017 Budget Act n°2017-1837 for 2018 (*Loi de finances pour 2018*) has no impact on the Company's qualification for the research tax credit.

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.

4.1.7 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 2017-2019 strategic roadmap.

Any departure within the management team or of certain experts could affect the Group'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 six main policies: to recruit new talents who will contribute to achieving the strategic roadmap; 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 fair 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 agility and adaptability of the Group's organization to changes in its markets and technologies by continuously reshaping its organization.

The risks associated with these challenges are amplified in the constantly evolving macroeconomic environment.

Lectra launched an ambitions transformation plan at the end of 2016 in which the Group addresses three main challenges: to enhance the quality of the customer experience; to leverage internal data and customers' data to provide greater added-value in its products; and to market a new Software-as-a-Service (SaaS) offer using cloud technology.

The transformation plan includes a large number of support and training initiatives to build commitment and ownership by Lectra teams.

The Group places a high premium on compliance with existing labor regulations wherever it operates. It assists 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 and the requirements for successful implementation of the 2017-2019 strategic roadmap.

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.

In France, this 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. The Company has also undertaken a program for the prevention of psychosocial risks.

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

4.1.8 Credit Risks

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

The Group has kept 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.

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 4.1.5 above).

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

4.1.9 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 (€98.1 million) represent a substantial and sufficient liquidity reserve.

4.1.10 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.

4.1.11 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 the 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 in all its activities and throughout its different geographies. A global insurance program entered into by the parent company, Lectra SA, supplemented by local programs, provides for complete and effective coverage.
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 reviewed annually by the Company's Legal Affairs department, and 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 the Company, 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 also 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. 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, comprising an annual risk-reduction action plan based on the findings of the Group insurers' experts.

4.1.12 Financial Risks Related to the Effects of Climate Change

Given its activity, the Company has not identified any financial risk related to climate change. On a more general scale, for environmental matters, the Company has set up measures aimed to minimize its impact on the environment.

4.2 Internal Control and Risk Management Procedures

4.2.1 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 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 objectives described in this chapter.

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.).
In fiscal year 2017, the Group made significant efforts to put in place an anticorruption compliance program as required under French Law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy (the Sapin II Act).

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.

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 tangible and intangible assets (such as intellectual and industrial property, Company brands, customer relationships and corporate image, computer data, as well as Group human capital), all of which play a key role in its property, business activity and growth dynamism.

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.

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 the value, assets and reputation of the Company;
- ensuring secure decision-making processes and achieving the Company's goals;
- aligning the Company's actions with its core values;
- involving employees in the management of risks associated with their activity and responsibilities through shared evaluation of the main risk factors.

The cost of implementing the system's performance target for covered risks versus residual risks is adjusted to match the Group's resources, size and the complexity of its organization.
While this system provides reasonable assurance of fulfillment 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.

4.2.2 Components of Internal Control

Organization, Decision-Making Process, Information Systems and Procedures

(a) Organization and Decision-Making Process

The Board of Directors is responsible for setting the strategy and direction of the Company's operations, and for overseeing their implementation.

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 Chairman and Chief Executive Officer is responsible for overseeing the proper functioning of the Company's managing bodies. He 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.

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.

All important decisions (sales strategy, organization, investments and recruitments) 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 Chairman and Chief Executive Officer, the Executive Vice President 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 Chairman and Chief Executive Officer, the Executive Vice President 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.

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.

(b) Information Systems

Information systems play a structurally critical role in the Group's system of internal control, and act as a key performance-tracking instrument thanks to integrated inter-company financial information, to ensure 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.

Information systems are regularly adapted to the expanded requirements of the Group in terms of the quality, relevance, timeliness and comprehensiveness of information. These systems are contributing to the implementation of harmonized Groupwide management procedures and rules while boosting the effectiveness of controls.

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.

Finally, the new risks related to cloud-hosted software and services are taken into account in product design and development processes, and in operating processes, through the deployment of procedures, methods and tools that are shared across all teams. Cloud-based services are operated by a leading cloud platform provider and supervised by a team of in-house experts.

(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 various stages in the sales process to verify the authenticity and content of orders, shipment and billing thereof, as well as periodic reviews of ongoing business activity by the Executive Committee.

– **Credit Management**

Credit management procedures are designed to limit the risks of non-recovery and shorten account collection delays. These procedures include a preventive analysis of its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears. These means of recovery are coordinated by the credit management department in conjunction with the Legal Affairs department. Moreover, sales of new systems 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.
Historically, bad debts and customer defaults have been rare.

– **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 forecast or actual personnel changes are communicated to the France and International Chief Human Capital Officers. All recruitments and dismissals must receive the division's prior authorization.
Compensation is reviewed annually and submitted to the Chief Human Capital Officers, France and International, for approval.
Finally, for all personnel whose total annual compensation exceeds €200,000 (€150,000 until December 31, 2016) 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.

– **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.
The Company has implemented secure means of payment. 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.
Bank signature authorizations for each Group entity 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.
Currency risk is borne by the parent company. The Group seeks to protect its foreign-currency denominated receivables and debts as well as future cash flows, under reasonable economic conditions. Hedging decisions take into account currency risks and trends having a material impact on its financial condition and competitive situation.

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.

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 Legal Affairs department 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. 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 the France and International Human Capital departments, 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.

A dedicated intellectual and industrial 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 and, more broadly, all risks associated with innovation and the protection of its intellectual and industrial property.

Currency risk is managed centrally by the Group Treasurer. Group exposure is reviewed regularly and is hedged by a range of derivative instruments.

Continuous Oversight of the Internal Control System and Improvement of Procedures

Incidents observed in the course of controls or in 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. This is the case with the execution of its 2017-2019 strategic roadmap. 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 4.2.1 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. Work continued on the themes laid down last year and will be pursued in 2018:

- 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, stricter management of access rights and controls on data integrity in information systems.

4.3 Specific Procedures Concerning the Preparation and Processing of Accounting and Financial Information

In addition to the elements described in the foregoing paragraphs, the Company 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 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.

Reporting and Budget Procedures

The Company produces comprehensive and detailed financial reporting covering all aspects of the activities of each division of the parent Company, Lectra SA, and of 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 includes 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 requirement, 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.

Financial Statements Preparation and Verification Procedures

(a) Monthly Financial Results

The actual results of each Group entity are verified and analyzed monthly, 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 financial information properly prepared.

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 accounting; a cycle physical count of inventories; 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 for the purposes of this consolidation process. 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 Chairman and Chief Executive Officer and the Executive Vice President, 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.

5. OFF-BALANCE SHEET ITEMS

Off-Balance Sheet Commitments Relating to the Group Financing

The parent company, Lectra SA, provided a total of €1.4 million at December 31, 2017 (€4.3 million at December 31, 2016) 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. 225-35 al. 4 of the French Commercial Code.
Exchange risk hedging instruments of balance sheet positions at December 31, 2017 were comprised of forward sales or purchases of foreign currencies (mainly US dollars, pounds sterling and Canadian dollars) for a net total equivalent value (sales minus purchases) of €7.8 million (€8.5 million at December 31, 2016).

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

The Board of Directors has proposed to increase the dividend to €0.38 per share (+8.6%), in respect of fiscal 2017. The gross dividend represents a payout ratio of 41% of 2017 consolidated net income and a yield of 1.5% based on the December 31, 2017 closing share price.
Previous dividends were €0.35 per share in respect of fiscal 2016, €0.30 per share in respect of fiscal 2015 and €0.25 in respect of fiscal 2014.
Subject to approval by the Ordinary Shareholders' Meeting of April 27, 2018, the dividend will be made payable on May 4, 2018.

7. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 2017, the share capital totaled €31,571,096, divided into 31,571,096 shares with a par value of €1.00.
Share capital increased by €323,542 (with a total share premium of €1,358,471) due to the creation of 323,542 shares since January 1, 2017, resulting from the exercise of stock options.

Main Shareholders

On February 15, 2017, Delta Lloyd Asset Management NV (The Netherlands), acting on behalf of investment funds that it manages, notified the Company that, on February 10, 2017, it had reduced its shareholding below the thresholds of 5% of the Company's capital stock and voting rights, and that it held 4.91% of the capital stock and 4.86% of the voting rights.

André Harari and Daniel Harari stated on June 19, 2017 that they no longer jointly held any shares in the Company, following the disposal by André Harari of his shares. On that occasion, André Harari individually reduced his holding, on June 16, 2017, below the reporting thresholds of 15%, 10% and 5% of the Company's capital and voting rights, and he no longer holds any of the Company's shares.
Also on June 19, 2017, Kabouter Management LLC (United States), acting on behalf of funds it manages or advises, stated that on June 14, 2017 it had increased its holdings above the reporting thresholds of 5% and 10% of the Company's capital and voting rights, and that it held 10.48% of the capital and 10.38% of the voting rights.
No other crossing of statutory thresholds was reported to the Company since January 1, 2017.
At the date of publication of this report, and to the Company's knowledge:

- Daniel Harari holds 17.4% of the capital and 17.3% of the voting rights;
- Kabouter Management LLC (United States) acting on behalf of investment funds that it manages, holds more than 10% (but less than 15%) of the capital and the voting rights;
- Allianz SE (Germany) through French companies it controls, and Kempen Oranje Participaties (The Netherlands) each hold more than 5% (but less than 10%) of the capital and the voting rights.

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

Treasury Shares

At December 31, 2017, the Company held 0.04% of its own shares in treasury, solely within the framework of the liquidity agreement contracted with Exane BNP Paribas.

Granting of Stock Options—Potential Capital Stock

The Extraordinary General Shareholders Meeting of April 30, 2014 authorized the creation of a 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 the 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.
The authority to grant options under this plan expired on June 30, 2017. The creation of a new stock option plan will be proposed in the fourteenth resolution submitted to the April 27, 2018 Extraordinary Shareholders' Meeting.
No subsidiary of the parent company Lectra SA has opened a stock option or stock purchase plan.

2017 Stock Option Plan

The Board of Directors, meeting on June 8, 2017, granted, in respect of the 2017 stock option plan, a maximum of 399,794 options to 238 beneficiaries, at an exercise price of €28.25 per share, as follows:

- a maximum number of 294,112 options to 71 beneficiaries, in respect of the fulfillment of their annual performance targets set for 2017;
- 105,682 options to 178 beneficiaries, of which 67,892 options to 151 beneficiaries of a stock option plan unrelated to their performance in 2017 and 37,790 options to the 44 winners of the 2016 Lectra Worldwide Championship (28 winners of the 2016 Lectra Worldwide Championship being beneficiaries of other options also granted in 2017).

The definitive number of options at December 31, 2017 is then calculated with reference to the percentage fulfillment of targets set for each beneficiary for 2017. It also takes account of departures between the date of grant and the end of the year.
At the date of this report, the calculations of actual performance in 2017, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 96,896 options have thus been cancelled, out of the 294,112 options initially granted.
Moreover, 8,431 options have ceased to be valid due to the departure of five beneficiaries in 2017.
As a result, the total number of options at December 31, 2017 initially granted (399,794 options to 238 beneficiaries) has been reduced to 294,467 and the number of beneficiaries to 233.

The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries, and options corresponding to departures, are cancelled.
All of the options granted concerned Group employees. The only Company Officers (*dirigeants mandataires sociaux*), André Harari (until his departure on July 27, 2017) and Daniel Harari, have held no stock options since 2000.
The right to exercise these options vests at the end of the period ended December 31, 2020 (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 a Company Officer at this date). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
By way of exception, the right to exercise options shall be maintained in the event of the death of the beneficiary, or retirement at the statutory pensionable age in the beneficiary's country, provided the death or retirement occurs between January 1 of the year following the grant and the end of the four-year vesting period (that is, for Plans 14c, 14d and 14e, between January 1, 2018 and December 31, 2020). This shall apply in full for options whose exercise is contingent only on continued presence; for options whose exercise is also contingent on actual performance, it shall apply to the definitive number of options calculated with reference to the beneficiary's actual performance at December 31 of the year of the grant (that is, December 31, 2017, for the 2017 Plan).
The options are valid for a period of eight years from the date of granting.

Options Outstanding at December 31, 2017

323,542 options granted under the different stock option plans outstanding at December 31, 2016 were exercised in 2017 and 41,442 options have ceased to be valid following the departure of their beneficiaries.
In total, of the 345 persons holding options at December 31, 2017, 295 employees hold 1,662,429 options, and 50 former employees still hold 30,567 options (respective figures at December 31, 2016 were: 316, 270, and 46).

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, 2017, the Company's capital (at par value) would increase by a total of €1,692,996, associated with a total additional paid-in capital of €20,494,876.
At December 31, 2017, 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 33,264,092, consisting of:

- capital stock: 31,571,096 shares
- stock options: 1,692,996 shares

Note 15.5 to the consolidated financial statements contains full details of the vesting conditions, exercise prices, and exercise dates and conditions of all outstanding stock options at December 31, 2017.
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, 2017, was €25,15, up 40% compared to December 31, 2016 (€18,02). It reached a low of €16,89 on January 5 and a high of €30,00 on June 5.
The CAC 40 index and the CAC Mid & Small index progressed by 9% and 22% respectively over the year.
According to Euronext statistics, the number of shares traded on Euronext (9,2 million) increased by 92%,

and trading volumes (€216,7 million) increased threefold relative to 2016. These figures do not include trading on other trading platforms; if the latter are included, the total trading volume represents almost twice the volume recorded on Euronext, according to Company estimates. These figures do not include the disposal by André Harari of his entire shareholding in Lectra (5,6 million shares) in June.

In its press release of March 29, 2017, 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.

Transactions Subject to Article 19 of the European Market Abuse Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (MAR).

The following transactions relating to Lectra's shares, as referred to MAR Article 19, were carried out in 2017 by the Directors on Euronext:

	Dates	Number	Price (€)	Value (€)
Anne Binder				
Purchase of shares	February 21, 2017	700	19.40	13,580
André Harari				
Donation	June 9, 2017	50,000		
Donation	June 9, 2017	50,000		
Donation	June 9, 2017	300,000		
Sale of shares	June 14, 2017	5,206,851	24.00	124,964,424
Bernard Jourdan				
Purchase of shares	August 28, 2017	100	23.50	2,350
Purchase of shares	November 3, 2017	100	24.50	2,450
Purchase of shares	November 13, 2017	100	22.50	2,250
Nathalie Rossiensky				
Purchase of shares	May 17, 2017	190	26.24	4,986

Edouard Macquin, Jérôme Viala, Véronique Zoccoletto and Céline Choussy Bedouet, who are members of the Executive Committee, are the only senior executives (other than the Directors) having the power to make management decisions regarding the Company's development and strategy, and having a regular access to inside information concerning the Company.

Only Edouard Macquin, Jérôme Viala, and Véronique Zoccoletto have exercised stock options and sold Lectra shares on Euronext as follows:

	Dates	Number	Price (€)	Value (€)
Edouard Macquin				
Exercise of stock options	March 2, 2017	9,229	6.25	57,681
Sale of shares	March 2, 2017	9,229	21.55	198,900
Exercise of stock options	September 8, 2017	1,191	6.25	7,444
Sale of shares	September 8, 2017	1,191	24.00	28,584
Exercise of stock options	September 12, 2017	379	6.25	2,369
Sale of shares	September 12, 2017	379	24.00	9,096
Exercise of stock options	September 13, 2017	5,430	6.25	33,938
Sale of shares	September 13, 2017	5,430	24.02	130,411
Jérôme Viala				
Sale of shares	February 27, 2017	7,891	20.04	158,124
Sale of shares	February 28, 2017	11,359	20.08	228,069
Sale of shares	March 1, 2017	5,000	20.87	104,339
Exercise of stock options	March 7, 2017	23,710	2.50	59,275
Sale of shares	June 1, 2017	5,433	28.06	152,463
Exercise of stock options	December 11, 2017	20,000	6.25	125,000
Véronique Zoccoletto				
Exercise of stock options	March 1, 2017	10,500	6.25	65,625
Sale of shares	March 1, 2017	10,500	20.87	219,112
Sale of shares	May 31, 2017	5,743	27.50	157,929
Exercise of stock options	December 6, 2017	5,600	2.50	14,000
Exercise of stock options	December 6, 2017	32,000	2.50	80,000

Compliance with the Market Abuse Regulation and 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 as supplemented by (i) AMF Position-Recommendation 2016-05 Guide to periodic disclosures by listed companies, and (ii) Position-recommendation 2016-08 Guide to ongoing disclosure and management of inside information, both of which became applicable on October 26, 2016.

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. The Company uses to the services of Nasdaq Solutions International Limited, a professional information provider approved by the AMF that satisfies the criteria laid down in the General Regulation, to publish and file information with the AMF. At the same time, regulated information is published on the Company's website.

8. CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSILIBITY POLICY

Disclosures required under the July 12, 2010 “Grenelle II” Act (Law n°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 designated KPMG to verify disclosures in respect of fiscal 2017.

Ethical Values and Core values – Anti-Discrimination Policy

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. Diversity has been a fundamental feature of Company practice since its very beginning and extends well beyond barring discrimination of any sort. Lectra’s teams operate in 35 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. It forges long-term relationships with its customers and supports them in their development, through its integrated solutions combining software with CAD/CAM equipment and associated services to address their strategic challenges. To that end, it maintains a steady flow of investment in innovation and new technologies, and in the development of its human capital.
Its business worldwide depends primarily on the quality and 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 plans. 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, and to preserve its human capital.
The Company’s radical transformation accelerated with the initial Transformation and €50 million Investments for the Future plan for 2011-2015. Transformation remains a key strategic priority and will continue with the new plan for 2017-2019. The focus will be on adapting Lectra to the profound changes underway in Lectra’s geographical markets and market sectors, as well as generational changes. This will strengthen its competitiveness and world leadership.
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, 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.
Developing the Group's human capital is a policy priority, enabling it to achieve its strategic goals efficiently and durably, while making it more resilient and adaptable to market shifts and changing macroeconomic conditions.
Consistent with its strategy, ethics and values, Lectra has put in place a policy of fair compensation that seeks primarily to reward merit and performance.

Health and Safety in the Workplace

Lectra places great emphasis on strict compliance with local health and safety laws and regulations in each of its subsidiaries. Regular audits are conducted to guarantee its workers a safe and healthy working environment, and local policy is adjusted accordingly when necessary.

Economic Headcount

The Group's economic headcount at December 31, 2017 (number of active full-time equivalent employees) was 1,657 worldwide (1,550 at December 31, 2016). The Group's legal headcount is 1,711 (registered workforce). Unless otherwise specified, the analyses below refer to the economic headcount.
Its customer relations teams (marketing, sales and services activities) account for 51% of the headcount; research and development 19%; production and logistics 10%; and administration and finance, human capital management, and information systems 20%.
45% of the headcount at December 31, 2017 have joined the Company in the past five years and 34% in the last three years.
Group policy is designed to advance the careers of its best-performing employees and support all 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 comprises more than 50 nationalities. This diversity is a major source of wealth and indisputably a key competitive advantage.
At the end of 2017, men represented 65% of the Group's total headcount; this percentage has been stable since 2012. They formed the majority of sales staff (79%), customer support (85%), manufacturing (76%) and R&D (80%) teams. Conversely, although women represented 35% of the total headcount, they were in the majority in other areas such as marketing (76%). Genders were more evenly split in the professional training and consulting services (62% men, 38% women) and in administration and finance, human resources, and information systems (35% men, 65% women).
Women accounted for 42% of recruitments in 2017.
Finally, by region, Europe accounts for 70% of employees (including 51% in France and 19% in the rest of Europe), Asia-Pacific 15%, the Americas 11%, and the rest of the world 4%.

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 permanent program.
The 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 Lectra's strong corporate culture in all its entities.
Employees worldwide enjoy access to a broad array of training programs, at Bordeaux-Cestas, in the subsidiaries or by e-learning.
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 three and five days, 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 well as integration 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 benefit from intensive specific training to adapt to their changing markets and their relative importance in the Group's strategy. Each session is then adapted to local needs and challenges and is led by the Group's best experts.
In 2017, the Group invested close to €3.5 million in training, representing 3.1% of total staff costs. 1,095 employees, or 64% of the total headcount, underwent at least one training course (the same percentage as in 2016).

Promoting and Compliance with the Fundamental Conventions of the International Labour Organization

Consistent with its ethics and core values, the Group strives to apply all of the provisions laid down in the fundamental conventions of the International Labour Organization, together with the applicable regulations in each country, and it demands its employees to strictly comply with its internal procedures and with these regulations.
It takes particular care to ensure that all employees apply clear and transparent management principles in the conduct of its business, both internally and externally in dealing with its customers and partners. Similarly, it urges its subcontractors and suppliers to uphold the principles of eliminating illegal or forced and child labor, and to enforce compliance with applicable legal provisions in regard to the minimum wage, health and safety.

The Group has never been convicted of corruption, non-respect for freedom of association or the right to collective bargaining. Nor has it ever been convicted of using child, forced or compulsory labor, or of discriminatory hiring practices over the past ten years. The Group is not aware of any violation by its subcontractors and foreign subsidiaries of the fundamental provisions of the International Labour Organization (ILO).

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.
However, many employees have been made aware of environmental issues and incorporate these into their decisions. Environmental issues are 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:
  Eco-design aims to reduce the environmental impact of CAD/CAM equipment in the design, manufacture, and shipment phases, while in use by final customers, and at the end of its service life.
  Upstream in the process, equipment design makes intensive use of digital prototyping, thus reducing the number of physical prototypes. Whenever appropriate, Lectra also offers the prototypes for sale, in order to reduce wastage of materials.
  Lectra generally designs its new equipment to be more compact and easier to ship; the *FocusQuantum* laser cutters, for instance, offer more than twice the productivity of the earlier generation, while occupying half the floor space.
  What's more, a growing range of equipment can now be shipped in a single container.

During the lifetime of its equipment, Lectra also reduces environmental impact by optimizing energy consumption. For instance, growing numbers of units are powered by IE3 motors, which are 3% to 4% more efficient than the previous generation. Sophisticated nesting and precision cutting systems enhance productivity, reducing material consumption and waste, thus lessening the impact on the environment. Lectra is also actively developing equipment that requires less plastic film and other consumables.
Finally, the principal materials used in Lectra equipment are steel and aluminum, which are typically recycled when the equipment reaches the end of its service life.

- Services that reduce the environmental footprint: Lectra customer service teams use remote diagnostic systems to provide optimal assistance when required, reducing the need to drive for on-site assistance, thus cutting travel-related greenhouse gas emissions.
  The consumables procurement teams at Lectra similarly reduce their carbon footprint by locating some production activities close to customers' facilities.
- Investing in infrastructure designed to preserve the environment and encouraging employees to adopt environmentally friendly practices and behaviors: At its Bordeaux-Cestas facility, which is fully-owned, 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.
  Moreover, 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 at December 31, 2017, no provision is made nor is any guarantee recognized for environmental risks in the Group's 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 the European Union. 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 to encourage groupage, short distribution channels and minimized packaging materials; using recyclable materials with a lower carbon footprint; promoting recycling; instituting a responsible procurement charter between the Company, its suppliers and subcontractors; and implementing contracts spelling out its social and environmental requirements.
The Group's purchasing processes are designed to strike a fair balance between competitiveness, quality of supplies purchases, and sustainability of its subcontractors and suppliers. 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.

Relations Between the Group and Educational Institutions

The Group has chosen to focus its commitment on the educational sector, and more especially 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.
Over many years, the Group has forged partnerships with more than 900 leading schools and universities 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.

Different 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 form part of a long-term reciprocal commitment between the institution and Lectra.
More-comprehensive partnerships have been established with prestigious academic institutions in Brazil, Canada, China, France, Germany, India, Italy, the Netherlands, Poland, Sweden, Switzerland, the United Kingdom and the United States. They offer students an opportunity 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 dedicated 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 talents. Finally, Lectra may offer internships and recruit students graduating from these institutions.
Following Shanghai in 2010, Bordeaux in 2011, London in 2012, Milan in 2013, and Paris in 2015, Lectra hosted in 2017 an educational congress at Bordeaux-Cestas attended by teachers, department heads, and deans of fashion schools and colleges.
These partnerships represent a major investment by the Group, equivalent in value to more than 80,000 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 to better 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.
In 2013, Lectra signed a three-year partnership with ESCP Europe to establish a Fashion and Technology Chair. This contract was renewed for three years in 2016. Inaugurated on February 6, 2014, this chair is intended to develop and transmit knowledge on the themes of innovation and technologies in the fashion and luxury sectors, with 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 in "Fashion and Technology" sets the standard for research in innovation, technology for the fashion and 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.
In 2017, Lectra also joined with ESTIA Institute of Technology (*École supérieure des technologies industrielles avancées*), the Today Tomorrow Textiles Foundation, and JPS Conseil to create the "Biarritz Active Lifestyle Integral" chair dedicated to tomorrow's innovative and sustainable materials. Over three years, this new Chair aims to help the fashion industry's eco-system—from textile design to clothing sales—transform challenges coming from new ways of living and consuming into economic opportunities.

Anti-Corruption Measures

The Group has always been scrupulous in operating with the utmost respect for business ethics and complete integrity.
The new French law on transparency, the fight against corruption, and modernization of the economy (the “Sapin II” Act) has substantially increased requirements in the area of the prevention and detection of corrupt practices by mandating the implementation of an anti-corruption compliance system applicable to Lectra staff members and outside collaborators alike. Lectra has undertaken to put in place this system, which will be deployed in 2018, after the consultation process with employee representative bodies.
The “Sapin II” system will formalize existing practices, notably with regard to the sales teams, where for many years Lectra has had in place a strict procedure for the governance, oversight and control on the negotiation and signature of the contracts they enter into with its customers worldwide. This procedure is monitored and regularly scrutinized by the departments supervising its application, and is regularly updated.
In the case of business partners participating infrequently in the negotiation and signature of orders, this requirement is formalized in the contractual undertakings they give to Lectra. These include a guarantee of ethical behaviors and to refrain in all circumstances from utilizing monies paid to them by the Company to pursue illicit aims, in particular in violation of anti-corruption laws.
The Group has long-established rules for internal control in accounting and finance.

Measures to Promote Human Rights

The entire Group seeks scrupulously to uphold the fundamental principles of human rights in everything it does, but it does not take part in the work of national or international institutions specifically involved in their defense.

9. RESEARCH AND DEVELOPMENT

The Group has continued to invest significantly in research and development.
At December 31, 2017, the R&D headcount was 327 persons (270 at December 31, 2016), including 314 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 €25.6 million in 2017, or 9.2% of revenues (€22.6 million and 8.7% in 2016).
Net R&D expense, after deducting the subsidies and tax credits, amounted to €17.7 million (€15.5 million in 2016).
These substantial investments (€196 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. SHARE REPURCHASE PROGRAMS

The Shareholders' Meeting of April 28, 2017 granted authority to the Company to trade in its own shares for a period of eighteen months from the date of the said Meeting, for the following purpose:

- to maintain a liquid market in 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 recognized by the AMF;
- to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions, in keeping with applicable regulations;
- to grant shares, notably to present and future officers or employees of the Company and/or the Group, or to some of them, and in particular within the framework of articles L. 225-179 et seq. and L. 225-197-1 et seq. of the French Commercial Code;
- to deliver Company shares on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the Company's shares;
- to cancel shares by reduction of the capital stock.

10.1 Transactions by the Company on its Own Shares in 2017

Liquidity Agreement

The Group has contracted with Exane BNP Paribas to act as liquidity provider under a Liquidity Agreement, signed in accordance with regulations and market practices recognized by the AMF.

Under this Liquidity Agreement, from January 1 to December 31, 2017, the Company purchased 203,882 shares and sold 196,677 shares at an average price of €23.61 and €23.62 respectively.

Consequently, at December 31, 2017, the Company held 12,290 Lectra shares (or 0.04% of share capital), at a par value of €1.00, with an average purchase price of €24.23, entirely under the Liquidity Agreement, together with €0.7 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.

Share Repurchases

The Company did not repurchase any shares, apart from those purchased under the Liquidity Agreement.

Share Cancellations

The Company did not cancel any shares.

10.2 Renewal of the Share Repurchase Program

The Board of Directors has proposed to the Ordinary Shareholders' Meeting of April 27, 2018 to renew the share repurchase 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.

The aims of this program are:

a) to maintain a liquid market in the Company's shares, via an authorized investment services provider acting within the framework of a Liquidity Agreement in compliance with regulations and market practices recognized by the AMF;

b) to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions, in keeping with applicable regulations;

c) to grant shares, notably to present and future officers or employees of the Company and/or the Lectra Group, or to some of them, and in particular within the framework of articles L. 225-179 et seq. and L. 225-197-1 et seq. of the French Commercial Code;

d) to deliver Company shares on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the Company's shares;

e) to cancel shares by reduction of the capital stock, in accordance with the fourth resolution of the Extraordinary Shareholders' Meeting of April 27, 2018 (seventeenth resolution) and/or a subsequent resolution approved by an Extraordinary Meeting of Shareholders in the course of the repurchase program.

It is further proposed that this program also serve to authorize the Company to engage in all market practices that may come to be accepted by the AMF and, more generally, to engage in any other transaction compliant with current regulations. The Company would notify its shareholders by means of a press release if it were to avail itself of this authority.

Under the thirteenth resolution before the General Meeting of Shareholders of April 27, 2018 authorizing this new repurchase program, from the time of filing of an outside public tender offer for Company shares, and until expiration of the offer period, the Board of Directors is barred from implementing this program, nor may the Company continue its execution without prior authorization by the General Meeting of Shareholders.
The Company will comply with 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

This program will concern a variable number of shares such that the Company does not purchase or, having regard to its existing holding of treasury shares, come to hold a number of treasury shares exceeding 10% of the capital stock (representing 3,126,480 shares at the date of this report), adjusted for transactions that may affect it subsequent to the date of the Ordinary Shareholders' Meeting of April 27, 2018, where appropriate.

Characteristics of Shares Concerned by the Repurchase 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 article 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: €32 per share;
- gross maximum amount to be utilized in the stock repurchase program: €50 million.

If the shareholders approve this resolution, the new program will replace the one authorized by the General Shareholders' Meeting of April 28, 2017.
It will have a duration of eighteen months from the date of the Shareholders' Meeting of April 27, 2018, i.e. until October 26, 2019 inclusive.

Share Cancelations

The Board of Directors has proposed that the Extraordinary General Meeting of Shareholders of April 27, 2018 grant authority to the Board of Directors, pursuant to article L. 225-209 of the French Commercial Code, to cancel, at its sole discretion and in one or more instalments, up to a ceiling of 10% of the capital stock, the treasury shares held, or that may come to be held, by the Company as a result of repurchases made, and to reduce the capital stock pursuant to the law and regulations, in proportion to the cancelations made. If this seventeenth resolution is approved, it shall remain in force for twenty-four months from the date of this General Meeting, i.e. until April 27, 2020 inclusive.

11. POST-CLOSING EVENTS

On January 25, 2018, Lectra announced the acquisition of the Italian company Kubix Lab (see press release of that day) and confirmed its intentions to make one or several targeted additional acquisitions in 2018 or 2019.

12. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 27, 2018.
First, second, and third quarter earnings for 2018 will be published on April 26, July 25, and October 30, respectively, after the close of trading on Euronext. Full-year earnings for 2018 will be published on February 12, 2019.

13. BUSINESS TRENDS AND OUTLOOK

2018 Outlook

The Company entered 2018 with stronger than ever operating fundamentals and an even stronger balance sheet.
The main uncertainty concerns the level of orders for new systems and corresponding revenues, in light of persistent uncertainty in the macroeconomic, geopolitical, political and monetary environment that could affect business investment decisions.

High Sensitivity to Exchange Rates

The Company has based its 2018 scenarios on the exchange rates in effect at year-end 2017, notably $1.20/€1.

When converting 2017 results using the exchange rates retained for 2018, revenues and income from operations before non-recurring items are reduced by €7.3 million and €4 million, respectively, to €269.9 million and €35.3 million; and the operating margin before non-recurring items is reduced by 1.1 percentage points to 13.1%.

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

The Company has not hedged its currency exposure for 2018.

Financial Objectives

In its February 9, 2017 financial report, the Company had set the following financial targets for 2017-2019 (based on like-for-like comparisons, with an exchange rate of $1.10/€1):

- 6% to 12% annual organic revenue growth;
- 15% annual operating margin before non-recurring items, potentially lower in the first two years to accelerate Lectra's transformation to a SaaS business model.

This was to be achieved while maintaining a security ratio (the percentage of annual fixed overhead costs covered by gross profit on recurring revenues) equal to or greater than 80%.

The Company had also indicated that these objectives were subject to review over the three-year period, given possible uncertainties, notably economic and political, and in the event of one or more targeted acquisitions.

For 2018, the Company is targeting 6% to 10% revenue growth, like-for-like, and 7% to 15% growth in income from operations before non-recurring items, like-for-like.

In parallel, the Company estimates that the acquisition of Kubix Lab will have a non-material impact on its 2018 financial performance.

The Company Remains Confident in its Medium-Term Growth Prospects

More than ever, the entire Company is focused on growing its sales activity.

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

The Board of Directors
February 27, 2018

Company Certification of the Annual Financial Report

"We certify that, to our knowledge, the financial statements have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and 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 27, 2018

Daniel Harari
Chairman and Chief Executive Officer

Olivier du Chesnay
Chief Financial Officer

Report on Corporate Governance

Dear Shareholders,

This report on corporate governance was prepared by the Board of Directors, in liaison with the Company's internal departments, in accordance with the new provisions of articles L. 225-37 et seq. of the French Commercial Code introduced by Order no. 2017-1162 of July 12, 2017. It was submitted to and discussed by the Audit Committee and approved by the Board of Directors at their meetings of February 27, 2018. Its aims are:

- to report on the manner in which the Board's proceedings are prepared and organized;
- to describe the principles and criteria established by the Board regarding the compensation and benefits of the Company's executive and non-executive Officers (*dirigeants mandataires sociaux*);
- when a company voluntarily refers to a Code of corporate governance framed by organizations representative of corporations, to specify those provisions it has chosen not to apply and give its reasons for doing so ("comply or explain"); and
- to report on the application of the principle of balanced representation of men and women on the Board.

This report was prepared by the Board of Directors in coordination with, for the relevant sections, the Legal Affairs department, the Finance division, the Lead Director, the independent Directors, and more generally, whenever required, with those concerned by the information contained herein, for the sake of accuracy and completeness.
The Company aims to apply best practices in corporate governance.
Since 2008, the Board of Directors of the Company has formally adhered to the AFEP-MEDEF Corporate Governance Code of Listed Companies, the most recent update of which was published on November 24, 2016 (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 Company Officers, 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.
The Internal Rules and Procedures of the Board of Directors were updated on July 27, 2017 in order to reflect the changes following the combination of the roles of Chairman and Chief Executive Officer, and then on February 12, 2018, to increase the percentage of independent Directors to 50 percent, as recommended by the AFEP-MEDEF Code. The Internal Rules and Procedures of the Board can be consulted in full on the Company website, in French and English.

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 for determining the strategic orientations of the Company's business and oversees their execution. It examines and decides on important operations, possibly after review by the Strategic Committee.
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 Company Officers (*dirigeants mandataires sociaux*) 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), and oversees their management. As defined by the AFEP-MEDEF Code, the Company Officers consist of (i) the Chairman of the Board of Directors (non-executive Officer) and the Chief Executive Officer in the case of a separation of the roles or (ii) the Chairman and CEO in the case of a combination of the roles.

Under the Internal Rules and Procedures, 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 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, together with all borrowings exceeding €5 million.

The Board of Directors decides on the principles and criteria for compensation of the Company Officers, which will be submitted for approval by the shareholders' meeting. This mission is conducted with support from, but is not delegated to, the Compensation Committee.

The Board of Directors formulates the Company's policy on financial disclosure and ensures the quality of the information provided to shareholders and to the financial markets.

The Board of Directors performs such controls and verifications as it deems appropriate. It is informed of all important events affecting the life of the Company. Members of the Board of Directors are informed about market developments, the competitive environment and the most important issues at hand, including in the field of corporate social and environmental responsibility.

The Board of Directors ensures that shareholders and investors receive relevant balanced and instructive information about the strategy, development model, considerations regarding non-financial issues that are of significance to the corporation, and its long-term outlook.

Combination of the Roles of Chairman and Chief Executive Officer

Following the resignation of André Harari as Chairman of the Board of Directors, the Board decided on July 27, 2017 to end the separation of the roles of Chairman on the one hand, and Chief Executive Officer on the other, and to appoint Daniel Harari to serve as Chairman and CEO, the position he previously held from 1991 to 2001. It is specified that the Chairman and CEO acts, depending on the circumstance, in his respective capacities as Chairman of the Board of Directors or as Chief Executive Officer of the Company. The Board considered that recombining the roles was the most appropriate form of governance in light of the organization, the size and the strategic challenges of the new roadmap, it being noted that 80% of the members of the Board are independent Directors.

Following this combination of roles, the mission of monitoring and managing possible conflicts of interest in connection with the Company Officer is conferred upon the Independent Lead Director, who was named by the Board of Directors at its meeting on February 9, 2017, and whose powers are described with greater extent in paragraph 1.4 below.

The Chairman and CEO, elected by the Board of Directors, has the following duties and responsibilities:

- He organizes and directs the work of the Board of Directors, reports to the shareholders' meeting, and more generally, oversees the proper functioning of the Company's managing bodies;
- He acts as guardian of corporate governance, of abidance 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 oversees the proper functioning of the Company's managing bodies and especially the Committees of the Board of Directors;
- He chairs and runs the Strategic Committee;
- He represents the Board of Directors and, unless otherwise decided by the latter, has sole authority to act and speak in its name; and
- He oversees the general management of the Company.

He is invested with full powers to act in the Company's name in all circumstances and represent it in its dealings with third parties, he assumes all operational and executive responsibilities, and all teams in the Group report to him.

The Chairman and CEO 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;

The Board may place limits on the powers of the Chairman and CEO; however, such limitations are not enforceable against third parties.

These limits are set out in article 1.2 of the Board's Internal Rules and Procedures.
He chairs the Executive Committee and decides its composition and ensures abidance by and in all circumstances promotes Lectra's core values and uncompromising ethical standards in the conduct of its business. He may be assisted by one or more Deputy Chief Executive Officers (*Directeurs Généraux Délégués*).
The Executive Committee has five members: Daniel Harari, Chairman of the Committee, Jérôme Viala, Executive Vice President, Céline Choussy Bedouet, Chief Marketing and Communications Officer, Edouard Macquin, Chief Sales Officer, and Véronique Zoccoletto, Chief Transformation Officer. 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 five members: Daniel Harari, Chairman and CEO, Bernard Jourdan (independent Director and Lead Director), Anne Binder (independent Director), Ross McInnes (independent Director from January 1, 2018, subject to approval by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2017) and Nathalie Rossiensky (independent Director).
All members of the Board are French nationals. Independent Directors account for 80 percent of the Board's membership, a percentage higher than the minimum level recommended by the AFEP-MEDEF Code in the absence of a controlling shareholder.
The Ordinary Shareholders' Meeting of April 29, 2016 had reelected André Harari, Daniel Harari, Anne Binder and Bernard Jourdan to the Board, and also elected Nathalie Rossiensky to the Board for a four-year period to expire at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2019.
The Board of Directors named Bernard Jourdan as Lead Director (see paragraph 1.4 below) at its meeting of February 9, 2017.
Following the disposal of his holding, André Harari resigned from his positions as Chairman of the Board of Directors and as Director, effective the end of the meeting of the Board of Directors of July 27, 2017.
Following its deliberations on October 30, 2017, the Board of Directors appointed Ross McInnes as Director, replacing André Harari, with effect from January 1, 2018, for the remainder of the current term, that is, until the Ordinary Shareholders' Meeting called to approve the financial statements the fiscal year ending December 31, 2019.
Finally, the AFEP-MEDEF Code refers to articles L. 225-23 and L. 225-27-1 of the French Commercial Code, which stipulate that (i) if the employees of the Company or of companies affiliated to it as per article L. 225-180 of the French Commercial Code hold more than 3% of the Company's capital, and/or (ii) if the Company employs at least 1,000 full-time employees in France, or at least 5,000 worldwide, including its direct and indirect subsidiaries, for at least two fiscal years, then the Board of Directors must include (i) Directors representing the employee shareholders, and/or (ii) Directors representing the employees.
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 Financial Report and can be consulted on its website.
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 SAU 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 a member of the Board of Directors of Oceasoft and Senior Advisor to Tikehau. Since February 14, 2018, she has been a Director of Osmozis. She is also member of the Board of Directors of the French National Chamber of Financial Investment Advisors. These positions are held in France.

Bernard Jourdan holds no directorship apart from Lectra.
Nathalie Rossiensky is also a member of the Board of Directors of two family Sicav (collective investment schemes) within the scope of her professional duties.
Ross McInnes is Chairman of the Board of Directors of Safran, a Director of Eutelsat, and a Trustee of IFRS Foundation.

Directors' and Company Officers Shareholdings

The AFEP-MEDEF Code recommends that each Director should be a shareholder in a personal capacity and should own a significant minimum number of shares relative to the Director's fees received. If the Director does not own these shares at the time of joining the Board, he or she should use a portion of Director's fees received to purchase shares. The Director is required to notify the Company of his or her compliance, this information being provided in the Annual Report.
The Internal Rules and Procedures provide that all Lectra Directors must own at least 1,500 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 they have acquired the requisite number of shares. Such investment must be made within twelve months following payment of the said Director's fee.
At February 27, 2018, the shares held by Directors and Company Officers were as follows:

- Daniel Harari: 5,507,560 shares (17.4% of the share capital);
- Anne Binder: 1,420 shares (of which 520 purchased by reinvesting a portion of her Directors' fee received in respect of FY 2016, 700 purchased by reinvesting a portion of her Directors' fee received in respect of FY 2015, and 200 held previously);
- Bernard Jourdan: 1,353 shares (of which 575 purchased by reinvesting a portion of his Directors' fee received in respect of FY 2016, 700 purchased by reinvesting a portion of his Directors' fee received in respect of FY 2015, and 78 held previously);
- Nathalie Rossiensky: 490 shares (of which 190 purchased by reinvesting a portion of her Directors' fee received in respect of FY 2016).

Criteria Defining Board Members' Independence

To comply with the rules of corporate governance as set forth in the AFEP-MEDEF Code, in widely-held corporations without controlling shareholders, half of the members of the Board of Directors must be independent.
In general, a Director is deemed to be independent of the Company's management when there is no relationship of any kind whatsoever with the Group or its management liable to compromise the Director's freedom of judgment. This is the case in respect of Anne Binder, Bernard Jourdan, Ross McInnes and Nathalie Rossiensky, all of whom satisfy all the criteria of independence laid down in the AFEP-MEDEF Code (in particular, there are no related party transactions of whatever nature between these Directors and the Company), as verified with each independent Director by the Board of Directors.
The use of the term "independent Director" is consistent with the terms of the AFEP-MEDEF Code, which stipulates that independence must be discussed by the Nominations Committee and determined by the Board when appointing a Director, as well as annually for all Directors.
In the absence of a Nominations Committee, the application of the criteria of independence was verified by the Compensation Committee, acting as the Nominations Committee at its meeting of February 27, 2018, attended by the Chairman and CEO, and formally recorded by the Board meeting of the same day.
Daniel Harari, Chairman and CEO, is the Company Officer and as such is not deemed to be independent.

Duration of Board Appointments

Directors have been elected for a four-year term since the Shareholders' Meeting of April 27, 2012, to comply with the recommendations of the AFEP-MEDEF Code.

The directorships of the Board members have the same expiry date. The Company is therefore 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 French January 27, 2011 Act laid down new rules on the balance between men and women on Boards of Directors and sets the minimum proportion of Directors of each gender at 40% as of 2017.
The Company has respected the figure of 40% since the Shareholders' Meeting of April 29, 2016.
It is pointed out that 40% of the members of the Executive Committee are also women.

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

Under the Company by-laws, the proportion of Directors aged over 70 is restricted to one-half of the total number of Directors in office. 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 ordinary 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.
The age limit for the position of Chairman of the Board of Directors is 76.
On the date of this report, only a single Director, Bernard Jourdan, was over 70 years of age.

Training of Directors

The Directors receive 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. Numerous meetings have been held for this purpose for the four independent Directors.

Outside Directorships Held by Company Officers

The AFEP-MEDEF Code recommends that an executive Officer seek the opinion of the Board of Directors before accepting a new directorship in a listed Company.
The Company's Internal Rules and Procedures of the Board go beyond the recommendations of the AFEP-MEDEF Code and prohibit Company Officers from holding directorships in any French or foreign company, listed or unlisted, outside the Group.

Attendance of Directors at Shareholders' Meetings

In its revised version of November 24, 2016, the AFEP-MEDEF Code recommends that Directors attend the shareholders' meetings.
All Directors attended the Ordinary Shareholders' Meeting of April 28, 2017.

1.3 Committees of the Board of Directors

The Board of Directors has created three specialized Committees: an Audit Committee (since 2001), a Compensation Committee (since 2001), and a Strategic Committee (since 2004).
Given the limited number of Directors, the functions of the Nominating Committee as laid down in the AFEP-MEDEF Code are performed by the Compensation Committee (in which case the Chairman and CEO may take part in the discussions, as provided in the AFEP-MEDEF Code).
Finally, the AFEP-MEDEF Code requires each Committee to establish rules spelling out its duties and procedures, and these have been incorporated into the Internal Rules and Procedures of the Board of Directors.
Between meetings of the Committees, their members may communicate as necessary by email, in particular with the Chairman and CEO, in order to obtain further information on certain questions.

Audit Committee

Membership

The Audit Committee consists of four independent Directors: Bernard Jourdan, Chairman of the Committee, Anne Binder, Ross McInnes and 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.

Bernard Jourdan has held management positions in various international industrial groups, including SPIE and Schindler, where he has developed a thorough understanding of corporations, accounting and finance.

Anne Binder has developed her expertise in finance and acquisitions in positions with international financial institutions including Lazard Frères and GE Capital.

Nathalie Rossiensky has acquired expertise in the area of finance and financial markets with investment banks such as Goldman Sachs and Lombard Odier.

Ross McInnes has considerable strategic and operational financial experience, having served in senior financial and administrative positions with organizations such as Thales (formerly Thomson-CSF), Kering (formerly PPR), and Safran, where he now serves as Chairman of the Board of Directors.

Mission

As prescribed by 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, review press releases and quarterly and annual financial announcements. The Audit Committee scrutinizes important transactions liable to give rise to conflicts of interest. It reviews significant risks and off-balance sheet liabilities, assesses the importance of malfunctions or shortcomings brought to its attention, and informs the Board of Directors where appropriate. It also reviews the scope of consolidation and, where appropriate, examines reasons for the exclusion of companies;
- oversee the rules governing the independence and objectivity of the Statutory Auditors, manage the procedure for their selection when their current appointment expires, and make its recommendation to the Board of Directors. Each year the Statutory Auditors supply information to the Audit 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 no. 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 areas mentioned above.

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, and the Chief Financial Officer attend all of these meetings.

The Audit Committee has held six meetings in 2017, with an effective attendance rate of 100%.

Review of Accounts

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 report. The Chief Financial Officer assists the Committee in the performance of its duties, and the Committee periodically reviews with him areas of potential risk

to which it needs to be alerted or requiring closer attention. The Committee also works with the CFO in reviewing and approving guidelines for the work program on management control and internal control for the year in progress.
The Audit 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 Audit 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 of the Company's financial results, accounting methods chosen, exposure to risks and significant off-balance sheet commitments. The review of the half-year and annual accounts is also accompanied by a presentation by the Statutory Auditors drawing attention to the key features of financial results and the accounting choices made, together with an account of their auditing work and observations, if any. The Audit Committee Chairman systematically asks the Statutory Auditors if they intend to qualify their reports.
In its amended version of November 24, 2016, the AFEP-MEDEF Code recommends that sufficient time be allowed for transmission of the accounts and their review. 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, 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.
At the Audit 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 Report of the Board of Directors on Corporate Governance.
The Audit Committee regularly reviews AMF recommendations and reports regarding corporate governance, the recommendations of the AFEP-MEDEF Code, and any related laws and regulations.
In 2017, and again on February 12, 2018, at its meetings held to review the financial statements for fiscal year 2017, the Committee notably reviewed the goodwill impairment tests and deferred tax assets at December 31, 2017, together with the impacts on the financial statements of the December 30, 2017 Budget Act no. 2017-1837 (*loi de finances*) for 2018.
The Committee also reviewed the mandatory corporate social, environmental and societal disclosures required under the French "Grenelle II" Act (Law no. 2010-788) of July 12, 2010, its enabling decree published on April 24, 2012 and its decree of August 19, 2016, as well as those required under Order no. 2017-1162 of July 12, 2017, and its enabling decree published July 18, 2017, to be included in the Grenelle II report appended to the Board of Directors' report submitted to the Annual Shareholders' Meeting on April 27, 2018, together with the procedures and conditions in which the inspecting body performed its audit.
On February 12, 2018 the Committee reviewed the Company's budget as well as the revenue and financial results scenarios for fiscal year 2018, and those contained in the progress report on the strategic roadmap for 2017-2019, together with macroeconomic assumptions serving as the basis for the information communicated to the market.
The Audit Committee has not identified any operations liable to give rise to a conflict of interest.

Statutory Auditors

The Audit Committee reviews and discusses with the Statutory Auditors the scope of their engagement and their fees. Once a year, it receives from the Statutory Auditors a report prepared exclusively for its attention on the findings of their audit of the statutory and consolidated accounts for the year ended, and confirming the independence of their firms in accordance with the French Code of Professional Conduct and the August 1, 2003 (French) Financial Security Act.

On January 9, 2018, the Committee devoted a working meeting with the Statutory Auditors and the finance team to the presentation of their overall audit approach and a review of controls on information systems revenue recognition applications.

The Committee annually reviews with the Statutory Auditors the risks to their 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 immaterial.

In 2017, the Committee did not see fit to call upon outside experts.

Pursuant to these requirements, on October 30, 2017 the Audit Committee approved a charter setting forth the authority of the Chairman and CEO, the Executive Vice President and Chief Financial Officer regarding contracting for the provision of services with the Statutory Auditors and their networks.

Compensation Committee

Membership

The Compensation Committee consists of four independent Directors: Bernard Jourdan, Chairman of the Committee, Anne Binder, Ross McInnes and Nathalie Rossiensky.

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 it.

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 the Company Officers, and make recommendations. At year-end closing, the Committee validates the actual amount corresponding to variable compensation earned during the fiscal year ended;
- review the principles, criteria and the amount of fixed and variable compensation, and check whether or not annual targets governing calculation of the variable portion, together with additional benefits paid to other members of the Executive Committee, are met;
- review the fixed and variable compensation of all Group managers whose total annual compensation exceeds €200,000 or its equivalent in foreign currencies;
- prepare the draft resolutions regarding compensation for Company Officers to be submitted to the Shareholders' Meeting for approval;
- review, prior to the meeting of the Board of Directors voting on these questions, the details, rules and granting of the annual stock options plan, and make its recommendations;
- review the Company policy on equal opportunities and equal pay, and make recommendations to the Board prior to annual discussion, as prescribed in the (French) January 27, 2011 Act and that of August 4, 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; and
- prepare a succession plan for the Company Officers.

In that capacity, the Compensation Committee makes recommendations and expresses all opinions to the Board and examines all questions brought to its attention and pertaining to these 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 once before each meeting of the Board whenever the agenda provides for the setting of compensation and additional benefits for the Company Officers, or for the granting of stock options, and reports on its recommendations to the said meeting.

The Committee met five times in 2017 with an effective attendance rate of 100%. The Chairman of the Board of Directors and the Chief Executive Officer were invited to attend all of these meetings.

The Compensation Committee reviews the compensation and additional benefits of the other members of the Executive Committee, as well as, once a year, 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 Human Capital Officers, France and International, and communicates its recommendations to the Board.

The Committee met on July 27, 2017, prior to the Board of Directors meeting, to reevaluate the compensation of Daniel Harari on the occasion of his appointment as Chairman and CEO.

The Chairman of the Compensation Committee then set out the Committee's recommendation at the Board meeting of July 27, 2017.

The Committee also met on February 12 and February 27, 2018 to validate the definitive amounts of the variable compensation of the Company Officers, and to review the principles and the rules governing variable compensation of the Chairman and CEO for 2018 based on the targets for 2018. The Chairman of the Compensation Committee submitted the Committee's recommendation to the Board meetings of February 12 and February 27, 2018.

Moreover, the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the Compensation Committee to the Board of Directors, the Board should deliberate on issues relating to the compensation of the Company Officers in the absence of the latter. The Board has seen fit to comply with this recommendation and the Compensation Committee, which comprises all of the independent Directors, meets annually in the absence of the Chairman and CEO for the purpose of discussing his compensation.

Strategic Committee

Membership

The Strategic Committee consists of five Directors, four of whom are independent: Daniel Harari, Chairman of the Committee, Anne Binder, Bernard Jourdan, Ross McInnes and Nathalie Rossiensky.

Mission

The prime mission of the Strategic Committee is to review the consistency of the Company's strategic plan, the 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. 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.

It notably reviews and discusses the major strategic directions and development themes proposed by the Chairman and CEO, 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. It is regularly kept informed of their execution.

Within this framework, it studies and formulates recommendations on the strategic 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 equity of the shareholders.
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.

Meetings and Activities

The Committee met five times in 2017, with an effective attendance rate of 100%. It devoted an entire day to visiting the Bordeaux-Cestas technology campus.
In view of the importance of the subjects covered, the Executive Vice President and the Strategy Director were invited to speak, depending on the subjects examined.
The Strategic Committee in particular reviewed progress in the execution of the 2013-2016 strategic roadmap, validated the new strategic roadmap for 2017-2019, which it had discussed throughout the year in 2016, reviewed the broad outlines of the research and development action plan, marketing plan and human resources plan, and the corresponding revenue and financial results scenarios, and formulated recommendations. The Committee has been regularly informed of the impact on the Group's activities of developments in the macroeconomic and competitive environment.
It also reviewed various options for external growth.
Further, at its meeting of January 25, 2018, the Committee reviewed and discussed the scenarios and priorities for 2018.

Limits to the Decision-Making Powers of the Committees

Subjects that the Chairman and CEO 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 are considered and approved 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 Lead Director

At its meeting of February 9, 2017, the Board of Directors named Bernard Jourdan Lead Director, a newly-instituted position. Bernard Jourdan is also Chairman of the Audit and Compensation Committees.
Under the AFEP-MEDEF Code, when the Board decides to confer special tasks upon a Director, and in particular a Lead Director, these tasks and the resources and prerogatives to which he or she has access must be described in the internal rules. It is recommended that the Lead Director be independent.
Under the Internal Rules and Procedures of the Board of Directors, the Lead Director is entrusted with certain specific tasks:
- to perform the role of leader of the independent Directors;
- to organize at his/her discretion, and at least once a year, and to set the agenda and chair meetings of the independent Directors in the absence of the Company Officers, in order to evaluate their performance and their succession plan, and to report to the Chairman and CEO and to the Board in full session, as appropriate;
- to monitor and manage possible conflicts of interest in connection with the Company Officers;
- to propose to the Chairman and CEO, if necessary, items for placing on the agenda of meetings of the Board of Directors;

- to direct the annual evaluation of the Board of Directors by the independent Directors;
- in the event the Chairman and CEO should be unable to do so, to convene and to chair meetings of the Board of Directors.

Except within the framework of exceptional missions entrusted to him/her and explicitly provided for, the Lead Director has no authority to communicate with the shareholders in the name of the Board.

The Lead Director is assisted by the Secretary of the Board of Directors for the performance of administrative tasks arising from his/her role and receives no compensation in respect of this role.

This new function has been incorporated into the Internal Rules and Procedures.

The Lead Director reports to the Board of Directors on his/her duties at least once a year. The report on his/her activity is provided below for the first time.

"Independent Lead Director's 2017 Activity Report

During fiscal year 2017, the Lead Director attended all meetings of the Board of Directors, and all meetings of the Audit Committee, the Compensation Committee and the Strategic Committee.

He was able to fully carry out, to his satisfaction, his missions during fiscal year 2017, as he stated at the meeting of the Board of Directors on February 12, 2018, when he reported on his activity.

He chaired the annual meeting of non-executive independent Directors held on December 7, 2017, in the absence of the Chairman and CEO.

The meeting's agenda included the assessment of the performance of the Company Officers, the review of their compensation components and their succession plan, and the assessment of the Board of Directors, as he reported at the meeting of the Board on February 12, 2018.

The Lead Director had no knowledge of any potential conflicts of interest affecting Company Officers."

1.5 Board of Directors and Board Committees Overview

	André Harari [1]	Daniel Harari	Anne Binder	Bernard Jourdan	Nathalie Rossiensky	Ross McInnes
Executive and non-executive Officers	Chairman of the Board of Directors (non-executive)	Chief Executive Officer until July 27, 2017, then Chairman and CEO				
First appointed	1977	1991	October 27, 2011	December 21, 2011	April 29, 2016	Appointed January 1, 2018
Re-elected	April 29, 2016	April 29, 2016	April 29, 2016	April 29, 2016		
Term expires	N/A	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	40	27	6	6	2	
Nationality	French	French	French	French	French	French and Australian
Age	74	63	67	73	48	63
Gender	Male	Male	Female	Male	Female	Male

(1) term ended July 27, 2017.

	André Harari [1]	Daniel Harari	Anne Binder	Bernard Jourdan	Nathalie Rossiensky	Ross McInnes
Status	Non-independent	Non-independent	Independent	Independent Lead Director	Independent	Independent
Experience and expertise provided to the Company			Strategy, financial, international	Strategy, industrial, financial, international	Strategy, financial, international	Strategy, industrial, financial, international
Number of outside directorships in all companies		0	2	0	0	3
Board of Directors	Chairman until July 27, 2017	Chairman since July 27, 2017	Member	Member	Member	Member
2017 effective attendance rate	100%	100%	100%	100%	100%	
Audit Committee			Member	Chairman	Member	Member
2017 effective attendance rate			100%	100%	100%	
Compensation Committee			Member	Chairman	Member	Member
2017 effective attendance rate			100%	100%	100%	
Strategic Committee	Chairman until July 27, 2017	Chairman since July 27, 2017	Member	Member	Member	Member
2017 effective attendance rate	100%	100%	100%	100%	100%	
Independent Directors meeting			Member	Chairman	Member	Member
2017 effective attendance rate			100%	100%	100%	

(1) term ended July 27, 2017.

1.6 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.

The Internal Rules and Procedures of the Board of Directors were updated on February 12, 2018, and are available on the Company's website.

The Company by-laws are regularly updated in response to legal and regulatory developments, providing a detailed presentation of the Company's organizational and operational rules, together with the changes in the rules of governance promoted by the AFEP-MEDEF Code and in the practice of the Board of Directors.

Prevention of Conflicts of Interest

The Board of Directors has also long had in place a procedure for managing conflicts of interest, if any. This procedure is formalized in the Board's Internal Rules and Procedures.

Further, pursuant to article 1.6 of the Board's Internal Rules and Procedures, the Board of Directors has tasked the Lead Director with monitoring and managing possible conflicts of interest in connection with the Company Officers.

Each Director (i) must ensure at all times that their personal situation avoids all conflicts of interest with the Company or Group companies, (ii) has a duty spontaneously to inform the Board of any situation or risk of conflict of interest, real or potential, and (iii) 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 by-laws, Directors are required to notify the Chairman and CEO 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 and CEO notifies the Board of any conflicts of interest or potential conflicts he may have identified concerning the Company Officers 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 his/her position.

The Chairman and CEO abstains from participating in the votes on motions regarding his compensation.

The list and purpose of agreements entered into in the ordinary course of business and on arms' length terms has been communicated to the members of the Board of Directors and to the Statutory Auditors in accordance with the provisions of article L. 225-39 of the French Commercial Code.

Disposal by André Harari of His Entire Stake

During fiscal year 2017, André Harari disposed of the entire stake of shares he previously held in the Company. In the context of the transaction, a regulated related-parties agreement subject to article L. 225-38 of the French Commercial Code was signed with Banque Lazard. The agreement was authorized by the Board of Directors and is subject to approval by the Shareholders' Meeting of April 27, 2018. The Statutory Auditors were properly informed of this agreement, which they discuss in their Special Report (available in French).

1.7 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 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 timetable of meetings of the Committees, Board of Directors and annual shareholders' meetings for the period 2018-2020 was communicated to the Board of Directors on July 27, 2017.

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 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, 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 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 2017, with an effective attendance rate of 100%.

1.8 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 by-laws, 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"). 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 by-laws 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 by-laws accordingly.

As a result, only 274,137 shares (representing 0.9% of the capital stock) held in registered form before May 15, 2001—at which date the Company abolished the previously-existing double voting rights for shares registered after that date, together with shares purchased after that date—carried double voting rights at December 31, 2017.

1.9 Investor Information on the Company's Long-Term Outlook

The AFEP-MEDEF Code stipulates that, in communicating with the market, corporations must spell out their long-term outlook in their disclosures to investors.

The Company presented its strategic 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, in its 2016 Annual Report and in the Report of the Board of Directors to the Ordinary Shareholders' Meeting of April 28, 2017.

1.10 Organization of Board Proceedings—Communication of Information to Directors

The agenda is set by the Chairman and CEO after consulting, where appropriate, with the Lead Director, the Chairmen of the Audit Committee, the Compensation Committee and the Strategic 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 Secretary of the Board, 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 Shareholders' Meeting. Details of each item on the agenda are provided in a written document prepared by either the Chairman and CEO, the Executive Vice President, the Chief Financial Officer, as required, or are presented during the meeting itself.

As in previous years, in 2017, all documents to be communicated to the Directors were made available to them in compliance with regulations. Further, the Chairman and CEO 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.

1.11 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 of Directors 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 ended.
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. The Board has decided to comply with these recommendations, and conducted a formal evaluation for the first time on December 9, 2015. The independent Directors meet annually, in the absence of the Company Officers, to take note of changes relative to the previous evaluation and to conduct a formal evaluation every three years.
The independent Directors met on December 7, 2017, to review the annual evaluation of the Board of Directors, presenting their conclusions to the Chairman and CEO, then to the full meeting of the Board on February 12, 2018.
In this meeting, they reiterated 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 founded on complete trust. They again emphasized the high level of demands that the Chairman and CEO 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 and CEO 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 (France) technology campus.
Finally, they again emphasized the readiness of the Chairman and CEO to answer their requests regarding specific subjects.
The independent 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.
The Board had achieved its diversification objectives in 2016, in terms of increased female representation and international experience, with the appointment of Nathalie Rossiensky. The appointment of Ross McInnes, who holds dual French and Australian citizenship, further strengthens the ranks of independent non-executive Directors as from January 1, 2018.
The independent Directors reiterated their invitation to the Chairman and CEO to attend the meetings of the Audit and Compensation Committees as a guest, particularly when it is considered appropriate to hear from the Chairman.
Finally, they stated that they saw no major area in need of improvement at present. Areas that are the subject of continuous improvement were listed and discussed with the Chairman and CEO. Regular follow-up will be carried out to ensure that Lectra continues to be a benchmark in corporate governance. Having regard to its size, operational constraints and the particularly rich international experience of its members, further strengthened by the arrival of Ross McInnes, the Board considered that there was no need to appoint a non-French Director to its ranks.

1.12 Periodic Meetings of the Independent Directors in the Absence of the Company Officers

The AFEP-MEDEF Code further recommends that the independent Directors meet periodically in the absence of the Company Officers or internal Directors.
The independent Directors adopt this recommendation, expanding the range of subjects they wish to discuss in the absence of the Company Officer on the occasion of their annual evaluation of the Board.
The independent Directors met on December 7, 2017 and an oral report was made to the Chairman and CEO. In addition to the annual assessment of the work of the Board, they discussed a number of governance issues, took stock of the annual review of the Chairman and CEO's performance, and discussed his succession plan.

1.13 Company Officers' Succession Plan

In its October 10, 2016 report, the French High Committee for Corporate Governance stated that Company Officers' succession plans figured among its priority themes. While acknowledging the delicate nature of this issue, the High Committee considered that it is of the utmost importance that companies plan not only for the untimely departure or demise of the principal Company Officer, but also for "foreseeable" departures, in particular due to age limitations, and should inform shareholders that this planning has been undertaken, with no obligation to publish the results of this planning.
In its amended November 24, 2016 version, the AFEP-MEDEF Code requires the Nominations Committee (or an ad hoc committee) to draw up a succession plan for the Company Officers, and states that this is one of the Committee's most important tasks. The Chairman and CEO is involved in the Committee's work during the conduct of this task.

The independent Directors began considering this question in 2012 with a view to the long term or in anticipation of unforeseeable events, and have discussed it several times since then. Special attention was paid to the issue at the November 24, 2016 meeting of the Strategic Committee, following an examination of the report of the High Committee for Corporate Governance, then at the meeting of the independent Directors on December 8, 2016. The independent Directors had then examined the succession plan for André Harari and Daniel Harari, were they to leave. The Company had prepared for the succession of André Harari, which occurred during the Board of Directors' meeting of July 27, 2017.
Daniel Harari has confirmed his intention to continue in his position for at least one further four-year term at the end of his current term, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal year 2023.
In the event of an untimely departure or demise, all of the Board members are sufficiently familiar with the workings of the Group to be able to identify, in the shortest possible time, suitable solutions to enable the Group to continue its development.
The Group has the requisite array of competencies to cope with a temporary absence of Daniel Harari, thanks in particular to the organization and smooth functioning of the Executive Committee and the Board of Directors.

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

As recommended by the AMF, the table below summarizes the 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. 225-37-4,8° of the French Commercial Code. As explained in the relevant sections above, the Board of Directors has decided to comply with certain recommendations previously not implemented, starting in fiscal year 2016, which are highlighted in the table, thereby reducing the number of exceptions to one only. The provisions not adopted concern Article 13.2 of the AFEP-MEDEF Code.

AFEP-MEDEF Code recommendations not implemented	Explanation
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.

2. PRINCIPLES AND CRITERIA FOR DETERMINING THE COMPENSATION AND BENEFITS OF COMPANY OFFICERS AND OTHER DIRECTORS AS SET BY THE BOARD OF DIRECTORS

The recommendations of the AFEP-MEDEF Code aim to:

- spell out principles for setting the compensation of Company Officers of listed companies;
- prohibit the simultaneous holding of a position as Company Officer 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 Company Officers 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 Company Officers; the latter must also purchase shares at market price additional to any performance-related shares granted to them; and
- make compensation policies more transparent by means of a standardized disclosure format.

The Company declared that it had already been in spontaneous compliance with these recommendations for many years.

2.1 Compensation of the Company Officers

In its amended version of November 24, 2016, the AFEP-MEDEF Code stipulates that the task of determining compensation of the Company Officers is the responsibility of the Board of Directors that appoints them, and is based on proposals submitted by the Compensation Committee. The Board of Directors must give reasons for its decisions in this regard.

The AFEP-MEDEF Code states that the compensation of executive Officers must be competitive, adapted to the company's strategy and context and must aim, in particular, to improve its medium- and long-term performance and competitiveness. The compensation must make it possible to attract, retain and motivate high-performing officers. The AFEP-MEDEF Code states in particular that "The maximum amount of annual variable compensation must be defined as a percentage of the fixed compensation and must be of a magnitude that is proportionate in the light of this fixed part (…). Without jeopardizing the confidentiality that may be linked to certain elements in the determination of the variable part of the compensation, this presentation must indicate the breakdown of the qualitative or quantifiable criteria on the basis of which this variable part is determined, their relative importance, the manner in which these criteria have been applied during the financial year and whether the individual targets have been attained".

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 ended.

The principles and rules for determining the compensation and benefits of Company Officers are subject to prior review and recommendation by the Compensation Committee. Although it has no decision power, 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 then subject to the approval of the shareholders' meeting.

All elements of the Company Officers' potential or actual compensation are published on the Company's website after the meeting of the Board of Directors held to approve them.

2.1.1 Policy and Criteria Governing the Compensation of the Chairman and CEO

Policy Governing the Compensation of the Chairman and CEO

The policy governing the compensation of the Chairman and CEO, adopted by the Board of Directors on July 27, 2017, takes into account the extent of the duties assigned to him. The specific duties of the Chairman and CEO are spelled out in chapter 1.4 of the Internal Rules and Procedures of the Board of Directors. This policy is clear, consistent with the long-term strategy, objectives and challenges of the Group, and directly linked to its performance. It reflects his experience, competencies and responsibilities. It has proved its worth both in tough years and in years of record profits.

The compensation of the Chairman and CEO comprises a fixed portion and an annual variable portion. It does not include any multiyear variable compensation or exceptional compensation, any form of bonuses, stock options, performance-based shares or other long-term component of compensation, or any indemnity relating to the take-up or termination of his function, nor any supplementary retirement plan.

Each year the Board of Directors starts by determining the amount of target-based total compensation for the year, which comprises a fixed and a variable portion.

The compensation of the Chairman and CEO is paid in its entirety by Lectra SA. He receives 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).

The Chairman and CEO also receives Directors' fees allocated to the Board (see chapter 2.3, "Directors' fees").

The only benefit accorded concerns the valuation for tax purposes of the utilization of company cars; the amount is set out in the Board of Directors' management report.

The Chairman and CEO has never combined his positions as Company Officer with an employment contract, is not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to him in virtue of a termination or change of his functions, or under an additional pension benefits plan or any additional defined benefit pension plan, stock options or bonus shares.

Through July 27, 2017, the same rules applied to the Chairman of the Board and to the Chief Executive Officer.

In accordance with the AFEP-MEDEF Code, the table below lists the existence or otherwise of an employment contract, supplementary pension scheme, indemnifications or benefits due or likely to become due as a result of termination or change of position, and indemnifications relating to a non-competition clause.

	André Harari, Chairman of the Board of Directors[1]	Daniel Harari, Chief Executive Officer, then Chairman and CEO
Employment contract	No	No
Supplementary pension scheme	No	No
Indemnifications or benefits due as a result of termination or change of position	No	No
Indemnifications relating to a non-competition clause	No	No

(1) term ended on July 27, 2017

Criteria Used to Determine the Compensation of the Chairman and CEO

The variable compensation is calculated on the basis of clear and complementary quantifiable criteria (to the exclusion of any qualitative criteria) expressed in terms of precisely-determined annual targets, reflecting the Company's strategy of profitable sales activity and earnings growth.

The Board maintained the four performance criteria used to determine their variable compensation as well as their relative weighting, as set in previous years, reflecting the Company's strategy of profitable sales activity and earnings 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%).

For each of these 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.

The fixed component and the variable component each account for 50% of the Chairman and CEO's target-based total compensation. Actual total compensation may therefore vary depending on performance, ranging from 50% to 150% of the target-based total compensation. Consequently, variable compensation can range from zero to 200% of the fixed 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 Company Officers' 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 four members of the Executive Committee who are not Company Officers; the only differences being the weighting given to each criterion and the relative share of their target-based variable compensation, which is specifically geared to each of them and adapted to their duties and targets; their variable compensation thus ranges from 33% to 40% of total target-based compensation. These criteria also apply to certain managers reporting to them, with the same specific features.

2.1.2 Compensation for 2017-2019

The Board of Directors meeting of February 9, 2017 decided to increase the total compensation of the Chairman of the Board of Directors and Chief Executive Officer, conditional upon fulfillment of annual targets, to €630,000 (+5% relative to 2016), for each of the three years 2017, 2018 and 2019, with the fixed portion representing 40% of total compensation (i.e. €252,000) and the variable portion 60% (i.e. €378,000).
Considering the combination of the roles of Chairman of the Board of Directors and Chief Executive Officer, and the appointment of Daniel Harari as Chairman and CEO, the Board of Directors, at its meeting on July 27, 2017, decided, subject to approval by the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended on December 31, 2017, to set the total target-based compensation of the Chairman and CEO to €780,000, that is, a 23.8% increase, for each of the three years 2017, 2018, and 2019 (the 2017 compensation applying prorata temporis). The fixed portion shall account for 50% of the total compensation, i.e., €390,000, and the variable portion for 50%, i.e., €390,000; the criteria and their relative weighting in determining the variable component of compensation remain unchanged.
At its meetings of February 9, 2017 and July 27, 2017, the Board of Directors maintained for 2017 through 2019 the four performance criteria set out in the article "Criteria used to determine the compensation of the Chairman and CEO", together with their relative weighting, for determining variable compensation.

2.1.3 2017 Compensation

At the Ordinary Shareholders' Meeting of April 28, 2017, called to approve the financial statements for the fiscal year ended December 31, 2016, the shareholders were invited to vote on the principles and criteria used to determine, apportion and award the fixed and variable components the total compensation and advantages of all kinds granted to the Chairman of the Board of Directors and to the Chief Executive Officer of the Company in respect of fiscal year 2017, as adopted by the Board of Directors of February 9, 2017.

The resolution on the compensation of the Chairman of the Board of Directors was approved by a 97.14% vote, and the resolution on the compensation of the Chief Executive Officer was approved by a 99.81% vote, these two compensations being calculated according to the same criteria.

2017 Compensation of André Harari

André Harari, as Chairman of the Board of Directors:
- received, in respect of the period from January 1 to July 27, 2017 (the date of his resignation from the position of Chairman of the Board of Directors), fixed compensation in the amount of €144,900;
- was granted by the Board of Directors at its meeting on July 27, 2017, (subject to a vote by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2017), in respect of the period from January 1 to July 27, 2017 (the date of his resignation from the position of Chairman of the Board of Directors), variable compensation in the amount of €231,689 (i.e., total fixed and variable compensation in the amount of €376,589).

The actual total compensation in respect of fiscal year 2017, calculated in proportion to his presence, on the basis of the first-half results, subject to approval by the shareholders' meeting, is equivalent to 105% of the total target-based compensation (92% in 2016 for the full year).
The Board of Directors, at its meeting on July 27, 2017, allocated as follows the Directors' fees, calculated in proportion to his presence, attributable to André Harari in respect of fiscal year 2017:
- Fixed portion of Director's fee: €15,000
- Variable portion of Director's fee: €20,833

2017 Compensation of Daniel Harari

Daniel Harari, in his capacity as Chief Executive Officer,
- received, in respect of the period from January 1 to July 26, 2017, fixed compensation in the amount of €142,915;
- was granted by the Board of Directors at its meeting on February 12, 2018 (subject to the approval of the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2017) in respect of the period from January 1 to July 26, 2017,

variable compensation in the amount of €238,360 (i.e., total fixed and variable compensation in the amount of €381,275).

Given his new roles as Chairman and CEO starting July 27, 2017, Daniel Harari's compensation has been amended by the Board of Directors, subject to approval by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2017.

In this respect, Daniel Harari, in his capacity as Chairman and CEO,

- received, in respect of the period from July 27, 2017 to December 31, 2017, fixed compensation in the amount of €109,085 (in compliance with the principles and criteria for compensation approved by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2016);
- is to receive, subject to approval by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2017, of the principles and criteria for compensation as amended by the Board of Directors at its meeting on July 27, 2017, in respect of the period from July 27, 2017 to December 31, 2017, additional fixed compensation in the amount of €59,737;
- was granted by the Board of Directors at its meeting on February 12, 2018, (subject to a vote by the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2017) in respect of the period from July 27, 2017 to December 31, 2017, variable compensation in the amount of €187,713 (i.e., total fixed and variable compensation in the amount of €356,535).

The actual total compensation in respect of fiscal year 2017, subject to approval by the shareholders' meeting, would come to 106% of the total target-based compensation (92% in 2016).

The Board of Directors at its meeting on February 12, 2018, allocated as follows the Directors' fees, calculated in proportion to his presence, attributable to Daniel Harari in respect of fiscal year 2017:

- Fixed portion of Director's fee: €15,000
- Variable portion of Director's fee: €25,000

Application of Performance-Related Criteria of Annual Variable Compensation for the Company Officers in 2017

In the first half of 2017, the percentage obtained for each of the four criteria is as follows: (i) 98% for the contributive value of growth in sales activity (73% in 2016 for the full year); (ii) 90% for consolidated income before tax (110% in 2016 for the full year); (iii) 200% for consolidated free cash flow (70% in 2016 for the full year); and (iv) 118% for the contributive value of recurring contracts (95% in 2016). In total, the percentage obtained for the variable portion of André Harari's compensation represented 108% of the amount tied to the fulfillment of annual targets (86% in 2016).

In 2017, the percentage obtained for each of the four criteria is as follows: (i) 96% for the contributive value of growth in sales activity (73% in 2016); (ii) 99% for consolidated income before tax (110% in 2016); (iii) 189% for consolidated free cash flow (70% in 2016); and (iv) 146% for the contributive value of recurring contracts (95% in 2016). In total, the percentage obtained for the variable portion of Daniel Harari's compensation represented 111% of the amount tied to the fulfillment of annual targets (86% in 2016).

2.1.4 Details of Individual Compensation of Each Company Officer

Following the recommendations of the AFEP-MEDEF Code, the table below presents the fixed and variable compensation (gross amounts before employee contribution deductions) assuming fulfillment of annual targets and the actual compensation effectively earned, in respect of each fiscal year:

	2017			2016		
(in euros)	Compensation assuming fulfillment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfillment of annual targets	Compensation assuming fulfillment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfillment of annual targets
André Harari, Chairman of the Board of Directors(1)						
Fixed compensation	252,000	144,900	na	240,000	240,000	100%
Variable compensation	378,000	231,689	na	360,000	310,172	86%
Total	630,000	376,589	na	600,000	550,172	92%
Daniel Harari, Chief Executive Officer then Chairman and CEO(2)						
Fixed compensation	311,737	311,737	100%	240,000	240,000	100%
Variable compensation	383,195	426,073	111%	360,000	310,172	86%
Total	694,932	737,810	106%	600,000	550,172	92%

(1) André Harari served as Chairman of the Board of Directors to July 27, 2017.

(2) Daniel Harari served as Chief Executive Officer to July 27, 2017, and then as Chairman and CEO from July 27, 2017.

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:

	2017		2016	
(in euros)	Amounts earned in respect of the fiscal year	Amounts paid in the year	Amounts earned in respect of the fiscal year	Amounts paid in the year
André Harari, Chairman of the Board of Directors(1)				
Fixed compensation	144,900	144,900	240,000	240,000
Variable compensation	231,689	310,172	310,172	224,000
Directors' fees	35,833	40,000	40,000	40,000
Benefits in kind(3)	3,749	3,749	10,036	10,036
Total	**416,171**	**498,821**	**600,208**	**514,036**
Daniel Harari, Chief Executive Officer then Chairman and CEO(2)				
Fixed compensation	311,737	252,000	240,000	240,000
Variable compensation	426,073	310,172	310,172	224,000
Directors' fees	40,000	40,000	40,000	40,000
Benefits in kind(3)	12,816	12,816	9,530	9,530
Total	**790,626**	**614,988**	**599,702**	**513,530**

(1) André Harari served as Chairman of the Board of Directors to July 27, 2017.

(2) Daniel Harari served as Chief Executive Officer to July 27, 2017, and then as Chairman and CEO from July 27, 2017.

(3) The amounts shown for benefits in kind reflect the value for tax purposes of the use of company cars (€3,749 for André Harari for the period from January 1 to July 27, 2017, and €12,816 for Daniel Harari in 2017).

2.1.5 Policy Governing the Granting of Stock Options to all Beneficiaries and Specific Policy Governing the Granting of Stock Options to Company Officers

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 9 of the Management Discussion.

Daniel Harari, the only Company Officer, holds no stock options.

2.1.6 Ex-Ante and Ex-Post Shareholders' Approval of Company Officers' Compensation

Article 161 of the December 9, 2016 Sapin II Act (codified in article L. 225-37-2 of the French Commercial Code), henceforward requires a binding annual ex-ante vote by the shareholders' meeting on the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components making up the total compensation and benefits of all kinds granted to the Company Officers. The Act further requires a binding annual ex-post vote on the amount of compensation granted to the Company Officers in respect of the prior year. This vote must take place at least once a year, whenever the approved principles and criteria are modified, and at each renewal of a Company Officer's appointment.

The annual ex-ante vote applies as from the Shareholders' Meeting of April 28, 2017, and the corresponding ex-post vote as from the Shareholders' Meeting called to approve the financial statements for fiscal year 2017.

In the event of failure of the ex-ante vote, the principles and criteria previously approved by the shareholders' meeting will continue to apply.

In the absence of previously approved principles and criteria, compensation is determined according to the compensation granted in respect of the prior fiscal year or, in the absence of compensation granted in respect of the prior fiscal year, in compliance with existing practices within the Company.

In the event of failure of the ex-post vote, the variable or exceptional component cannot be paid to the person concerned.

Pursuant to articles L. 225-37-2 and L. 225-100 of the French Commercial Code:

- the amount of fixed compensation paid and the amount of variable compensation granted to André Harari, in his capacity as Chairman of the Board of Directors (until July 27, 2017), is subject to an ex-post vote by the shareholders at the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2017;
- the amount of fixed compensation paid and the amount of the new variable compensation granted to Daniel Harari, in his capacity as Chief Executive Officer, is subject to an ex-post vote by the shareholders at the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2017;
- the amount of the new fixed compensation and the amount of the new variable compensation granted to Daniel Harari, in his capacity as Chairman and CEO (starting July 27, 2017), must be the subject of (i) a binding ex-ante vote by the shareholders' meeting for fiscal year 2017 on the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components, and (ii) a binding annual ex-post vote on the amount of fixed compensation paid and on the amount of variable or exceptional compensation granted starting July 27, 2017.

The ex-ante consultation of the shareholders regarding the principles and rules for determining the compensation of the Chairman and CEO in respect of (i) fiscal year 2017 for the period from July 27, 2017 to December 31, 2017 and (ii) fiscal year 2018, are the subject of the tenth and twelfth resolutions, which are printed below.

"Approval of the policy governing the compensation of the Chairman and CEO, in respect of the fiscal year ended December 31, 2017, following the combination of the roles of Chairman of the Board of Directors and Chief Executive Officer from July 27, 2017

The shareholders' meeting acknowledges that, following the resignation of André Harari on July 27, 2017, the roles of Chairman of the Board of Directors and Chief Executive Officer have been combined and are exercised, since that date, by Daniel Harari. Given his new roles as Chairman and CEO, the Board of Directors approved, on a proposal by the Compensation Committee and subject to approval by the present ordinary shareholders' meeting, a revision in the compensation structure of Daniel Harari from July 27, 2017.

The shareholders' meeting, consulted pursuant to article L. 225-37-2 of the French Commercial Code, approves the principles and criteria used to determine, apportion and award the components making up the total compensation and benefits of all kinds granted to the Chairman and CEO, in respect of the fiscal year ended December 31, 2017 (specifically, for the period from July 27, 2017 to December 31, 2017), as they appear in chapter 2, "Principles and criteria used to determine, apportion and award the components making up the total compensation and benefits of all kinds adopted by the Board of Directors and granted to the Company Officers", paragraph 2.1.1 "Policy and criteria governing the compensation of the Chairman and CEO" and paragraph 2.1.2 "2017-2019 Compensation" of the Report of the Board of Directors on Corporate Governance."

"Approval of the policy governing the compensation of the Chairman and CEO, in respect of the fiscal year ending December 31, 2018

The shareholders' meeting, consulted pursuant to article L. 225-37-2 of the French Commercial Code, approves the principles and criteria used to determine, apportion and award the components making up the total compensation and benefits of all kinds granted to the Chairman and CEO, in respect of the fiscal year ending December 31, 2018, as they appear in chapter 2, "Principles and criteria used to determine, apportion and award the components making up the total compensation and benefits of all kinds adopted by the Board of Directors and granted to the Company Officers", paragraph 2.1.1 "Policy and criteria governing the compensation of the Chairman and CEO" and paragraph 2.1.2 "2017-2019 Compensation" of the Report of the Board of Directors on Corporate Governance."

2.2 Compensation Received by Non-Executive Officers

Directors who are not Company Officers receive no compensation other than Directors' fees.

2.3 Directors' Fees

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

The Board has 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 Directors who are not Company Officers for membership of the Board's specialized Committees; and
- apportioning an additional amount to the Chairs of the Audit Committee and the Compensation Committee (The Chairman of the Strategic Committee will receive no additional compensation in respect of this chairmanship).

The variable portion actually apportioned to each Director is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

Given the increase in the Board's membership from four to five Directors and in light of the new rules it has established for the apportionment of Directors' fees, the Shareholders' Meeting on April 29, 2016 increased the total amount of Directors' fees to €230,000 for fiscal year 2017 and future years, until decided otherwise by the Shareholders' Meeting.

The Directors' fees are 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 Chairs of the Audit Committee and the Compensation Committee.

The variable portion actually apportioned to each Director (62.5% of each amount) is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

2017 Directors' Fees

(in euros)	André Harari Chairman of the Board of Directors(1)	Daniel Harari Chief Executive Officer then Chairman and CEO(2)	Anne Binder Independent Director	Bernard Jourdan Independent and Lead Director	Nathalie Rossiensky Independent Director	Total 2017 Directors' Fees
Board of Directors						
Fixed portion	15,000	15,000	15,000	15,000	15,000	75,000
Variable portion	20,833	25,000	25,000	25,000	25,000	120,833
Sub/total	**35,833**	**40,000**	**40,000**	**40,000**	**40,000**	**195,833**
Audit Committee						
Fixed portion			1,125	1,125	1,125	3,375
Variable portion			1,875	1,875	1,875	5,625
Chair of the Committee				1,500		1,500
Sub/total			**3,000**	**4,500**	**3,000**	**10,500**
Compensation Committee						
Fixed portion			1,125	1,125	1,125	3,375
Variable portion			1,875	1,875	1,875	5,625
Chair of the Committee				1,500		1,500
Sub/total			**3,000**	**4,500**	**3,000**	**10,500**
Strategic Committee						
Fixed portion			1,125	1,125	1,125	3,375
Variable portion			1,875	1,875	1,875	5,625
Sub/total			**3,000**	**3,000**	**3,000**	**9,000**
Total Directors' Fees	**35,833**	**40,000**	**49,000**	**52,000**	**49,000**	**225,833**

(1) André Harari served as Chairman of the Board of Directors to July 27, 2017.

(2) Daniel Harari served as Chief Executive Officier to July 27, 2017, and then as Chaiman and CEO from July 27, 2017.

Given the resignation on July 27, 2017 of André Harari as Chairman of the Board of Directors, the Board proposes to grant his Directors' fees in proportion to the number of Board and Committee meetings he attended.

2018 Directors' Fees

Given the appointment of a fourth independent Director, the Board of Directors will propose that the Ordinary Shareholders' Meeting of April 27, 2018, set the amount of Directors' fees to €239,000, maintaining the following distribution:

- €40,000 to each of the five Directors for their attendance at meetings of the Board of Directors;
- €9,000 for attendance by each of the four independent Directors at meetings of the three Board Committees, plus €1,500 for the Chairs of the Audit Committee and the Compensation Committee.

The variable portion actually apportioned to each Director (62.5% of each amount) is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

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

The Board of Directors decided on May 23, 2006, in keeping with the rules on corporate governance and, since its publication, with the AFEP-MEDEF Code, to prohibit members of the corporate management and management teams of the 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 Group. These restrictions are consequently stricter than the obligation to abstain during the closed periods provided for in regulations and Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on Market Abuse (called the Market Abuse Regulation below), along with the AMF Guide on ongoing information and obligations regarding inside information from October 26, 2016.

However, as the High Committee on Corporate Governance was inclined to accept it in its 2015 report, the Company previously considered that this prohibition did 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. This exception has now been abolished, and the exercise of stock options during this period is now prohibited, even if the beneficiary holds the resulting shares until its expiration.

However, as permitted under article 19.12 of the Market Abuse Regulation, the Company may authorize a person discharging managerial responsibility to undertake such transactions:

- on a case-by-case basis due to the existence of exceptional circumstances, such as severe financial difficulty, which require the immediate sale of shares; or
- due to the characteristics of the trading involved for transactions made under, or related to, an employee share or saving scheme, qualification or entitlement of shares, or transactions where the beneficial interest in the relevant security does not change.

In compliance with article 18 of the Market Abuse Regulation, the Board of Directors:

- Draws up, in an electronic format, a list of all persons who have access to inside information;
- Promptly updates the insider list (including the date and time of the update) in the following circumstances:
  - where there is a change in the reason for including a person already on the insider list;
  - where there is a new person who has access to inside information and needs, therefore, to be added to the insider list; and
  - where a person ceases to have access to inside information.
- Provides this insider list by electronic means to the AMF as soon as possible at the latter's request;
- Retains the insider list and previous versions of it for a period of at least five years after it is drawn up or updated;
- Takes all reasonable steps to ensure that any person included in the insider list acknowledges in writing the legal and regulatory duties entailed and is aware of the sanctions applicable to insider dealing and unlawful disclosure of inside information.

The Board of Directors has further decided that, in addition to each of its members, the members of the Executive Committee "discharge managerial responsibilities" within the meaning of Market Abuse Regulation have "the power to make management decisions regarding the Company's development and strategy" and "regular access to inside information", within the meaning of Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*) 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.

Alexandra Boisson, the Company's General Counsel since June 2016, has been named Compliance Officer for all matters pertaining to the General Regulation of the AMF concerning the drawing up of lists of insiders. Her duties include adapting the guidelines published by the ANSA and drawing up the guide to procedures specific to Lectra, drawing up and maintaining up to date lists of permanent and occasional insiders, and notifying them individually in writing, accompanied by a memorandum spelling out the procedures specific to Lectra.

The list of permanent insiders is reviewed and approved at least once a year by the Board of Directors.

4. 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 shareholders' 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 and transmitted to Société Générale 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 settlement of 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 settlement of the disposal takes place after zero hour, Paris time, on the second working day preceding the day set for the said meeting, the disposal 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's 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 (last paragraph) 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.

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

Article L. 225-37-5 of the French Commercial Code makes it mandatory for 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:

- the structure of the Company's capital stock;
- 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;
- direct or indirect shareholdings in the capital of the Company known to it in virtue of articles L. 233-7 and L. 233-12;
- the list of holders of all securities carrying special control rights and the description thereof;
- control mechanisms provided for in the event of an employee share ownership system, when the employees do not exercise controlling rights;
- 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;
- the rules governing the appointment and replacement of members of the Board of Directors and amendments to the Company by-laws;
- the powers of the Board of Directors and in particular concerning the issuance or buyback of shares;
- agreements entered into by the Company that will be modified or terminated in the event of change of control of the Company, unless such disclosure, other than where legally required, would be seriously prejudicial to the Company; and
- 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.

6. RELATED-PARTIES AGREEMENTS SUBJECT TO ARTICLES L. 225-38 ET SEQ. OF THE FRENCH COMMERCIAL CODE PURSUANT TO ARTICLE L. 225-37-4,2° OF THE COMMERCIAL CODE

In the course of fiscal year 2017, André Harari disposed of his entire stake in the Company. In the context of this transaction, Banque Lazard provided assistance to the Company and André Harari.
The disposal of André Harari's entire stake with assistance from Banque Lazard is a related-parties agreement within the meaning of L. 225-38 of the French Commercial Code. The agreement was authorized by the Board of Directors and will be submitted for ratification by the Shareholders' Meeting of April 27, 2018.
We also report to you that the list and purpose of agreements relating to current operations concluded under normal conditions has been communicated to the members of the Board of Directors and to the Statutory Auditors in accordance with the provisions of article L. 225-39 of the French Commercial Code.

7. SUMMARY TABLE OF AUTHORITY TO INCREASE CAPITAL GRANTED BY THE SHAREHOLDERS' MEETING

Article L. 225-37-4,3° of the French Commercial Code 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 9 in Management Report). 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.

Schedule of Authority to Increase the Capital at the Close of Fiscal Year 2017

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: €1,155,870
Total authorized, unexpired and unutilized at December 31, 2017				**€644,130**	

(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, 2017 are in par value of shares; 1,155,870 options had been utilized, and 644,130 remained at the Board's disposal (see note 15.5 to the consolidated financial statements).

The Board of Directors
February 27, 2018

Statement of financial position

consolidated

ASSETS

At December 31

(in thousands of euros)		2017	2016
Goodwill	note 6	32,105	33,334
Other intangible assets	note 7	3,402	4,179
Property, plant and equipment	note 8	24,444	21,317
Non-current financial assets	note 9	2,566	2,351
Deferred tax assets	note 11	9,266	9,323
Total non-current assets		71,783	70,504
Inventories	note 12	31,133	25,491
Trade accounts receivable	note 13	55,065	60,076
Other current assets	note 14	28,719	30,695
Cash and cash equivalents		98,134	75,696
Total current assets		213,051	191,958
Total assets		**284,834**	**262,462**

EQUITY AND LIABILITIES

(in thousands of euros)		2017	2016
Share capital	note 15	31,571	31,248
Share premium	note 15	12,270	10,912
Treasury shares	note 15	(298)	(91)
Currency translation adjustments	note 16	(9,872)	(8,537)
Retained earnings and net income		117,538	99,052
Total equity		151,209	132,583
Retirement benefit obligations	note 17	9,518	8,943
Borrowings, non-current portion	note 18	-	-
Total non-current liabilities		9,518	8,943
Trade and other current payables	note 19	62,399	59,280
Deferred revenues	note 20	53,013	53,854
Current income tax liabilities	note 11	4,965	4,420
Borrowings, current portion	note 18	-	-
Provisions for other liabilities and charges	note 21	3,730	3,382
Total current liabilities		124,107	120,936
Total equity and liabilities		**284,834**	**262,462**

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

Income statement

consolidated

Twelve months ended December 31

(in thousands of euros)		2017	2016
Revenues	note 24	277,201	260,162
Cost of goods sold	note 25	(75,269)	(68,417)
Gross profit	note 25	201,932	191,745
Research and development	note 26	(17,690)	(15,451)
Selling, general and administrative expenses	note 27	(144,968)	(139,013)
Income from operations		39,274	37,281
Financial income	note 30	223	153
Financial expenses	note 30	(493)	(454)
Foreign exchange income (loss)	note 31	(574)	(462)
Income before tax		38,431	36,518
Income tax	note 11	(9,166)	(9,856)
Net income		**29,264**	**26,662**

(in euros)			
Earnings per share:	note 32		
- basic		0.93	0.86
- diluted		0.90	0.84
Shares used in calculating earnings per share:			
- basic		31,403,960	30,981,579
- diluted		32,343,804	31,794,646

STATEMENT OF COMPREHENSIVE INCOME

Twelve months ended December 31

(in thousands of euros)		2017	2016
Net income		29,264	26,662
Currency translation adjustments	note 16	(1,017)	(555)
Tax effect		(318)	212
Other comprehensive income to be reclassified in net income		(1,335)	(343)
Remeasurement of the net liability arising from defined benefits pension plans	note 17	(173)	(146)
Tax effect		52	40
Other comprehensive income to be reclassified in net income		(121)	(106)
Total other comprehensive income		(1,456)	(449)
Comprehensive income		**27,808**	**26,213**

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)		2017	2016
I - OPERATING ACTIVITIES			
Net income		29,264	26,662
Net depreciation, amortization and provisions		7,910	7,652
Non-cash operating expenses	note 36	1,143	(1,515)
Loss (profit) on sale of fixed assets		46	90
Changes in deferred income taxes	note 11	(658)	(161)
Changes in inventories		(7,112)	(2,657)
Changes in trade accounts receivable		3,464	(3,251)
Changes in other current assets and liabilities		6,968	3,717
Net cash provided by (used in) operating activities	note 37	**41,027**	**30,537**
II - INVESTING ACTIVITIES			
Purchases of intangible assets	note 7	(817)	(1,217)
Purchases of property, plant and equipment	note 8	(6,747)	(5,404)
Proceeds from sales of intangible assets and property, plant and equipment		4	31
Acquisition cost of activities purchased	note 2	-	(962)
Purchases of financial assets	note 9	(5,153)	(3,485)
Proceeds from sales of financial assets	note 9	4,879	3,332
Net cash provided by (used in) investing activities		**(7,834)**	**(7,705)**
III - FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 15	1,682	2,354
Dividends paid	note 4	(10,977)	(9,274)
Purchases of treasury shares	note 15	(4,814)	(3,177)
Sales of treasury shares	note 15	4,646	3,411
Net cash provided by (used in) financing activities		**(9,463)**	**(6,686)**
Increase (decrease) in cash and cash equivalents		**23,730**	**16,146**
Cash and cash equivalents at opening		**75,696**	**59,347**
Increase (decrease) in cash and cash equivalents		23,730	16,146
Effect of changes in foreign exchange rates		(1,291)	203
Cash and cash equivalents at closing		**98,134**	**75,696**
Free cash flow	note 39	**33,193**	**23,794**
Income tax (paid) / reimbursed, net		(4,730)	(5,326)
Interest paid		-	-

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	Share capital: Par value per share	Share capital: Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
Balance at January 1, 2016		**30,786,399**	**1.00**	**30,786**	**9,018**	**(203)**	**(8,194)**	**81,547**	**112,955**
Net income								26,662	26,662
Other comprehensive income							(343)	(106)	(449)
Comprehensive income							**(343)**	**26,556**	**26,213**
Exercised stock options	note 15	461,155	1.00	461	1,893				2,354
Fair value of stock options	note 15							142	142
Sale (purchase) of treasury shares	note 15					112			112
Profit (loss) on treasury shares	note 15							81	81
Dividend paid	note 4							(9,274)	(9,274)
Balance at December 31, 2016		**31,247,554**	**1.00**	**31,248**	**10,912**	**(91)**	**(8,537)**	**99,052**	**132,583**
Net income								29,264	29,264
Other comprehensive income							(1,335)	(121)	(1,456)
Comprehensive income							**(1,335)**	**29,143**	**27,808**
Exercised stock options	note 15	323,542	1.00	324	1 358				1,682
Fair value of stock options	note 15							296	296
Sale (purchase) of treasury shares	note 15					(207)			(207)
Profit (loss) on treasury shares	note 15							25	25
Dividend paid	note 4							(10,977)	(10,977)
Balance at December 31, 2017		**31,571,096**	**1.00**	**31,571**	**12,270**	**(298)**	**(9,872)**	**117,538**	**151,209**

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 SA, hereafter the company, and its subsidiaries. The Group's consolidated financial statements were drawn up by the Board of Directors on February 27, 2018 and will be proposed to the Shareholders' Meeting for approval on April 27, 2018.

NOTE 1 BUSINESS ACTIVITY

A French high technology company, Lectra has developed privileged and long-term relationships with its customers in over 100 countries. They all have operational excellence in common and the soft materials they use – fabrics and leather, but also technical textile and composite materials – to manufacture their products (garments, shoes and luggage, car seats and interiors, airbags, sofas...).
In order to increase customers' competitiveness, Lectra creates premium technologies specifically for its customers' markets – mainly fashion, automotive and furniture. Lectra's solutions, combining software, automated cutting equipment and associated services, enable customers to automate and optimize product design, development and manufacturing, and to digitalize their processes.
Lectra's offer supports customers to achieve their strategic objectives: to boost productivity; to reduce cutting costs; to reduce time-to-market; to meet the challenges of globalization; to enhance product quality; to increase production capacity; and to develop their brands. In addition, customers now face challenges specific to Industry 4.0, such as securing digital communications along an extended supply chain, and making the factory more agile.
Established in 1973, Lectra has been listed on Euronext since 1987.

Business model

Lectra's business model is based on three pillars:

- the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and the very large number of customers throughout the world;
- a balanced revenue mix between revenues from new systems sales and recurring revenues;
- the generation of significant annual free cash flow.

Worldwide presence

Since the mid-1980s Lectra, with headquarters located in France, has established its global footprint. The Group supports customers through its unrivalled network of 31 sales and services' subsidiaries, from which Lectra generates over 90% of revenues.

Lectra also has an International Advanced Technology & Conference Center in Bordeaux-Cestas (France) where the company welcomes customers from all over the world, and five international Call Centers, based in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China).

Customers

From global corporations to smaller national companies, Lectra's customers are, for the most part, fashion and apparel brands, manufacturers and retailers, automotive equipment manufacturers and subcontractors, and furniture brands and manufacturers.

Products and services

The Group markets end-to-end integrated technology solutions: software, automated cutting equipment services. The distinctive feature of Lectra's offer is to integrate business expertise with the best industrial practices for each market sector. All Lectra software and equipment, including electronics, are designed and developed in-house.
Equipment is assembled from parts produced by a network of subcontractors and tested in the company's industrial facilities in Bordeaux-Cestas (France). Since 2007, cutting machines on the market incorporate hundreds of sensors which connect them to Lectra's Call Centers, enabling preventive and predictive maintenance.
The services include technical maintenance, support, training, consulting, as well as the sale of consumables and parts.

People

Lectra's strength lies in the skills and experience of the Group's global 1,650 employees: nearly 850 in France and 800 in the sales and services subsidiaries. Thanks to Lectra's global presence the Group is geographically close to its customers, wherever they are in the world.

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:
https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en
The consolidated financial statements at December 31, 2017 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2016 financial statements. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 27, 2018 and audited by the Statutory Auditors.
The standards and interpretations adopted by the European Union whose application is required for fiscal years starting from January 1, 2017 have 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, 2017 or that have not yet been adopted by the European Union at December 31, 2017.
It is currently evaluating the impacts of the adoption of IFRS 16 – Leases, which will be applicable from January 1, 2019.

Implementation of IFRS 15 – Revenue from contracts with customers

The Group will adopt, as from January 1, 2018, the new standard IFRS 15 – Revenue from contracts with customers.
Under the model established by the standard, in five steps, the Group's main analysis focused on identifying the performance obligations that its multiple-element contracts comprised and the allocation of the transaction price according to the stand-alone selling price of each of the performance obligations.
New systems sales amounted to €123.7 million in 2017. Contracts with customers comprise multiple performance obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software. Software sales are only recognized separately when the customer can benefit from the software independently from the other goods and services promised in the contract; in particular, the software accompanying CAD/CAM equipment are not recognized separately from these. The company has determined stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices have been estimated based on the company's pricing policy, reflecting expected costs plus an appropriate margin. Allocating the transaction prices based on stand-alone selling prices leads to non-significant differences with the current accounting practices.
The Group does not incur incremental costs to obtain a contract with its customers, which should have been recognized as assets. The other analysis axes recommended by the standard (in particular: warranties, revenue recognition date for CAD/CAM equipment sales, measurement of completion for evolution, maintenance and on-line services for the solutions sold) have not raised any significant difference with the accounting principles used until then.
The Group has opted to apply IFRS 15 retrospectively and recognize the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings as of January 1, 2018. This effect being immaterial, no restatement will be made.
Thus, implementing IFRS 15 will not change the Group's accounting principles, either on allocating revenue to the contracts' separate elements or on timing differences for revenue recognition.

Implementation of IFRS 9 – Financial instruments

The Group will adopt, as from January 1, 2018, the new standard IFRS 9 – Financial instruments.
Given the Group's activity, and the financial assets and liabilities on its statement of financial position (almost solely trade accounts receivable and trade and other payables; no financial debt), implementing IFRS 9 will have no significant impact.

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 hedging 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.
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 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 negotiable certificates of deposit issued by the company's banks. Interest-bearing sight accounts and time deposits 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 Group has had no borrowing or financial debt since March 31, 2015.

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 recognised 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 recognised 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.

Provision 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 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 Accouting 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

For most subsidiaries, the 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 1 euro)	2017	2016
Chinese yuan		
Annual average rate	7.63	7.35
Closing rate	7.84	7.31
US dollar		
Annual average rate	1.13	1.11
Closing rate	1.20	1.05

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 (non-consolidated) 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, 2017, the Group's scope of consolidation comprised Lectra SA together with 28 fully-consolidated companies.

Company	City	Country	% of ownership and control 2017	% of ownership and control 2016	Consolidation method [1] 2017	Consolidation method [1] 2016
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	-	-	-	-
Lectra Hellas EPE	Athens	Greece	-	99.9	-	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 South Africa (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 SAU	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 Tunisie SA	Tunis	Tunisia	99.8	99.8	FC	FC
Lectra Tunisie CP SARL	Tunis	Tunisia	100.0	100.0	FC	FC
Lectra Systemes 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
Công Ty TNHH Lectra Vietnam	Hô-Chi-Minh-City	Vietnam	100.0	100.0	FC	FC
Lectra Chile SA	Santiago	Chile	99.9	99.9	NC	NC
Lectra Israel Ltd	Natanya	Israel	-	100.0	-	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

In June 2017, the Group liquidated its subsidiary Lectra Hellas EPE (Greece), which had had no activity for years. This liquidation had no impact on the statement of financial position, income statement or cash position of the Group.

In October 2017, the Group also liquidated its subsidiary Lectra Israel Ltd, which was not consolidated. This liquidation had no impact on the income statement or cash position of the Group.

In September 2016, the Group had liquidated its subsidiary Humantec Industriesysteme GmbH (Huisheim, Germany), which had had no activity for years. This winding up had no impact on the statement of financial position, income statement or cash position of the Group.

In June 2016, the company had also established a new subsidiary in Vietnam, which has been fully consolidated since June 30, 2016 in the Group's financial statements. The impact on the income statement and the statement of financial position of the Group was immaterial, the bulk of sales in this country having been until then billed by Lectra SA.

There was no other change in the scope of consolidation in 2017 and 2016.

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.

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 — Internal Control And Risk Management Procedures and in chapter 13, Business Trends and Outlook, 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. This was not the case in 2017.

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 re-measurement 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 negotiable certificates of deposit issued by the company's banks, or in interest-bearing sight accounts or time deposits.

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 has represented more than 4% of consolidated revenues over the last three-year period 2015-2017, and the company's 10 largest customers combined has 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 and time deposits held with blue-chip international 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.

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 27, 2018 to declare a dividend of €0.38 per share in 2018 in respect of fiscal year 2017.
The company declared a dividend of €0.35 per share in 2017, in respect of fiscal year 2016.

TAX ON DIVIDENDS

On October 6, 2017, the French Constitutional Council cancelled the 3% tax on dividends.
Thus, in Q4 2017, Lectra accounted for a tax income of €1,220,000 (whole of the 3% tax for fiscal years 2014 through 2017, supplemented by default interest).

NOTE 5 POST-CLOSING EVENTS

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

NOTE 6 GOODWILL

The liquidations of Lectra Hellas in June 2017 and Humantec in September 2016 (see note 2.28) had no impact on the Group's goodwill.
The creation, in June 2016, of the new subsidiary in Vietnam had generated a goodwill of €447,000 at the date of creation.
No other acquisition or liquidation was made in fiscal years 2017 or 2016.
All past acquisitions have been paid for in full, and no further earn-out is due on these transactions.

	2017	2016
Book value at January 1	**33,334**	**32,769**
Change in scope of consolidation (1)	-	447
Exchange rate differences	(1,229)	117
Book value at December 31	**32,105**	**33,334**

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

Cash Generating Units (CGU) have been defined as a sales subsidiary or group of more than one sales subsidiary 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 2017. The projections used are based on the 2018—2020 plan for each CGU based on actual 2017 cash flows and on forecast trends in each market concerned and, beyond 2020, 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 attached to fulfillment of the 2018—2020 plan;
- The normative cost of debt is determined on the basis of average market conditions for the fourth quarter of 2017 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.
An identical valuation of the CGUs would result from applying a pre-tax discount rate to pre-tax cash flows.

At December 31, 2017, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2017		2016	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy	7.4%	12,004	6.4%	12,004
France	7.4%	2,324	6.4%	2,324
Germany	7.5%	4,631	6.4%	4,631
Northern Europe	7.5%	1,590	6.4%	1,590
United Kingdom	7.5%	1,212	6.5%	1,256
Portugal	7.5%	220	6.5%	220
Total Europe		**21,981**		**22,025**
North America	9.8%	6,780	9.8%	7,714
South America	15.9%	450	16.4%	512
Total Americas		**7,230**		**8,226**
Japan	6.1%	418	6.5%	458
Greater China	9.4%	641	9.0%	730
Other Asian Countries	10.1%	1,467	9.1%	1,528
Total Asia		**2,527**		**2,716**
Other Countries	14.4%	**368**	12.5%	**368**
Total		**32,105**		**33,334**

The following sensitivity calculations have been performed:
- A 1 percentage point rise in the discount rate;
- A 1 percentage point decline relative to the revenue growth assumptions for each CGU used in the drawing up of the 2018—2020 plan;
- A 1 percentage point decline in the gross profit margin assumptions used in the drawing up of the 2018—2020 plan;
- A 1 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

2016	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2016	**23,517**	**2,024**	**1,044**	**26,585**
External purchases	801	49	6	856
Internal developments	361	-	-	361
Write-offs and disposals	(2,264)	(327)	(4)	(2,595)
Transfers	157	(13)	(144)	-
Exchange rate differences	35	-	6	42
Gross value at December 31, 2016	**22,607**	**1,732**	**909**	**25,249**
Amortization at December 31, 2016	**(18,648)**	**(1,540)**	**(882)**	**(21,070)**
Net value at December 31, 2016	**3,959**	**192**	**27**	**4,179**

2017	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2017	**22,607**	**1,732**	**909**	**25,249**
External purchases	468	140	-	608
Internal developments	209	-	-	209
Write-offs and disposals	(45)	(201)	(31)	(277)
Transfers	13	(13)	-	-
Exchange rate differences	(112)	-	(14)	(127)
Gross value at December 31, 2017	**23,140**	**1,658**	**864**	**25,662**
Amortization at December 31, 2017	**(19,999)**	**(1,415)**	**(846)**	**(22,260)**
Net value at December 31, 2017	**3,141**	**243**	**17**	**3,402**

Changes in amortization:

2016	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2016	**(18,934)**	**(1,770)**	**(991)**	**(21,695)**
Amortization charges	(1,814)	(101)	(10)	(1,925)
Amortization write-backs	2,261	318	4	2,583
Transfers	(137)	13	124	-
Exchange rate differences	(24)	-	(8)	(33)
Amortization at December 31, 2016	**(18,648)**	**(1,540)**	**(882)**	**(21,070)**

2017	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2017	**(18,648)**	**(1,540)**	**(882)**	**(21,070)**
Amortization charges	(1,470)	(86)	(7)	(1,563)
Amortization write-backs	45	201	31	277
Transfers	(10)	10	-	-
Exchange rate differences	85	-	12	97
Amortization at December 31, 2017	**(19,999)**	**(1,415)**	**(846)**	**(22,260)**

INFORMATION MANAGEMENT SOFTWARE

As part of an ongoing process to upgrade and reinforce its information systems, in 2017 and 2016 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.

A growing part of the new management software used by the Group is contracted through subscription, and not the acquisition of licenses, which entails a decrease in the amount of new purchases of this caption.

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

OTHER INTANGIBLE ASSETS

At December 31, 2017, nearly all of the other intangible assets were fully amortized several years ago.

The net residual value of these intangible assets was €17,000.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

2016	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2016	**13,101**	**17,842**	**25,511**	**56,454**
Additions	793	2,357	2,254	5,404
Change in scope of consolidation[1]	-	-	7	7
Write-offs and disposals	(16)	(1,348)	(1,471)	(2,835)
Exchange rate differences	8	43	118	168
Gross value at December 31, 2016	**13,886**	**18,894**	**26,418**	**59,198**
Accumulated depreciation at December 31, 2016	(6,984)	(11,962)	(18,936)	(37,881)
Net value at December 31, 2016	**6,902**	**6,932**	**7,483**	**21,317**

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

2017	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2017	**13,886**	**18,894**	**26,418**	**59,198**
Additions	348	3,134	3,264	6,746
Write-offs and disposals	-	(2,133)	(1,955)	(4,088)
Transfers[1]	-	-	271	271
Exchange rate differences	(6)	(228)	(190)	(424)
Gross value at December 31, 2017	**14,227**	**19,667**	**27,808**	**61,703**
Accumulated depreciation at December 31, 2017	(7,151)	(10,513)	(19,596)	(37,259)
Net value at December 31, 2017	**7,077**	**9,155**	**8,212**	**24,444**

(1) In 2017, the Group transferred to fixed assets equipment prototypes under development, which were previously accounted for as inventory.

Changes in depreciation:

2016	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2016	**(6,842)**	**(12,190)**	**(17,716)**	**(36,748)**
Additional depreciation	(151)	(962)	(2,595)	(3,708)
Write-offs and disposals	10	1,220	1,447	2,678
Exchange rate differences	(0)	(30)	(72)	(102)
Accumulated depreciation at December 31, 2016	**(6,984)**	**(11,962)**	**(18,936)**	**(37,881)**

2017	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2017	**(6,984)**	**(11,962)**	**(18,936)**	**(37,881)**
Additional depreciation	(167)	(830)	(2,674)	(3,672)
Write-offs and disposals	-	2,115	1,927	4,042
Transfers	-	-	-	-
Exchange rate differences	0	165	87	252
Accumulated depreciation at December 31, 2017	**(7,151)**	**(10,513)**	**(19,596)**	**(37,259)**

LAND AND BUILDINGS

'Land and buildings' pertain mostly to the Group's industrial facilities in Bordeaux-Cestas (France), amounting to a gross value of €13,475,000, net of investment grants received and to a net value of €6,367,000 at December 31, 2017. They also include the offices of Lectra Korea, located in Seoul, purchased on May 1, 2014, for a gross amount of €752,000 at December 31, 2017 closing rate.
The facilities in Bordeaux-Cestas cover an area of 11.6 hectares (28.7 acres) and the buildings represent 32,200 sq. m. (346,600 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 2017, as in 2016, they related to the rehabilitation of buildings.
At December 31, 2017, the land (non-depreciable) is valued at €995,000. The buildings total a gross value of €13,233,000, already €7,151,000 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 €19,667,000 and for a net amount of €9,155,000 at December 31, 2017. Investments have been made in fixtures and fittings in 2017 (€3,134,000) and in 2016 (€2,357,000) throughout the Group. In 2017, as in 2016, they related to the rehabilitation of buildings on the Bordeaux-Cestas facilities.

EQUIPMENT AND OTHER

Other fixed assets purchased in 2017 and 2016 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux-Cestas industrial facility.

NOTE 9 NON-CURRENT FINANCIAL ASSETS

2016	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2016	**2,251**	**1,219**	**3,470**
Additions	-	3,485	3,485
Disposals	-	(3,284)	(3,284)
Exchange rate differences	-	3	3
Gross value at December 31, 2016	**2,251**	**1,423**	**3,674**
Impairment provision at December 31, 2016	(1,322)	-	(1,322)
Net value at December 31, 2016	**928**	**1,423**	**2,351**

2017	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2017	**2,251**	**1,423**	**3,674**
Additions	-	5,153	5,153
Disposals	(12)	(4,858)	(4,870)
Exchange rate differences	-	(75)	(75)
Gross value at December 31, 2017	**2,239**	**1,643**	**3,881**
Impairment provision at December 31, 2017	(1,315)	-	(1,315)
Net value at December 31, 2017	**924**	**1,643**	**2,566**

INVESTMENTS IN SUBSIDIARIES

'Investments in subsidiaries' exclusively concern companies not included in the scope of consolidation.

The decrease shown in 2017 stems from the liquidation of the Israeli subsidiary (see note 2.28). All the assets of the subsidiary had been entirely impaired previously, and this liquidation had no impact on the income statement or cash position of the Group.

At December 31, 2017, three 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, 2017 primarily consisted of deposits and guarantees for €949,000 (€911,000 at December 31, 2016) together with the amount of €693,000 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 2017 or December 31, 2017, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts
Receivables(1)	Trade accounts receivable	Lectra Philippines Inc. (Philippines)	3
Payables(1)	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	1,023
		Lectra Chile SA (Chile)	10
		Lectra Philippines Inc. (Philippines)	98
Sales(2)	Revenues	Lectra Chile SA (Chile)	186
		Lectra Philippines Inc. (Philippines)	108
Purchases(2)	Cost of goods sold		0
Commissions(2)	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(189)
		Lectra Philippines Inc. (Philippines)	(91)
Personnel invoiced(2)	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(1,259)
Fees(2)	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(18)

(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

	2017	2016
Current tax income (expense)	(9,824)	(10,016)
Deferred tax income (expense)	658	161
Net tax income (expense)	**(9,166)**	**(9,856)**

The research tax credit (*crédit d'impôt recherche*) applicable in France is deducted from R&D expenses (see note 26). It amounts to €7,562,000 in 2017 (€6,828,000 in 2016).
The French competitiveness and employment tax credit (*crédit d'impôt compétitivité et emploi)* enacted in 2013 is shown as a deduction from the corresponding personnel expense (see note 28) and amounted to €1,016,000 in 2017 (€827,000 in 2016).
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

	2017	2016
Income before tax	**38,431**	**36,518**
Standard rate of corporate income tax in France	34.2%	34.3%
Expense at standard rate of corporate income tax in France	**(13,158)**	**(12,516)**
Effect of other countries' different tax rates	1,244	1,033
Effect of reduction in unrecognized deferred tax assets	1,111	2,144
Effect of tax credits(1)	3,054	2,719
Effect of CVAE(2)	(962)	(987)
Effect of other non taxable income and non deductible expenses(3)	(458)	(1,886)
Others	3	(363)
Net tax income / (expense)	**(9,166)**	**(9,856)**
Consolidated effective tax rate	23.8%	27.0%

(1) This mainly includes the non taxation of the research tax credit and the competitiveness and employment tax credit, included in the income before tax.

(2) 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.

(3) 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.

The net income tax expense in 2017 includes an income of €1,220,000 following cancellation by the French Constitutional Council of the 3% tax on dividends in France, a €421,000 income due to recognition of an increase in the deferred tax position of Lectra Inc. (USA), and a €993,000 expense arising from revaluation of the deferred tax position of Lectra SA (in France) and Lectra Inc. following the tax reforms enacted in both countries, which will gradually reduce corporate income tax rates.
In 2016, the net income tax expense included a €369,000 expense reflecting a re-measurement of the deferred tax position of Lectra SA, resulting from the planned reduction of the corporate income tax rate applicable in France, which will apply progressively starting in 2018; moreover, it also included a reduction of unrecognized deferred tax assets of the US subsidiary for an amount of €826,000, following an improvement of its performances, which in turn led to a forecast of greater utilization of its tax losses.

NOTE 11.3 DEFERRED TAXES

Owing to perspectives of future profits for the subsidiaries, related to their risks and functions profiles, the Group considers five years to be a reasonable period for the utilization of tax losses. Beyond that period, because forecasts of activity levels is deemed insufficiently reliable, the corresponding portion of their bases 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, 2017, unrecognized deferred tax assets totaled €1,567,000, compared with €2,649,000 at December 31, 2016. The decrease compared to December 31, 2016 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 share of deferred taxes directly recognized in equity for the year worked out to a positive €52,000 corresponding to the tax effect of actuarial gains and losses on retirement benefit obligations booking (a positive €40,000 in 2016).

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

At December 31	2015	P&L impact	Equity impact	Translation adjustments	2016
Tax losses carry-forward	3,051	222	-	146	3,419
Depreciation/amortization of tangible and intangible assets	(562)	(552)	-	(59)	(1,173)
Impairment of accounts receivable	739	(189)	-	10	560
Write-down of inventories	1,754	233	-	101	2,088
Financial instruments	-	(81)	-	81	-
Other timing differences	3,714	528	40	147	4,429
Total	**8,696**	**161**	**40**	**427**	**9,323**

At December 31	2016	P&L impact	Equity impact	Translation adjustments	2017
Tax losses carry-forward	3,419	(849)	-	(353)	2,216
Depreciation/amortization of tangible and intangible assets	(1,173)	2,004	-	177	1,008
Impairment of accounts receivable	560	(94)	-	(35)	431
Write-down of inventories	2,088	261	-	(384)	1,966
Financial instruments	-	-	-	-	-
Other timing differences	4,429	(664)	52	(172)	3,645
Total	**9,323**	**658**	**52**	**(768)**	**9,266**

NOTE 11.4 SCHEDULE OF RECOGNIZED TAX LOSSES CARRY-FORWARDS

	Expiration date			
	Until 2018	Between 2019 and 2023	Beyond 2023	Total
Deferred tax assets on tax losses(1)	13	133	2,070	**2,216**

(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

	2017	2016
Raw materials	27,264	24,778
Finished goods and work-in-progress(1)	11,882	8,617
Inventories, gross value	**39,146**	**33,394**
Raw materials	(4,153)	(4,945)
Finished goods and work-in-progress(1)	(3,859)	(2,958)
Write-downs	**(8,012)**	**(7,903)**
Raw materials	23,110	19,833
Finished goods and work-in-progress(1)	8,023	5,658
Inventories, net value	**31,133**	**25,491**

(1) Including demonstration and second-hand equipment.

€902,000 of inventory fully written-down was scrapped in the course of 2017 (€358,000 in 2016), thereby diminishing the gross value and write-downs by the same amount. Inventory write-downs charged for the year amounted to €1,840,000 (€2,358,000 in 2016). Reversals of previous write-downs relating to sales transactions amounted to €804,000 (€1,562,000 in 2016), booked against the charges for the period.

NOTE 13 TRADE ACCOUNTS RECEIVABLE

	2017	2016
Trade accounts receivable, gross value	57,914	64,743
Provision for impairment	(2,849)	(4,667)
Trade accounts receivable, net value	**55,065**	**60,076**

Trade receivables at December 31, 2017 include a great portion of the €53,013,000, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2018, but not yet collected (compared with €53,854,000, excluding taxes, at December 31, 2016 in respect of 2017), and for which the counterpart is recorded in 'Deferred revenues' (see note 20). Payments on recurring contracts generally become due on the first day of the period they cover.
Thus, at December 31, 2017, trade accounts receivable, net from deferred revenues and provision for impairment, amount to €2,052,000 (€6,222,000 at December 31, 2016). This decrease follows the high level of cash collection in 2017.

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:

	2017	2016
Impairment at January 1	**(4,667)**	**(5,190)**
Additional impairment	(1,231)	(1,552)
Write-back of impairment	2,899	2,117
Exchange rate differences	149	(42)
Impairment at December 31	**(2,849)**	**(4,667)**

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:

	2017	2016
Receivables not yet due	45,781	52,393
Receivables overdue, by:	12,133	12,350
- less than 1 month	3,742	3,304
- 1-3 months	2,256	2,252
- more than 3 months	6,135	6,793
Total	**57,914**	**64,743**

Almost all of the provisions of accounts receivable and related accounts amounting to €2,849,000 at December 31, 2017 concerned accounts more than three months overdue.

NOTE 14 OTHER CURRENT ASSETS

	2017	2016
Research tax credit and employment and competitiveness tax credit	19,664	21,552
Discount effect on research tax credit receivable	-	-
Other tax receivables	1,905	1,634
Income tax down-payments	3,269	3,107
Staff and social security receivables	302	263
Other current assets	3,578	4,138
Total other current assets	**28,719**	**30,695**

RESEARCH TAX CREDIT – COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

When the research tax credit and the competitiveness and employment tax credit applicable in France recognized in the year cannot be deducted from the corporate income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the company in the course of the fourth year.

The research tax credit (€7,460,000) and the competitiveness and employment tax credit (€1,016,000) for fiscal 2017 were accounted for but not received.

The competitiveness and employment tax credits relating to fiscal 2017 and prior years have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at December 31, 2017, Lectra SA held a €19,664,000 receivable on the French tax administration. This 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 2017 (€4,519,000), 2016 (€2,584,000), 2015 (€5,704,000) and 2014 (€6,857,000).

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. Thus, in Q4 2017, it received the balance outstanding relating to the 2013 tax credit of €6,312,000 and expects to receive the reimbursement of the balance outstanding of these non-deducted tax credits as follows: in 2018 (in respect of the 2014 tax credit), 2019 (in respect of the 2015 tax credit), 2020 (in respect of the 2016 tax credit) and 2021 (in respect of the 2017 tax credit). This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.

If the income tax expense were to rise above the amounts of tax credits for the year, the company would continue to not pay corporate income tax until the corresponding receivable is deducted in full. Thereafter it would deduct these tax credits each year from the income tax expense for the same year in full and would be required to pay the residual amount.

OTHER TAX RECEIVABLES

Other tax receivables at December 31, 2017 comprised the recoverable value-added tax for parent company and its subsidiaries, along with a tax receivable of €1,220,000 following cancellation of the 3% tax on dividends in France.

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, 2017 totaled €31,571,096, divided into 31,571,096 shares with a par value of €1.00. It was €31,247,554, divided into 31,247,554 shares with a par value of €1.00, at December 31, 2016.
Share capital has increased by 323,542 shares since January 1, 2017, resulting from the exercise of stock options, that is, an increase of €323,542 of share capital together with a total share premium of €1,358,000 (issuance of 461,155 shares in 2016).
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 2017 and 2016.

Note 15.1.1 Share capital

	2017		2016	
	Number of shares	Share capital (in euros)	Number of shares	Share capital (in euros)
Share capital at January 1	**31,247,554**	**31,247,554**	**30,786,399**	**30,786,399**
Stock options exercised	323,542	323,542	461,155	461,155
Share capital at December 31	**31,571,096**	**31,571,096**	**31,247,554**	**31,247,554**

The shares comprising the capital are fully paid up.

note 15.1.2 Share premium

	2017	2016
Share premium at January 1	**10,912**	**9,018**
Stock options exercised	1,358	1,893
Share premium at December 31	**12,270**	**10,912**

NOTE 15.2 TREASURY SHARES

The Ordinary Shareholders' Meeting on April 28, 2017 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, 2017, the company held 12,290 shares, i.e. 0.04% of its capital within the framework of the liquidity agreement (compared with 0.02% at December 31, 2016) for a total of €298,000 (compared with €91,000 at December 31, 2016) representing an average purchase price of €24.23 per share, which has been deducted from shareholders' equity.
The resources allocated to the liquidity agreement also included, at December 31, 2017, the amount of €693,000. 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.

	2017			2016		
	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)	5,085	(91)	17.96	18,340	(203)	11.06
Liquidity agreement						
Purchases (at purchase price)	203,882	(4,814)	23.61	224,715	(3,177)	14.14
Sales (at sale price)	(196,677)	4,646	23.62	(237,970)	3,411	14.33
Net cash flow[1]	**7,205**	**(168)**		**(13,255)**	**235**	
Gains (losses) on disposals		38			123	
Treasury shares at December 31 (historical cost)	**12,290**	**(298)**	**24.23**	**5,085**	**(91)**	**17.96**

(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, then Chairman of the Board of Directors, and Daniel Harari, then Chief Executive Officer, had canceled at that time the double voting rights attached to the shares they held.
Following the recommendation of the Board of Directors, the Extraordinary Shareholders' Meeting on September 26, 2014 maintained 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, and amended the company bylaws in consequence.
As a result, at December 31, 2017, 31,296,959 shares qualified for normal voting rights, and only 274,137 (i.e. 0.9% 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, 2017, the theoretical total number of voting rights attached to the company's shares was 31,845,233. This number has been reduced to 31,832,943 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, 2017, 295 employees were the beneficiaries of 1,662,429 options and 50 former employees still held 30,567 options; altogether, 345 persons were beneficiaries of options (respectively 270, 46 and 316 at December 31, 2016).

At that 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 33,264,092, made up as follows:

- share capital: 31,571,096 shares;
- stock options: 1,692,996 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, 2017, the share capital would increase by €1,692,996, together with a total issue premium of €20,494,876.

None of the parent company's subsidiaries have 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 Shareholders' Meeting 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 2017 and 2016 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2017	2016
Exercise price (in euros)	28.25	14.50
Share price on the date of allocation (in euros)	28.02	14.18
Risk-free interest rate	-0.39%	-0.34%
Dividend payout rate	1.37%	2.22%
Volatility	22.20%	17.70%
Duration of options	4 years	4 years
Fair value of one option (in euros)	3.84	1.10

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 8, 2017 amounts to €1,535,000. It was reduced to €1,131,000 following the cancellation of options after the calculation of the actual performance of 2017 for each beneficiary, and the departure of five beneficiaries.

An expense of €296,000 was recognized in the 2017 financial statements, including €143,000 in respect of the grants made in 2017, and €154,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2017 will impact the years 2018, 2019 and 2020 alone in the estimated amounts of €368,000, €358,000 and €254,000 respectively.

The Group paid a €246,000 employer's contribution based on the fair value of the options granted in 2017, fully expensed in personnel costs for 2017.

Note 15.5.1 Stock options outstanding: options granted, exercised and canceled during the period

	2017		2016	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	**1,763,513**	**9.13**	**1,853,250**	**6.99**
Stock options granted during the year	399,794	28.25	608,665	14.50
Stock options exercised during the year	(323,542)	5.20	(461,155)	5.11
Stock options expired/canceled during the year	(146,769)	23.99	(237,247)	14.00
Stock options outstanding at December 31	**1,692,996**	**13.11**	**1,763,513**	**9.13**
- of which fully vested	979,529	7.99	1,191,373	6.97
- for which exercise rights remain to be acquired	713,467	20.12	572,140	13.63

For the plan granted in 2016 and 2017, the right to exercise these options vests on a single occasion at the end of the four-year period starting on January 1 of the year of granting and ending on December 31 of the fourth year. For the plans granted before January 1, 2016 and still in force at December 31, 2017, 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, 2017, by category of beneficiaries

	2017				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Executive Committee[1]	4	538,288	32%	387,776	150,512
Group management	50	539,815	32%	266,821	272,994
Other employees	241	584,326	35%	294,365	289,961
Persons having left the company and still holding unexercised options	50	30,567	2%	30,567	-
Total	**345**	**1,692,996**	**100%**	**979,529**	**713,467**

(1) The sole beneficiaries are Jérôme Viala, Executive Vice President, Véronique Zoccoletto, Chief Transformation Officer, Édouard Macquin, Chief Sales Officer and Céline Choussy Bedouet, Chief Marketing and Communications Officer, members of the Executive Committee. Daniel Harari, Chairman and Chief Executive Officer does not hold any options.

Note 15.5.3 Breakdown of stock options at December 31, 2017, by expiration date and exercise price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
June 10, 2010	June 10, 2018	28,505	2.50
June 9, 2011	June 9, 2019	104,925	6.25
September 4, 2012	September 4, 2020	205,090	6.25
June 13, 2013	June 13, 2021	198,606	6.25
June 16, 2014	June 16, 2022	286,281	8.50
June 12, 2015	June 12, 2023	204,830	13.75
June 9, 2016	June 9, 2024	370,292	14.50
June 8, 2017	June 8, 2025	294,467	28.25
Total		**1,692,996**	**13.11**

Among the 30,567 options held by people having left the Group, 20,569 expire in 2018 and 9,998 in 2019.

Note 15.5.4 Breakdown of stock options for which exercise rights remain to be acquired after December 31, 2017 by the beneficiaries

Year of vesting	Number of stock options
2018	48,708
2019	370,292
2020	294,467
Total	**713,467**

Note 15.5.5 Absence of stock option plans for the Company Officer

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

Note 15.5.6 Stock options granted in 2017

The Board of Directors, meeting on June 8, 2017, granted, in respect of the 2017 stock option plan, a maximum of 399,794 options to 238 beneficiaries, at an exercise price of €28.25 per share, as follows:

- a maximum number of 294,112 options to 71 beneficiaries, in respect of the fulfillment of their annual performance targets set for 2017;
- 105,682 options to 178 beneficiaries, of which 67,892 options to 151 beneficiaries of a stock option plan unrelated to their performance in 2017 and 37,790 options to the 44 winners of the 2016 Lectra Worldwide Championship (28 winners of the 2016 Lectra Worldwide Championship being beneficiaries of other options also granted in 2017).

The definitive number of options at December 31, 2017 is then calculated with reference to the percentage fulfillment of targets set for each beneficiary for 2017. It also takes account of departures between the date of grant and the end of the year.

At the date of this report, the calculations of actual performance in 2017, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 96,896 options have thus been cancelled, out of the 294,112 options initially granted.
Moreover, 8,431 options have ceased to be valid due to the departure of five beneficiaries in 2017.
As a result, the total number of options at December 31, 2017 initially granted (399,794 options to 238 beneficiaries) has been reduced to 294,467 and the number of beneficiaries to 233. The 10 Group employees to whom the largest number of options was granted in the course of fiscal 2017 were granted a total of 101,006 options.
The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries, and options corresponding to departures, are cancelled.
All of the options granted concerned Group employees. The only Company Officers (dirigeants mandataires sociaux), André Harari (until his departure on July 27, 2017) and Daniel Harari, have held no stock options since 2000.
The right to exercise these options vests at the end of the period ended December 31, 2020 (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 a Company Officer at this date). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
By way of exception, the right to exercise options shall be maintained in the event of the death of the beneficiary, or retirement at the statutory pensionable age in the beneficiary's country, provided the death or retirement occurs between January 1 of the year following the grant and the end of the four-year vesting period (that is, for Plans 14c, 14d and 14e, between January 1, 2018 and December 31, 2020). This shall apply in full for options whose exercise is contingent only on continued presence; for options whose exercise is also contingent on actual performance, it shall apply to the definitive number of options calculated with reference to the beneficiary's actual performance at December 31 of the year of the grant (that is, December 31, 2017, for the 2017 Plan).
The options are valid for a period of eight years from the date of granting.
Moreover, 41,442 options granted prior to 2017 have ceased to be valid due to the departure of the beneficiaries.

Note 15.5.7 Stock options exercised in 2017

323,542 options pertaining to the different options plans in force at December 31, 2016 were exercised in 2017.

	2017	
Grant date	Number of stock options exercised	Exercise price (in euros)
June 9, 2009	1,383	4.10
June 9, 2009	8,000	2.50
June 10, 2010	81,907	2.50
June 9, 2011	61,235	6.25
September 4, 2012	79,376	6.25
June 13, 2013	91,641	6.25
Total	**323,542**	**5.20**

NOTE 16 CURRENCY TRANSLATION ADJUSTMENTS

Analysis of changes recorded in 2017 and 2016:

	2017	2016
Cumulative translation adjustments at January 1	**(8,537)**	**(8,194)**
Differences on translation of subsidiaries' income statements	(303)	324
Adjustments required to maintain subsidiaries' retained earning at historical exchange rate	(1,074)	(1,181)
Other movements	41	514
Cumulative translation adjustments at December 31	**(9,872)**	**(8,537)**

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 Company Officer (dirigeant mandataire social) is not the beneficiary of any defined benefit retirement plan.
These obligations apply mainly in France, in Italy and Japan, as detailed below:

2016	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2016	**6,561**	**1,000**	**565**	**294**	**8,420**
Expense/(income) of the year	521	18	89	55	683
Benefits paid	(138)	(68)	(12)	(43)	(261)
Contributions paid	-	-	-	(46)	(46)
Actuarial losses (gains)	117	30	(8)	6	145
Exchange rate differences	-	-	33	(32)	1
Retirement benefits at December 31, 2016	**7,061**	**981**	**667**	**234**	**8,943**

2017	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2017	**7,061**	**981**	**667**	**234**	**8,943**
Expense/(income) of the year	546	13	67	68	694
Benefits paid	(96)	(7)	(25)	(22)	(150)
Contributions paid	-	-	-	(56)	(56)
Actuarial losses (gains)	148	4	26	(6)	172
Exchange rate differences	-	-	(62)	(23)	(85)
Retirement benefits at December 31, 2017	**7,659**	**991**	**674**	**195**	**9,518**

Breakdown of net annual charge:

2016	France	Italy	Japan	Others	Total
Service cost provided in the year	387	-	88	37	512
Past service cost	-	-	-	-	-
Net interest cost	134	18	1	18	171
Expense/(income) of the year	**521**	**18**	**89**	**55**	**683**

2017	France	Italy	Japan	Others	Total
Service cost provided in the year	419	-	65	46	530
Past service cost	-	-	-	-	-
Net interest cost	127	13	2	22	164
Expense/(income) of the year	**546**	**13**	**67**	**68**	**694**

Main actuarial assumptions used:

	France	Italy	Japan
Discount rate	1.51%	1.30%	0.20%
Average rate of salary increase, including inflation	2.62%	2.18%	1.12%
Personnel turnover rate	3.40% / 7.66%	3.00%	15.55%

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; the same applies to Japan.
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 2.8%. 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 2.7%.
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 3.40% for non-managerial grade personnel, and 7.66% for managerial grade personnel. It was 0% over 50 years of age.

NOTE 18 BORROWINGS AND FINANCIAL DEBTS

NOTE 18.1 NET CASH

	2017	2016
Cash and cash equivalents	98,134	75,696
Borrowings and financial debts	-	-
Net cash	**98,134**	**75,696**

After the repayment in 2015 of the remainder of public grants to finance R&D programs, which were its sole debt, the Group had no remaining borrowing or financial debt. Thus, cash and cash equivalents were equal to net cash, and amounted to €98,134,000 at December 31, 2017.
The major part of cash is invested in interest-bearing sight accounts and time deposits.

NOTE 18.2 BORROWINGS BY CATEGORY AND BY MATURITY

The Group has been debt-free since 2015.

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 2017 and 2016, the Group mainly used forward sales and purchases of currencies to hedge its foreign currency balance sheet positions at the end of each month.
Forward transactions entered into by the company to hedge significant balance sheet currency positions at December 31, 2017 and 2016 are analyzed below:

	2017				2016			
	In foreign currency(1) (in thousands)	Value (in thousands of euros)(2)	Difference in value(3)	Expiration date	In foreign currency(1) (in thousands)	Value (in thousands of euros)(2)	Difference in value(3)	Expiration date
USD	9,029	7,529	12	January 5, 2018	10,176	9,654	58	January 5, 2017
CAD	3,740	2,487	(40)	January 5, 2018	3,003	2,116	5	January 5, 2017
GBP	(2,190)	(2,468)	3	January 5, 2018	(2,156)	(2,518)	(14)	January 5, 2017
HKD	5,162	551	4	January 5, 2018	7,016	858	6	January 5, 2017
Other currencies	na	(316)	(41)	January 5 and 9, 2018	na	(1,625)	(11)	January 5, 26 and 30, 2017
Total		**7,782**	**(63)**			**8,484**	**44**	

(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, 2017 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 used for information purposes by the banks with which these forward currency contracts were entered into.

With the exception of the subsidiaries located in Mexico, Russia, South Korea, Tunisia and Turkey (individually representing less than 9% and together less than 15% 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, 2017 and December 31, 2016:

	2016					
(in thousands of currencies)	USD	BRL	CAD	GBP	RON	SGD
Carrying position to be hedged:						
Trade account receivables	18,345	12,414	3,374	4	(999)	-
Cash	482	-	-	-	-	-
Trade payables	(7,225)	(10,484)	-	(2,050)	(153)	(1,424)
Total	**11,602**	**1,930**	**3,374**	**(2,046)**	**(1,152)**	**(1,424)**
Net nominal of hedges	(10,176)	-	(3,003)	2,156	608	1,337
Net residual position	**1,426**	**1,930**	**372**	**110**	**(544)**	**(87)**
Equivalent value in euros at closing rate	1,353	563	262	128	(120)	(57)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.05	3.43	1.42	0.86	4.54	1.52
5% currency appreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.11	3.60	1.49	0.90	4.77	1.60
Foreign exchange impact in P&L	(64)	(27)	(12)	(6)	6	3
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.00	3.26	1.35	0.81	4.31	1.45
Foreign exchange impact in P&L	71	30	14	7	(6)	(3)

(in thousands of currencies)	2017 USD	BRL	CAD	GBP	RON	SGD
Carrying position to be hedged:						
Trade account receivables	9,882	16,264	3,727	-	90	-
Cash	3,097	-	-	-	-	-
Trade payables	(5,929)	(13,738)	-	(2,129)	(155)	(1,639)
Total	**7,050**	**2,526**	**3,727**	**(2,129)**	**(65)**	**(1,639)**
Net nominal of hedges	(9,029)	-	(3,740)	2,190	(46)	1,362
Net residual position	**(1,980)**	**2,526**	**(13)**	**61**	**(111)**	**(277)**
Equivalent value in euros at closing rate	(1,651)	636	(8)	68	(24)	(173)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.20	3.97	1.50	0.89	4.66	1.60
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.26	4.17	1.58	0.93	4.89	1.68
Foreign exchange impact in P&L	79	(30)	0	(3)	1	8
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.14	3.77	1.43	0.84	4.43	1.52
Foreign exchange impact in P&L	(87)	33	0	4	(1)	(9)

NOTE 19 TRADE AND OTHER PAYABLES

	2017	2016
Trade payables	25,383	22,382
Social debts	23,987	21,789
Fiscal debts	4,944	5,540
Down-payments from customers	7,485	8,969
Other current payables	600	600
Total	**62,399**	**59,280**

NOTE 20 DEFERRED REVENUES

	2017	2016
Deferred revenues on recurring contracts	48,713	49,913
Other deferred revenues[1]	4,300	3,941
Total	**53,013**	**53,854**

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

The counterpart of deferred revenues that has not yet been collected 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

2016	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2016	**686**	**1,173**	**561**	**490**	**2,910**
Additional provisions	436	152	421	1,055	2,065
Used amounts reversed	(175)	-	-	(897)	(1,072)
Unused amounts reversed	(263)	-	(533)	(52)	(848)
Exchange rate differences	-	320	8	-	328
Provisions at December 31, 2016	**684**	**1,646**	**456**	**595**	**3,382**

2017	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2017	**684**	**1,646**	**456**	**595**	**3,382**
Additional provisions	1,004	105	-	1,441	2,550
Used amounts reversed	(437)	-	(25)	(1,201)	(1,663)
Unused amounts reversed	(247)	-	(48)	(6)	(301)
Exchange rate differences	-	(234)	(3)	-	(238)
Provisions at December 31, 2017	**1,004**	**1,517**	**380**	**830**	**3,730**

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, 2017.

To the Group's knowledge, there were no proceedings pending at December 31, 2017, 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, 2016	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			1,423	1,423
Trades account receivables	Loans and receivables	X			60,076	60,076
Other current assets	Loans and receivables	X			27,691	27,691
Derivatives not designated as hedges	Financial assets at fair value through profit and loss		X		-	-
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		75,696	75,696
Total financial assets					**164,886**	**164,886**
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		44	44
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			59,280	59,280
Total financial liabilities					**59,324**	**59,324**

At December 31, 2017	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			1,643	1,643
Trades account receivables	Loans and receivables	X			55,065	55,065
Other current assets	Loans and receivables	X			25,526	25,526
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		98,134	98,134
Total financial assets					**180,431**	**180,431**
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			62,399	62,399
Total financial liabilities					**62,399**	**62,399**

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	4,032	9,577	4,770	18,379
Rental contracts: others[1]	5,695	2,083	4	7,782
Total rental contracts	**9,727**	**11,660**	**4,774**	**26,161**
Other guarantees: sureties[2]	1,062	14	296	1,372

(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 2017 amounted to €11,558,000.

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 2017 and 2016 are also provided at 2016 exchange rates ("like-for-like"), as indicated in the notes concerned.

NOTE 24 REVENUES

In 2017, no single customer represents more than 4% of consolidated revenues, the ten 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 2017, as in 2016, almost 50% of total revenues were generated in 5 countries: the United States (11%), Italy (11%), China (10%), Mexico (9%) and France (7%). These percentages were 14%, 9%, 11%, 9% and 7% respectively in 2016. The share of revenues generated in the United-Kingdom was less than 3%. Greece's and Russia's share of revenues is immaterial.

	2017			2016		Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	117,050	42%	117,417	107,357	41%	+9%	+9%
- France	18,400	7%	18,395	17,655	7%	+4%	+4%
Americas	68,931	25%	69,981	68,914	27%	0%	+2%
Asia-Pacific	72,098	26%	73,874	68,767	26%	+5%	+7%
Other countries	19,122	7%	18,944	15,123	6%	+26%	+25%
Total	**277,201**	**100%**	**280,216**	**260,162**	**100%**	**+7%**	**+8%**

NOTE 24.2 REVENUES BY PRODUCT LINE

	2017			2016		Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like
New CAD/CAM and PLM software licenses[1]	16,622	6%	16,691	13,962	5%	+19%	+20%
CAD/CAM and PLM software evolution and online services contracts[2]	38,412	14%	38,644	36,476	14%	+5%	+6%
CAD/CAM equipment and accompanying software[1]	90,889	32%	92,264	85,206	33%	+7%	+8%
CAD/CAM equipment and accompanying software maintenance nd online services contracts[2]	49,975	18%	50,582	46,658	18%	+7%	+8%
Consumables and parts	65,757	24%	66,323	63,951	25%	+3%	+4%
Training and consulting services	13,241	5%	13,376	11,562	4%	+15%	+16%
Miscellaneous	2,305	1%	2,336	2,346	1%	- 2%	0%
Total	**277,201**	**100%**	**280,216**	**260,162**	**100%**	**+7%**	**+8%**

(1) Accompanying software for CAD/CAM equipment, which appeared in 2016 under the 'New software licenses' heading, now appear under 'CAD/CAM equipment and accompanying software'. The 2016 amount (€10,544,000) has been restated accordingly to allow for comparison with 2017 data.

(2) Evolution and online services contracts related to CAD/CAM equipment accompanying software, which appeared in 2016 under the 'Software evolution and online services contracts' heading, now appear under 'CAD/CAM equipment and accompanying software maintenance and online services contracts'. The 2016 amount (€10,952,000) has been restated accordingly to allow for comparison with 2017 data.

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

	2017			2016		Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	123,057	44%	124,667	113,077	43%	+9%	+10%
Recurring revenues[2], of which:	154,144	56%	155,549	147,085	57%	+5%	+6%
- Recurring contracts	88,387	32%	89,226	83,134	32%	+6%	+7%
- Consumables and spare parts	65,757	24%	66,323	63,951	25%	+3%	+4%
Total	**277,201**	**100%**	**280,216**	**260,162**	**100%**	**+7%**	**+8%**

(1) Revenues from new systems sales comprise sales of new CAD/CAM and PLM software licenses, CAD/CAM equipment and accompanying software, training and consulting and on-call interventions on the installed base.

(2) Recurring revenues fall into two categories:
- Recurring contracts: CAD/CAM and PLM software evolution and online services contracts, and CAD/CAM equipment and accompanying software maintenance and online services contracts, which are renewable annually;
- Revenues from sales of consumables and parts, which are statistically recurrent.

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

	2017			2016		Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	56,206	46%	56,893	44,834	40%	+25%	+27%
Automotive	47,445	39%	48,156	50,075	44%	-5%	-4%
Furniture	12,824	10%	12,938	11,404	10%	+12%	+13%
Other industries	6,582	5%	6,680	6,764	6%	-3%	-1%
Total	**123,057**	**100%**	**124,667**	**113,077**	**100%**	**+9%**	**+10%**

NOTE 24.5 BREAKDOWN OF REVENUES BY CURRENCY

	2017	2016
Euro	43%	42%
US dollar	32%	35%
Chinese yuan	7%	5%
Japanese yen	2%	3%
British pound	2%	2%
Other currencies(1)	14%	13%
Total	**100%**	**100%**

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

NOTE 25 COST OF GOODS SOLD AND GROSS PROFIT

	2017	2016
Revenues	277,201	260,162
Cost of goods sold, of which:	(75,269)	(68,417)
Purchases and freight-in costs	(72,485)	(62,670)
Inventory movement, net	6,105	2,012
Industrial added value	(8,889)	(7,759)
Gross profit	**201,932**	**191,745**
(in % of revenues)	72.8%	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

	2017	2016
Fixed personnel costs	(21,323)	(18,512)
Variable personnel costs	(886)	(791)
Other operating expenses	(2,128)	(1,922)
Depreciation expenses	(920)	(1,064)
Total before research tax credit and grants[1]	**(25,257)**	**(22,289)**
(in % of revenues)	9.1%	8.6%
Research tax credit and government grants	7,567	6,838
Total	**(17,690)**	**(15,451)**

(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 €25,626,000 (€22,573,000 in 2016) that is 9.2% of revenues (8.7% in 2016).

NOTE 27 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Fixed personnel costs	(84,458)	(81,223)
Variable personnel costs	(13,509)	(12,049)
Other operating expenses	(42,710)	(41,140)
Depreciation expenses	(3,401)	(3,914)
Net provisions	(890)	(687)
Total [1]	**(144,968)**	**(139,013)**
(in % of revenues)	52.3%	53.4%

(1) 'Selling, general and administrative expenses' do not include the expenses comprised in 'Industrial added value' (see note 25), which amounted to €8,889,000 in 2017 and €7,759,000 in 2016.

FEES PAID TO GROUP AUDITORS AND COMPANIES IN THEIR NETWORKS

In 2017, other operating expenses comprised €802,000 in respect of the audit of all Group companies, of which €444,000 for PricewaterhouseCoopers, €297,000 for KPMG and €62,000 for other audit firms, excluding non-audit services. The corresponding amount in 2016 was €817,000.

Fees paid by the Group in 2017 to the Statutory Auditors in respect of the audit and non-audit services performed by their networks to consolidated entities were €888,000, of which €547,000 for PricewaterhouseCoopers and €341,000 for KPMG:

	PwC				KPMG			
	Amount		%		Amount		%	
	2017	2016	2017	2016	2017	2016	2017	2016
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
- Issuer (Lectra SA)	151	148	28%	26%	131	130	38%	42%
- Fully-consolidated subsidiaries	293	295	54%	52%	166	163	49%	52%
Non-audit services								
- Issuer (Lectra SA)(1)	-	21	0%	4%	19	-	6%	0%
- Fully-consolidated subsidiaries	-	-	0%	0%	-	-	0%	0%
Sub-total	**444**	**464**	**81%**	**82%**	**316**	**293**	**93%**	**94%**
Other services to consolidated entities								
- Legal, tax and social reviews(2)	103	103	19%	18%	25	18	7%	6%
Sub-total	**103**	**103**	**19%**	**18%**	**25**	**18**	**7%**	**6%**
Total	**547**	**567**	**100%**	**100%**	**341**	**311**	**100%**	**100%**

(1) These services relate to the verification, by one of the statutory auditors, designated as independent third-party, of social, environmental and societal information.

(2) 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.

	2017	2016
Research and development	(22,209)	(19,303)
Selling, general and administrative	(97,967)	(93,272)
Manufacturing, logistics and purchasing[1]	(6,199)	(5,307)
Total	**(126,375)**	**(117,883)**

(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 'Research and development' stems mainly from the Group's new strategic roadmap (started in 2017, it comprises significant investments in innovation, notably via R&D teams) as well as the impact of currencies' fluctuations against the euro.
Personnel expenses for 2017 are presented after deduction of the (French) competitiveness and employment tax credit, amounting to €1,016,000 (€827,000 in 2016).

NOTE 28.2 HEADCOUNT AT DECEMBER 31

	2017	2016
Parent company[1]	842	769
Subsidiaries[2], of which:	815	781
- Europe	318	304
- Americas	177	172
- Asia-Pacific	247	233
- Other countries	73	71
Total	**1,657**	**1,550**

(1) In 2017 as in 2016, 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

	2017	2016
Marketing, Sales	328	321
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	511	481
Research and Development	327	270
Purchasing, Production, Logistics	166	152
Administration, Finance, Human Resources, Information Systems	325	326
Total	**1,657**	**1,550**

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 2017, Group companies subject to defined-contribution pension plans booked a sum of €5,025,000 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 2018, a payment for profit-sharing totaling €637,000 will be made, in respect of fiscal year 2017 (€1,043,000 paid in 2017, in respect of fiscal year 2016).

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 2017 covers the period 2017–2019.
The incentive amount in respect of fiscal 2017 equals €2,176,000 (€710,000 in respect of 2016).
For fiscal 2017, an interim payment of €560,000 was made in November 2017, the balance outstanding to be paid in the first half of 2018.
Thus, the cumulative amount of profit-sharing and incentive plans totaled €2,813,000 in respect of fiscal 2017 (€1,753,000 in respect of fiscal 2016).

NOTE 28.5 COMPENSATION OF GROUP MANAGEMENT

Following the resignation of André Harari from his functions as Director and Chairman of the Board of Directors, on July 27, 2017, the Board of Directors opted for the combination of functions of Chairman of the Board of Directors and Chief Executive Officer and nominated Daniel Harari as Chairman and Chief Executive Officer.
Thus, the Group management team now consists of one Company Officer: the Chairman and Chief Executive Officer; the Executive Vice President, the Chief Transformation Officer, the Chief Sales Officer and the Chief Marketing and Communications Officer.
In 2016, the Group management team consisted of two Company Officers: the Chairman of the Board of Directors and the Chief Executive Officer; the Chief Financial Officer, the Chief Transformation Officer, the Chief Sales Officer and, from July 1, 2016, the Chief Marketing and Communications Officer.

Personnel expenses related to the Group management team, accounted for in 2017, amounted to €2,784,000 (€2,512,000 in 2016) and broke down as follows:

	2017	2016
Fixed compensation	1,336	1,393
Variable compensation	1,232	1,018
Other short-term benefits	128	36
Post-employment benefits(1)	18	18
Other long-term benefits	-	-
Severance compensation	-	-
Granting of stock options(1)	70	47
Personnel expenses related to the Group management team	**2,784**	**2,512**

(1) The Company Officers (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, or more generally subsequent to the termination of their functions. They hold no stock options.

NOTE 28.6 DIRECTORS' FEES

Conditional upon approval by the Shareholders' Meeting on April 27, 2018, €226,000 in Directors' fees will be allocated to the members of the Board with respect to fiscal 2017 (€216,000 with respect to fiscal 2016). Compensation paid to the three Directors who are not Company Officers 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 and their allocation between income statement items:

	2017	2016
Research and development(1)	(920)	(1,064)
Selling, general and administrative	(3,401)	(3,914)
Manufacturing, logistics and purchasing(2)	(928)	(676)
Total	**(5,249)**	**(5,654)**

(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

	2017	2016
Financial income, of which:	223	153
Gains on sales of cash equivalents	58	64
Other interest income	107	56
Reversal of provisions for depreciation of investments and loans	58	33
Financial expenses, of which:	(493)	(454)
Bank charges	(483)	(438)
Interest expense on bank loans and financial debts	-	-
Other financial expenses	(10)	(16)
Total	**(270)**	**(301)**

NOTE 31 FOREIGN EXCHANGE INCOME (LOSS)

A foreign exchange translation loss of €574,000 was recognized in 2017 (€462,000 in 2016).
At December 31, 2017, as at December 31, 2016, the company held no currency options (see note 18.4).

NOTE 32 SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2017 and 2016, the company had not issued any dilutive instrument other than the stock options detailed in note 15.5.

Basic earnings per share	2017	2016
Net income (in thousands of euros)	29,264	26,662
Weighted average number of shares outstanding during the period(1)	31,415,809	30,995,839
Weighted average number of treasury shares held during the period	(11,849)	(14,260)
Weighted average number of shares used to compute basic earnings per share	31,403,960	30,981,579
Basic earnings per share (in euros)	**0.93**	**0.86**

(1) In 2017, 323,542 stock options were exercised, giving rise to the creation of 323,542 new shares. In 2016, 461,155 stock options were exercised, giving rise to the creation of 461,155 new shares (see note 15).

Diluted earnings per share	2017	2016
Net income (in thousands of euros)	29,264	26,662
Weighted average number of shares outstanding during the period(1)	31,415,809	30,995,839
Weighted average number of treasury shares held during the period	(11,849)	(14,260)
Dilutive effect of stock options, under the share repurchase method(2)	939,843	813,067
Weighted average number of shares used to compute diluted earnings per share	32,343,804	31,794,646
Diluted earnings per share (in euros)	**0.90**	**0.84**

(1) In 2017, 323,542 stock options were exercised, giving rise to the creation of 323,542 new shares. In 2016, 461,155 stock options were exercised, giving rise to the creation of 461,155 new shares (see note 15).

(2) In 2017, due to an average share price of €23.62 during the period, the dilutive effect of stock options under the share repurchase method resulted in 939,843 theoretical additional shares (813,067 theoretical additional shares in 2016 due to an average share price of €14.50).

NOTE 33 INCOME STATEMENT AT CONSTANT EXCHANGE RATES

	2017		2016	Changes 2017/2016	
	Actual	At 2016 exchange rates	Actual	Actual	Like-for-like
Revenues	277,201	280,216	260,162	+7%	+8%
Cost of goods sold	(75,269)	(75,459)	(68,417)	+10%	+10%
Gross profit	201,932	204,757	191,745	+5%	+7%
Research and development	(17,690)	(17,690)	(15,451)	+14%	+14%
Selling, general and administrative expenses	(144,968)	(146,100)	(139,013)	+4%	+5%
Income from operations	**39,274**	**40,967**	**37,281**	**+5%**	**+10%**
(in % of revenues)	14.2%	14.6%	14.3%	- 0.1 points	+0.3 points

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 main currency in which business is transacted after the euro.
The overall currency variations between 2016 and 2017 decreased 2017 Group revenues by €3,015,000 and income from operations by €1,693,000.
The US dollar (average parity versus the euro of $1.13/€1 in 2017, compared to $1.11/€1 in 2016) accounted for a decrease of €1,972,000 in revenues and of €1,445,000 in income from operations in the 2017 figures at actual exchange rates, relative to the 2017 figures at 2016 exchange rates.
In 2017, 43% of the Group's consolidated revenues, 85% of its cost of sales, and 66% of its overhead expenses were denominated in euros. These percentages were respectively 32%, 9%, and 11% for the US dollar, as well as 7% (part of the revenues generated in China are denominated in US dollars or other currencies), 2% and 7% 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 sensitivity of revenues and income from operations to a change in exchange rates was based on the December 31, 2017 exchange rates for the relevant currencies, in particular $1.20/€1.
In view of the estimated share of revenues and costs denominated in US dollars or in currencies correlated with the US dollar, a 5-cent fall in the euro against the US dollar (leading to an annual average exchange rate of $1.15/€1) would mechanically increase 2017 annual revenues by approximately €5 million and annual income from operations by €3 million. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.25/€1) would mechanically reduce annual revenues and income from operations by the same amounts.
In addition to fluctuating against the US dollar and currencies strongly correlated with it, the euro also fluctuates against other currencies. These variations are frequently dissimilar both in direction (upward and downward) and in scale.

NOTE 34 QUARTERLY RESULTS OF OPERATIONS

Reconciliation of published quarterly financial statements with the audited annual financial statements:

2017: quarter ended	March 31	June 30	September 30	December 31	2017
Revenues	69,488	69,025	67,200	71,489	277,201
Cost of goods sold	(18,433)	(18,303)	(18,491)	(20,042)	(75,269)
Gross profit	51,055	50,721	48,709	51,446	201,932
Research and development	(4,211)	(4,814)	(3,907)	(4,758)	(17,690)
Selling, general and administrative expenses	(37,483)	(36,807)	(34,212)	(36,466)	(144,968)
Income from operations	**9,361**	**9,100**	**10,591**	**10,222**	**39,274**
Net Income	**6,495**	**6,241**	**7,338**	**9,190**	**29,264**

2016: quarter ended	March 31	June 30	September 30	December 31	2016
Revenues	62,214	64,132	64,398	69,418	260,162
Cost of goods sold	(16,285)	(17,082)	(16,603)	(18,447)	(68,417)
Gross profit	45,929	47,050	47,795	50,971	191,745
Research and development	(3,961)	(4,196)	(3,361)	(3,933)	(15,451)
Selling, general and administrative expenses	(34,629)	(34,768)	(33,252)	(36,364)	(139,013)
Income from operations	**7,339**	**8,086**	**11,182**	**10,674**	**37,281**
Net Income	**5,130**	**5,525**	**8,076**	**7,931**	**26,662**

NOTE 35 OPERATING SEGMENTS INFORMATION

2017	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	117,050	68,931	72,097	19,123	-	**277,201**
Income (loss) from operations before non-recurring items	21,323	12,033	5,115	4,446	(3,643)	**39,274**

2016	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	107,357	68,914	68,767	15,124	-	**260,162**
Income (loss) from operations before non-recurring items	17,926	9,957	5,191	2,302	1,905	**37,281**

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 2017, as in 2016, '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 2017, the main changes in the working capital requirement broke down as follows:

- −€3,464,000 corresponding to the decrease in trade accounts receivable (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes 'Deferred revenues' in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues, see note 13);
- +€7,112,000 corresponding to the increase in inventories, given the increased manufacturing activity and measures taken in order to reduce delivery times to customers;
- −€3,675,000 corresponding to an increase in trade accounts payable, due in particular to increased purchases of raw materials at the end of the year;
- −€1,888,000 arising from the decrease of the receivable on the French tax administration (*Trésor public*) corresponding to the research tax credit and the competitiveness and employment tax credit. This amount corresponds to the difference between the tax credits for fiscal 2017 after deduction from the corporate income tax due by Lectra SA, accounted for but not received, and the balance outstanding relating to the 2013 research tax credit received in Q4 2017 (€6,312,000);
- −€992,000 arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2016 paid mainly in 2017, and the one recognized during fiscal 2017 and payable in 2018, for a higher amount;
- −€414,000 arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial

In 2016, the net increase of the working capital requirement amounted to €2,191,000 and broke down as follows:

- +€3,251,000 corresponding to the increase in trade accounts receivable, following the sharp rise of revenues;
- +€2,657,000 corresponding to the increase in inventories;
- −€2,175,000 arising from the decrease of the receivable on the French tax administration (*Trésor public*) corresponded to the research tax credit and the competitiveness and employment tax credit. This amount corresponds to the difference between the tax credits for fiscal 2016 after deduction from the corporate income tax due by Lectra SA, accounted for but not received, and the balance outstanding relating to the 2012 research tax credit received in Q3 2016 (€5,091,000);
- +€2,159,000 corresponding to a decrease in trade accounts payable;
- −€2,580,000 arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2015 paid mainly in 2016, and the one accounted for in 2016 and payable in 2017;
- −€1,121,000 arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

At December 31, 2017, as at December 31, 2016, 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

In 2017 as in 2016, the Group did not contract any financial debts.

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.

	2017	2016
Net cash (used in)/provided by operating activities	41,027	30,537
Net cash (used in)/provided by investing activities, excluding cash used for acquisition of companies	(7,834)	(6,743)
Free cash flow	**33,193**	**23,794**

In 2017, net cash provided by operating activities of €41,027,000 (€30,537,000 in 2016) comprised a €3,321,000 decrease in working capital requirement (increase of €2,191,000 in 2016).
Details of changes in working capital requirement are provided in note 37 above.
Free cash flow was €33,193,000 and there were no non-recurring items. In 2016, it was €23,794,000 and there were no non-recurring items.

Statutory auditors’ report on the consolidated financial statements

For the year ended December 31, 2017

This is a free translation into English of the statutory auditors’ report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.
This statutory auditors’ report includes information required by European regulations and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.
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,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Lectra for the year ended December 31, 2017.
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, 2017 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.
The audit opinion expressed above is consistent with our report to the Audit and Accounts Committee.

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under those standards are further described in the Statutory Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics (Code de déontologie) for statutory auditors.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.
These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Recognition of export revenues (Note 2.18)

Description of risk

The Group markets integrated technology solutions (automated cutting equipment and software) and related services, such as technical maintenance, remote support, training, consulting, and sales of consumables and parts.
In 2017, the Group’s revenues amounted to €277.2 million. Most sales of CAD/CAM equipment and related software (€90.9 million) are made outside France, by Lectra SA directly or by its subsidiaries.
Risk and benefit transfer conditions (Incoterms) relating to these sales vary according to destination and customer. Given that there are multiple conditions to be taken into account, there is a risk of error when determining the revenue recognition date, particularly around the closing date.
Accordingly, we deemed the recognition of export revenues to be a key audit matter, in light of the following factors:

- the significant impact on the Group’s financial statements;
- the importance of Incoterms for estimating the risk and benefit transfer dates, as determined pursuant to the sales contracts.

How our audit addressed this risk

Our audit approach for export sales is based on our work on revenue recognition and includes both tests of internal control processes and substantive procedures.

Our work on internal control mainly focused on examining the procedures implemented by the Group and tests of the control that we identified as key for our audit, particularly regarding the conclusion of sales contracts and invoicing.

Based on a sample of sales from December 2017 and January 2018, our substantive procedures for revenues mainly consisted of:

- reconciling invoices issued for corresponding contracts and the delivery documents relating to the invoices;
- ensuring that Incoterms have been properly taken into account.

Measurement of goodwill (Notes 2.3, 2.6 and 6)

Description of risk

As part of the development of its business, the Group carried out external growth operations and thus needed to recognize the resulting goodwill on its balance sheet.

Goodwill corresponds to the difference between the acquisition cost and the fair value of the assets acquired and liabilities assumed, as described in Note 2.3 to the consolidated financial statements.

It is monitored by sales subsidiary or group of several sales subsidiaries that pool resources in the same geographic region (cash-generating units – CGUs).

Every year, management verifies that the carrying amount of this goodwill, for which an amount of €32.1 million was recorded in the balance sheet in this particular instance, is lower than its recoverable amount and that there is no risk of impairment.

The methods used to perform impairment tests and details of the assumptions used are described respectively in Notes 2.6 and 6 to the consolidated financial statements.

Given the materiality of the amounts involved and the degree of judgment required from management in terms of determining the growth and margin rates to be applied to cash flow projections and the applicable discount rates, we deemed the measurement of goodwill to be a key audit matter.

How our audit addressed this risk

We reviewed the compliance of the methodology applied by the Group with current accounting standards.

We also performed a critical assessment of the procedure for implementing the methodology described in Notes 2.6 and 6 to the consolidated financial statements and verified:

- the consistency between the inputs included in the determination of the carrying amount of the Group's different CGUs and those included in cash flow projections;
- the reliability of the process used to prepare the estimates by examining the reasons for any differences between the outcomes projected in preceding years and the actual outcomes;
- the reasonableness of projected cash flows in terms of the economic and financial context of the Group's different CGUs, based on the most recent management estimates, which are validated by the Strategic Committee, and market analyses;
- the calculation of the discount rates applied to the estimated future cash flows expected for the different CGUs, verifying that the various inputs used to calculate the weighted average cost of capital were sufficient to approximate the return expected by market participants for such an activity;
- the analysis performed by management to ascertain the sensitivity of value in use to changes in the main assumptions used, as set out in Note 6 to the consolidated financial statements.

VERIFICATION OF THE INFORMATION PERTAINING TO THE GROUP PRESENTED IN THE MANAGEMENT REPORT

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Lectra by the annual general meeting held on June 28, 1990 for PriceWaterhouseCoopers Audit and on May 22, 1996 for KPMG.

As at December 31, 2017, PriceWaterhouseCoopers Audit was in its twenty eighth year of uninterrupted engagement and KPMG in its twenty second year of uninterrupted engagement.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit and Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit and Accounts Committee

We submit a report to the Audit and Accounts Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit and Accounts Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit and Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for statutory auditors. Where appropriate, we discuss with the Audit and Accounts Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Mérignac, February 27, 2018

The Statutory Auditors
French original signed by

PRICEWATERHOUSECOOPERS Audit	KPMG
Matthieu Moussy	Jean-Pierre Raud

Biographies of Lectra Directors and Members of the Group Executive Committee

Daniel Harari

Daniel Harari, 63, Chairman and Chief Executive Officer of Lectra since July 27, 2017. He was Director and Chief Executive Officer of Lectra since May 3, 2002.

He became Chairman and Chief Executive Officer of Lectra in 1991, following its takeover by Compagnie Financière du Scribe at the end of 1990.

Daniel Harari holds no directorships outside the company and its subsidiaries.

He became in 1986 General Manager of Compagnie Financière du Scribe (Paris, France), a venture capital firm specialized in technology companies. Together with his brother André Harari, he was the main shareholder in Compagnie Financière du Scribe until its merger with Lectra on April 30, 1998.

He began his career as Vice President of Société d'Etudes 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, France.

Daniel Harari, of French nationality, is a graduate of the École Polytechnique (Paris, France) and HEC (Paris, France), coupled with the second year of the Stanford Business School MBA program (USA).

Anne Binder

Anne Binder, 67, Independent Director of Lectra since October 27, 2011.

She currently is a consultant in financial strategy and an independent Director for publicly traded and non-publicly traded companies. She founded in 2016 FinTouch, a market place dedicated to French regional SMEs.

Anne Binder is member of the Board of Directors of Oceasoft and Senior Advisor of Tikehau IM (Paris, France). Since February 14, 2018, she is member of the Board of Directors of Osmozis. She is also member of the Board of Directors of the French National Chamber of Financial Investment Advisors.

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 (Paris, France) 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, Paris, France).

Prior to that, she was an associate manager for Générale Occidentale (bank and industrial holding, Paris, France) from 1978 to 1982. At the beginning of her career, she was a consultant at Boston Consulting Group (Paris, France) and then associate manager at Lazard Frères Bank (Paris, France).

Anne Binder, of French nationality, is a graduate of the Institut d'Etudes Politiques of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration from INSEAD (France).

Bernard Jourdan

Bernard Jourdan, 73, Independent Director of Lectra since December 21, 2011 and Lead Director since January 1st, 2017.

Bernard Jourdan holds no outside directorship.

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, of French nationality, holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of

Ecole 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.

Ross McInnes

Ross McInnes, 64, Independent Director of Lectra since January 1, 2018*.

Ross McInnes started his career in 1977 with Kleinwort Benson, first working in London and then Rio de Janeiro, before joining the corporate finance arm at Continental Bank (now Bank of America).

In 1989, Ross McInnes joined Eridania Béghin-Say, and was appointed Chief Financial Officer in 1991, then a member of the Board of Directors in 1999.

The following year, Ross McInnes joined Thomson-CSF (now Thales) as Executive Vice President and Chief Financial Officer, assisting in the group's transformation. In 2005, he moved to PPR (now Kering) as Executive Vice President for Finance and Strategy. He was appointed to the Supervisory Board of Générale de Santé in 2006, serving as acting Chairman of the Management Board from March to June 2007. From 2007 to 2009, he was also Vice Chairman of Macquarie Capital Europe, specializing in infrastructure investments.

Ross McInnes joined Safran in March 2009, and became Executive Vice President, Economic and Financial Affairs in June of the same year. From July 2009 to April 2011, he was a member of the Executive Board, and then from April 2011 to April 2015 he was Deputy Chief Executive Officer.

On April 23, 2015 Ross McInnes was named Chairman of the Board of Safran.

In February 2015, the French Ministry of Foreign Affairs appointed Ross McInnes as Special Representative for Economic Relations with Australia, within the scope of France's economic diplomacy policy.

At the end of 2016, he joined the High Committee for Corporate Governance, following his nomination by the French association of large companies (AFEP) and the French employers' union (MEDEF).

In October 2017, the French Prime Minister appointed Ross McInnes co-chairman of the Action Publique 2022 committee, charged with proposing public policy reforms.

Ross McInnes is also a Non-Executive Director of Eutelsat and, since January 2018, Trustee of the IFRS Foundation.

Ross has dual French and Australian nationality and studied Politics, Philosophy and Economics at St John's College, University of Oxford.

**Subject to approval by the Ordinary Shareholders' Meeting of April 27, 2018*

Nathalie Rossiensky

Nathalie Rossiensky, 48, Independent Director of Lectra since 2016.

She is currently Executive Vice President at Lombard Odier Europe, based in Paris.

Nathalie Rossiensky is member of the Board of Directors of two family Sicav (collective investment schemes) within the scope of her professional duties.

She started her career at JP Morgan (Paris, France), Private Bank, before joining the Investment Management Division of Goldman Sachs International, in London in 2005, then in Paris (France), until 2013, 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 (France).

Nathalie Rossiensky, of French nationality, graduated from University Paris-Dauphine (Master of Applied Mathematics and D.E.A. of Financial Economics), and holds a Ph.D. in Finance from London Business School (United Kingdom).

Jérôme Viala

Jérôme Viala, 56, Executive Vice President since January 1st, 2017. He was Chief Financial Officer of Lectra since 1994. He has also monitored legal and manufacturing activities since 2000, customer care services and consumables and parts since 2015, as well as international human resources since July 1st, 2016.
He has been a member of the Executive Committee since its creation in 2005.
Jérôme Viala joined the finance department of Lectra in 1985, then successively held the positions of Controller for Europe and North America (France; 1988-1991), Chief Financial Officer for France (1992-1993) then for the product division (France, 1993-1994).
He began his career as a credit analyst at Esso (France).
Jérôme Viala is a graduate of the ESC Bordeaux (KEDGE Business School, France).

Céline Choussy Bedouet

Céline Choussy Bedouet, 41, Chief Marketing and Communications Officer and member of the Executive Committee since July 1st, 2016.
Céline Choussy Bedouet joined Lectra in 2013, as Marketing Director for Automotive, Furniture, Technical Textiles and Composite Materials. She then became Chief Marketing Officer (2015-2016).
She began her career in 2000 at Dassault Systèmes within the marketing partnerships team. After spending five years at their headquarters in France, she headed to the United States to work on the company's strategic partnership with Microsoft.
In 2008, she joined Autodesk as EMEA, then Global Marketing Manager, based in France.
Céline Choussy Bedouet holds a master's degree in management from ESC Bordeaux (KEDGE Business School, France).

Édouard Macquin

Édouard Macquin, 52, Chief Sales Officer since 2011. He has also monitored professional services since July 1st, 2016.
He has been a member of the Executive Committee since 2014.
Édouard Macquin joined Lectra's R&D department in 1987. After that, he took on various positions in consulting, services, marketing and sales in Paris, Italy, the United States and Brazil. In 2000, he was appointed Director of Lectra Brazil, then Director of South America in 2005.
Édouard Macquin holds an MBA from São Paulo Business School (Brazil).

Véronique Zoccoletto

Véronique Zoccoletto, 58, Chief Transformation Officer since July 1st, 2016. She monitors software R&D, the information system and human resources for France.
She has been a member of the Executive Committee since its creation in 2005.
Véronique Zoccoletto joined Lectra in 1993 as Chief Financial Officer of Lectra France, and subsequently held the positions of Controller (1996-1998), Director of Sales Administration (1998-2000), Director of Organization and Information Systems (2000-2004) and Chief Human Capital Officer and Chief Information Officer (2005-2016).
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 Chief Financial Officer of Riva Hugin Sweda France.
Véronique Zoccoletto is a graduate of the University of Paris-Dauphine (France).

Board of Directors and Group Management

Board of Directors

Daniel Harari, *Chairman and Chief Executive Officer*
Anne Binder[1]
Bernard Jourdan[1], *Lead Director*
Ross McInnes[1] [2]
Nathalie Rossiensky[1]

Audit Committee
Bernard Jourdan, *Chairman*
Anne Binder
Ross McInnes[2]
Nathalie Rossiensky

Compensation Committee
Bernard Jourdan, *Chairman*
Anne Binder
Ross McInnes[2]
Nathalie Rossiensky

Strategic Committee
Daniel Harari, *Chairman*
Anne Binder
Bernard Jourdan
Ross McInnes[2]
Nathalie Rossiensky

Executive Committee

Daniel Harari, *Chairman and Chief Executive Officer, Chairman*
Jérôme Viala, *Executive Vice President*
Céline Choussy Bedouet, *Chief Marketing and Communications*
Édouard Macquin, *Chief Sales Officer*
Véronique Zoccoletto, *Chief Transformation Officer*

Group Management

Maximilien Abadie, *Strategy*
Régis Bévillon, *Human Resources, France*
Alexandra Boisson, *Legal Affairs*
Nathalie Brunel, *Sales, Fashion & Apparel*
Olivier du Chesnay, *Finance*
Olivier Dancot, *Data*
Frédéric Gaillard, *Product Marketing, Cutting Room*
Javier Garcia, *Sales, Automotive*
Laetitia Hugé, *Product Marketing, Product Development Fashion & Apparel*
Laurence Jacquot, *Industrial Operations and Cutting Room R&D*
Clémence de Lamaze, *Customer Experience*
Olivier Lavictoire, *Human Resources, International*
Eric Lespinasse, *Manufacturing, Logistic, Quality, Purchasing*
Olivier Nold, *Sales, Furniture*
Philippe Ribera, *Innovation*
Didier Teiller, *Customer Care*

Americas
Jason Adams, *North America*
Adriana Vono Papavero, *South America*

Asia-Pacific
Yves Delhaye, *ASEAN, Australia, South Korea, India*
Andreas Kim, *China*
Akihiko Tanaka, *Japan*

Europe
Fabio Canali, *Italy*
Jean-Patrice Gros, *Northern Europe and United Kingdom*
Holger Max-Lang, *Central and Eastern Europe, Russia*
Rodrigo Siza, *Spain and Portugal*

Other countries
Michael Stoter, *South Africa*
Burak Susoy, *Turkey and Middle East*

Statutory Auditors

PricewaterhouseCoopers Audit
Represented by Matthieu Moussy
Crystal Park – 63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

KPMG SA
Represented by Jean-Pierre Raud
Domaine de Pelus – 11, rue Archimède
33692 Mérignac Cedex

A complete list of agents and distributors is available at Lectra.com.

(1) Independent Director. (2) Subject to approval by the Ordinary Shareholders' Meeting of April 27, 2018.

LECTRA