MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER 2012

To all Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the first quarter 2012, ending March 31.

To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2012 and 2011 are based on 2011 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF OPERATIONS FOR Q1 2012

With an average parity of $1.31/€1, the U.S. dollar was up 4% compared to Q1 2011 ($1.37/€1). This change, and that of other currencies, mechanically increased revenues for the quarter 2% and income from operations €0.4 million (+12%) at actual exchange rates, compared to like-for-like figures.

Orders Still Slowed by Persistently Deteriorated Economic Conditions

The year 2011 ended with the return to a situation of economic, financial, and monetary crisis, leading to a sharp downturn in sales activity in the closing months of the year. The company had expected that economic conditions would remain as deteriorated as they were in Q4 2011, for the first half of 2012 at least.

With a total of €19 million, Q1 2012 orders for new software licenses and CAD/CAM equipment were down 15% compared to Q1 2011 (€21.9 million) but were up 27% relative to Q4 orders (€14.7 million).

Orders for new software licenses were down 9%, and orders for CAD/CAM hardware dropped 17%.

Geographically, the situation remains contrasted. While orders rose 20% in the Americas, those in Europe and in Asia-Pacific dropped 24% and 33% respectively; orders in the rest of the world (North and South Africa, Turkey, the Middle East, etc.) increased 47%. Orders in emerging countries (50% of total orders) declined 5% and in developed countries (50% of total orders) 22%.

Orders in the fashion sector were down 21%; those in the automotive sector dropped 10%. They were up 12% in the furniture and down 20% in the other industries.

These variations over a single quarter cannot enable to extrapolate trends in geographic markets and market sectors for the coming quarters.

Financial Results Exceed Company Expectations

Revenues totaled €47.8 million, down 6% relative to Q1 2011, and down 4% at actual exchange rates.

Revenues from new systems sales (€20.3 million) were down 16% due to the weak order backlog at the start of the year. Recurring revenues (€27.6 million) rose 3%, resulting from the combination of a 3% increase in revenues from recurring contracts and a 2% increase in revenues from spare parts and consumables.

Income from operations amounted to €3.8 million, exceeding the company's expectations of €3.0 million published on February 9, 2012. Income from operations fell €2.0 million (–37%) like-for-like and the operating margin (8.0%) decreased 3.7 percentage points.

Net income was €2.7 million, a decrease of €1.0 million (–27%), at actual exchange rates, compared to the Q1 2011 figure of €3.7 million.

Free Cash Flow Strongly Positive

Free cash flow was €5.2 million (€3.2 million in Q1 2011).

At March 31, 2012, net cash consequently amounted to €14.0 million (€8.6 million at December 31, 2011).

Progress of the Company's Development Plan

Despite the prevailing economic conditions, and as stated in its February 9 report, the company has decided to give precedence to its long-term strategy rather than to profitability in 2012. Strengthening its sales and marketing teams and pursuing its steadfast investment in R&D constitute the keys to accelerating the company's full-scale development plan launched at end of 2011, which is progressing as anticipated. These actions will enable the company to fully realize its growth potential in its most promising geographic markets and market sectors, once the economic crisis is over.

Given the drastic reductions already made in recent years, these expenditures designed to build for the future will be only partly offset by further reductions in certain operating costs. Consequently, this plan will entail an increase in fixed overhead costs in 2012, although they will continue to be kept under very rigorous control.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2012

Revenues

Q1 2012 revenues totaled €47.8 million, down 6% like-for-like and down 4% at actual exchange rates compared to Q1 2011.

Revenues increased 12% in the Americas but decreased 10% in Europe and 17% in the Asia-Pacific region. These three regions accounted for 24%, 50% (including 12% for France), and 20% of total revenues respectively. Revenues from the rest of the world, representing 6% of total Group revenues, increased 14%.

Revenues from new systems sales

Revenues from new software licenses (€6.2 million) decreased 11% and contributed 13% of total revenues (14% in Q1 2011).

CAD/CAM equipment revenues (€12.1 million) were down 16% and accounted for 25% of total revenues (compared to 28% in 2011).

Revenues from training and consulting (€1.9 million) were down 26%.

Overall, revenues from new systems sales (€20.3 million) decreased 16% and represented 42% of total revenues (compared to 47% in 2011). This decrease is mainly the result of the weak order backlog for new systems at January 1, 2012, and weak sales activity in the first quarter.

Revenues from recurring contracts and spare parts and consumables

Recurring revenues (€27.6 million) increased €0.8 million (+3%). They accounted for 58% of total revenues (compared to 53% in Q1 2011).

Revenues from recurring contracts totaled €16.3 million and represented 59% of recurring revenues and 34% of total revenues. After falling 3% in FY 2010 and 1% in FY 2011, they are now experiencing a return to growth, with a 3% increase in the first quarter.

Revenues from recurring contracts break down as follows:

- software evolution contracts (€7.7 million), up 4% compared to 2011 and representing 16% of total revenues;
- CAD/CAM equipment maintenance contracts and subscription contracts to the Group's five International Call Centers (€8.6 million), up 3% and representing 18% of total revenues.

Meanwhile, revenues from spare parts and consumables (€10.8 million) grew 2%.

Order Backlog

Orders for new software licenses and CAD/CAM equipment for Q1 2012 are slightly higher than revenues for the same period. As a result, the order backlog at March 31, 2012 (€11.3 million), was up €0.8 million relative to December 31, 2011, although still below the March 31, 2011 figure of €19.2 million, due to the steep fall at year-end.

The order backlog comprised €10.5 million for shipment in the second quarter of 2012 and €0.8 million over the rest of the year.

Gross Profit Margin

The overall gross profit margin worked out to 73.1%. Like-for-like, it came to 72.8%, up 1.8 percentage points relative to 2011 (71.0%).

The main reason for this increase was a further improvement in gross profit margins on all product lines.

It is important to note that personnel expenses and other operating expenses incurred in the execution of service contracts are not included in the cost of sales but are recognized in selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €31.1 million, up €0.8 million (+2.6%) compared to 2011. They break down as follows:

- €27.9 million in fixed overhead costs, up €1.1 million (+4%);
- €3.2 million in variable costs, down €0.3 million (–10%).

Research and development costs were fully expensed in the period and included in fixed overhead costs. Before deducting the research tax credit applicable in France and certain R&D program grants, R&D costs amounted to €4.5 million and represented 9.5% of revenues (compared to €4.6 million and 9.1% in 2011). Net R&D costs after deduction of the French research tax credit amounted to €3.1 million (€2.9 million in 2011).

Change in method of accounting for employee pension plans

The Group has decided to modify the method used to account for actuarial gains and losses on defined benefit pension plans, under the current IAS 19—Employee Benefits. Until December 31, 2011, actuarial gains and losses were recognized in full in the consolidated income statement. With effect from January 1, 2012, the Group has decided to recognize all actuarial gains and losses in the consolidated statement of comprehensive income. The impact of this decision is described in note 2 to the financial statements in this report.

Income from Operations and Net Income

Income from operations was €3.8 million. Like-for-like, it amounted to €3.4 million, a decrease of €2.0 million (–37%) relative to income from operations for 2011 (€5.5 million). At actual exchange rates, the decline works out to €1.6 million (–30%).

The operating margin was 8.0%. Like-for-like, it was down 3.7 percentage points compared to the operating margin of Q1 2011 (11%). This represents a decrease of 3.0 percentage points at actual exchange rates.

Financial income and expenses represent a net charge of €0.3 million, down relative to Q1 2011 (€0.5 million), due to the steep decline in the balance outstanding on the medium-term bank loan between the two periods. The balance of foreign exchange gains and losses was a negative €0.1 million.

After an income tax charge of €0.7 million, net income was €2.7 million (€3.7 million in Q1 2011).

Net earnings per share on basic and diluted capital were €0.09 (€0.13 in Q1 2011).

Free Cash Flow

Free cash flow amounted to €5.2 million (€3.2 million in Q1 2011). This figure results from cash flow provided by operating activities of €6.7 million (including a decrease in working capital requirement of €2.5 million), and cash flow used in investing activities of €1.6 million *(see note 7 of the notes to this report)*.

There was no non-recurring disbursement in the period, as compared to a €0.5 million non-recurring disbursement in Q1 2011.

The research tax credit for the quarter (€1.4 million) was accounted for but not received. If the research tax credit had been received, free cash flow would have amounted to €6.6 million, exceeding net income by €3.9 million.

Shareholders' Equity

At March 31, 2012, consolidated shareholders' equity amounted to €60.7 million (€58.7 million at December 31, 2011).

This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement with SG Securities (Société Générale Group), carried at cost, i.e., €0.7 million (versus €0.7 million at December 31, 2011).

However, it does not include the total amount of dividend (estimated at €6.4 million) to be paid on May 10, subject to approval by the Ordinary Shareholders' Meeting of April 27, 2012, which will reduce stockholders' equity and cash and cash equivalents correspondingly.

Cash and cash equivalents totaled €31.3 million (€26.3 million at December 31, 2011, after early repayment by the company, at its own initiative, of €10 million on its medium-term bank loan, on December 31, 2011).

Financial borrowings totaled €17.3 million (€17.7 million at December 31, 2011), of which:

- €15.9 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. In light of early repayments made previously, contractual installments payable are reduced to €0.6 million in 2012.
- €1.4 million corresponds to interest-free government advances to help finance R&D programs.

Consequently, the net cash position was positive at €14.0 million at March 31, 2012 (€8.6 million at December 31, 2011).

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At March 31, 2012, share capital totaled €28,051,119.60, divided into 28,918,680 shares with a par value of €0.97. It was €28,036,501.70, divided into 28,903,610 shares, at December 31, 2011.

Share capital has increased by 15,070 shares since January 1, 2012, resulting from the exercise of stock options (an increase of €0.05 million par value together with total additional paid-in capital).

On February 17, 2012, Schroder Investment Management Ltd (UK), on behalf of investment funds managed by it, reported that it had increased its shareholding above the threshold of 5% of the company's capital stock, and above the threshold of 5% of voting rights on February 21, and that at that date it held 5.12% of the capital stock and 5.04 % of the voting rights.

No other crossing of statutory thresholds has been notified to the company since January 1, 2012.

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 38.4% of the capital and 38% of the voting rights;
- Société Financière de l'Echiquier and Delta Lloyd Asset Management N.V. (Netherlands), each of which holds more than 10% (but less than 15%) of the capital and voting rights, on behalf of investment funds managed by them.
- Schroder Investment Management Ltd (UK), which holds more than 5% (but less than 10%) of the capital and voting rights, on behalf of investment funds managed by them.

Treasury Shares

At March 31, 2012, the company held 0.5% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by SG Securities (Société Générale Group).

Share Price Performance and Trading Volumes

The company's share price at March 31, 2012, was €4.27, down 7% compared to December 31, 2011 (€4.60). The share price recorded a low of €4.07 on January 17 and a high of €5.42 on February 10. The CAC 40 index and the CAC Mid&Small index both rose 8% and 16% respectively over the same period.

According to Euronext statistics, the number of shares traded (1.9 million) was down 48%, and trading volumes (€8.9 million) were down 56% compared to the same period in 2011.

NYSE Euronext has notified the company that Lectra's shares were admitted to the Deferred Settlement Service (SRD "Long only") on February 24, 2012.

4. POST-CLOSING EVENTS

No significant event has occurred since March 31, 2012.

5. FINANCIAL CALENDAR

The annual Shareholders' Meeting will be held on April 27, 2012.

The first-half 2012 financial results will be published on July 26, after close of trading on NYSE Euronext.

6. BUSINESS TRENDS AND OUTLOOK

The company described its outlook for the current year and for the medium term in detail in its financial review on February 9, 2012, and in its 2011 Annual Report, to which readers are invited to refer.

Even more than deteriorating macroeconomic conditions, it emphasized that the alternation of good news and bad news, the lack of visibility, and the growing concerns of companies so long as there are still no signs of a sustainable improvement in the economy will weigh heavily on those companies' investment decisions. This situation remains unchanged, caution and vigilance must therefore be maintained.

The company nevertheless entered 2012 having entirely transformed its financial and operating fundamentals relative to the eve of 2008-2009. Its balance sheet has been radically transformed and is now very strong, thereby eliminating any liquidity risk for the coming years.

2012 Outlook

Given the uncertain state of the economy, the company formulated two revenue and income hypotheses for the fiscal year, on February 9, 2012, which are identical for the first half of the year, then differ for the second half depending on economic conditions. These hypotheses, repeated below, remain valid at the date of publication of this report and will be re-evaluated at the time of publication of the first-half financial results, on July 26, 2012.

As in previous years, the main uncertainty concerns the level of revenues from new systems sales. Regardless of the hypotheses used regarding orders for new systems booked, revenues would continue to be affected by the low order backlog at the beginning of the year and would be lower than the total figure for corresponding orders in 2012.

Assuming economic conditions in the first half of the year remain as deteriorated as they were in Q4 2011 and then return to their level of the first half of 2011, orders for new systems in fiscal 2012 could rise 4% relative to 2011, with revenues from new systems sales declining approximately 9%, resulting in total revenues of around €206 million (stable relative to 2011 at actual exchange rates, and down 3% like-for-like). Income from operations before non-recurring items would come to around €21 million (–34%), thereby generating an operating margin before non-recurring items of around 10% and a net income of around €14 million (–27% at actual exchange rates).

The company's ambition is to achieve higher growth.

Should the economy remain as weak throughout the year as it was in Q4 2011, the action plan would be slowed, and certain operating costs would be cut more drastically if required by the level of orders. Orders for new systems could fall 17% in that case, with corresponding revenues falling around 24%. This would result in total revenues of approximately €190 million, equivalent to their 2010 level at actual exchange rates. Income from operations before non-recurring items would come to around €15 million, thereby generating an operating margin before non-recurring items of approximately 8%, and net income of approximately €10 million—higher financial performance than in pre-crisis years.

These figures are based on an average parity of $1.30/€1 in 2012.

The Company is Confident in its Medium-Term Growth Prospects

As the very strong rebound in orders in 2010 and in the first half of 2011 showed, once the crisis is definitely over, companies in the different geographic markets and market sectors served by the company will need to accelerate their investment plans or make good the investments they have either frozen or postponed over several years and to acquire the technologies necessary to boost their competitiveness. The crisis and its further developments in 2012 have amplified the challenges they face.

Bolstered by its performance in 2011, the strength of its business model and the pertinence of its 2012 action plan, the company is confident in its growth prospects for the medium term.

The Board of Directors

April 26, 2012

Company Certification of the First Quarter 2012 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 26, 2012

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (in thousands of euros)	As at March 31, 2012	As at December 31, 2011	As at March 31, 2011
Goodwill	31,036	31,309	30,505
Other intangible assets	4,875	4,742	5,295
Property, plant and equipment	12,091	11,589	11,047
Non-current financial assets	1,783	1,899	1,785
Deferred tax assets	9,656	9,543	11,794
Total non-current assets	59,441	59,081	60,426
Inventories	22,999	21,112	20,787
Trade accounts receivable	37,708	44,533	41,094
Current income tax receivable	12,016	10,841	8,277
Other current assets	6,949	6,346	7,191
Cash and cash equivalents	31,346	26,320	34,505
Total current assets	111,018	109,152	111,854
Total assets	170,459	168,233	172,280

EQUITY AND LIABILITIES (in thousands of euros)	As at March 31, 2012	As at December 31, 2011	As at March 31, 2011
Share capital	28,051	28,037	27,829
Share premium	2,520	2,487	1,764
Treasury shares	(749)	(722)	(213)
Currency translation adjustment	(8,956)	(8,816)	(9,051)
Retained earnings and net income	39,787	37,700	26,812
Total equity	60,654	58,686	47,141
Benefit pension liabilities and other employee benefits	5,431	4,512	3,922
Borrowings, non-current portion	16,311	16,684	27,284
Total non-current liabilities	21,742	21,196	31,206
Trade and other current payables	44,378	46,696	48,349
Deferred revenues	38,018	35,722	36,468
Current income tax liabilities	1,386	1,776	934
Borrowings, current portion	1,032	1,005	4,893
Provisions for other liabilities and charges	3,249	3,152	3,289
Total current liabilities	88,063	88,351	93,933
Total equity and liabilities	170,459	168,233	172,280

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended March 31, 2012	Three months ended March 31, 2011
Revenues	47,813	49,777
Cost of goods sold	(12,876)	(14,423)
Gross profit	34,937	35,354
Research and development	(3,079)	(2,937)
Selling, general and administrative expenses	(28,017)	(26,955)
Income (loss) from operations	3,841	5,462
Financial income	77	108
Financial expenses	(384)	(568)
Foreign exchange income (loss)	(123)	253
Income (loss) before tax	3,411	5,255
Income tax	(717)	(1,587)
Net income (loss)	2,694	3,668

(in euros)		
Earnings per share		
- basic	0.09	0.13
- diluted	0.09	0.13
Shares used in calculating earnings per share		
- basic	28,765,232	28,378,238
- diluted	29,243,093	29,084,696

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended March 31, 2012	Three months ended March 31, 2011
Net income (loss)	2,694	3,668
Currency translation adjustment	(140)	(174)
Actuarial gains (losses) on defined benefit pension liabilities	(916)	-
Effective portion of the change in fair value of interest-rate swaps	93	413
Tax effect on the comprehensive income items	200	(138)
Comprehensive income (loss)	1,931	3,769

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Three months ended March 31, 2012	Three months ended March 31, 2011
I - OPERATING ACTIVITIES		
Net income (loss)	2,694	3,668
Depreciation and amortization	1,757	1,376
Non-cash operating expenses	(205)	81
Loss (profit) on sale of fixed assets	(9)	(9)
Changes in deferred income taxes, net value	(46)	832
Changes in inventories	(2,011)	(1,567)
Changes in trade accounts receivable	8,543	3,302
Changes in other current assets and liabilities	(3,995)	(3,570)
Net cash provided by (used in) operating activities	6,728	4,113
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(561)	(241)
Purchases of property, plant and equipment	(1,141)	(642)
Proceeds from sales of intangible assets and property, plant and equipment	54	35
Purchases of financial assets	(118)	(535)
Proceeds from sales of financial assets	201	438
Net cash provided by (used in) investing activities	(1,565)	(945)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	48	910
Purchases of treasury shares	(173)	(193)
Sales of treasury shares	115	723
Proceeds from long term and short term borrowings	-	-
Repayments of long term and short term borrowings	(300)	(406)
Net cash provided by (used in) financing activities	(310)	1,034
Increase (decrease) in cash and cash equivalents	4,853	4,202
Cash and cash equivalents at the opening	26,320	30,174
Increase (decrease) in cash and cash equivalents	4,853	4,202
Effect of the consolidation of Lectra Morocco	137	-
Effect of changes in foreign exchange rates	36	129
Cash and cash equivalents at the closing	31,346	34,505
Free cash flow before non-recurring items	5,163	3,710
Non-recurring items of the free cash flow	-	(542)
Free cash flow	5,163	3,168
Income tax paid (reimbursed)	810	(54)
Interest paid	204	428

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros, except for par value per share expressed in euros)	Share capital: Number of shares	Share capital: Par value per share	Share capital: Total par value	Share premium	Treasury shares	Currency translation adjustment	Retained earnings and net income	Equity
Balances at January 1, 2011	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
Balances at January 1, 2011	28,499,014	0.97	27,644	1,039	(386)	(8,877)	22,612	42,032
Net income (loss) (1)							19,456	19,456
Other comprehensive income (loss) (1)						61	294	355
Comprehensive income (loss)						61	19,750	19,811
Exercised stock options	404,596	0.97	392	1,449				1,841
Fair value of stock options							257	257
Sale (purchase) of treasury shares					(336)			(336)
Profit (loss) on treasury shares							245	245
Dividends paid							(5,164)	(5,164)
Balances at December 31, 2011	28,903,610	0.97	28,037	2,487	(722)	(8,816)	37,700	58,686
Net income (loss)							2,694	2,694
Other comprehensive income (loss)						(140)	(623)	(763)
Comprehensive income (loss)						(140)	2,071	1,931
Exercised stock options	15,070	0.97	15	33				48
Fair value of stock options							37	37
Sale (purchase) of treasury shares					(27)			(27)
Profit (loss) on treasury shares							(21)	(21)
Balances at March 31, 2012	28,918,680	0.97	28,051	2,520	(749)	(8,956)	39,787	60,654

(1) As required in IAS 8, the impacts of the change in the method of recognition of actuarial gains and losses arising from the measurement of defined benefit pensions in the statement of comprehensive income, as explained in note 2 to the consolidated financial statements for the first quarter of 2012 below, are restated in the consolidated statement of changes in equity at December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2012

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), furniture and a wide variety of other industries, such as aeronautical and marine industries, wind turbines, 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 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 a few 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 31 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 90% of its revenues directly in 2011. 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 740 employees dedicated to marketing, sales and services. It employs 220 engineers dedicated to R&D, and 150 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 Board 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, 2012 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 2011, available on www.lectra.com.

The consolidated financial statements at March 31, 2012 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2011 financial statements, with the exception of the point presented below concerning recognition of defined benefit pension liabilities. They have been prepared under the responsibility of the Board of Directors at its meeting of April 26, 2012 and have not been reviewed by the Statutory Auditors.

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 2012 figures restated at 2011 exchange rates, in comparison with actual data for 2011.

Change of Accounting Method—Recognition of Actuarial Gains and Losses on Benefit Pension Liabilities in the Statement of Comprehensive Income

The Group has decided to modify the method used to account for actuarial gains and losses on defined benefit pension plans, under the current IAS 19—Employee Benefits.

Until December 31, 2011, actuarial gains and losses were recognized in full in the consolidated income statement. With effect from January 1, 2012, the Group has decided to recognize all actuarial gains and losses in the consolidated statement of comprehensive income. This change of accounting method was decided on in preparation of the application of the revised IAS 19 standard in 2013, under which this option to recognize actuarial gains and losses in equity will become compulsory. The Group therefore considers that this change of method will make the consolidated financial statements more relevant, thereby elimination the impact of the volatility of actuarial assumptions on the computation of defined benefit pension liabilities in the consolidated income statement.

Consistent with IAS 8—Accounting policies, changes in accounting estimates and errors, this change of method has been applied retroactively and the financial statements for 2011 have therefore been restated as follows:

CONSOLIDATED INCOME STATEMENT

Twelve months ended December 31	2011 published	2011 restated
Revenues	205,923	205,923
Cost of goods sold	(61,613)	(61,613)
Gross profit	144,310	144,310
Research and development	(11,463)	(11,463)
Selling, general and administrative expenses	(103,925)	(103,544)
Income (loss) from operations	28,922	29,303
Income (loss) before tax	27,209	27,590
Income tax	(8,012)	(8,134)
Net income (loss)	19,197	19,456

STATEMENT OF COMPREHENSIVE INCOME

Twelve months ended December 31	2011 published	2011 restated
Net income (loss)	19,197	19,456
Currency translation adjustment	61	61
Actuarial gains (losses) on defined benefit pension liabilities	-	(381)
Effective portion of the change in fair value of interest-rate swaps	837	837
Tax effect on the comprehensive income items	(284)	(162)
Comprehensive income (loss)	19,811	19,811

Total actuarial losses on pension liabilities for 2011, amounting to €381,000 and recognized in the published 2011 financial statements in “Selling, General and Administrative Expenses”, are shown after restatement on a specific new line titled “Actuarial gains (losses) on defined benefit pension liabilities” in the consolidated statement of comprehensive income. The corresponding tax charge of €122,000, recognized in “Income tax” in the published 2011 financial statements, has been reclassified in “Tax effect on the comprehensive income items” in the statement of comprehensive income. In light of these items, this restatement has increased net income by €259,000, comprehensive income and consolidated equity remaining unchanged at December 31, 2011.

Because actuarial gains and losses on defined benefit pension liabilities are calculated at year-end only, this restatement concerns only the Q4 2011 and full-year 2011 financial statements.

Critical Accounting Estimates and Judgments

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

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, related to 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, billed in advance, 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 equipments sold, and a share of depreciation of the manufacturing facilities.

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

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 development costs in assets at the moment they occur are not met, and these, together with research 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.

Basic and Diluted Earnings per Share

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the 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 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:

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

The current portion of borrowings and financial debt comprises:

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

Borrowings and financial debts are recognized initially at fair value.

At 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 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 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 North Africa, South Africa, Turkey, Israel, and the Middle East. These regions are involved in sales and the provision of services to their clients. 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 clients; 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 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 profit is retained in the income computed for the Corporate segment sufficient to cover its costs. The Corporate segment's general overheads, most of which are fixed, its margin profit and consequently its income from operations therefore depend mainly on the volume of business generated by marketing regions.

3. SCOPE OF CONSOLIDATION

At March 31, 2012, the Group's scope of consolidation comprised Lectra SA together with 27 fully-consolidated companies.

A subsidiary of Lectra SA, Lectra Maroc SARL, which was not until then included in the Group's scope of consolidation, was fully consolidated for the first time on January 1, 2012. The impact on the Group financial statements at March 31, 2012 of this first-time consolidation is not material.

There were no other changes in the scope of consolidation during Q1 2012.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At March 31, 2012, their combined revenues totaled €0.2 million, and their combined assets in their statement of financial position totaled €1.6 million. They had no non-Group financial debt. Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA.

Transactions with these related parties mainly concern purchases from the parent company for the purposes of their local operations, or charges and commissions billed to the parent company in order to cover their overheads in the case of agents. The amount concerned by these transactions was not material at March 31, 2012.

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

	Three Months Ended March 31				
	2012		2011	Changes 2012/2011	
(in thousands of euros)	Actual	At 2011 exchange rates	Actual	Actual	Like-for-like
Revenues	47,813	46,873	49,777	-4%	-6%
Cost of goods sold	(12,876)	(12,772)	(14,423)	-11%	-11%
Gross profit	34,937	34,101	35,354	-1%	-4%
(in % of revenues)	73.1%	72.8%	71.0%	+2,1 points	+1,8 points
Research and development	(3,079)	(3,079)	(2,937)	+5%	+5%
Selling, general and administrative expenses	(28,017)	(27,594)	(26,955)	+4%	+2%
Income from operations	3,841	3,428	5,462	-30%	-37%
(in % of revenues)	8.0%	7.3%	11.0%	-3,0 points	-3,7 points
Income before tax	3,411	2,998	5,255	-35%	-43%
Income tax	(717)	na	(1,587)	-55%	na
Net income	2,694	na	3,668	-27%	na

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

Revenues by geographic region

(in thousands of euros)	2012 Actual	2012 %	2012 At 2011 exchange rates	2011 Actual	2011 %	Changes 2012/2011 Actual	Changes 2012/2011 Like-for-like
Europe, of which :	23,970	50%	23,937	26,498	53%	-10%	-10%
- France	5,559	12%	5,559	5,106	10%	+9%	+9%
Americas	11,666	24%	11,251	10,063	20%	+16%	+12%
Asia-Pacific	9,526	20%	8,995	10,853	22%	-12%	-17%
Other countries	2,651	6%	2,690	2,363	5%	+12%	+14%
Total	47,813	100%	46,873	49,777	100%	-4%	-6%

Three Months Ended March 31

Revenues by product line

(in thousands of euros)	2012 Actual	2012 %	2012 At 2011 exchange rates	2011 Actual	2011 %	Changes 2012/2011 Actual	Changes 2012/2011 Like-for-like
Software, of which :	13,868	29%	13,660	14,162	28%	-2%	-4%
- New licenses	6,159	13%	6,058	6,839	14%	-10%	-11%
- Software evolution contracts	7,709	16%	7,602	7,324	15%	+5%	+4%
CAD/CAM equipment	12,143	25%	11,816	14,038	28%	-13%	-16%
Hardware maintenance and on-line services	9,039	19%	8,879	8,616	17%	+5%	+3%
Spare parts and consumables	10,809	23%	10,599	10,363	21%	+4%	+2%
Training and consulting services	1,878	4%	1,844	2,489	5%	-25%	-26%
Miscellaneous	76	0%	75	109	0%	-30%	-31%
Total	47,813	100%	46,873	49,777	100%	-4%	-6%

Three Months Ended March 31

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2012 Actual	2012 %	2012 At 2011 exchange rates	2011 Actual	2011 %	Changes 2012/2011 Actual	Changes 2012/2011 Like-for-like
Revenues from new systems sales(1)	20,256	42%	19,792	23,474	47%	-14%	-16%
Recurring revenues(2), of which :	27,557	58%	27,081	26,303	53%	+5%	+3%
- Recurring contracts	16,319	34%	16,059	15,536	31%	+5%	+3%
- Other recurring revenues on the installed base	11,238	24%	11,022	10,767	22%	+4%	+2%
Total	47,813	100%	46,873	49,777	100%	-4%	-6%

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 punctual interventions, on the installed base, which are statistically recurrent.

6. OPERATING SEGMENT INFORMATION

Three months ended March 31, 2012 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	23,970	11,666	9,526	2,651	-	47,813
Income (loss) from operations before non-recurring items	1,576	129	(444)	256	2,324	3,841

Three months ended 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 before non-recurring items	2,772	(107)	26	139	2,632	5,462

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	5.2	-	5.2
Proceeds from issuance of ordinary shares[(1)]	0.0	-	0.0
Sale and purchase of treasury shares[(2)]	(0.1)	-	(0.1)
Change in borrowings	(0.3)	0.3	0.0
Impact of the consolidation of Lectra Morocco	0.1	-	0.1
Impact of currency variations - other	0.0	-	0.0
Change in cash position for the period	5.0	0.3	5.4
Cash and cash equivalents at December 31, 2011	26.3	(17.7)	8.6
Cash and cash equivalents at March 31, 2012	31.3	(17.3)	14.0
Change in cash position for the period	5.0	0.3	5.4

(1) Resulting solely from the exercise of stock options.

(2) Carried out solely under the Liquidity Agreement administered by SG Securities (Société Générale Group).

Free cash flow amounts to €5.2 million at March 31, 2012. This figure results from a combination of €6.7 million in cash flows provided by operating activities (including a decrease in working capital requirement of €2.5 million) and of €1.6 million in capital expenditures.

The main variations in working capital requirement are:

- −€8.5 million corresponding to a strong decrease in trade accounts receivable, taking into account the cash receipt of a significant portion of the recurring contracts at the beginning of the year, usually yearly in advance;
- +€2 million corresponding to an increase in inventories, a major part of this increase being related to the launch of the new *Versalis* leather-cutting offer;
- +€1.5 million arising from the increase in the (French) research tax credit receivable for the quarter, recognized but not received;
- +€1.8 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2011 paid in 2012, and the one recognized during Q1 2012 and payable in 2013.

The working capital requirement at March 31, 2012, was a negative €4.1 million. It comprised a receivable of €11.5 million in respect of the (French) research tax credit for FY 2010, FY 2011 and Q1 2012, which has not been received and has not been offset against a tax charge. Restated for this receivable, the working capital requirement was negative at €15.6 million, which is a key feature of the Group's business model.

8. LITIGATION WITH INDUYCO PENDING

A full discussion of this dispute is described in note 23 to the 2011 consolidated financial statements, to which readers are invited to refer.

In its ruling on October 21, 2009, the International Court of Arbitration awarded Lectra €26.1 million in Damages and Interest (as of March 31, 2012)

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).

Induyco refused to honor the award, which was binding on it under international law, and commenced an action in England to set aside the award (the London High Court of Justice dismissed this action in its entirety and denied leave to appeal).

Following the September 20, 2010 decision of the Madrid Court of Appeals, Lectra called on the first demand bank guarantees provided by Induyco and received €15.1 million.

In its decision of *exequátur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award. It has thus recognized the award is valid and enforceable in Spain and rejected Induyco's challenge to Lectra's application for *exequátur*. Confirming the validity and enforceability of the award in Spain, this decision represents a major milestone in the settlement of this dispute. Induyco appealed this judgment, and the two parties have submitted their written findings at the end of 2011. The Madrid Court of Appeal is expected to hand down its decision in late 2012 or early 2013.

The Company Has Only Recorded in its Accounts €15.1 Million Actually Received on the Full Amount of the Arbitral Award of €26.1 Million

Induyco having appealed the June 27, 2011 Madrid Court of First Instance decision, this decision does not entail any modification of the recognition of the award in the Group's financial statements: the balance (€11 million) of the total amount of the award (€26.1 million at March 31, 2012) still due by Induyco was not recorded in the financial statements at March 31, 2012 and will only be recorded upon its receipt.

As all of the costs incurred by Lectra (excluding those relative to the procedures pending in Spain) have already been paid, the execution of the arbitral decision will result in a cash inflow equal to the balance of the award still owed by Induyco.

9. DEFINED BENEFIT PENSION LIABILITIES

Defined benefit pension liabilities amounted to €5.4 million at March 31, 2012, versus €4.5 million at December 31, 2011, an increase of €0.9 million.

During the first quarter of 2012, the Group conducted a thorough review of all of the actuarial assumptions used to measure its defined benefit pension liabilities, with the assistance of independent actuaries. In light of this review, the Group has increased the corresponding provision in the statement of financial position by €0.9 million (including €0.7 million for the parent company Lectra SA) and has recognized an actuarial loss of the same amount in the consolidated statement of comprehensive income for Q1 2012. The impact after tax is €0.7 million.

10. TREASURY SHARES

Under the Liquidity Agreement administered by SG Securities (Paris), in Q1 2012, the company purchased 38,142 shares and sold 24,056 shares at an average purchase price of €4.55 and €4.79 respectively.

Consequently, at March 31, 2012, the company held 147,940 Lectra shares (i.e. 0.5% of share capital) with an average purchase price of €5.06 entirely under the Liquidity Agreement.

Under the Liquidity Agreement, an additional amount of €1 million in cash, but not exceeding the equivalent of 150,000 shares, could be placed at the disposal of SG Securities by the company, further to the 430,260 shares and €176,000 in cash (making a total equivalent value of €1.9 million) placed at its disposal at the date of signature of the agreement.

11. LIQUIDITY AND BANK BORROWINGS

11.1 Cash and Cash Equivalents and Net Cash

(in thousands of euros)	As at March 31, 2012	As at December 31, 2011
Cash and cash equivalents	31,346	26,320
Total borrowings	(17,343)	(17,689)
Net cash (net financial debt)	14,003	8,631

The Group's net cash had improved by €5.4 million at March 31, 2012.

11.2 Borrowings and Financial Debts by Category and by Maturity

At March 31, 2012, the repayment schedule is as follows:

	Short term	Long term		
(in thousands of euros)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Medium-term bank loan (1)	560	15,360	-	15,920
Interest-free repayable advances (2)	472	951	-	1,423
Cash facilities	-	-	-	-
Total	1,032	16,311	-	17,343

(1) The repayment dates of the borrowing used in the table above are the contractual payment dates, at the latest, in light of repayments already made as at March 31, 2012, without taking into account the accelerated repayments under the various contract clauses concerned.

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

11.3 Medium-term Bank Loan

In 2007, the company contracted a €48 million 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.

In the course of 2011, the company made a repayment of €3.8 million on June 30, ahead of the scheduled repayment date, pursuant to the excess cash flow clause in the loan contract (there will be no repayment under this clause in 2012) and a voluntary repayment of € 10 million on December 31 (in addition to the contractual repayments which were reduced to €0.6 million due to the repayment ahead of schedule made in 2010).

The balance outstanding on the loan, i.e. €15.9 million at March 31, 2012, is repayable in three half-yearly installments as from December 31, 2012—the first one for €0.6 million (on December 31, 2012), the following one for €9.6 million (on June 30, 2013) and the last one for €5.8 million (on December 31, 2013).

In 2012, as in 2011, the loan carried interest at the 3-month Euribor rate plus a margin set at 0.95% per year.

The company had 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 12 below). The total effective interest rate after including the cost of the hedging instruments and amounts hedged is 5.13% for Q1 2012.

11.4 Covenants

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 borrowing in its entirety in the event of failure to comply with these ratios; in that event the company would contact its banks in order to come to a satisfactory arrangement.

Given that the Group's cash and cash equivalents available exceeded its financial debt at December 31, 2011 (see note 11.1), the two covenants were *de facto* respected in 2011.

The ratios to be respected in 2012 are as follows:

- Leverage: <1.7
- Gearing: <1

The company considers that it will be in compliance with both covenants at December 31, 2012.

The specific clauses attaching to these covenants and the other contractual conditions, concerning in particular early repayment of the borrowing, are presented in detail in note 13.2.2 to the 2011 consolidated financial statements, to which readers are invited to refer.

12. INTEREST-RATE HEDGING INSTRUMENTS

As stated in note 11 above, the company has hedged its interest-rate risk exposure in connection with a portion of the €48 million medium-term bank loan by converting the floating interest rate payable on the borrowing (3-month Euribor rate) into a fixed rate via two interest-rate swap contracts. The interest-rate has been hedged on the basis of the best estimate of the amount of the borrowing 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 borrowing, they meet the hedge accounting criteria as defined by IFRS. Their fair value at March 31, 2012 is a negative €0.2 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 2012.

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

Consequently, the total effective implied interest rate including the cost of the hedging instruments and the amounts hedged will be 5.02% in Q2 2012, and in the theoretical event that the 3-month Euribor rate remains identical to that at March 31, 2012 (0.78%), it would be 3.01% in the second half of 2012, and 1.75% in 2013.

13. CURRENCY RISK

The Group's exposure to currency risks and its currency risk management policy are unchanged relative to December 31, 2011.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at March 31, 2012 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 €2.1 million, intended to hedge existing positions.

The company has not hedged its US dollar exposure on future cash flows beyond March 31, 2012.

14. 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 2012 budget was $1.30/€1 (versus an actual parity of $1.39/€1 in 2011 and of $1.31/€1 during Q1 2012). At the date of publication of this report, the euro/dollar parity is $1.32/ €1.

On an annualized basis, given the estimated share of revenue and expenses denominated in dollars or in currencies correlated with the dollar, an average rise of $0.05 in the dollar against the euro (bringing the parity from $1.30/€1 to $1.25/€1) would mechanically increase 2012 revenues by around €2.5 million and income from operations by €1.3 million. Conversely, a $0.05 fall in the dollar against the euro (bringing the average parity to $1.35/€1) would reduce revenues and income from operations by the same amounts.