MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THIRD-QUARTER AND FIRST NINE MONTHS OF 2012

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the third quarter and first nine months of 2012, ending September 30. Financial statements at September 30 have not been the subject of review by the Statutory Auditors.

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 Q3 2012

With an average parity of $1.25/€1, the U.S. dollar was up 13% compared with Q3 2011 ($1.41/€1). This change, and that of other currencies, mechanically increased revenues by €2.1 million (5%) and income from operations by €1 million (22%) for the quarter at actual exchange rates, compared with like-for-like figures.

Orders for New Software Licenses and CAD/CAM Equipment Still Slowed by Persistently Weakened Economic Conditions

In its February 9, 2012 report, the company expected the macroeconomic environment to remain as weak as in Q4 2011 for the first half of 2012 at least. Economic conditions have even shown signs of worsening from the second quarter onward. Causes of this new deterioration include persistent concerns over the sovereign debt of the United States and of certain European countries, as well as the Eurozone crisis and its global repercussions, and slower growth in certain emerging countries, China and India in particular.

Even more than deteriorating macroeconomic conditions, the company emphasized that the alternation of good news and bad news, the lack of visibility, and companies' growing concerns pending signs of a sustainable improvement in the economy would weigh heavily on those companies' investment decisions.

Against this background, purchasing decisions remained on hold in Q3, with orders for new software licenses and CAD/CAM equipment down 12% compared with Q3 2011, to €19.5 million. Orders were down 10% for new software licenses and 13% for CAD/CAM equipment.

Recurring Revenues Increase

Recurring revenues (€29 million) have increased at a greater rate, from 2% in H1 to 4%, thanks to a 5% increase in revenues from recurring contracts (€17.2 million) and to a 2% increase in revenues from spare parts and consumables (€11.4 million).

Revenues and Income Exceed Company Expectations

The company formulated two revenue and income hypotheses for the fiscal year 2012, on February 9, 2012, which were identical for the first half of the year, then diverged for the second half depending on economic conditions.

The first hypothesis assumed that economic conditions in the first half of the year would remain as weak as in Q4 2011 and then return to their level of the first half of 2011. The second hypothesis assumed that the economy would remain as weak throughout the year. Under this second hypothesis, deemed most likely by the company on July 26, the company's roadmap anticipated Q3 revenues of €46.7 million and income from operations of €4.3 million.

Revenues totaled €47.9 million, down 11% relative to Q3 2011, and down 7% at actual exchange rates. This decline stems from a 26% fall in revenues from new systems sales to €18.9 million.

Income from operations amounted to €5.4 million. Like for like, it was down €4.4 million (–50%), while the operating margin decreased by 7.6 percentage points to 11.2%. At actual exchange rates, income from operations was down €3.4 million (–39%) and the operating margin decreased by 6 percentage points.

Revenues nevertheless exceeded the company's roadmap anticipation by €1.2 million and income from operations by €1.1 million.

Net income was €3.8 million, a decrease of €2 million (–35%) at actual exchange rates, compared with the Q3 2011 figure of €5.8 million.

Free cash flow was a negative €2.3 million. This unusual outcome is the result of several factors that occurred during the quarter and which have affected its performance (free cash flow for the first nine months was a positive €5.7 million).

The Company's Transformation Plan is Proceeding as Intended

Despite the prevailing economic conditions, and as stated in its February 9, 2012 report, the company has prioritized its long-term strategy in 2012, rather than short-term profitability, accelerating its transformation with a 24-month program to bolster its sales and marketing teams, and through sustained investment in R&D.

This plan is proceeding as intended and its effects will start to be felt in full from 2014 onward, positioning the company to fully realize its growth potential in its most promising geographic markets and market sectors. For the current fiscal year, it represents a reinvestment equal to 3 percentage points of Lectra's operating margin. As a result, fixed overhead costs will rise by around €6 million, or two-thirds of the total planned increase of €9 million (+9%). This future-oriented spending are expensed in the year, although the benefits will only be felt in future years. The company nevertheless intends to maintain a very tight grip on these fixed overheads.

Launch of the New Generation of Vector Automated Cutters

On July 2, 2012, Lectra launched its new generation of Vector automated cutters for fabric as well as composite materials, which proved an immediate success.

Lectra has dedicated exceptional resources to its development, giving birth to a complete, integrated and unique offer enabling customers to benefit from better control and optimization of their production, which in turn increases their competitiveness and profitability. Recognized by the world's experts as the best performing solution on the market, the previous generation of Vector, launched in February 2007, remained without equal since then. With more than 1,600 cutters sold, it has enabled Lectra to increase its market share in all of its sectors of activity and to strengthen its leadership in the fashion and automotive industries. The new generation launched in July represents a major advance.

The company had previously launched its new Versalis range of automated leather cutters for the leather goods industry in mid-2011, for the automotive industry at the end of 2011, and at the beginning of 2012 for furniture.

2. FIRST NINE MONTHS CONSOLIDATED FINANCIAL STATEMENTS

With an average parity of $1.28/€1 for the first nine months of 2012, the U.S. dollar was up 10% compared with the first nine months of 2011 ($1.41/€1). This change, and that of other currencies, mechanically increased revenues for the first nine months by €5.5 million (4%) and income from operations by €2.5 million (21%) at actual exchange rates, compared with like-for-like figures.

Revenues and Income Still Ahead of Company Expectations

Based on the hypothesis that economic conditions would remain as weak throughout the whole of 2012 as in Q4 2011, formulated on February 9, 2012 as one of two scenarios for the year and considered on July 26 to be the most likely, the company's roadmap anticipated revenues of €142 million and income from operations of €11.5 million for the first nine months of the year. Results already exceeded the company's expectations under this scenario at June 30, and have improved since that date, with revenues €5.3 million ahead, and income from operations €3.2 million ahead, at September 30.

Orders

Orders for new software licenses and CAD/CAM equipment amounted to €56.2 million, down 16% relative to the first nine months of 2011. Orders were down 12% for new software licenses and 17% for CAD/CAM equipment.

The situation remains uneven in geographic terms. Orders booked in North America increased by 13% but were down 31% in South America, resulting in a decline of 2% for the Americas as a whole. Orders fell by 7% in Europe, and by 37% in the Asia-Pacific region. They rose 25% in the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East).

Emerging countries, with orders down by 17%, remained predominant with 54% of total orders, while developed countries (46% of total orders) registered a fall in orders of 14%.

The decline in orders affected the main market sectors: fashion (–7%), automotive (–28%), and furniture (–8%). Orders were stable in the other industries. These markets accounted for 47%, 38%, 7%, and 8% respectively of the total amount of orders.

Revenues

Revenues for the first nine months of 2012 totaled €147.3 million, down 7% like-like, and down 4% at actual exchange rates compared with the first nine months of 2011.

Revenues increased by 4% in the Americas, but fell 10% in Europe, and 20% in the Asia-Pacific region. These three regions accounted for 25%, 48% (including 10% for France), and 21% respectively of total revenues. Revenues from the rest of the world increased by 22%, and represent 6% of total Group revenues.

Revenues from New Systems Sales

Revenues from new software licenses (€17.2 million) were down 16% and contributed 12% of total revenues (compared with 13% in the first nine months of 2011).

CAD/CAM equipment revenues were down 20% to €39.4 million and accounted for 27% of total revenues (compared with 31% in 2011).

Revenues from training and consulting were down 17% to €5.7 million.

Overall, revenues from new systems sales were down 19% to €62.5 million and represented 42% of total revenues (compared with 48% in 2011).

Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€84.9 million) increased by €2.2 million (+3%). They accounted for 58% of total revenues (compared with 52% in the first nine months of 2011).

Revenues from recurring contracts—which represented 59% of recurring revenues and 34% of total revenues—totaled €50.2 million. After falling 3% in 2010 and 1% in 2011, they have now resumed their growth path, with a 4% increase in the first nine months of 2012. This is the outcome of the company's sales policy centered on its value proposition for customers, maximizing their return on their installed base of Lectra solutions, and minimizing total cost of ownership.

Revenues from recurring contracts break down as follows:

- revenues from software evolution contracts (€23.7 million), up 5% compared with the first nine months of 2011 and representing 16% of total revenues;
- revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to the Group's five International Call Centers (€26.4 million), which increased by 4% and represented 18% of total revenues.

Meanwhile, revenues from spare parts and consumables increased 1% to €33.5 million and represent nearly 23% of total revenues.

Order Backlog

The order backlog at September 30, 2012 increased by €0.5 million relative to January 1, to €11 million, as revenues for new software licenses and CAD/CAM equipment were slightly below the figure for new orders booked in the same period.

The order backlog comprised €10.2 million for shipment in Q4 2012 and €0.8 million in 2013.

Gross Profit Margin

The overall gross profit margin was 73.1%. Like for like, it came to 72.4%, up 2.4 percentage points relative to the first nine months of 2011 (70%).

This increase results from the combination of the change in product mix and the increased gross profit margin 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 €93 million, up €4.9 million (+6%) compared with the first nine months of 2011. They break down as follows:

- €83.6 million in fixed overhead costs, up €6.4 million (+8%);
- €9.4 million in variable costs, down €1.5 million (–15%).

The increase in fixed overhead costs reflects in particular the impact of investments made under the company's transformation plan, entirely expensed in the period (see chapter 1).

Research and development costs are 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 €12.9 million and represented 8.7% of revenues (compared with €13.4 million and 8.8% in 2011). Net R&D costs after deduction of the French research tax credit amounted to €8.5 million, as in 2011.

Income from Operations and Net Income

Income from operations was €14.7 million and decreased by €7 million (–32%) at actual exchange rates relative to income from operations for the first nine months of 2011 (€21.7 million).

The €7 million fall in income from operations results from a €7.5 million decline in revenues from new systems sales, and a €4.1 million increase in fixed overhead costs related to the transformation plan. To these two impacts are added the natural increase in fixed overhead costs (€2.3 million) as well as the favorable impact of the increase in recurring revenues (€2 million), of the improvement in gross profit (€2.3 million), and of currency fluctuations (€2.5 million).

Like for like, income from operations decreased by €9.5 million (–44%).

The operating margin was 10%, down 4.1 percentage points at actual exchange rates compared with the operating margin of the first nine months of 2011 (14.1%). Like for like, it was down 5.5 percentage points.

Financial income and expenses represent a net charge of €0.7 million, down relative to the first nine months of 2011 (€1.3 million), due to the steep decline in the balance outstanding on the medium term bank loan between the two periods. The net foreign exchange result was a negative €0.2 million.

After an income tax charge of €3.8 million, net income was €10.1 million (€14.6 million in first nine months of 2011), representing a fall of 31% at actual exchange rates.

Net earnings per share on basic capital were €0.35 and on diluted capital €0.34 (€0.51 and €0.50 per share respectively in the first nine months of 2011).

Free Cash Flow

Free cash flow amounted to €5.7 million (€12.8 million in the first nine months of 2011). This figure results from cash flow provided by operating activities of €9.9 million (including an increase in working capital requirement of €6.3 million), and cash flow used in investing activities of €4.2 million (see note 7 of the notes to this report).

There were no non-recurring items in the period, as compared with a €1 million non-recurring disbursement in the first nine months of 2011.

The research tax credit for the first nine months (€4.3 million) was accounted for but not received. If it had been received, free cash flow would have amounted to €10 million, and would have been lower than net income by only €0.1 million.

Shareholders' Equity

At September 30, 2012, consolidated shareholders' equity amounted to €62.5 million (€58.7 million at December 31, 2011) after payment on May 10, 2012 of the €6.3 million dividend declared in respect of fiscal 2011, as decided by the Ordinary Shareholders' Meeting of April 27, 2012.

This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement. Treasury shares are carried at cost, ie €0.4 million (versus €0.7 million at December 31, 2011).

Cash and cash equivalents totaled €25.8 million (€26.3 million at 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 (on December 31). Due to the reduction in interest-rate swaps since July 1, 2012, and to their expiration on December 31, 2012, the gross effective interest rate will fall to 2.62% in Q4 2012 (compared with 4.36% for first nine months of 2012), and then to

1.19% until final repayment on December 31, 2013, assuming the 3-month Euribor remains identical to the rate at September 28, 2012.

- €1.4 million corresponds to interest-free government advances to help finance R&D programs.

Consequently, the net cash position was positive at €8.5 million at September 30, 2012 (€8.6 million at December 31, 2011).

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

In accordance with the first resolution of the Extraordinary Shareholders' Meeting of April 27, 2012, the par value of the shares making up the company's share capital has been raised from €0.97 to €1.00. Consequently, the share capital at September 30, 2012 totaled €28,944,362, divided into 28,944,362 shares with a par value of €1.00. Share capital was €28,036,501.70, divided into 28,903,610 shares with a par value of €0.97, at December 31, 2011.

Share capital has increased by 40,752 shares since January 1, 2012, resulting from the exercise of stock options (an increase of €0.1 million of share capital together with total share premium).

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% of the capital and 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 September 30, 2012, the company held 0.3% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement, contracted since May 21, 2012 with Exane BNP Paribas.

Stock Options Granted

On September 4, 2012, the Board of Directors granted 197,319 options, at an exercise price of €6.25 per share to 82 beneficiaries in respect of the achievement of their annual performance targets set for 2011. These grants result from the Board's undertaking at the time of the granting of the 2011 stock option plan.

Under the 2012 plan, the Board of Directors granted 778,800 options to 110 beneficiaries at an exercise price of €6.25 per share. Of this total, 722,800 options granted to 92 beneficiaries, conditional on fulfillment of their annual performance targets for 2012, correspond to a maximum number of options. The final number of options will be determined in 2013, based on the actual percentage achievement of these targets, after closing of the consolidated financial statements for 2012.

All beneficiaries of the options granted are Group employees. The two corporate executive officers, André Harari and Daniel Harari, have not received any stock options since 2000.

Share Price Performance and Trading Volumes

The company's share price at September 30, 2012, was €4.65, up 1.1% compared with December 31, 2011 (€4.60). The share price recorded a low of €4.04 on June 15 and a high of €5.42 on February 10. The CAC 40 index and the CAC Mid & Small index rose 6.2% and 13.8% respectively over the same period.

According to Euronext statistics, the number of shares traded (2.7 million) was down 53%, and trading volumes (€12.3 million) were down 63% compared with the same period in 2011.

4. POST-CLOSING EVENTS

No significant event has occurred since September 30, 2012.

5. FINANCIAL CALENDAR

The Q4 and fiscal year 2012 financial results will be published on February 12, 2013, 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 at length in its financial review on February 9, 2012, and in its 2011 Annual Report, to which readers are invited to refer.

2012 Outlook

Macroeconomic conditions are expected to remain weak in Q4, virtually unchanged from those in the first nine months of the year.

Based on this assumption regarding business conditions, the company considered on February 9 that orders for new systems could fall by 17%, with corresponding revenues falling by around 24%. This would result in total revenues of approximately €190 million for the fiscal year. Income from operations before non-recurring items would come to around €15 million, generating an operating margin before non-recurring items of approximately 8%, and net income of approximately €10 million—exceeding, however, the company's pre-crisis performance. These figures were based on an average parity of $1.30/€1, very close to that for the first nine months of the year and equal to the exchange rate at the date of this report ($1.30/€1).

The company's first-half performance exceeded this scenario. Results at September 30 further improved this advance, suggesting that revenues and income for the fiscal year could exceed the figures anticipated in this scenario.

The Company is Confident in its Medium Term Growth Prospects

The company entered 2012 having entirely transformed its financial and operating fundamentals relative to the eve of the outbreak of the economic and financial crisis in 2008-2009. Its balance sheet has been radically transformed and is now very strong. Its positive net cash position of €8.5 million at September 30, 2012, is a significant asset.

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 developments in 2012 have amplified the challenges they face.

Bolstered by its performance since 2010, the strength of its business model and the pertinence of its strategy and 2012 action plan, the company is confident in its growth prospects for the medium term.

The company will present its outlook for 2013 together with its strategy and its objectives for 2015, on February 12, 2013.

The Board of Directors

October 25, 2012

Company Certification of the Third Quarter and First Nine Months of 2012 Report

We certify that, to our knowledge, the financial statements for the third quarter and the first nine months of 2012 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 report on operations for the third quarter and first nine months presents a true and sincere view of the significant events that occurred during the first nine months of the fiscal year and their impact on the financial statements, as well as a description of the main risks and uncertainties for the remaining three months of the fiscal year.

Paris, October 25, 2012

Daniel Harari
Chief Executive Officer

Jérôme Viala
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	As at September 30, 2012	As at December 31, 2011	As at September 30, 2011
Goodwill	31,374	31,309	30,939
Other intangible assets	4,581	4,742	4,977
Property, plant and equipment	12,943	11,589	10,940
Non-current financial assets	2,057	1,899	1,612
Deferred tax assets	8,756	9,543	10,331
Total non-current assets	59,711	59,081	58,799
Inventories	23,669	21,112	21,858
Trade accounts receivable	32,071	44,533	35,980
Current income tax receivable	15,041	10,841	11,059
Other current assets	7,383	6,346	7,219
Cash and cash equivalents	25,811	26,320	35,549
Total current assets	103,975	109,152	111,665
Total assets	163,686	168,233	170,464

EQUITY AND LIABILITIES

(in thousands of euros)	As at September 30, 2012	As at December 31, 2011	As at September 30, 2011
Share capital	28,944	28,037	28,037
Share premium	2,591	2,487	2,487
Treasury shares	(431)	(722)	(583)
Currency translation adjustment	(8,654)	(8,816)	(8,946)
Retained earnings and net income	40,098	37,700	32,946
Total equity	62,548	58,686	53,941
Benefit pension liabilities and other employee benefits	5,483	4,512	4,270
Borrowings, non-current portion	6,642	16,684	21,942
Total non-current liabilities	12,125	21,196	26,212
Trade and other current payables	42,826	46,696	49,287
Deferred revenues	30,756	35,722	28,773
Current income tax liabilities	1,323	1,776	2,742
Borrowings, current portion	10,633	1,005	6,336
Provisions for other liabilities and charges	3,475	3,152	3,173
Total current liabilities	89,013	88,351	90,311
Total equity and liabilities	163,686	168,233	170,464

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended September 30, 2012	Nine months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2011
Revenues	47,852	147,329	51,186	153,315
Cost of goods sold	(12,370)	(39,610)	(15,707)	(45,935)
Gross profit	35,482	107,719	35,479	107,380
Research and development	(2,494)	(8,521)	(2,471)	(8,490)
Selling, general and administrative expenses	(27,624)	(84,500)	(24,202)	(77,203)
Income (loss) from operations	5,364	14,698	8,806	21,687
Financial income	97	259	125	393
Financial expenses	(198)	(973)	(529)	(1,721)
Foreign exchange income (loss)	(180)	(175)	(100)	12
Income (loss) before tax	5,083	13,809	8,302	20,371
Income tax	(1,302)	(3,759)	(2,477)	(5,754)
Net income (loss)	3,781	10,050	5,825	14,617

(in euros)				
Earnings per share				
- basic	0.13	0.35	0.20	0.51
- diluted	0.13	0.34	0.20	0.50
Shares used in calculating earnings per share				
- basic	28,832,788	28,790,966	28,813,597	28,680,548
- diluted	29,292,440	29,253,967	29,460,474	29,365,097

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended September 30, 2012	Nine months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2011
Net income (loss)	3,781	10,050	5,825	14,617
Currency translation adjustment	77	162	185	(68)
Actuarial gains (losses) on defined benefit pension liabilities	(2)	(921)	-	-
Effective portion of the change in fair value of interest-rate swaps	48	267	62	697
Tax effect on the comprehensive income items	(16)	142	(23)	(235)
Comprehensive income (loss)	3,888	9,700	6,049	15,011

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Nine months ended September 30, 2012	Nine months ended September 30, 2011
I - OPERATING ACTIVITIES		
Net income (loss)	10,050	14,617
Depreciation and amortization	5,410	3,225
Non-cash operating expenses	(152)	165
Loss (profit) on sale of fixed assets	(43)	(4)
Changes in deferred income taxes, net value	920	2,267
Changes in inventories	(2,980)	(1,604)
Changes in trade accounts receivable	5,669	580
Changes in other current assets and liabilities	(9,011)	(4,334)
Net cash provided by (used in) operating activities	9,863	14,912
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,115)	(747)
Purchases of property, plant and equipment	(3,158)	(1,622)
Proceeds from sales of intangible assets and property, plant and equipment	126	127
Purchases of financial assets	(631)	(202)
Proceeds from sales of financial assets	608	367
Net cash provided by (used in) investing activities	(4,170)	(2,077)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	143	1,841
Dividends paid	(6,330)	(5,164)
Purchases of treasury shares	(346)	(763)
Sales of treasury shares	528	954
Proceeds from long term and short term borrowings	-	-
Repayments of long term and short term borrowings	(374)	(4,320)
Net cash provided by (used in) financing activities	(6,379)	(7,452)
Increase (decrease) in cash and cash equivalents	(686)	5,383

Cash and cash equivalents at the opening	26,320	30,174
Increase (decrease) in cash and cash equivalents	(686)	5,383
Effect of the consolidation of Lectra Morocco	137	-
Effect of changes in foreign exchange rates	40	(8)
Cash and cash equivalents at closing	25,811	35,549
Free cash flow before non-recurring items	5,693	13,803
Non-recurring items of the free cash flow	-	(968)
Free cash flow	5,693	12,835

Income tax paid (reimbursed)	2,957	136
Interest paid	519	1,175

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros, except for par value per share expressed in euros)	Share capital			Share premium	Treasury shares	Currency translation adjustment	Retained earnings and net income	Equity
	Number of shares	Par value per share	Total par value					
Balances at January 1, 2011	28,499,014	0.97	27,644	1,039	(386)	(8,877)	22,612	42,032
Net income (loss)							14,617	14,617
Other comprehensive income (loss)						(68)	462	394
Comprehensive income (loss)						(68)	15,079	15,011
Exercised stock options	404,596	0.97	392	1,449				1,841
Fair value of stock options							158	158
Sale (purchase) of treasury shares					(197)			(197)
Profit (loss) on treasury shares							259	259
Dividends paid							(5,164)	(5,164)
Balances at September 30, 2011	28,903,610	0.97	28,037	2,487	(583)	(8,946)	32,946	53,941
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)							10,050	10,050
Other comprehensive income (loss)						162	(512)	(350)
Comprehensive income (loss)						162	9,538	9,700
Increase of par value per share		0.03	868				(868)	0
Exercised stock options	40,752	0.99	40	103				143
Fair value of stock options							131	131
Sale (purchase) of treasury shares					291			291
Profit (loss) on treasury shares							(73)	(73)
Dividends paid							(6,330)	(6,330)
Balances at September 30, 2012	28,944,362	1.00	28,944	2,591	(431)	(8,654)	40,098	62,548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 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 the aeronautical and marine industries, and wind turbines.

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 September 30, 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 September 30, 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 that reviewed them at its meeting of October 25, 2012. They have not been the subject of a review 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 applies mainly 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 preparatory to 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

considers that this change of method will make the consolidated financial statements more relevant, thereby eliminating 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 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 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 Northern 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, and information systems. All of these cross-divisional activities are reported as an additional operating segment referred to here as the "Corporate" segment.

Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external 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 September 30, 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 September 30, 2012 of this first-time consolidation is not material.

There were no other changes in the scope of consolidation during the first nine months of 2012.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At September 30, 2012, their combined revenues totaled €0.6 million, and their combined assets in their statement of financial position totaled €1.5 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 September 30, 2012.

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

4.1 Q3 2012

(in thousands of euros)	Three Months Ended September 30				
	2012		2011	Changes 2012/2011	
	Actual	At 2011 exchange rates	Actual	Actual	Like-for-like
Revenues	47,852	45,755	51,186	-7%	-11%
Cost of goods sold	(12,370)	(12,187)	(15,707)	-21%	-22%
Gross profit	35,482	33,568	35,479	+0%	-5%
(in % of revenues)	74.1%	73.4%	69.3%	+4.8 points	+4.1 points
Research and development	(2,494)	(2,494)	(2,471)	+1%	+1%
Selling, general and administrative expenses	(27,624)	(26,672)	(24,202)	+14%	+10%
Income from operations	5,364	4,402	8,806	-39%	-50%
(in % of revenues)	11.2%	9.6%	17.2%	-6.0 points	-7.6 points
Profit before tax	5,083	4,121	8,302	-39%	-50%
Income tax	(1,302)	na	(2,477)	-47%	na
Net income	3,781	na	5,825	-35%	na

4.2 First Nine Months of 2012

(in thousands of euros)	Nine Months Ended September 30				
	2012		2011	Changes 2012/2011	
	Actual	At 2011 exchange rates	Actual	Actual	Like-for-like
Revenues	147,329	141,826	153,315	-4%	-7%
Cost of goods sold	(39,610)	(39,089)	(45,935)	-14%	-15%
Gross profit	107,719	102,737	107,380	+0%	-4%
(in % of revenues)	73.1%	72.4%	70.0%	+3.1 points	+2.4 points
Research and development	(8,521)	(8,521)	(8,490)	+0%	+0%
Selling, general and administrative expenses	(84,500)	(82,043)	(77,203)	+9%	+6%
Income from operations	14,698	12,173	21,687	-32%	-44%
(in % of revenues)	10.0%	8.6%	14.1%	-4.1 points	-5.5 points
Profit before tax	13,809	11,284	20,371	-32%	-45%
Income tax	(3,759)	na	(5,754)	-35%	na
Net income	10,050	na	14,617	-31%	na

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

5.1 Q3 2012

Revenues by geographic region

(in thousands of euros)	Three Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which :	22,947	48%	22,797	25,896	51%	-11%	-12%
- France	4,150	9%	4,150	5,124	10%	-19%	-19%
Americas	12,017	25%	10,994	12,254	24%	-2%	-10%
Asia-Pacific	10,496	22%	9,545	10,951	21%	-4%	-13%
Other countries	2,392	5%	2,419	2,085	4%	+15%	+16%
Total	47,852	100%	45,755	51,186	100%	-7%	-11%

Revenues by product line

(in thousands of euros)	Three Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Software, of which :	13,123	27%	12,622	13,673	27%	-4%	-8%
- New licenses	5,043	11%	4,830	6,203	12%	-19%	-22%
- Software evolution contracts	8,079	17%	7,792	7,470	15%	+8%	+4%
CAD/CAM equipment	11,974	25%	11,425	16,291	32%	-26%	-30%
Hardware maintenance and on-line services	9,488	20%	9,078	8,638	17%	+10%	+5%
Spare parts and consumables	11,416	24%	10,849	10,603	21%	+8%	+2%
Training and consulting services	1,836	4%	1,768	1,838	4%	-0%	-4%
Miscellaneous	15	0%	13	143	0%	-90%	-91%
Total	47,852	100%	45,755	51,186	100%	-7%	-11%

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Three Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	18,868	39%	18,036	24,476	48%	-23%	-26%
Recurring revenues[2], of which :	28,983	61%	27,719	26,710	52%	+9%	+4%
- Recurring contracts	17,152	36%	16,477	15,655	31%	+10%	+5%
- Other recurring revenues on the installed base	11,832	25%	11,242	11,055	21%	+7%	+2%
Total	47,852	100%	45,755	51,186	100%	-7%	-11%

[1] *Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PCs 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.

5.2 First Nine Months of 2012

Revenues by geographic region

(in thousands of euros)	Nine Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which :	70,457	48%	70,146	77,712	51%	-9%	-10%
- France	14,504	10%	14,504	16,002	10%	-9%	-9%
Americas	36,262	25%	33,680	32,247	21%	+12%	+4%
Asia-Pacific	31,413	21%	28,663	35,715	23%	-12%	-20%
Other countries	9,196	6%	9,337	7,641	5%	+20%	+22%
Total	147,329	100%	141,826	153,315	100%	-4%	-7%

Revenues by product line

(in thousands of euros)	Nine Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Software, of which :	40,900	28%	39,660	41,719	27%	-2%	-5%
- New licenses	17,172	12%	16,578	19,650	13%	-13%	-16%
- Software evolution contracts	23,728	16%	23,082	22,069	14%	+8%	+5%
CAD/CAM equipment	39,412	27%	37,532	46,762	31%	-16%	-20%
Hardware maintenance and on-line services	27,668	19%	26,733	25,814	17%	+7%	+4%
Spare parts and consumables	33,458	23%	32,180	31,956	21%	+5%	+1%
Training and consulting services	5,698	4%	5,532	6,675	4%	-15%	-17%
Miscellaneous	193	0%	187	389	0%	-50%	-52%
Total	147,329	100%	141,826	153,315	100%	-4%	-7%

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Nine Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	62,475	42%	59,830	73,476	48%	-15%	-19%
Recurring revenues[2], of which :	84,854	58%	81,996	79,839	52%	+6%	+3%
- Recurring contracts	50,172	34%	48,635	46,544	30%	+8%	+4%
- Other recurring revenues on the installed base	34,681	24%	33,361	33,295	22%	+4%	+0%
Total	147,329	100%	141,826	153,315	100%	-4%	-7%

[1] Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PCs 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.

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	Nine Months Ended September 30						
	2012			2011		Changes 2012/2011	
	Actual	%	At 2011 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	31,250	50%	30,382	39,496	54%	-21%	-23%
Automotive	21,682	35%	20,151	24,441	33%	-11%	-18%
Furniture	4,656	7%	4,567	4,840	7%	-4%	-6%
Other industries	4,887	8%	4,730	4,699	6%	+4%	+1%
Total	62,475	100%	59,830	73,476	100%	-15%	-19%

6. OPERATING SEGMENT INFORMATION

Nine months ended September 30, 2012 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	70,457	36,262	31,413	9,196	-	147,329
Income (loss) from operations before non-recurring items	4,902	(23)	(1,355)	981	10,193	14,698

Nine months ended September 30, 2011 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	77,712	32,247	35,715	7,641	-	153,315
Income (loss) from operations before non-recurring items	7,875	548	624	1,133	11,507	21,687

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	5.7	-	5.7
Proceeds from issuance of ordinary shares [1]	0.1	-	0.1
Sale and purchase of treasury shares [2]	0.2	-	0.2
Dividends paid	(6.3)	-	(6.3)
Change in borrowings	(0.4)	0.4	-
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	(0.5)	0.4	(0.1)
Cash and cash equivalents at December 31, 2011	26.3	(17.7)	8.6
Cash and cash equivalents at September 30, 2012	25.8	(17.3)	8.5
Change in cash position for the period	(0.5)	0.4	(0.1)

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

(2) Carried out solely under the Liquidity Agreement administered by SG Securities (Société Générale Group) until May 21, 2012, thereafter by Exane BNP Paribas (see note 10).

Free cash flow at September 30, 2012 amounted to €5.7 million. This figure results from a combination of €9.9 million in cash flows provided by operating activities (including an increase in working capital requirement of €6.3 million) and of €4.2 million in capital expenditures.

The main variations in working capital requirement are:

- −€5.7 million corresponding to a decrease in trade accounts receivable, after including the drop in sales of new systems;
- +€3 million corresponding to an increase in inventories, a major part of this increase being resulting from the launch of the new *Versalis* and *Vector* cutter offers;
- +€4.3 million arising from the increase in the (French) research tax credit receivable for the first nine months of 2012, recognized but not received;
- +€4.7 million arising from the change in other current assets and liabilities, in particular from the decline in trade payables, and in downpayments received from customers, and the increase in prepaid expenses; taken individually, these changes are immaterial.

The working capital requirement at September 30, 2012, was a positive €3.3 million. It comprised a receivable of €14.1 million in respect of the (French) research tax credit for FY 2010, FY 2011 and first nine months of 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 €10.8 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 €26.2 million in Damages and Interest (as of September 30, 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 the course of first-half 2013.

The Company Has Only Recorded in its Accounts €15.1 Million Actually Received on the Full Amount of the Arbitral Award of €26.2 Million

Induyco having appealed the June 27, 2011 Madrid Court of First Instance decision, this decision has not entailed any modification of the recognition of the award in the Group's financial statements: the balance (€11.1 million) of the total amount of the award (€26.2 million at September 30, 2012) still due by Induyco was not recorded in the financial statements at September 30, 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 €5.5 million at September 30, 2012, versus €4.5 million at December 31, 2011, an increase of €1million.

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

The Liquidity Agreement, previously administered by SG Securities (Société Générale), has been managed by Exane BNP Paribas since May 21, 2012.

Since January 1, 2012, the company has purchased 76,906 shares and sold 115,785 shares at an average price of €4.50 and €4.56 respectively under these Liquidity Agreements.

At September 30, 2012, the company held 94,975 Lectra shares (i.e. 0.3% of share capital) with an average purchase price of €4.53 entirely under the Liquidity Agreement.

11. LIQUIDITY AND BANK BORROWINGS

11.1 Cash and Cash Equivalents and Net Cash

(in thousands of euros)	As at September 30, 2012	As at December 31, 2011
Cash and cash equivalents	25,811	26,320
Total borrowings	(17,275)	(17,689)
Net cash (net financial debt)	8,536	8,631

The Group's net cash decreased by €0.1 million in the first nine months of 2012, after payment of a €6.3 million dividend on May 10, 2012.

11.2 Borrowings and Financial Debts by Category and by Maturity

At September 30, 2012, the repayment schedule is as follows:

(in thousands of euros)	Short term Less than 1 year	Long term Between 1 and 5 years	 More than 5 years	Total
Medium-term bank loan (1)	10,160	5,760	-	15,920
Interest-free repayable advances (2)	473	882	-	1,355
Total	10,633	6,642	-	17,275

(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 September 30, 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 for €10 million made on December 31, 2010).

The balance outstanding on the loan, ie €15.9 million at September 30, 2012, is repayable in three half-yearly installments: €0.6 million on December 31, 2012, €9.6 million on June 30, 2013 and €5.8 million on December 31, 2013.

This loan carried interest at the 3-month Euribor rate plus a margin reduced to 0.95% per year since January 1, 2011.

In 2007, the company hedged 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 4.36% for first nine months of 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 enter discussions with 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 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 September 30, 2012 is a negative €0.1 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 the first nine months of 2012.

As at July 1, 2012 and until December 31, 2012 (when the interest-rate swaps expire), the nominal value of interest-rate swaps has been reduced to €5 million (against €13 million on January 1, 2012).

Consequently, in the event that the 3-month Euribor rate remains identical to that at September 28, 2012 (0.22%), the total effective implied interest rate including the cost of the hedging instruments and the amounts hedged will be reduced to 2.62% in the Q4 2012, then would be reduced to 1.19% until payment of the final installment, due on December 31, 2013.

13. FOREIGN EXCHANGE 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 September 30, 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 €2.9 million, intended to hedge existing positions.

On July 5, 2012, the company hedged its net estimated U.S. dollar exposure for the third and fourth quarters of 2012 by purchasing dollar puts and euro calls, guaranteeing a parity of $1.30/€1, while fully benefitting from any dollar appreciation below this parity. No options were exercised in Q3, in light of the prevailing euro/dollar parity during the period.

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 $1.28/€1 during the first nine months of 2012). At the date of publication of this report, the euro/dollar parity is $1.30/ €1.

In light of the estimated share of revenue and costs generated in dollars or in dollar-correlated currencies, a $0.05 average appreciation of the dollar against the euro (taking the parity from $1.30/€1 to $1.25/€1) would mechanically increase fourth quarter revenues by €0.6 million and income from operations by €0.3 million. Conversely, a $0.05 depreciation in the dollar (taking the average parity to $1.35/€1) would reduce revenues and income from operations by the same amounts; while the benefit from the exercise of its euro/dollar options mentioned above (see note 13) would be reflected as a foreign exchange income.