MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER 2014

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the first quarter 2014.

1. SUMMARY OF OPERATIONS FOR Q1 2014

To make the discussion of revenues and earnings as relevant as possible and to better reflect the company's value proposition, changes have been introduced in reporting orders and backlog for new systems from January 1, 2014. Their total amount is now communicated, while previously only the orders for new software licenses and CAD/CAM equipment were stated. 2013 amounts have been restated accordingly for comparison with 2014 data.

Detailed comparisons between 2014 and 2013 are based on 2013 exchange rates ("like-for-like") unless stated otherwise.

With an average exchange rate of $1.37/€1, the U.S. dollar was down 4% versus Q1 2013 ($1.32/€1). Currency movements during the period mechanically decreased revenues by €1.4 million (–3%) and income from operations by €0.6 million (–21%) at actual exchange rates compared with like-for-like figures.

Orders for New Systems Sales Slightly Up

Orders for new systems sales totaled €19 million, up €0.7 million (+4%) compared with Q1 2013. New software licenses (€4.8 million) increased 1% and CAD/CAM equipment (€10.5 million) decreased by 6%. Training and consulting (€3.3 million) rose by €1.3 million (+66%), demonstrating customers' interest for Lectra's new strategy, which puts consulting at the heart of its value proposition.

Revenues and Income in Line with Company Expectations

In its report of February 11, 2014, the company indicated that due to the order backlog for new software licenses and CAD/CAM equipment at January 1 being €2.5 million below the prior year figure, and due to weak January sales activity, Q1 2014 revenues were expected to be stable and income from operations down relative to Q1 2013, at around €48 million and €1.5 million, respectively (based on February 1, 2014 exchange rates, notably $1.35/€1). First quarter figures are in line with expectations.

Revenues totaled €47.7 million, up 1% (–1% at actual exchange rates). Revenues from new systems sales (€18.4 million) decreased by €0.5 million (–3%). At the same time, recurring revenues (€29.2 million) rose by €1.2 million (+4%), resulting from a 5% increase of revenues from recurring contracts and 4% from spare parts and consumables.

Income from operations amounted to €2.3 million. It includes €0.7 million from the reversal of provisions related to the French research tax credit (see Chapter 2 below). Excluding the reversal of provisions, it is down €0.9 million (–29%), like-for-like, compared with Q1 2013 income from operations before non-recurring items.

At actual exchange rates, it decreased by €0.8 million (–26%). This decline comprises a €0.6 million negative impact of currency fluctuations, €0.2 million from the decrease in revenues from new systems sales, a €0.2 million natural increase in fixed overhead costs, and a €1.7 million increase in fixed overhead costs related to the company's transformation plan. These negative impacts were partly offset by the €1 million positive impact resulting from the increase in recurring revenues, by the €0.3 million increase in the gross profit margin and by the reversal of the tax credit provisions of €0.7 million.

Net income amounted to €1.8 million, down by €0.4 million (–16%) at actual exchange rates, compared with Q1 2013 net income excluding non-recurring items.

Free cash flow amounted to €2.8 million (€2.1 million in Q1 2013 excluding non-recurring items).

Progress in the Company's Transformation Plan

In its February 11, 2014 report, the company reiterated in full its strategic roadmap for 2013-2016, as well as its transformation plan and investments for the future, launched end 2011 and representing €50 million, and presented its first progress report.

A second progress report will be communicated on February 11, 2015.

It should be noted that these investments for the future are fully expensed, while their benefits will only be felt progressively.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2014

Revenues

Revenues totaled €47.7 million, up 1% like-for-like (–1% at actual exchange rates) compared with Q1 2013.

Revenue distribution by geographic market or market sector is given on an indicative basis in note 5 of the notes to this report. These changes over a single quarter do not allow the extrapolation of trends for the fiscal year.

Revenues from New Systems Sales

Revenues from new software licenses (€4.8 million) increased €0.1 million (+2%) and accounted for 10% of total revenues (10% in Q1 2013).

CAD/CAM equipment revenues (€10.9 million) were down 8% and accounted for 23% of total revenues (25% in Q1 2013).

Revenues from training and consulting increased by 17% to €2.3 million.

Overall, revenues from new systems sales (€18.4 million) decreased by €0.5 million (–3%). They represented 39% of total revenues (40% in Q1 2013).

Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€29.2 million) increased by €1.2 million (+4%). They accounted for 61% of total revenues (60% in Q1 2013).

Revenues from recurring contracts—which contributed to 59% of recurring revenues and 36% of total revenues—totaled €17.2 million, a 5% increase compared with Q1 2013, thus confirming the growth dynamics recorded throughout the whole of fiscal 2013 (+5%). They break down as follows:

- revenues from software evolution and on-line services contracts (€10.1 million), up 6% compared with Q1 2013 and representing 21% of total revenues;
- revenues from CAD/CAM equipment maintenance and on-line services contracts (€7.1 million), which increased by 3% and contributed to 15% of total revenues.

To make information as relevant as possible, as of January 1, 2014, on-line services have been separated for software, on one hand, and CAD/CAM equipment, on the other. They were previously grouped under the heading “hardware maintenance and on-line services contracts”. 2013 amounts have been restated accordingly for comparison with 2014 data.

Revenues from spare parts and consumables (€12 million), meanwhile, increased by 4%.

Order Backlog

At March 31, 2014, the order backlog of new systems sales (€13.7 million) was up €0.5 million relative to December 31, 2013.

It comprised orders for new software licenses and CAD/CAM equipment totaling €9.3 million, of which €8.2 million for shipment in Q2 2014 and €1.1 million in Q3 and beyond; and €4.4 million training and consulting, which will be delivered as projects are carried out.

Gross Profit Margin

The overall gross profit margin was 73.2%. Like-for-like, it increased by 1.7 percentage points relative to Q1 2013 (72%), given the mix of sales, the weight of software and of training and consulting in total revenues having increased, and that of CAD/CAM equipment having declined.

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

Overhead Costs

Total overhead costs were €32.6 million, up €1.5 million (+5%) compared with 2013.

They include a reversal of provisions of €0.7 million related to the research tax credit, following a decision by the French Council of State (*Conseil d’Etat*, the supreme court for administrative justice), validating the inclusion of profit-sharing expenses (*intéressement* and *participation,* applicable to the parent company Lectra SA exclusively) in the basis for computation of the research tax credit, and thus overturning the position adopted until then by the French tax administration (see note 8 of the notes to this report).

Excluding this reversal of provisions, overhead costs totaled €33.3 million, up €2.2 million (+7%). The breakdown is as follows:

- €30.2 million in fixed overhead costs, up €1.9 million (+7%). Investments for the future in connection with the transformation plan represented €3.1 million, or 10% of the total amount;
- €3.1 million in variable costs, up €0.3 million (+11%).

R&D costs are fully expensed in the period and included in fixed overhead costs. R&D costs amounted to €5.5 million and represented 11.6% of revenues (€4.8 million and 10% in Q1 2013). After deducting the research tax credit and the portion of the competitiveness and employment tax credit applicable in France, net R&D costs amounted to €3.6 million (€3.2 million in 2013) and €2.9 million following the reversal of provisions.

Income from Operations and Net Income

Income from operations reached €2.3 million. It includes €0.7 million resulting from the reversal of provisions related to the research tax credit. Compared with income from operations before non-recurring items for Q1 2013, it decreased €0.2 million (–6%) like-for-like and €0.8 million (–26%) at actual exchange rates.

The operating margin was 4.8%, down 0.4 percentage points like-for-like and down 1.6 percentage points at actual exchange rates compared with Q1 2013 operating margin before non-recurring items (6.4%).

At actual exchange rates, expenditures corresponding to investments for the future in connection with the transformation plan accounted for 3.4 percentage points of the reduction of this operating margin relative to Q1 2013, and for 6.4 percentage points relative to Q1 2011, before the plan’s inception.

Financial income and expenses represented a net charge close to zero. Foreign exchange gains and losses generated a net loss of €0.2 million.

After an income tax expense of €0.2 million, net income reached €1.8 million (€2.2 million in Q1 2013 excluding non-recurring items).

Net earnings per share on basic capital and on diluted capital were €0.06 (€0.08 on basic capital and €0.07 on diluted capital respectively in Q1 2013 excluding non-recurring items).

In Q1 2013, income from operations (€14.2 million) and net income (€12.2 million) incorporated the non-recurring income of €11.1 million and €10 million respectively, corresponding to the receipt of the outstanding amount due in the litigation against Induyco.

Free Cash Flow

Free cash flow amounted to €2.8 million (€2.1 million in Q1 2013 before non-recurring items of €11.1 million). This figure results from cash flow provided by operating activities of €3.7 million (including a decrease in the working capital requirement of €1.8 million), and cash flow used in investing activities of €1 million (see note 7 of the notes to this report).

The research tax credit (€1.8 million) and the competitiveness and employment tax credit (€0.2 million), applicable in France, and the reversal of provisions for Q1 2014, were accounted for but not received. If they had been received, free cash flow would have risen to €5.5 million, exceeding net income by €3.7 million.

Shareholders’ Equity

At March 31, 2014, consolidated shareholders’ equity reached to €86.4 million (€83.8 million at December 31, 2013).

The figure for shareholders’ equity is calculated after deduction of treasury shares held under the Liquidity Agreement. Treasury shares are carried at cost, i.e. €0.1 million (€0.1 million at December 31, 2013.).

Cash and cash equivalents totaled €32.4 million (€29.5 million at December 31, 2013).

Financial borrowings have been reduced to €0.4 million (€0.9 million at December 31, 2013). They correspond to interest-free government advances to help finance R&D programs, and the final repayment is expected to take place on March 31, 2015.

Consequently, the net cash position was positive at €32 million (€28.6 million at December 31, 2013).

Subject to approval by the Shareholders’ Meeting of April 30, 2014, shareholders’ equity, cash and cash equivalents and net cash will be reduced by the total amount of dividend (€6.5 million), to be paid on May 7, 2014.

The working capital requirement amounted to €8.2 million. It includes the receivable of €24.5 million on the French tax administration *(Trésor public)* corresponding to the research tax credit, recognized since fiscal 2010 and the Q1 2014 competitiveness and employment tax credit, none of them yet received or offset against income tax. Restated for this receivable, the working capital requirement was negative at €16.3 million, which is a key feature of the Group's business model.

It should be noted that, when these tax credits cannot be charged against income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the company in the course of the fourth year (see note 8 of the notes to this report). Thus, the unused balance of the receivable corresponding to the fiscal 2010 tax credit (€3.8 million) should be returned to the company in the course of the year.

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At March 31, 2014, the share capital totaled €29,777,102, divided into 29,777,102 shares with a par value of €1.00.

Share capital has increased by 112,687 shares since January 1, 2014, resulting from the exercise of stock options (an increase of €0.1 million of share capital together with a total share premium of €0.5 million).

On February 17, 2014, Schroders Investment Management Ltd (UK), on behalf of its investment funds, reported that it had increased, on February 12, 2014, its shareholding above the threshold of 10% of the company's capital stock and the voting rights and that it held at that date 10.14% of the capital stock and 10.01% of the voting rights. Schroders Investment Management Ltd also indicated that it holds an additional 2% of the company's capital on behalf of clients who have kept the exercise of their voting rights.

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

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

- André Harari and Daniel Harari, who together hold 37.3% of the capital and 36.8% of the voting rights;
- Delta Lloyd Asset Management N.V. (Netherlands), and Schroders Investment Management Ltd (UK), which each hold more than 10% (but less than 15%) of the capital and of the voting rights, on behalf of their investment funds.

Treasury Shares

At March 31, 2014, the company held less than 0.1% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement, contracted with Exane BNP Paribas.

Share Price Performance and Trading Volumes

The company's share price at March 31, 2014, was €7.83, down 6% compared with December 31, 2013 (€8.29), after rising 75% in 2013. Its highest level was €8.69 on February 10 and the lowest level was €7.40 on March 17. The CAC 40 index and the CAC Mid & Small index rose 2% and 9% respectively over the first three months of this year.

According to Euronext statistics, the number of shares traded (2.2 million) was up 60%, and trading volumes (€17.3 million) 138% compared with Q1 2013.

Lectra confirmed, in its press release of April 3, that it is eligible for inclusion in French SME equity savings plans "*PEA-PME*" qualifying for tax relief specifically applicable to investments in European small- and mid-cap companies.

4. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since March 31, 2014.

5. FINANCIAL CALENDAR

The 2013 annual report was published on lectra.com on March 31. For the first time, in addition to the electronic version, two interactive versions, animated with videos and other communications materials, are available: a rich media electronic version on lectra.com, and a downloadable application for iPad and Android tablets on App Store and Google Play.

The annual Shareholders' Meeting will be held on April 30, 2014.

The first-half 2014 financial results will be published on July 29, after close of trading on NYSE Euronext.

6. BUSINESS TRENDS AND OUTLOOK

The company entered 2014 with even more solid operating fundamentals than in 2013 and an even stronger balance sheet.

In its February 11, 2014 report and its 2013 annual report, to which readers are invited to refer, the company had indicated that the year 2014 looks both difficult and unpredictable like 2013, and has developed at length its business trends and outlook.

In particular, it indicated that the company's objective is to reach, for fiscal year 2014, at the minimum, total revenues of approximately €214 million (+7% relative to 2013), income from operations before non-recurring items of around €18 million (+10%), an operating margin before non-recurring items of 8.3% (increasing slightly), and net income of around €12.5 million (unchanged at actual exchange rates, excluding 2013 non-recurring items).

It also announced, nevertheless, that if macroeconomic risks abate, leading to a revival of customers' capital expenditures, and by capitalizing on the expected returns of its transformation plan, it hopes to exceed these figures and partly make good the shortfall relative to its initial plan presented on February 12, 2013. For every extra €1 million in revenues from new systems sales, income from operations would increase by approximately €0.45 million.

Positive results from the recent recruitment drive should start to be felt from the second half onward as recent recruits reach their full potential.

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

The Board of Directors

April 29, 2014

Company Certification of the First Quarter 2014

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 29, 2014

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	March 31, 2014	December 31, 2013	March 31, 2013
Goodwill	30,002	29,986	31,274
Other intangible assets	4,564	4,403	4,210
Property, plant and equipment	13,148	13,328	13,044
Non-current financial assets	1,702	2,121	1,882
Deferred tax assets	7,935	7,171	7,676
Total non-current assets	57,351	57,009	58,086
Inventories	21,619	20,748	23,036
Trade accounts receivable	42,106	50,269	38,569
Other current assets	33,448	28,999	25,193
Cash and cash equivalents	32,400	29,534	28,519
Total current assets	129,573	129,550	115,317
Total assets	186,924	186,559	173,403

EQUITY AND LIABILITIES

(in thousands of euros)	March 31, 2014	December 31, 2013	March 31, 2013
Share capital	29,777	29,664	29,046
Share premium	5,568	5,043	2,831
Treasury shares	(135)	(83)	(282)
Currency translation adjustments	(8,614)	(8,721)	(9,051)
Retained earnings and net income	59,782	57,926	54,958
Total equity	86,378	83,829	77,502
Retirement benefit obligations	7,457	7,419	6,902
Borrowings, non-current portion	-	394	392
Total non-current liabilities	7,457	7,813	7,294
Trade and other current payables	44,638	45,109	41,819
Deferred revenues	41,768	43,008	40,154
Current income tax liabilities	2,609	2,391	2,086
Borrowings, current portion	394	500	574
Provisions for other liabilities and charges	3,680	3,909	3,974
Total current liabilities	93,089	94,917	88,607
Total equity and liabilities	186,924	186,559	173,403

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenues	47,651	48,344
Cost of goods sold	(12,756)	(13,548)
Gross profit	34,895	34,797
Research and development	(2,939)	(3,218)
Selling, general and administrative expenses	(29,655)	(28,476)
Income (loss) from operations before non-recurring items	2,301	3,102
Non-recurring income (1)	-	11,124
Income (loss) from operations (1)	2,301	14,226
Financial income	88	38
Financial expenses	(106)	(143)
Foreign exchange income (loss)	(231)	49
Income (loss) before tax (1)	2,052	14,171
Income tax (1)	(214)	(1,958)
Net income (loss) (1)	1,838	12,213

(in euros)		
Earnings per share:		
- basic	0.06	0.42
- diluted	0.06	0.41
Shares used in calculating earnings per share		
- basic	29,700,700	28,923,802
- diluted	30,603,334	29,472,568

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended March 31, 2014	Three months ended March 31, 2013
Net income (loss) (1)	1,838	12,213
Currency translation adjustments	107	(211)
Tax effect	-	-
Other comprehensive income (loss) to be reclassified in net income (loss)	107	(211)
Remeasurement of the net liability arising from defined benefits pension plans	-	-
Tax effect	-	-
Other comprehensive income (loss) not to be reclassified in net income (loss)	-	-
Total other comprehensive income	107	(211)
Comprehensive income (loss) (1)	1,945	12,002

(1) At March 31, 2013, income from operations and income before tax included a non-recurring income of €11.1 million, relating to the receipt of the outstanding amount due in the litigation against Induyco. Net income and comprehensive income included an income of €10 million after tax effect. A record of the lawsuit is described in note 23.2 to the consolidated financial statements of the Group at December 31, 2013, available on lectra.com.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Three months ended March 31, 2014	Three months ended March 31, 2013
I - OPERATING ACTIVITIES		
Net income (loss)	1,838	12,213
Net depreciation, amortization and provisions	551	2,043
Non-cash operating expenses	315	28
Loss (profit) on sale of fixed assets	43	-
Changes in deferred income taxes, net value	(781)	1,174
Changes in inventories	(793)	(533)
Changes in trade accounts receivable	6,573	4,571
Changes in other current assets and liabilities	(4,009)	(5,299)
Net cash provided by (used in) operating activities [1]	3,737	14,197
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(652)	(356)
Purchases of property, plant and equipment	(475)	(620)
Proceeds from sales of intangible assets and property, plant and equipment	1	2
Purchases of financial assets [2]	(632)	(374)
Proceeds from sales of financial assets [2]	792	388
Net cash provided by (used in) investing activities	(966)	(960)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	637	329
Purchases of treasury shares	(670)	(213)
Sales of treasury shares	619	374
Repayments of long term and short term borrowings [3]	(500)	(5,760)
Net cash provided by (used in) financing activities	86	(5,270)
Increase (decrease) in cash and cash equivalents	2,857	7,967
Cash and cash equivalents at opening	29,534	20,966
Increase (decrease) in cash and cash equivalents	2,857	7,967
Effect of changes in foreign exchange rates	9	(414)
Cash and cash equivalents at closing	32,400	28,519
Free cash flow before non-recurring items	2,771	2,113
Non-recurring items of the free cash flow [1]	-	11,124
Free cash flow	2,771	13,237
Income tax paid (reimbursed), net	283	345
Interest paid	-	15

(1) At March 31, 2013, the net cash provided by operating activities included €11.1 million of non-recurring items, corresponding to the receipt of the outstanding amount due in the litigation against Induyco.

(2) These amounts mainly correspond to the valuation of purchases and sales of treasury shares made through the Liquidity Agreement, and for which the counterpart is shown in the corresponding cash flows arising from financing activities.

(3) The balance outstanding on the medium-term bank loan taken out by the company in 2007, i.e. €5.4 million at December 31, 2012, was repaid ahead of schedule on March 31, 2013, at the company's initiative.

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: Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
Balance at January 1, 2013	28,948,315	1.00	28,948	2,600	(380)	(8,840)	42,676	65,004
Net income (loss)							12,213	12,213
Other comprehensive income (loss)						(211)	-	(211)
Comprehensive income (loss)						(211)	12,213	12,002
Exercised stock options	97,973	1.00	98	231				329
Fair value of stock options							26	26
Sale (purchase) of treasury shares					98			98
Profit (loss) on treasury shares							42	42
Balance at March 31, 2013	29,046,288	1.00	29,046	2,831	(282)	(9,051)	54,957	77,501
Balance at January 1, 2013	28,948,315	1.00	28,948	2,600	(380)	(8,840)	42,676	65,004
Net income (loss)							21,775	21,775
Other comprehensive income (loss)						119	(382)	(263)
Comprehensive income (loss)						119	21,393	21,512
Exercised stock options	716,100	1.00	716	2,443				3,159
Fair value of stock options							140	140
Sale (purchase) of treasury shares					297			297
Profit (loss) on treasury shares							94	94
Dividends paid							(6,377)	(6,377)
Balance at December 31, 2013	29,664,415	1.00	29,664	5,043	(83)	(8,721)	57,926	83,829
Net income (loss)							1,838	1,838
Other comprehensive income (loss)						107	-	107
Comprehensive income (loss)						107	1,838	1,945
Exercised stock options	112,687	1.00	113	525				637
Fair value of stock options							17	17
Sale (purchase) of treasury shares					(52)			(52)
Profit (loss) on treasury shares							1	1
Balance at March 31, 2014	29,777,102	1.00	29,777	5,568	(135)	(8,614)	59,782	86,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2014

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed since 1987 on NYSE Euronext (compartment B). Lectra is the world leader in software, CAD/CAM equipment and associated services dedicated to large-scale users of fabrics, leather, technical textiles and composite materials. Lectra addresses a broad array of major global markets, mainly fashion and apparel, automotive (car seats and interiors, airbags), furniture as well as a wide variety of other industries, such as the aeronautical and marine industries, and wind power.

The company's technology offer 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 and apparel industry, Lectra's software applications also facilitate 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: cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure electronic communications; 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 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 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 more than 1,430 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of their customers' businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves its 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 unrivaled network, Lectra generated 90% of its revenues directly in 2013. Its five International Call Centers, in 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 at 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 780 employees dedicated to marketing, sales and services in the world. It employs 250 engineers dedicated to R&D, and nearly 160 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Business Model

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

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

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 and the competitiveness and employment 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, 2014, have been prepared in accordance with IAS 34 - Interim Financial Statements. They do not comprise all of the financial disclosures required in the complete financial statements and should be read in conjunction with the Group's consolidated financial statements and attached notes for the fiscal year 2013, available on lectra.com.

The consolidated financial statements have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2013 annual financial statements. They have been prepared under the responsibility of the Board of Directors at its meeting of April 29, 2014. Financial statements at March 31, 2013 and 2014 have not been reviewed by Statutory Auditors.

The standards and interpretations adopted by the European Union as of January 1, 2014 have no impact on the Group's financial statements. The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2014.

Comparisons identified as "like-for-like" correspond to 2014 figures restated at 2013 exchange rates, in comparison with actual data for 2013.

Critical Accounting Estimates and Judgments

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

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

Revenues

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

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

For software not sold with the hardware on which it is installed, these conditions are generally fulfilled at the time of installation of the software on the customer's computer (either by CD-ROM or downloading).

Revenues from software evolution contracts and recurring services contracts are billed in advance, and their booking is spread over the duration of the contracts.

Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

Cost of Goods Sold

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on 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 Costs

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

The (French) research tax credit *(crédit d'impôt recherche)* and the portion of the competitiveness and employment tax credit *(crédit d'impôt compétitivité et emploi)* relating to R&D personnel, as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

Earnings per Share

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

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

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

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

Free Cash Flow

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

Operating Segments

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments presented in note 6 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the Group's "chief operating decision maker".

Operating segments refer to the major marketing regions that combine countries with similar economic characteristics in terms of type of product and service, customer type and distribution method. The regions concerned are: the Americas, Europe, Asia-Pacific, and the Rest of the World, where the company operates chiefly in Northern Africa, South Africa, Turkey, Israel, and the Middle East. These regions are involved in sales and the provision of services to their customers. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, 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 customers; all inter-segment billings are excluded from this item. The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include 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 in order to cover its costs. Since most of the Corporate segment's general overheads are fixed, its margin profit and consequently its income from operations depend mainly on the volume of business generated by marketing regions.

3. SCOPE OF CONSOLIDATION

At March 31, 2014, the Group's scope of consolidation comprised Lectra SA together with 27 fully-consolidated companies.

There was no change in the scope of consolidation during the first quarter of 2014.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At March 31, 2014, their combined revenues totaled €0.2 million, and their combined assets in their statement of financial positions totaled €1.7 million. They had no financial debt outside of the Group. 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 when they act as agents. The amount concerned by these transactions was not material at March 31, 2014.

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

Statement of income at constant exchange rates

	Three Months Ended March 31				
	2014		2013	Changes 2014/2013	
(in thousands of euros)	Actual	At 2013 exchange rates	Actual	Actual	Like-for-like
Revenues	47,651	49,024	48,344	-1%	+1%
Cost of goods sold	(12,756)	(12,880)	(13,548)	-6%	-5%
Gross profit	34,895	36,144	34,797	0%	+4%
(in % of revenues)	73.2%	73.7%	72.0%	+1.2 point	+1.7 point
Research and development	(2,939)	(2,939)	(3,218)	-9%	-9%
Selling, general and administrative expenses	(29,655)	(30,284)	(28,476)	+4%	+6%
Income from operations before non-recurring items	2,301	2,921	3,102	-26%	-6%
(in % of revenues)	4.8%	6.0%	6.4%	-1.6 point	-0.4 point
Non-recurring income	-	-	11,124	ns	ns
Income from operations	2,301	2,921	14,226	ns	ns
(in % of revenues)	4.8%	6.0%	29.4%	ns	ns
Income before tax	2,052	2,671	14,171	ns	ns
Income tax	(214)	na	(1,958)	ns	ns
Net income	1,838	na	12,213	ns	ns

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

Revenues by geographic region

	Three Months Ended March 31						
	2014			2013		Changes 2014/2013	
(in thousands of euros)	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	22,795	48%	22,786	21,831	45%	+4%	+4%
- France	3,701	8%	3,698	4,230	9%	-12%	-13%
Americas	11,945	25%	12,663	14,253	29%	-16%	-11%
Asia-Pacific	9,979	21%	10,542	8,687	18%	+15%	+21%
Other countries	2,932	6%	3,033	3,573	7%	-18%	-15%
Total	47,651	100%	49,024	48,344	100%	-1%	+1%

Revenues by product line

	Three Months Ended March 31						
	2014			2013		Changes 2014/2013	
(in thousands of euros)	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	14,876	31%	15,253	14,607	30%	+2%	+4%
- New licenses	4,779	10%	4,929	4,824	10%	-1%	+2%
- Software evolution and on-line services contracts(1)	10,097	21%	10,324	9,783	20%	+3%	+6%
CAD/CAM equipment	10,917	23%	11,283	12,324	25%	-11%	-8%
Hardware maintenance and on-line services contracts(1)	7,139	15%	7,340	7,102	15%	+1%	+3%
Spare parts and consumables	12,000	25%	12,361	11,932	25%	+1%	+4%
Training and consulting services	2,266	5%	2,326	1,987	4%	+14%	+17%
Miscellaneous	452	1%	461	392	1%	+16%	+18%
Total	47,651	100%	49,024	48,344	100%	-1%	+1%

(1) To make information as relevant as possible, as of January 1, 2014, on-line services have been separated for software, on one hand, and CAD/CAM equipment, on the other. They were previously grouped under the heading “hardware maintenance and on-line services contracts”. 2013 amounts have been restated accordingly for comparison with 2014 data.

Breakdown of revenues between new systems sales and recurring revenues

	Three Months Ended March 31						
	2014			2013		Changes 2014/2013	
(in thousands of euros)	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales(1)	18,414	39%	18,999	19,527	40%	-6%	-3%
Recurring revenues(2), of which:	29,237	61%	30,025	28,817	60%	+1%	+4%
- Recurring contracts	17,237	36%	17,664	16,885	35%	+2%	+5%
- Spare parts and consumables	12,000	25%	12,361	11,932	25%	+1%	+4%
Total	47,651	100%	49,024	48,344	100%	-1%	+1%

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

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

Breakdown of revenues from new systems sales by market sector

	Three Months Ended March 31						
	2014			2013		Changes 2014/2013	
(in thousands of euros)	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like
Fashion and apparel	9,531	52%	9,782	9,330	48%	+2%	+5%
Automotive	5,715	31%	5,941	7,119	36%	-20%	-17%
Furniture	1,542	8%	1,550	1,580	8%	-2%	-2%
Other industries	1,626	9%	1,726	1,498	8%	+9%	+15%
Total	18,414	100%	18,999	19,527	100%	-6%	-3%

6. OPERATING SEGMENTS INFORMATION

Three months ended March 31, 2014 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	22,795	11,945	9,979	2,932	-	47,651
Income (loss) from operations before non-recurring items	1,210	(134)	245	287	693	2,301

Three months ended March 31, 2013 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	21,831	14,253	8,687	3,573	-	48,344
Income (loss) from operations before non-recurring items	1,957	799	(194)	459	81	3,102

Income from operations before non-recurring items, which is obtained by adding together the income for each segment, is identical to consolidated income from operations before non-recurring items shown in the Group’s consolidated financial statements and therefore does not require reconciliation.

7. CONSOLIDATED CASH FLOW SUMMARY

Three months ended March 31, 2014 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash (+) Net debt (–)
Free cash flow excluding non-recurring items	2,771	-	2,771
Proceeds from issuance of ordinary shares[1]	637	-	637
Sale and purchase of treasury shares[2]	(51)	-	(51)
Change in borrowings	(500)	500	-
Impact of currency variations – other	9	-	9
Change in cash position for the period	2,866	500	3,366
Cash position at December 31, 2013	29,534	(894)	28,640
Cash position at March 31, 2014	32,400	(394)	32,006
Change in cash position for the period	2,866	500	3,366

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

(2) Carried out solely under the Liquidity Agreement administered by Exane BNP Paribas (see note 9).

Free cash flow at March 31, 2014 amounted to €2.8 million (there were no non-recurring items). This figure results from a combination of €3.7 million in cash flows provided by operating activities (including a decrease in working capital requirement of €1.8 million) and of €1 million in investing activities.

The main variations in working capital requirement were:

- −€6.6 million corresponding to the decrease in trade accounts receivable, after the cash receipt of a significant portion of the recurring contracts at the beginning of the year, usually yearly in advance (the variation in trade accounts receivable includes “Deferred revenues” in the statement of financial position, which for the most part comprise the share of recurring contracts billed but not yet recognized in revenues);
- +€0.8 million corresponding to the increase in inventories;
- +€2.2 million arising from the receivable on the French tax administration (*Trésor public*) corresponding to the research tax credit and competitiveness and employment tax credit receivable for the first quarter of 2014, accounted for but not received;
- +€2.8 million arising from the difference between the variable portion of salaries for the Group in respect of fiscal 2013 paid in 2014, and the one recognized during the first quarter of 2014 and payable in 2015;
- +€1 million arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at March 31, 2014, amounted to €8.2 million. It comprised a receivable of €24.5 million on the French tax administration in respect of the research tax credit and the competitiveness and employment tax credit, which have not been received and have not been deducted from the current income tax expense (see note 8 hereafter). Restated for this receivable, the working capital requirement was negative at €16.3 million, which is a key feature of the Group’s business model.

8. RESEARCH TAX CREDIT – COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

At March 31, 2014, the company Lectra SA held a €24.5 million receivable on the French tax administration. This comprised:

- The research tax credit recognized in 2014 (€1.9 million), in 2013 (€6.7 million), in 2012 (€5.7 million) and in 2011 (€6.2 million), and the balance outstanding (€3.8 million) of the research tax credit accounted for in 2010 after deduction from corporate income tax due by Lectra SA in respect of 2014 and previous fiscal years;
- The competitiveness and employment tax credit accounted for in 2014 (€0.2 million).

The company incorporated profit-sharing expenses in the annual calculation base for the research tax credit it accounted for. Due to the French tax administration's position in questioning the eligibility of such expenses, the company booked, for the relevant years (2010 to 2013), a provision equal to the part of the annual research tax credit calculated on these bases. The French Council of State (*Conseil d'Etat*, the supreme court for administrative justice), in its decision of March 12, 2014, confirmed that the said expenses were eligible for the fiscal years in question. Thus, in its March 31, 2014 financial statements, the company reversed the previously booked €0.7 million provision. This amount has no impact on the receivable booked, since it did not include this provision.

It should be noted that, when the research tax credit and the competitiveness and employment tax credit recognized in the year cannot be deducted from the current income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the company in the course of the fourth year.

In light of company estimates of these tax credits and income tax for the next three years, the company does not expect to make any payment in respect of income tax, which will be deducted in full from the corresponding receivable. It also expects to receive reimbursement of the balance outstanding of these tax credits not deducted as follows: in 2014 (in respect of the 2010 tax credit; claim has been made to the French tax administration), 2015 (in respect of the 2011 tax credit), 2016 (in respect of the 2012 tax credit), 2017 (in respect of the 2013 tax credit) and 2018 (in respect of the 2014 tax credits). This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.

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

9. TREASURY SHARES

Since January 1, 2014, the company has purchased 84,589 shares and sold 77,263 shares at an average price of €7.94 and €8.03 respectively under the Liquidity Agreement administered by Exane BNP Paribas.

At March 31, 2014, the company held 17,734 Lectra shares (i.e. 0.06% of the share capital) with an average purchase price of €7.64 entirely under the Liquidity Agreement.

10. LIQUIDITY AND BANK BORROWINGS

10.1 Cash and Cash Equivalents and Net Cash

(in thousands of euros)	March 31, 2014	December 31, 2013
Cash and cash equivalents	32,400	29,534
Borrowings and financial debts	(394)	(894)
Net cash	32,006	28,640

The Group's net cash increased by €3.4 million during the first quarter of 2014.

10.2 Borrowings and Financial Debts by Category and by Maturity

At March 31, 2014, the Group's borrowings and financial debts correspond solely to public grants to finance R&D programs repayable on March 31, 2015 (€0.4 million), after a repayment of €0.5 million was made on March 31, 2014.

11. FOREIGN EXCHANGE RISK

The Group's currency risk management policy is unchanged relative to December 31, 2013.

During the first quarter of 2014, the average parity between the U.S. dollar and the euro was $1.37/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at March 31, 2014 comprised forward sales or purchases of foreign currencies (mainly U.S. dollars, British pounds, Russian ruble and Moroccan dirham) for a net total equivalent value (sales minus purchases) of €4.9 million, intended to hedge existing positions.

At the date of publication of this report, the company has not hedged its U.S. dollar future flows exposure.

12. 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 Exchange Rates

The company has based its 2014 scenarios on parities fixed on February 1 for the currencies in which the Group generates its revenues, notably $1.35/€1. The parity at the date of this report is $1.39/€1.

In view of the estimated share of revenues and costs denominated in dollars or in currencies correlated with the dollar, a 5-cent rise in the euro against the U.S. dollar over the entire year (i.e. $1.40/€1) mechanically entails a fall in FY 2014 revenues of around €3 million and of €1.6 million in income from operations. Conversely, a 5-cent fall in the euro (i.e. $1.30/€1) increases revenues and income from operations by the same amounts.

In addition to fluctuating against the U.S. dollar and against currencies strongly correlated with it, the euro also fluctuates against other currencies. However, these variations are frequently heterogeneous both in direction (upward and downward) and in scale.

Consequently, on an annual basis, the theoretical hypothesis of a 1% appreciation of the euro over the entire year against all of the other currencies in which the company conducts its business mechanically reduces revenues by an additional €0.2 million and income from operations by an additional €0.1 million. Conversely, a 1% fall in the euro boosts revenues and income from operations by the same amounts.