MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER 2011

To all Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the first quarter 2011, ending March 31.

To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2011 and 2010 are based on 2010 exchange rates ("like-for-like") unless stated otherwise. The comparison with figures for 2007, the last year before the onset of the economic and financial crisis, has been maintained in order to measure the extent of the progressive return to normal business activity and of the strengthening of Lectra's key operating ratios.

1. SUMMARY OF OPERATIONS FOR Q1 2011

First-quarter 2011 orders and earnings confirm that the sales dynamics are ongoing and that the operating and financial ratios—which had already significantly strengthened in 2010—are continuing to improve.

The macroeconomic environment was characterized, on the one hand, by the confirmation of the improving health of the global economy, and on the other hand by geopolitical crises (e.g., Tunisia, Egypt, and Libya) and the tragic catastrophes in Japan. These events have temporarily slowed activity in these countries and affected supply chains in various activities worldwide.

With an average parity of $1.37/€1, the U.S. dollar was up very slightly (+1%) compared to Q1 2010. The change in this and other parities mechanically increased revenues by 1% and income from operations by €0.2 million at actual exchange rates, compared to like-for-like figures.

Strong Growth in Orders

At a total of €21.9 million, orders for new software licenses and CAD/CAM equipment were up 25% compared to Q1 2010 (€17.3 million).

Q1 2010 orders had already significantly risen (+68%) relative to the Q1 2009 figure, which had been severely impacted by the crisis. However, despite these strong rebounds recorded in 2010 and again in 2011, Q1 2011 orders were still down 11% compared to Q1 2007, as activity in many industrialized countries remains yet to recover pre-crisis levels.

Geographically, the situation reveals certain contrasts. Orders rose 48% in Europe (led by Germany and Eastern Europe) and 33% in Asia-Pacific, but they dropped 5% in the Americas and 18% in the rest of the world (North and South Africa, Turkey, the Middle East, etc.). Orders in emerging countries (45% of total orders) advanced 17%, while in developed countries (55% of total orders), which had grown more moderately in 2010, they were up 32%. Compared to 2007, they still lag behind by 8% and 14%, respectively.

The market sectors revealed the same contrast. Fashion remained essentially stable (−2%), whereas the automotive sector continued to show its vigor (+115%). Furniture advanced 43%, and the other industries were down 17%.

Orders for new software licenses were down 6%, mainly due to the market sector mix, whereas orders for CAD/CAM hardware rose 43%.

Sales of spare parts and consumables, up 14% at €10.4 million, registered new, strong gains, resulting from the combined effect of the increasing number of installed CAD/CAM systems and the continuing recovery in customers' production volumes.

These variations over a single quarter cannot, of course, allow for an extrapolation of trends for the coming quarters.

Strong Increase in Revenues and Earnings

Revenues totaled €49.8 million, up 14% relative to Q1 2010—up 16% at actual exchange rates.

Revenues from new systems sales (€23.5 million) were up 30%. Recurring revenues (€26.3 million) rose by 3%, resulting from the combination of a 2% decrease in revenues from recurring contracts and a 14% increase in revenues from spare parts and consumables.

Income from operations amounted to €5.5 million, up €2.3 million (+77%) like-for-like, and the operating margin (11.0%) increased by 3.9 percentage points.

Net income was €3.7 million, an increase of €2.1 million (+126%), at actual exchange rates, compared to Q1 2010 (€1.6 million).

There were no non-recurring items in the first quarters of 2011 or 2010.

These earnings constitute a new historic record for a first quarter.

Net Cash Positive Again

Free cash flow before non-recurring items was €3.7 million (€5.4 million in Q1 2010). After €0.5 million in non-recurring disbursements, free cash flow was €3.2 million.

Consequently, net financial borrowings were down €4.7 million relative to December 31, 2010, the quarter ending with net cash of €2.3 million, compared to net financial borrowings of €43.1 million one year earlier.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2011

Revenues

Q1 2011 revenues totaled €49.8 million, up 14% relative to Q1 2010, like-for-like, and up 16% at actual exchange rates.

The increase was 13% in Europe, 1% in the Americas, and 35% in the Asia-Pacific region. These three regions accounted for 53% (including 10% for France), 20%, and 22% of total revenues respectively. Revenues from the rest of the world, representing 5% of total Group revenues, increased 11%.

Revenues from New Systems Sales

Revenues from new software licenses (€6.8 million) increased by 25% and contributed 14% of total revenues (compared to 13% in Q1 2010).

CAD/CAM equipment revenues (€14 million) were up 34% and accounted for 28% of total revenues (24% in Q1 2010).

Revenues from training and consulting (€2.5 million) were up 26%.

Overall, revenues from new systems sales (€23.5 million) increased 30% and represented 47% of total revenues (compared to 42% in Q1 2010). This 5 percentage point increase in their relative share in total revenues reflects the continuing return to dynamic sales activity, begun in 2010.

Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€26.3 million) increased €0.8 million (+3%). They accounted for 53% of total revenues (compared to 58% in Q1 2010).

Revenues from recurring contracts—which represented 59% of recurring revenues and 31% of total revenues—totaled €15.5 million. After falling in 2009 and 2010, due to unusually high cancellation rates in 2008 and 2009 as a result of the crisis, these revenues have now stabilized.

Recurring contracts, which concern almost two-thirds of Lectra's 23,000 customers, break down as follows:

- revenues from software evolution contracts (€7.3 million), down 1% compared to 2010 and representing 15% of total revenues;
- revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to the Group's five International Call Centers (€8.2 million), which fell 4% and represented 16% of total revenues.

Meanwhile, revenues from spare parts and consumables (€10.4 million) grew 14%.

Order Backlog

Orders for new software licenses and CAD/CAM equipment for Q1 2011 are greater than revenues for the same period. The resulting increase in the order backlog has nonetheless been partially offset by the impact of the dollar's fall against the euro between December 31, 2010 ($1.34/€1), and March 31, 2011 ($1.42/€1). As a result, the order backlog at March 31, 2011 (€19.2 million), increased by €0.7 million relative to December 31, 2010. The increase relative to March 31, 2010, is €4 million.

The order backlog at March 31, 2011, comprised €14.6 million for shipment in the second quarter of 2011, €3.1 million over the rest of the year, and €1.5 million in 2012.

Gross Profit Margin

The overall gross profit margin worked out to 71.0%. Like-for-like, it came to 70.9%, down 0.8 percentage point relative to the 2010 figure of 71.7%.

This variation stems from the evolution of the product mix, with a rise in the share of revenues from CAD/CAM equipment and spare parts and consumables in total revenues, where margins are lower than for the other revenue components. Like-for-like, gross profit margins for each product line have increased, again demonstrating their strength in the face of heavy pressure from competitors, which has been exacerbated by the crisis.

It should be noted that personnel expenses and other operating expenses incurred in the execution of service contracts are not included in cost of sales, but are recognized in selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €29.9 million, up €1.7 million (+6%) compared to Q1 2010. They break down as follows:

- €26.5 million in fixed overheads costs, up €0.6 million (+2%);
- €3.4 million in variable costs (+51%), this increase reflecting the growth in sales activity and earnings.

Research and development costs are fully expensed in the period and included in fixed overhead costs. Before deducting the (French) research tax credit and certain R&D program grants, R&D costs amounted to €4.6 million and represented 9.1% of revenues (compared to €4.1 million and 9.5% in 2010). This reflects the company's decision to step up its R&D effort. Net R&D costs after deduction of the research tax credit (the aggregate rate of which is lower in 2011 following the introduction of applicable tax changes) and grants amounted to €2.9 million (€2.5 million in 2010).

Income from Operations and Net Income

Income from operations was €5.5 million. Like-for-like, it amounted to €5.3 million, an increase of €2.3 million relative to Q1 2010 (€3 million).

The operating margin was 11%. Like-for-like, it worked out to 10.8% and increased by 3.9 percentage points compared to Q1 2010 (6.9%).

Financial income and expenses represent a net charge of €0.5 million. A positive foreign exchange gain of €0.3 million was recognized as a result of hedges against U.S. dollar risks, put in place at the beginning of February 2011.

After an income tax charge of €1.6 million, net income was €3.7 million (€1.6 million in Q1 2010).

Net earnings per share on basic and diluted capital were €0.13 (€0.06 per share in Q1 2010).

Free Cash Flow

Free cash flow amounted to €3.7 million before non-recurring items (€5.4 million in Q1 2010).

After €0.5 million in non-recurring disbursements, free cash flow was €3.2 million (€5 million in 2010 after €0.4 million in non-recurring disbursements). This figure results from positive cash flow provided by operating activities of €4.1 million (which includes an increase in working capital requirement of €1.8 million) and capital expenditures of €0.9 million.

The research tax credit (€1.3 million) was accounted for but not received in Q1 2011. Assuming that the research tax credit was received, free cash flow before non-recurring items would amount to €5 million, in excess of net income (€3.7 million).

Shareholders' Equity

At March 31, 2011, consolidated shareholders' equity amounted to €47.1 million (€42 million at December 31, 2010).

This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement with SG Securities (Société Générale), carried at cost, i.e., €0.2 million (versus €0.4 million at December 31, 2010).

However, it does not include the total amount of dividend (estimated at €5.2 million) to be paid on May 10, subject to approval by the Ordinary Shareholders' Meeting of April 29, 2011, which will reduce stockholders' equity and cash correspondingly.

Cash and cash equivalents totaled €34.5 million (€30.2 million at December 31, 2010).

Financial borrowings totaled €32.2 million (€32.6 million at December 31, 2010), of which:

- €30.3 million corresponds to the medium-term bank loan put in place to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007. The first two contractual repayments of €3.8 million each were made on June 30, 2010, and on December 31, 2010. In addition, and at its own initiative, the company repaid €10 million on December 31, 2010, in advance of the scheduled date, this amount being deducted from the contractual half-yearly installments payable in 2011 (leaving a balance outstanding of only €0.6 million on December 31, 2011). The company will also make another early repayment of €3.8 million on June 30, 2011, in respect of the contractual excess cash flow clause;

- €1.9 million corresponds to interest-free repayable government advances to finance R&D programs.

Consequently, the net cash position is positive at €2.3 million at March 31, 2011 (versus net financial debt of €2.4 million at December 31, 2010, and €43.1 million at March 31, 2010).

Further, given the improvement in the company's financial ratios, the margin on interest due on the medium-term loan has been reduced from 1.85% in 2010 to 0.95% as at January 1, 2011, in accordance with the loan contract (*see chapter 10.1 of the notes to this report*).

Taking into account available cash and cash equivalents and confirmed cash credit facilities, total liquidity available to the company at March 31, 2011, amounted to €48.5 million (*see chapter 10.2 of the notes to this report*).

Litigation with Induyco Pending

Lectra filed a procedure of *exequatur* before the Madrid Court of First Instance at the end of December 2010, in order to enforce in Spain the arbitral award of October 2009 and recover the amounts still due by Induyco (€10.7 million at March 31, 2011). Induyco opposed Lectra's request for *exequatur* on April 18, 2011.

To date, the company has only recognized the amount of €15.1 million received on October 7, 2010, following the decision issued on September 20, 2010, by the Madrid Court of Appeals. The total award by the arbitral tribunal was €25.8 million (at March 31, 2011).

In a decision issued on March 30, 2011, the same Court of Appeals rejected all demands made by Induyco in its appeal against the October 4, 2010, judgment of the Madrid Court of First Instance. Deciding on the merits of the case, the latter had rejected proceedings instituted by Induyco aimed at preventing Lectra from calling on the bank guarantees until Lectra had obtained a Spanish court judgment recognizing and enforcing the arbitral award (*see chapter 8 of the notes to this report*).

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At March 31, 2011, share capital totaled €27,828,651.07, divided into 28,689,331 shares with a par value of €0.97. It was €27,644,043.58, divided into 28,499,014 shares, at December 31, 2010.

Share capital has increased by 190,317 shares since January 1, 2011, resulting from the exercise of stock options (€184,607.49 par value together with total additional paid-in capital of €725,143.28).

On April 18, 2011, Société Financière de l'Echiquier (France), on behalf of investment funds managed by it, reported that it had fallen below the threshold of 10% of the company's voting rights following the disposal of shares on the market, and that it held 10.16% of the capital stock and 9.99% of the voting rights.

No other crossing of share ownership reporting thresholds has been reported to the company since January 1, 2011.

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

- André Harari and Daniel Harari, who together hold 39% of the capital and voting rights;
- Delta Lloyd Asset Management N.V. (Netherlands) which, on behalf of investment funds managed by it, holds more than 10% (but less than 15%) of the capital and voting rights;

- Société Financière de l'Echiquier which, on behalf of investment funds managed by it, holds more than 10% (but less than 15%) of the capital and more than 5% (but less than 10%) of the voting rights.

Treasury Shares

At March 31, 2011, the company held 0.1% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by SG Securities (Société Générale).

Share Price Performance and Trading Volumes

After rising sharply (86%) in 2010, following two years of substantial falls, Lectra's share price continued to rise in Q1. The company's share price at March 31, 2011, was €6.60, up 58% compared to December 31, 2010 (€4.19). The share price recorded a low of €4.12 on January 3 and a high of €6.60 on March 31. The CAC 40 index and the CAC Mid&Small index both rose by 5% over the same period.

Trading volumes continue to strongly progress. According to Euronext figures, the number of shares traded (3.7 million) has more than doubled, and trading volumes (€20.4 million) have increased six-fold, compared to the same period in 2010.

4. POST-CLOSING EVENTS

No significant event has occurred since March 31, 2011.

5. FINANCIAL CALENDAR

The annual Shareholders' Meeting will be held on April 29, 2011.

The first half financial results for 2011 will be published on July 28, after close of trading on NYSE Euronext.

6. BUSINESS TRENDS AND OUTLOOK

The company discussed in detail its expectations regarding its activities and the outlook for the future in its Management Discussion of February 10, 2011, and in its 2010 Annual Report, both of which serve as a reference.

While the macroeconomic environment has continued to improve since the start of 2011, it has still not reverted to pre-crisis levels yet. The recovery remains fragile, with persistent risks and uncertainties, and a further deterioration in the economic and monetary situation remains possible, demanding continuing caution and vigilance.

The 2011 action plan seeks to preserve the sales momentum restored since the end of 2009, an operating margin equal to or greater than that of 2010, and significant free cash flow generation.

Sales activity and earnings for Q1 2011 are generally in line with company expectations, confirming the strengthening of its operating ratios and the transformation of its balance sheet, with a strong order backlog. However, the situation remains disparate across the different regions and market sectors, and the combined activity of all Lectra customers has yet to recover its 2007 level.

The company has adopted as its central scenario for 2011, assuming that the economic recovery continues at its present pace and generates a 20% growth in revenues from new systems sales, revenues of around €207 million (+10%), and income from operations before non-recurring items of approximately €28.5 million (+30%), thus generating an operating margin before non-recurring items of close to 14% (+2 points). In that case, net income would be close to €18 million (+27% at actual exchange rates relative to the 2010 figure, restated for non-recurring items). That would yield basic net earnings per share of approximately €0.63. Finally, free cash flow would be expected to come to around €14 million.

In this hypothesis, therefore, revenues would still lag behind the 2007 figure by €10 million (–4%), but income from operations, on the other hand, would be multiplied by 2.5, testifying to the improvement in the company's key operating ratios in the midst of the crisis.

These figures are based on an average parity of $1.35/€1 and like-for-like variations calculated by comparison with 2010 results translated at 2011 exchange rates. The euro's recent rise has resulted in a parity, at the date of publication of this report, of $1.48/€1. If this parity is maintained until the end of the year, it would mechanically reduce revenues by €4.6 million and income from operations by €2.3 million, relative to the central scenario (like-for-like variations relative to 2010 results remaining unchanged). The company has not hedged its exposure to the US dollar beyond March 31, 2011.

2011 should also be the year in which net cash becomes positive again, after payment of the dividend in respect of fiscal 2010, whereas net financial borrowings peaked at €56.4 million at the end of 2008. Moreover, receipt of the €10.7 million outstanding in respect of the damages awarded to the company by the international arbitral tribunal would strengthen the company's financial position correspondingly. The company's present aim is to preserve its cash in order to finance its organic growth.

As the 2010 rebound showed, once the crisis is definitely over, firms in the different geographies and market sectors served by the company will need to accelerate their investment plans or make good the investments either frozen or postponed over the last three years, and to acquire the technologies necessary to boost their competitiveness. The crisis has amplified the challenges they face.

Bolstered by its results, the company is confident in the strength of its business model and its growth prospects for the medium term.

The Board of Directors

April 28, 2011

Company Certification of the First Quarter 2011 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 first quarter report on operations presents a true and sincere view of the significant events that occurred during the first three months of the fiscal year and their impact on the financial statements, and a description of the main risks and uncertainties for the coming nine months.

Paris, April 28, 2011

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

Consolidated statement of financial position

ASSETS (in thousands of euros)	As at March 31, 2011	As at December 31, 2010	As at March 31, 2010
Goodwill	30,505	30,999	36,873
Other intangible assets	5,295	5,452	5,679
Property, plant and equipment	11,047	11,066	12,159
Non-current financial assets	1,785	1,700	1,485
Deferred tax assets	11,794	12,938	16,047
Total non-current assets	60,426	62,155	72,243
Inventories	20,787	19,336	18,808
Trade accounts receivable	41,094	43,862	42,553
Current income tax receivable	8,277	6,918	9,089
Other current assets	7,191	4,674	12,636
Cash and cash equivalents	34,505	30,174	10,749
Total current assets	111,854	104,964	93,835
Total assets	172,280	167,119	166,078

EQUITY AND LIABILITIES (in thousands of euros)	As at March 31, 2011	As at December 31, 2010	As at March 31, 2010
Share capital	27,829	27,644	27,641
Share premium	1,764	1,039	1,033
Treasury shares	(213)	(386)	(1,337)
Currency translation adjustment	(9,051)	(8,877)	(8,927)
Retained earnings and net income	26,812	22,612	7,641
Total equity	47,141	42,032	26,052
Retirement benefit obligations	3,922	4,124	3,747
Borrowings, non-current portion	27,284	27,694	41,832
Total non-current liabilities	31,206	31,818	45,579
Trade and other current payables	48,349	49,120	43,502
Deferred revenues	36,468	35,835	36,560
Current income tax liabilities	934	537	283
Borrowings, current portion	4,893	4,905	11,984
Provisions for other liabilities and charges	3,289	2,872	2,118
Total current liabilities	93,933	93,269	94,447
Total equity and liabilities	172,280	167,119	166,078

Consolidated income statement

(in thousands of euros)	Three months ended March 31, 2011	Three months ended March 31, 2010
Revenues	49,777	42,962
Cost of goods sold	(14,423)	(12,153)
Gross profit	35,354	30,809
Research and development	(2,937)	(2,527)
Selling, general and administrative expenses	(26,955)	(25,297)
Income (loss) from operations	5,462	2,985
Financial income	108	30
Financial expenses	(568)	(985)
Foreign exchange income (loss)	253	54
Income (loss) before tax	5,255	2,084
Income tax	(1,587)	(461)
Net income (loss)	3,668	1,623

(in euros)		
Earnings per share		
- basic	0.13	0.06
- diluted	0.13	0.06
Shares used in calculating earnings per share		
- basic	28,378,238	28,048,687
- diluted	29,084,696	28,048,687

Statement of comprehensive income

(in thousands of euros)	Three months ended March 31, 2011	Three months ended March 31, 2010
Net income (loss)	3,668	1,623
Currency translation adjustment	(174)	(342)
Effective portion of the change in fair value of currency hedges	-	(14)
Effective portion of the change in fair value of interest-rate swaps	413	28
Tax effect on the comprehensive income items	(138)	(5)
Comprehensive income (loss)	3,769	1,290

Consolidated statement of cash flows

(in thousands of euros)	Three months ended March 31, 2011	Three months ended March 31, 2010
I - OPERATING ACTIVITIES		
Net income (loss)	3,668	1,623
Depreciation and amortization	1,376	1,093
Non-cash operating expenses	81	144
Loss (profit) on sale of fixed assets	(9)	(17)
Changes in deferred income taxes, net value	832	(222)
Changes in inventories	(1,567)	(329)
Changes in trade accounts receivable	3,302	3,083
Changes in other current assets and liabilities	(3,570)	(72)
Net cash provided by (used in) operating activities	4,113	5,303
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(241)	(158)
Purchases of property, plant and equipment	(642)	(159)
Proceeds from sales of intangible assets and property, plant and equipment	35	15
Purchases of financial assets	(535)	(77)
Proceeds from sales of financial assets	438	124
Net cash provided by (used in) investing activities	(945)	(255)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	910	-
Purchases of treasury shares	(193)	(77)
Sales of treasury shares	723	75
Proceeds from long term and short term borrowings	-	-
Repayments of long term and short term borrowings	(406)	-
Net cash provided by (used in) financing activities	1,034	(2)
Increase (decrease) in cash and cash equivalents	4,202	5,046
Cash and cash equivalents at the opening (1)	30,174	2,149
Increase (decrease) in cash and cash equivalents	4,202	5,046
Effect of changes in foreign exchange rates	129	(247)
Cash and cash equivalents at the closing (1)	34,505	6,948
Free cash flow before non-recurring items	3,710	5,424
Non-recurring items of the free cash flow	(542)	(376)
Free cash flow	3,168	5,048
Income tax paid (reimbursed) (2)	(54)	45
Interest paid	428	738

(1) After deducting the amount of cash credit facilities used of €3.8 million at March 31, 2010 and €7.6 million at December 31, 2009. Cash credit facilities have not been used at March 31, 2011.

(2) This amount does not include repayments of (French) research tax credit

Consolidated statement of changes in equity

(in thousands of euros, except for par value per share expressed in euros)	Share capital					Currency	Retained	
	Number of shares	Par value per share	Total par value	Share premium	Treasury shares	translation adjustment	earnings and net income	Equity
Balances at January 1, 2010	28,495,514	0.97	27,641	1,033	(1,439)	(8,585)	6,039	24,689
Net income (loss)							1,623	1,623
Other comprehensive income (loss)						(342)	9	(333)
Comprehensive income (loss)						(342)	1,632	1,290
Fair value of stock options							40	40
Sale (purchase) of treasury shares					102			102
Profit (loss) on treasury shares							(70)	(70)
Balances at March 31, 2010	28,495,514	0.97	27,641	1,033	(1,337)	(8,927)	7,641	26,052
Balances at January 1, 2010	28,495,514	0.97	27,641	1,033	(1,439)	(8,585)	6,039	24,689
Net income (loss)							15,647	15,647
Other comprehensive income (loss)						(292)	682	390
Comprehensive income (loss)						(292)	16,329	16,037
Exercised stock options	3,500	0.97	3	5				9
Fair value of stock options							193	193
Sale (purchase) of treasury shares					1,053			1,053
Profit (loss) on treasury shares							51	51
Balances at December 31, 2010	28,499,014	0.97	27,644	1,039	(386)	(8,877)	22,612	42,032
Net income (loss)							3,668	3,668
Other comprehensive income (loss)						(174)	275	101
Comprehensive income (loss)						(174)	3,943	3,769
Exercised stock options	190,317	0.97	185	725				910
Fair value of stock options							20	20
Sale (purchase) of treasury shares					173			173
Profit (loss) on treasury shares							237	237
Balances at March 31, 2011	28,689,331	0.97	27,829	1,764	(213)	(9,051)	26,812	47,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2011

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed on NYSE Euronext (compartment C) since 1987. Lectra is the world leader in software, CAD/CAM equipment and related services dedicated to large-scale users of textiles, leather and industrial fabrics. Lectra addresses a broad array of major global markets, including fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), and furniture, as well as a wide variety of other industries, such as the aeronautical and marine industries, wind turbines, personal protective equipment, etc.

The company's technology offering is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion industry, Lectra's software applications also enable the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM). Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.

The Group's customers comprise large national and international corporations and medium-sized companies. Lectra helps them to overcome their major strategic challenges: e.g., cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure electronic communications across the supply chain; enhancing quality; satisfying the demand for mass-customization; and monitoring and developing their corporate image and brands. The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).

With the exception of certain products for which the company has formed long-term strategic partnerships, all Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors, and tested in the company's main industrial facilities in Bordeaux–Cestas (France) where most of Lectra's R&D is performed.

Lectra's strength lies in the skills and experience of its nearly 1,350 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of its customers' businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves 23,000 customers in more than 100 countries through its extensive network of 30 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 92% of its revenues directly in 2010. Its five International Call Centers, at Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased in its International Advanced Technology & Conference Center at Bordeaux–Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers at Atlanta (U.S.A.) for North and South America, and Shanghai (China) for Asia and the Pacific. Lectra is geographically close to its customers wherever they are, with nearly 750 employees dedicated to marketing, sales and services. It employs 210 engineers dedicated to R&D, and 160 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Business Model

Lectra's business model comprises two types of revenue streams:

- revenues from new systems sales (new software licenses and CAD/CAM equipment, and related services), the company's growth driver;
- recurring revenues, consisting partly of recurring contracts (e.g., software evolution, CAD/CAM equipment maintenance and on-line support contracts), and partly of other statistically recurring revenues generated by the installed base (sales of spare parts and consumables, and per-call maintenance and support interventions). These recurring revenues are a key factor in the company's stability, acting as a cushion in periods of slow overall economic growth.

In addition, the business model is geared to generating free cash flow in excess of net income assuming utilization or receipt of the annual research tax credit applicable in France.

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 Boards as adopted within the European Union, and available for consultation on the European Commission website:

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

The condensed consolidated financial statements at March 31, 2011 have been prepared in accordance with IAS 34 – Interim Financial Statements. They do not comprise all of the financial disclosures required in the complete annual financial statements and should be read in conjunction with the Group's consolidated financial statements and attached notes for the fiscal year 2010, available on the company's website (www.lectra.com).

The financial statements at March 31, 2011 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2010 financial statements. They have not been reviewed by the Statutory Auditors.

The standards and interpretations adopted by the European Union as of January 1, 2011 had no impact on the Group's financial statements, i.e.:

- IAS 24 – Related party disclosures;
- IAS 32 amendment – Classification of rights issues;
- IFRS 1 amendment – Limited exemption from comparative IFRS 7 disclosures for first-time adopters;
- Annual improvements to IFRS 2010;
- IFRIC 19 – Extinguishing financial liabilities with equity instruments;
- IFRIC14 amendment – Prepayments of a minimum funding requirement.

The Group has not adopted, before they became mandatory, any standards or interpretations whose application is not required for fiscal years starting January 1, 2011.

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 notably 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 the income from operations of those quarters.

Comparisons identified as "like-for-like" correspond to 2011 figures restated at 2010 exchange rates, in comparison with actual data for 2010.

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, the Group's business model supports their relevance.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, concern goodwill impairment and deferred taxation.

Revenues

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

For hardware, or for software in cases where the company also sells the computer equipment on which the software is installed, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

For software not sold with the hardware on which it is installed, 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 booked monthly 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

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, conditioning their commercialization. Consequently, the technical and economic criteria that render the recognition of R&D costs in assets at the moment they occur are not met, and R&D costs are therefore expensed in the year in which they are incurred.

The (French) research tax credit (*crédit d'impôt recherche*) as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

Earnings per share

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

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

The dilutive effect of stock options is computed in accordance with the share repurchase method provided in the revised version of 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.

Borrowings and Financial Debt

The non-current portion of borrowings and financial debt comprises the portion due in more than one year of:

- interest-bearing bank loans;
- non-interest bearing reimbursable advances corresponding to R&D grants.

The current portion of borrowings and financial debt comprises:

- the portion of bank loans, reimbursable advances and other borrowings and financial debt due in less than one year;
- cash facilities, where applicable.

Borrowings and financial debts are recognized initially at fair value.

At balance sheet date, borrowings and financial debt are stated at amortized cost using the effective interest rate method, defined as the rate whereby cash received equals the total cash flows relating to the servicing of the borrowing. Interest expenses on the bank loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

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 company'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 company's "chief operating decision maker".

Operating segments refer primarily to the marketing regions in the sense of the regions whose performance is reviewed by the Executive Committee. The regions concerned are: the "Americas", "Europe", "Asia-Pacific", and the "Rest of the World", where the company operates chiefly in Northern Africa, South Africa, Turkey, Israel, and the Middle East. These geographic 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, 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 margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include value added 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 margin is retained in the income computed for the Corporate segment sufficient to cover its costs, most of which are fixed. Because the Corporate segment's revenues consist solely of amounts billed to the regions and its general overheads are mainly fixed costs, its income from operations therefore depends mainly on the volume of business generated by these regions.

3. SCOPE OF CONSOLIDATION

At March 31, 2011, the Group's scope of consolidation comprised Lectra S.A. together with 25 fully-consolidated companies.

There were no changes in the scope of consolidation during Q1 2011.

Two subsidiaries (Pan Union International Ltd. and Prima Design Systems Ltd.) resulting from earlier acquisitions and with no business activity for the past several years were liquidated and deconsolidated in 2010. A subsidiary, Lectra Baltic Oü, was formed in October 2010 and consolidated as at December 31, 2010.

Five sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At March 31, 2011, their combined revenues totaled €0.4 million, and their combined assets in their statement of financial position totaled €2 million. They had no non-Group financial debt. Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA.

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

	Three Months Ended March 31				
	2011		2010	Changes 2011/2010	
(in thousands of euros)	Actual	At 2010 exchange rates	Actual	Actual	Like-for-like
Revenues	49,777	49,153	42,962	+16%	+14%
Cost of goods sold	(14,423)	(14,310)	(12,153)	+19%	+18%
Gross profit	35,354	34,843	30,809	+15%	+13%
(in % of revenues)	71.0%	70.9%	71.7%	-0,7 point	-0,8 point
Research and development	(2,937)	(2,937)	(2,527)	+16%	+16%
Selling, general and administrative expenses	(26,955)	(26,617)	(25,297)	+7%	+5%
Income from operations	5,462	5,289	2,985	+83%	+77%
(in % of revenues)	11.0%	10.8%	6.9%	+4,1 points	+3,9 points
Income before tax	5,255	5,082	2,084	+152%	+144%
Income tax	(1,587)	n/a	(461)	ns	na
Net income	3,668	n/a	1,623	+126%	na

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

Revenues by geographic region

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Europe, of which :	26,498	53%	26,354	23,240	54%	+14%	+13%
- France	5,106	10%	5,106	4,769	11%	+7%	+7%
Americas	10,063	20%	9,922	9,832	23%	+2%	+1%
Asia-Pacific	10,853	22%	10,549	7,786	18%	+39%	+35%
Other countries	2,363	5%	2,328	2,104	5%	+12%	+11%
Total	49,777	100%	49,153	42,962	100%	+16%	+14%

Three Months Ended March 31

Revenues by product line

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Software, of which :	14,162	28%	13,989	12,660	29%	+12%	+11%
- New licenses	6,839	14%	6,774	5,399	13%	+27%	+25%
- Software evolution contracts	7,324	15%	7,215	7,261	17%	+1%	-1%
CAD/CAM equipment	14,038	28%	13,935	10,392	24%	+35%	+34%
Hardware maintenance and on-line services	8,616	17%	8,460	8,842	21%	-3%	-4%
Spare parts and consumables	10,363	21%	10,211	8,965	21%	+16%	+14%
Training and consulting services	2,489	5%	2,453	1,942	5%	+28%	+26%
Miscellaneous	109	0%	105	161	0%	-33%	-35%
Total	49,777	100%	49,153	42,962	100%	+16%	+14%

Three Months Ended March 31

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Revenues from new systems sales[1]	23,474	47%	23,266	17,894	42%	+31%	+30%
Recurring revenues[2], of which :	26,303	53%	25,887	25,068	58%	+5%	+3%
- Recurring contracts	15,536	31%	15,280	15,658	36%	-1%	-2%
- Other recurring revenues on the installed base	10,767	22%	10,607	9,410	22%	+14%	+13%
Total	49,777	100%	49,153	42,962	100%	+16%	+14%

Three Months Ended March 31

[1] *Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PC's and peripherals, and related services.*

[2] *Recurring revenues fall into two categories :*

- software evolution, hardware maintenance and online support contracts, which are renewable annually,

- revenues from sales of spare parts and consumables, and one-off interventions, on the installed base, which are statistically recurrent.

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	Three Months Ended March 31						
	2011			2010		Changes 2011/2010	
	Actual	%	At 2010 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	14,879	63%	14,711	9,317	52%	+60%	+58%
Automotive	5,701	24%	5,702	4,262	24%	+34%	+34%
Furniture	1,650	7%	1,622	1,224	7%	+35%	+33%
Other industries	1,244	5%	1,231	3,091	17%	-60%	-60%
Total	23,474	100%	23,266	17,894	100%	+31%	+30%

6. OPERATING SEGMENT INFORMATION

As at March 31, 2011 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	26,498	10,063	10,853	2,363	-	49,777
Income (loss) from operations	2,772	(107)	26	139	2,632	5,462

As at March 31, 2010 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	23,239	9,832	7,786	2,105	-	42,962
Income (loss) from operations	1,637	(38)	(53)	309	1,130	2,985

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 require reconciliation.

7. CONSOLIDATED CASH FLOW SUMMARY

(in millions of euros)	Cash and cash equivalent	Financial debts	Net cash (+) Net debt (–)
Free cash flow before non-recurring items	3.7	-	3.7
Non-recurring items included in free cash flow	(0.5)	-	(0.5)
Proceeds from issuance of ordinary shares (1)	0.9	-	0.9
Sale and purchase of treasury shares	0.5	-	0.5
Change in borrowings	(0.4)	0.4	-
Impact of currency variations - other	0.1	-	0.1
Change in cash position for the period	4.3	0.4	4.7
Cash and cash equivalents at December 31, 2010	30.2	(32.6)	(2.4)
Cash and cash equivalents at March 31, 2011	34.5	(32.2)	2.3
Change in cash position for the period	4.3	0.4	4.7

(1) Carried out solely under the Liquidity Agreement administered by SG Securities (Société Générale) in the framework of the stock buyback program approved by the April 30, 2009 and April 30, 2010 General Shareholders' Meetings.

Free cash flow at March 31, 2011 amounts to €3.2 million.

Excluding the disbursements of non-recurring items (corresponding to restructuring measures deployed at the end of last year and provisioned in the 2010 financial statements), free cash flow was €3.7 million. This figure results from a combination of €4.6 million in cash flows provided from operations (out of which an increase in working capital requirement of €1.3 million) and of €0.9 million in capital expenditures. The main items comprising the increase of €1.3 million in working capital requirement are:

- +€1.6 million corresponding to an increase in inventories, due to the steep increase in revenues from CAD/CAM equipment and spare parts and consumables;
- −€3.3 million corresponding to a new decrease in customer accounts receivable, although revenues have risen sharply ;
- −€3 million corresponding to an increase in trade accounts payable as a result of the sharp rise in volumes purchased for the production of CAD/CAM equipment and spare parts and consumables;
- +€1.3 million arising from the research tax credit for the quarter, recognized but not received;
- +€4.7 million arising from payment in the first quarter of the variable portion of salaries and of the incentive plan (*prime d'intéressement)* in respect of fiscal 2010.

The total increase in working capital requirement, including €0.5 million of non-recurring items, amounted to €1.8 million.

8. LITIGATION WITH INDUYCO PENDING

See note 23 to the 2010 consolidated financial statements for a detailed discussion of this dispute.

In its ruling on October 21, 2009, the International Court of Arbitration awarded Lectra €25.8 million in damages and interest (as of March 31, 2011).

In June 2005, Lectra initiated arbitration proceedings against Induyco (a member of the Spanish group El Corte Inglés), the former shareholder of Investronica Sistemas, following the acquisition of this company. Under the stock purchase agreement signed on April 2, 2004, the parties agreed that any disputes arising out of the stock purchase agreement would be finally settled by international arbitration under the Rules of the International Chamber of Commerce in London, England.

In its decision of October 21, 2009, the international arbitral tribunal awarded Lectra €21.7 million (plus interest):

- award on the merits: €15.1 million (plus interest since June 30, 2005 and post-award interest until payment),
- award as costs: €6.6 million (plus post-award interest from the time of the decision until payment).

Total interest awarded by the tribunal from initiation of the arbitral procedure to the date of the decision amounts to €3.4 million, bringing the total amount of the award plus interest awarded at the date of the decision to €25.2 million. Interest accrued between October 28, 2009 and March 31, 2011, amounts to €0.7 million, bringing the total amount at that date to €25.8 million.

In parallel with the actions in Spain (which sought to block the calls on the demand guarantees)—for which on September 20, 2010, the Madrid Court of Appeals issued a decision overturning and vacating the interim order that suspended execution of the first demand bank guarantees provided to Lectra by Induyco and rejected on March 30, 2011 all other related demands of Induyco—Induyco commenced an action in England to set aside the award. On July 1, 2010, the London High Court of Justice dismissed this action in its entirety, denied leave to appeal and awarded Lectra its costs and fees of defending the action.

The arbitral decision is binding on Induyco under international law. The decisions of the Madrid Court of Appeals and the London High Court of Justice reinforce Lectra's commitment to enforce its rights and to recover the amounts due to it under the arbitral award.

To this end, Lectra filed a procedure of *exequatur* before the Madrid Court of First Instance at the end of December, in order to enforce in Spain the arbitral award and recover the damages and interest still owed by Induyco (€10.7 million at March 31, 2011). Induyco has since opposed, on April 18, 2011, Lectra's request for exequatur.

The Company Has Recognized Only €15.1 Million of the Full Amount of the €25.8 Million Arbitral Award

In the 2010 consolidated financial statements, the decision of the Madrid Court of Appeals and the receipt of €15.1 million resulted in a €6.1 million reduction in goodwill and a net non-recurring gain of €3.3 million resulting from a non-recurring gain of €9 million less legal costs (€5.7 million) previously recognized in other current assets.

The balance (€10.7 million) still due by Induyco of the total award (€25.8 million at March 31, 2011) has not been recorded in the financial statements as of this date.

Finally, legal fees and costs of the legal proceedings in Spain, still pending, are expensed directly in charges over the period in which they took place.

As all of the costs incurred by Lectra have already been paid, execution of the arbitral decision will result in a cash inflow equal to the balance of the award still owed by Induyco of the arbitral award (plus interest since the date of the decision).

9. TREASURY SHARES

Under the Liquidity Agreement administered by SG Securities (Paris), during Q1 2011, the company purchased 35,514 shares and sold 138,953 shares at an average purchase price of €5.44 and €5.20 respectively.

Consequently, at March 31, 2011, the company held 40,301 Lectra shares (or 0.1% of share capital) with an average purchase price of €5.28 entirely under the Liquidity Agreement.

10. BANK BORROWINGS AND LIQUIDITY

10.1 Medium-term Bank Loan of €48 million

In 2007, the company contracted a €48,000,000 medium-term bank loan from Société Générale and Natixis in order to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007, at a price of €6.75 per share.

The first two half-yearly installments of €3.8 million each were repaid on June 30 and December 31, 2010. Additionally, and in light of its sharply improved cash position in the course of 2010, the company made a voluntary repayment of €10 million on December 31, 2010, ahead of the scheduled repayment date. This voluntary repayment will replace the contractual half-yearly installments due in respect of 2011, which are consequently reduced to €0.6 million at December 31, 2011.

A supplemental repayment of €3.8 million will take place on June 30, 2011 pursuant to the excess cash flow clause in the loan contract, in virtue of the sharp increase in cash and cash equivalents as at December 31, 2010.

The balance outstanding on the loan, i.e. €25.9 million, is repayable in four half-yearly installments as from June 30, 2012—the first two for €5.3 million each (on June 30 and December 31, 2012), the following one for €9.6 million (June 30, 2013) and the last one for €5.8 million (on December 31, 2013). Repayments may be scheduled to accelerate relative to this timetable, under the terms of the contract, depending on the increase of cash and cash equivalents at December 31, 2011.

Moreover, the contract provides for accelerated repayment of the portion actually collected of the arbitral award against Induyco. The receipt of €15.1 million in 2010 has not given rise to early repayment, the threshold above which this clause applies not having been reached in regard to the aggregate legal fees and costs incurred by Lectra since the start of the proceedings, these being deducted from the indemnity received for the purpose of calculating a repayment, if applicable. On the other hand, receipt of the balance of the damages (€10.7 million) still owed by Induyco will give rise to early repayment amounting to almost 50% of the total amount to be received.

The repayment dates of the borrowing used in the table in note 10.3 are the contractual payment dates, at the latest without taking into account the accelerated repayments under the various contract clauses concerned.

Further, the company is bound during the period of the loan to respect at December 31 of each year the covenants governing the ratios between its net financial borrowing and shareholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other. A loan covenant provides for early repayment of the loan in its entirety in the event of failure to comply with these ratios; in that event the company would recontact its banks in order to come to a satisfactory arrangement.

The ratios to be respected at December 31 of each year until the maturity of this loan are as follows:

	2011	2012
Leverage	< 1.7	< 1.7
Gearing	< 1	< 1

The ratio of net financial borrowing to shareholders' equity (gearing) and the leverage ratio were both equal to 0.1 for fiscal year 2010. The company considers that it will be in compliance with both covenants at December 31, 2011.

At the same time, the loan contract entitles the banks to demand early repayment of the balance of the loan outstanding under a "change of control" clause in the event that one or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the share capital and/or voting rights.

Furthermore, the company has undertaken to limit its capital expenditures to €10 million per year and the dividends distributed to 50% of the consolidated net income for the year elapsed, subject to certain conditions (if less than 50% of consolidated net income for a given year has been distributed, the difference relative to 50% may be distributed in subsequent years). Payment of the total dividend of €5.2 million in respect of fiscal 2010 is consistent with this condition.

The loan carries interest at the 3-month Euribor rate plus a margin that was set at 1.85% per year as from January 1, 2009. As provided under the contract, this margin was reduced to 0.95% per year as from January 1, 2011 given the leverage ratio of fiscal year 2010.

The company hedged in 2007 its interest-rate risk exposure on part of the loan by converting this floating rate into a fixed rate via two interest-rate swaps (see note 11 below). The total effective interest rate after including the cost of the hedging instruments and amounts hedged is 5.79% in Q1 2011.

10.2 Liquidity

The table below summarizes the cash position, confirmed cash credit facilities available to the company, and its net financial debt, at March 31, 2011:

(in thousands of euros)	Limits	Utilizations	Available Amounts
Confirmed cash credit facilities			
- Until June 15, 2011	4,000	-	4,000
- Until June 23, 2011	10,000	-	10,000
Total	14,000	-	14,000
Bank loan	30,320	30,320	-
Non-interest bearing repayable advances	1,857	1,857	-
Total financial debts	46,177	32,177	14,000
Cash and cash equivalents			34,505
Total	46,177	32,177	48,505

Based on cash and cash equivalents available at March 31, 2011, total liquidity available to the company amounted to €48.5 million.

The company does not intend to renew the cash facilities expiring in June 2011, in light of the cash surplus available to it.

10.3 Borrowings and Financial Debt

Schedule of borrowings at March 31, 2011, by category and maturity:

	Short term	Long term		
(in thousands of euros)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loan	4,400	25,920	-	30,320
Interest-free repayable advances (1)	493	1,364	-	1,857
Cash facilities	-	-	-	-
Total	4,893	27,284	-	32,177

(1) The repayable advances correspond to public grants to finance R&D programs.

11. INTEREST-RATE HEDGING INSTRUMENTS

As stated in note 10 above, the company has hedged its exposure to the interest-rate risk on part of the €48 million medium-term bank loan, converting the floating rate payable on the loan (3-month Euribor rate) into a fixed rate via two interest-rate swaps contracts. The interest-rate has been hedged on the basis of the best estimate of the amount of the loan over the different periods covered, having due regard to the contract terms.

Since the face value of these swaps remains lower than the face value of the loan, they meet the hedge accounting criteria as defined by IFRS. Their fair value at March 31, 2011 is a negative €0.7 million. The effective portion, corresponding to their full fair value, is entirely recognized in shareholders' equity. No ineffective part has been booked in net financial expenses during Q1 2011.

As at January 1, 2011, the nominal value of interest-rate swaps has been reduced to €30 million. This amount will be reduced to €18 million at July 1, 2011, €13 million at January 1, 2012, and €5 million at July 1, 2012 and until December 31, 2012, when the swaps expire.

Consequently, and in the theoretical event that the 3-month Euribor rate remains identical to that at the date of publication of this report (1.37%), the total effective implied interest rate including the cost of the hedging instruments and the amounts hedged would be 5.72% in Q2 2011, 4.66% in the second half of 2011, 4.06% in the first half of 2012, 3.17% in the second half of 2012, and 2.35% in 2013.

12. CURRENCY RISK

The Group's exposure to currency risks and its currency risk management policy are unchanged relative to December 31, 2010.

During the first quarter of 2011, the average dollar/euro parity was $1.37/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at March 31, 2011 are comprised of forward sales or purchases of foreign currencies (mainly U.S. dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €1.9 million, intended to hedge existing positions.

On January 7, 2011, the company has hedged its exposure to the U.S. dollar for the first quarter of 2011 by means of forward sales at a parity of $1.29/€1. These forward sales have given rise to a €0.4 million foreign exchange gain in the Q1 2011 financial statements. The company has not hedged its exposure beyond that period.

13. SENSITIVITY ANALYSIS

Sensitivity of Income from Operations to a Change in the 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 the Dollar/Euro Parity

The average parity assumed for the 2011 budget was $1.35/€1 (versus an actual parity of $1.33/€1 in 2010 and $1.37/€1 in Q1 2011).

An average rise of $0.05 in the dollar against the euro (bringing the parity from $1.35/€1 to $1.30/€1) would mechanically increase revenues by around €2.4 million and income from operations by €1.2 million. Conversely, a $0.05 fall in the dollar against the euro (bringing the average parity to $1.40/€1) would reduce revenues and income from operations by the same amounts.

At the date of publication of this report, the euro / dollar parity is $1.48/€1.

14. TAX AUDIT OF LECTRA SA

A tax audit has been ongoing since June 2010 at the parent company, Lectra SA, concerning fiscal years 2008 and 2009, and was completed in the first quarter of 2011. The tax arrears notified by the tax authorities to the company chiefly concern the (French) research tax credit. Their amount is not deemed material and was fully provisioned at December 31, 2010.