MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR FOURTH QUARTER AND FULL YEAR OF 2017

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the fourth quarter and full year ending December 31, 2017.

Audit procedures have been performed by the Statutory Auditors. The certification report will be issued at the end of the Board of Directors meeting of February 27, 2018.

Detailed comparisons between 2017 and 2016 are based on 2016 exchange rates ("like-for-like") unless otherwise stated.

To present orders for new systems and revenues from new systems sales in a manner more consistent with the evolution of its product offer, in the framework of its roadmap for 2017-2019, the Company has decided in 2017 to present the software for its cutting machines under the same heading as the latter, now titled "CAD/CAM equipment and accompanying software". The software concerned was previously presented under the heading "New software licenses". The other software, which are all liable to migrate, entirely or partly, to recurring subscriptions (SaaS), are now presented under the new heading "New CAD/CAM and PLM software licenses". For consistency between the presentation of revenues from new systems sales and revenues from recurring contracts, contracts concerning software for cutting machines, previously reported under the heading "Software evolution and online services contracts", are now presented under the new heading "CAD/CAM equipment and accompanying software maintenance and online services contracts". Figures for 2016 have been restated accordingly to permit comparisons with those for 2017. The impact of this reclassification is discussed in note 5 to the financial statements.

1. SUMMARY OF OPERATIONS FOR Q4 2017

With an average exchange rate of $1.18/€1 in Q4, the US dollar was down 8% compared to Q4 2016 ($1.08/€1). The yuan also declined by 5% against the euro.

Currency changes mechanically decreased revenues by €3.1 million (-4%) and income from operations by €1.9 million (-16%) actual exchange rates, compared to like-for-like figures.

Slight decline in orders for new systems

Q4 orders for new systems (€32.9 million) were 3% lower (-€0.9 million) than those booked in Q4 2016.

Orders in previous quarters were €32.3 million, €32 million and €26.5 million respectively in Q1, Q2 and Q3 2017.

In Q4 2016, orders for new systems were €35.2 million, the Company's highest ever quarter for new systems orders.

This performance was driven primarily by *FocusQuantum*, the new airbag cutting solution launched in December 2015, five of which were ordered in Q4 2016, for €7.9 million, compared with only two in Q4 2017, for €2.8 million. Excluding *FocusQuantum*, orders in Q4 increased by 16%.

Orders for new CAD/CAM and PLM software licenses (€4.5 million) increased by 22%, while orders for CAD/CAM equipment and accompanying software (€24.7 million) and for training and consulting (€3 million) fell by 3% and 21% respectively.

In Q4 2017, orders for new systems decreased by 7% at actual exchange rates.

Strong growth in income from operations, on a like-for-like basis

Revenues totaled €71.5 million, up 7% compared to Q4 2016 (+3% at actual exchange rates).

Income from operations amounted to €10.2 million, up 13% like-for-like but down by 4% at actual exchange rates. The operating margin amounted to 14.3%, up 0.8 percentage points like-for-like but down 1.1 percentage points at actual exchange rates.

Net income amounted to €9.2 million, up €1.3 million (+16%) at actual exchange rates. This includes a net tax profit of €0.6 million in respect of non-recurring items described in section 4 below.

Particularly high free cash flow

Finally, free cash flow amounted to €14 million (€7.6 million in Q4 2016). This includes receipt of €6.3 million relating to the balance of the 2013 French research tax credit (in 2016, the balance of the 2012 French research tax credit was received in Q3).

2. 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.

3. 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, 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 section 2).

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 section 5).

4. 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.

5. APPROPRIATION OF EARNINGS

Dividend raised to €0.38 per share

The Board of Directors will propose to the annual Ordinary Shareholders' Meeting of April 27, 2018 to increase the dividend to €0.38 per share (+8.6%) in respect of FY 2017. This dividend would represent a payout ratio of 41% of 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 in respect of 2015 and €0.25 in respect of fiscal 2014.

Subject to approval by the shareholders, the dividend will be made payable on May 4, 2018.

6. 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.

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.

7. BOARD OF DIRECTORS

Following the resignation of André Harari from his position as Chairman of the Board of Directors and Director on July 27, 2017, the Board of Directors has decided to unite the positions of Chairman of the Board of Directors and Chief Executive Officer, and appointed Daniel Harari to the position of Chairman and Chief Executive Officer. The Board of Directors on October 30, 2017 then decided unanimously to coopt Ross McInnes as an independent Director, with effect from January 1, 2018. This cooptation will be submitted for approval at the next Annual Shareholders' Meeting which will take place on April 27, 2018.

8. SIGNIFICANT 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.

9. 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, 2018, respectively, after the close of trading on Euronext. Full-year earnings for 2018 will be published on February 12, 2019.

10. 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 12, 2018

Company Certification of the Fourth Quarter and Fiscal Year 2017 Report

We certify that, to our knowledge, the financial statements of the fourth quarter and fiscal year 2017 have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and financial results of the Company and of its consolidated companies. We further certify that the report on operations for the fourth quarter and for the fiscal year 2017 presents a true and sincere view of the significant events that occurred during the year and their impact on the financial statements, and a description of the main risks and uncertainties faced by the Company.

Paris, February 12, 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At December 31

(in thousands of euros)	2017	2016
Goodwill	32,105	33,334
Other intangible assets	3,402	4,179
Property, plant and equipment	24,444	21,317
Non-current financial assets	2,566	2,351
Deferred tax assets	9,266	9,323
Total non-current assets	71,783	70,504
Inventories	31,133	25,491
Trade accounts receivable	55,065	60,076
Other current assets	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	31,571	31,248
Share premium	12,270	10,912
Treasury shares	(298)	(91)
Currency translation adjustments	(9,872)	(8,537)
Retained earnings and net income	117,538	99,052
Total equity	151,209	132,583
Retirement benefit obligations	9,518	8,943
Borrowings, non-current portion	-	-
Total non-current liabilities	9,518	8,943
Trade and other current payables	62,399	59,280
Deferred revenues	53,013	53,854
Current income tax liabilities	4,965	4,420
Borrowings, current portion	-	-
Provisions for other liabilities and charges	3,730	3,382
Total current liabilities	124,107	120,936
Total equity and liabilities	**284,834**	**262,462**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended December 31, 2017	Twelve months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2016
Revenues	71,489	277,201	69,418	260,162
Cost of goods sold	(20,042)	(75,269)	(18,447)	(68,417)
Gross profit	51,446	201,932	50,971	191,745
Research and development	(4,758)	(17,690)	(3,933)	(15,451)
Selling, general and administrative expenses	(36,466)	(144,968)	(36,364)	(139,013)
Income from operations	10,222	39,274	10,674	37,281
Financial income	35	223	52	153
Financial expenses	(111)	(493)	(100)	(454)
Foreign exchange income (loss)	172	(574)	(124)	(462)
Income before tax	10,318	38,431	10,502	36,518
Income tax	(1,128)	(9,166)	(2,571)	(9,856)
Net income	**9,190**	**29,264**	**7,931**	**26,662**

(in euros)				
Earnings per share:				
- basic	0.29	0.93	0.25	0.86
- diluted	0.28	0.90	0.25	0.84
Shares used in calculating earnings per share				
- basic	31,500,845	31,403,960	31,192,941	30,981,579
- diluted	32,381,329	32,343,804	32,017,556	31,794,646

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended December 31, 2017	Twelve months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2016
Net income	9,190	29,264	7,931	26,662
Currency translation adjustments	(17)	(1,017)	142	(555)
Tax effect	(13)	(318)	212	212
Other comprehensive income to be reclassified in net income	(30)	(1,335)	354	(343)
Remeasurement of the net liability arising from defined benefits pension plans	(83)	(173)	972	(146)
Tax effect	22	52	(332)	40
Other comprehensive income not to be reclassified in net income	(61)	(121)	640	(106)
Total other comprehensive income	(91)	(1,456)	994	(449)
Comprehensive income	**9,099**	**27,808**	**8,925**	**26,213**

CONSOLIDATED STATEMENT OF CASH FLOWS

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	1,143	(1,515)
Loss (profit) on sale of fixed assets	46	90
Changes in deferred income taxes	(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	41,027	30,537
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(817)	(1,217)
Purchases of property, plant and equipment	(6,747)	(5,404)
Proceeds from sales of intangible assets and property, plant and equipment	4	31
Acquisition cost of activities purchased (1)	-	(962)
Purchases of financial assets (2)	(5,153)	(3,485)
Proceeds from sales of financial assets (2)	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	1,682	2,354
Dividends paid	(10,977)	(9,274)
Purchases of treasury shares	(4,814)	(3,177)
Sales of treasury shares	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	33,193	23,794
Income tax (paid) / reimbursed, net	(4,730)	(5,326)
Interest (paid)	-	-

(1) At December 31, 2016, this amount corresponded to the acquisition cost of the activities of the Group's former agent in Vietnam (see note 3 hereafter).
(2) These amounts mainly correspond to the valuation of purchases and sales of treasury shares made through the liquidity agreement, and for which the counterpart is shown in the corresponding cash flows arising from financing activities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros, except for par value per share expressed in euros)	Share capital			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
	Number of shares	Par value per share	Share capital					
Balance at January 1, 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	461,155	1.00	461	1,893				2,354
Fair value of stock options							142	142
Sale (purchase) of treasury shares					112			112
Profit (loss) on treasury shares							81	81
Dividend paid							(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	323,542	1.00	324	1,358				1,682
Fair value of stock options							296	296
Sale (purchase) of treasury shares					(207)			(207)
Profit (loss) on treasury shares							25	25
Dividend paid							(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

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.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

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

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

The 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 12, 2018. Audit procedures have been applied to the consolidated financial statements. The statutory auditors' certification report will be issued after the Board of Directors meeting on February 27, 2018, which will approve the notes to the consolidated financial statements. The Q4 financial statements have not been reviewed separately by the statutory auditors.

There are no standards and interpretations adopted by the European Union whose application would be required for fiscal years starting from January 1, 2017 and which would have an 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 been adopted by the European Union. The Group will study 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.

Comparability of the Group's interim and annual accounts may be affected by the slightly seasonal nature of the Group's business, which mostly achieves a higher level of revenues during the fourth quarter of the year. This, in particular, applies to sales of new software licenses and CAD/CAM equipment. Moreover, overhead costs are reduced during the third quarter due to the summer holidays in France and in European subsidiaries. These two items have a positive impact on income from operations in these quarters.

Comparisons identified as "like-for-like" correspond to 2017 figures restated at 2016 exchange rates, in comparison with actual data for 2016.

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 establishment of the consolidated financial statements, relate to goodwill impairment and deferred tax.

Revenues

Revenues from sales of hardware and software 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.

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 equipment sold, and a share of depreciation of the manufacturing facilities.

Cost of goods sold does not include salaries and expenses associated with service revenues, which are included under 'Selling, General and Administrative Expenses'.

Research and Development Costs

The technical feasibility of software and hardware developed by the Group is generally not established until a prototype has been produced or until feedback is received from its pilot sites, setting the stage for their commercialization. Consequently, the technical and economic criteria requiring the recognition of development costs in assets at the moment they occur are not met, and these, together with research costs, are therefore fully expensed in the period in which they are incurred.

The French research tax credit *(crédit d'impôt recherche)* 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.

Earnings per Share

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

Diluted net earnings per share are calculated by dividing net income by the weighted-average number of shares adjusted for the dilutive effect of stock options outstanding during the period and excluding the weighted-average number of treasury shares held solely under the Liquidity Agreement.

The dilutive effect of stock options is computed in accordance with the share repurchase method provided by IAS 33. The assumed proceeds from exercise of stock options are regarded as having been used to repurchase shares at the average market price during the period. The number of shares thus obtained is deducted from the total number of shares resulting from the exercise of stock options.

Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the diluted capital.

Free Cash Flow

Free cash flow is equal to net cash provided by operating activities minus cash used in investing activities – excluding cash used for acquisitions of companies (net of cash acquired).

Operating Segments

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments presented in note 6 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. All of these cross-divisional activities are reported as an additional operating segment referred to here as the 'Corporate' segment.

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

3. SCOPE OF CONSOLIDATION

At December 31, 2017, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 28 fully-consolidated companies.

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.

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

In September 2016, the Group had liquidated its subsidiary Humantec Industriesysteme GmbH (Huisheim, Germany), 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.

The company had also established in June 2016 a new subsidiary in Vietnam, Lectra 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.

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At December 31, 2017, their combined revenues totaled €1.5 million, and their combined assets totaled €2.6 million. They had no financial debt outside of the Group. Most of the sales activity of these subsidiaries is billed directly by Lectra SA.

Transactions with these subsidiaries mainly concern purchases from Lectra SA for the purposes of their local operations, or charges and commissions billed to Lectra SA in order to cover their overheads when they act as agents. The amount concerned by these transactions was not significant at December 31, 2017.

4. CONSOLIDATED STATEMENT OF INCOME—LIKE-FOR-LIKE CHANGE

4.1. Q4 2017

	Three Months Ended December 31				
	2017		2016	Changes 2017/2016	
(in thousands of euros)	Actual	At 2016 exchange rates	Actual	Actual	Like-for-like
Revenues	71,489	74,550	69,418	+3%	+7%
Cost of goods sold	(20,042)	(20,260)	(18,447)	+9%	+10%
Gross profit	51,446	54,290	50,971	+1%	+7%
(in % of revenues)	72.0%	72.8%	73.4%	-1.4 points	-0.6 points
Research and development	(4,758)	(4,758)	(3,933)	+21%	+21%
Selling, general and administrative expenses	(36,466)	(37,425)	(36,364)	0%	+3%
Income from operations	10,222	12,107	10,674	-4%	+13%
(in % of revenues)	14.3%	16.2%	15.4%	-1.1 points	+0.8 points
Income before tax	10,318	12,203	10,502	-2%	+16%
Income tax	(1,128)	na	(2,571)	-56%	na
Net income	9,190	na	7,931	+16%	na

4.2. Fiscal Year 2017

	Twelve Months Ended December 31				
	2017		2016	Changes 2017/2016	
(in thousands of euros)	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%
(in % of revenues)	72.8%	73.1%	73.7%	-0.9 points	-0.6 points
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
Income before tax	38,431	40,123	36,518	+5%	+10%
Income tax	(9,166)	na	(9,856)	-7%	na
Net income	29,264	na	26,662	+10%	na

5. BREAKDOWN OF REVENUES—LIKE-FOR-LIKE CHANGE

5.1. Q4 2017

Revenues by region

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 Like-for-like
	Three Months Ended December 31						
Europe, of which:	31,005	43%	31,055	27,865	40%	+11%	+11%
- France	4,555	6%	4,550	4,435	6%	+3%	+3%
Americas	18,379	26%	19,995	18,029	26%	+2%	+11%
Asia-Pacific	17,332	24%	18,625	19,969	29%	-13%	-7%
Other countries	4,773	7%	4,875	3,555	5%	+34%	+37%
Total	71,489	100%	74,550	69,418	100%	+3%	+7%

Revenues by type of business

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 Like-for-like
	Three Months Ended December 31						
New CAD/CAM and PLM software licenses (1)	4,270	6%	4,374	3,514	5%	+22%	+24%
CAD/CAM and PLM software evolution and online services contracts (2)	9,731	14%	9,991	9,283	13%	+5%	+8%
CAD/CAM equipment and accompanying software (1)	23,929	33%	25,138	23,145	33%	+3%	+9%
CAD/CAM equipment and accompanying software maintenance and online services contracts (2)	12,437	17%	13,025	12,463	18%	0%	+5%
Consumables and parts	17,064	24%	17,828	17,150	24%	0%	+4%
Training and consulting services	3,380	5%	3,491	3,206	5%	+5%	+9%
Miscellaneous	678	1%	703	658	1%	+3%	+7%
Total	71,489	100%	74,550	69,418	100%	+3%	+7%

(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 (€2,900,000) 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 (€2,904,000) has been restated accordingly to allow for comparison with 2017 data.*

Revenues by nature

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 Like-for-like
	Three Months Ended December 31						
Revenues from new systems sales (1)	32,257	45%	33,705	30,523	44%	+6%	+10%
Recurring revenues (2), of which:	39,232	55%	40,845	38,895	56%	+1%	+5%
- Recurring contracts	22,168	31%	23,017	21,745	31%	+2%	+6%
- Consumables and parts	17,064	24%	17,828	17,150	25%	0%	+4%
Total	71,489	100%	74,550	69,418	100%	+3%	+7%

(1) *Revenues from sales of new systems 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.*

5.2. Fiscal Year 2017

Revenues by region

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 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%

Twelve Months Ended December 31

Revenues by type of business

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 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 and 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%

Twelve Months Ended December 31

(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.

Revenues by nature

(in thousands of euros)	2017 Actual	2017 %	2017 At 2016 exchange rates	2016 Actual	2016 %	Changes 2017/2016 Actual	Changes 2017/2016 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%

Twelve Months Ended December 31

(1) Revenues from sales of new systems 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.*

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	Twelve Months Ended December 31 2017 Actual	%	At 2016 exchange rates	2016 Actual	%	Changes 2017/2016 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%

6. OPERATING SEGMENTS INFORMATION

Twelve months ended Decembre 31, 2017 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	117,050	68,931	72,097	19,123	-	277,201
Income (loss) from operations	21,323	12,033	5,115	4,446	(3,643)	39,274

Twelve months ended Decembre 31, 2016 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	107,357	68,914	68,767	15,124	-	260,162
Income (loss) from operations	17,926	9,957	5,191	2,302	1,905	37,281

Income from operations, which is obtained by adding together the income for each segment, is identical to consolidated income from operations shown in the Group's consolidated financial statements and therefore does not need to be reconciled.

7. CONSOLIDATED CASH FLOW SUMMARY

Twelve months ended December 31, 2017 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	33,193	-	33,193
Proceeds from issuance of ordinary shares(1)	1,682	-	1,682
Sale and purchase of treasury shares(2)	(168)	-	(168)
Dividends paid	(10,977)	-	(10,977)
Impact of currency variations – other	(1,291)	-	(1,291)
Change in cash position for the period	22,438	-	22,438
Cash position at December 31, 2016	75,696	-	75,696
Cash position at December 31, 2017	98,134	-	98,134
Change in cash position for the period	22,438	-	22,438

1. *Resulting solely from the exercise of stock options.*
2. *Carried out solely under the liquidity agreement administered by Exane BNP Paribas (see note 9).*

Free cash flow at December 31, 2017, was €33.2 million. This figure results from a combination of €41 million in cash flows provided by operating activities (including a decrease in working capital requirement of €3.3 million) and capital expenditures of €7.8 million.

The main variations in working capital requirement were:

- −€3.5 million 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);
- +€7.1 million corresponding to the increase in inventories, given the increased manufacturing activity and measures taken in order to reduce delivery times to customers;
- −€3.7 million corresponding to an increase in trade accounts payable, due in particular to increased purchases of raw materials at the end of the year;
- −€1.9 million 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 (see note 8 hereafter);
- −€1 million 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;
- −€0.3 million arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at December 31, 2017 was negative at €5.5 million. It comprised the receivable of €19.7 million on the French tax administration in respect of the research tax credit, which has not been received and has not been deducted from the corporate income tax expense. Restated for this receivable, the working capital requirement was negative at €25.1 million, which is a key feature of the Group’s business model.

8. 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 (€7.5 million) and the competitiveness and employment tax credit (€1 million) for fiscal 2017 were accounted for but not received.

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

Thus, at December 31, 2017, Lectra SA held a €19.7 million receivable on the French tax administration. This solely comprised the remaining amount of the research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year: for 2017 (€4.5 million), 2016 (€2.6 million), 2015 (€5.7 million) and 2014 (€6.9 million).

In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the company does not expect to make any payment in respect of corporate income tax, from which will be deducted in full the competitiveness and employment tax credit, and, when applicable, the research tax credit of each fiscal year. Thus, in Q4 2017, it received the balance outstanding relating to the 2013 tax credit of €6.3 million 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.

9. TREASURY SHARES

Since January 1, 2017, the company has purchased 203,882 shares and sold 196,677 shares at an average price of €23.61 and €23.62 respectively under the liquidity agreement administered by Exane BNP Paribas.

At December 31, 2017, the company held 12,290 Lectra shares (i.e. 0.04% of the share capital) with an average purchase price of €24.23 entirely under the liquidity agreement.

10. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	December 31, 2017	December 31, 2016
Cash and cash equivalents	98,134	75,696
Borrowings and financial debts	-	-
Net cash	98,134	75,696

The Group has no borrowings or financial debts. Thus, net cash was equal to cash and cash equivalents.

11. FOREIGN EXCHANGE RISK

The Group's currency risk management policy is unchanged relative to December 31, 2016.

In 2017, the average parity between the US dollar and the euro was $1.13/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at December 31, 2017 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of €7.8 million, intended to hedge existing balance sheet positions. Thus, the company has hedged almost all its balance sheet positions.

At the publication date of this report, the company has not hedged its net exposure to the US dollar on its operating flows.

12. SENSITIVITY ANALYSIS

Sensitivity of Income from Operations to a Change in Revenues from New Systems Sales

Under the company's business model, each €1 million increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.45 million.

Sensitivity of Revenues and Income from Operations to a Change in Exchange Rates

The sensitivity of revenues and income from operations to a change in exchange rates was based on the December 31, 2016 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.

The parity is $1.23/€1 on the date of this report.

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