



## **MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2014**

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the third quarter and first nine months of 2014, ending September 30. Financial statements at September 30 have not been reviewed by the Statutory Auditors.

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

### **1. SUMMARY OF OPERATIONS FOR Q3 2014**

While the U.S. dollar was practically unchanged from Q3 2013 (\$1.32/€1), with an average exchange rate of \$1.33/€1, it appreciated sharply in September, the peak billing month of the quarter, rising 3% relative to September 2013. The overall effect of this and other currency movements mechanically increased revenues by €0.1 million (+0.2%) and income from operations by €0.2 million (+3%) at actual exchange rates compared with like-for-like figures.

#### **Rise in Orders for New Systems**

Orders for new systems totaled €23.7 million; they were €19 million and €24.8 million respectively in Q1 and Q2 2014.

They were up €0.9 million (+4%) compared with Q3 2013, the highest quarter of that year.

New software licenses (€5.7 million) increased by 26%; CAD/CAM equipment (€14.7 million) decreased by 4%, while training and consulting (€2.7 million) rose by 13%.

#### **Increase in Revenues, Income from Operations and Net Income**

Revenues totaled €53.8 million, up 6% (+6% at actual exchange rates).

Revenues from new systems sales (€23.3 million) increased by €2 million (+9%).

Recurring revenues (€30.5 million) rose by €0.9 million (+3%), thanks to a 3% increase in revenues from recurring contracts as well as in revenues from spare parts and consumables.

Income from operations amounted to €7.3 million, up €1 million (+17%), despite the increased weight of investments for the future. The operating margin (13.5%) increased by 1.3 percentage points.

At actual exchange rates, income from operations increased by €1.2 million (+20%) and the operating margin rose by 1.6 percentage points.

It should be noted that Q3 income from operations each year is boosted by the natural drop in overhead costs over the summer vacation months.

Net income amounted to €5.1 million, up €0.8 million (+20%) at actual exchange rates.

Free cash flow was €2.7 million (€1.9 million in Q3 2013).

### Implementing the Company's Transformation Plan

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

These investments are fully expensed, although their benefits will only be felt progressively.

## 2. FIRST NINE MONTHS 2014 CONSOLIDATED FINANCIAL STATEMENTS

With an average parity of \$1.36/€1, the U.S. dollar was down by nearly 3% compared with the first nine months of 2013 (\$1.32/€1). Other currencies, particularly those of emerging countries (the Turkish lira, Brazilian real, Indian rupee, Mexican peso, etc.), suffered a sharper fall against the euro. Overall, currency movements mechanically decreased revenues by €2.7 million (-2%) and income from operations by €1.1 million (-8%) at actual exchange rates compared with like-for-like figures.

The roadmap corresponding to the company's minimum objective communicated on February 11, 2014 anticipated revenues of €157 million for the first nine months of 2014 and income from operations of €12.4 million (based on exchange rates at February 1, 2014, notably \$1.35/€1).

While revenues at actual exchange rates for the first nine months (€153.9 million) are behind the roadmap by €3.1 million (-2%)—owing to weak Q1 orders for new systems—income from operations (€13.4 million) is €1 million ahead of the roadmap thanks to a more favorable sales mix, improved margins and lower-than-expected overhead costs.

### Orders for New Systems

Orders for new systems amounted to €67.5 million, up €5.5 million (+9%) relative to the first nine months of 2013: +13% for new software licenses, +1% for CAD/CAM equipment and +45% for training and consulting.

Geographically, the situation is highly contrasted. Orders in Europe increased by 31% and those in Asia-Pacific by 17%. They dropped by 21% in the Americas and by 9% in the rest of the world (North Africa, South Africa, Turkey, the Middle East, etc.).

Orders in the fashion and apparel market were up 16% and were stable in the automotive market. They dropped by 26% in furniture, while rising 53% in other industries. These markets accounted for 52%, 37%, 4% and 7% of total orders respectively.

### Revenues

Revenues totaled €153.9 million, up 4% (+3% at actual exchange rates) compared with the first nine months of 2013.

Revenues increased 21% in Asia-Pacific and 6% in Europe but decreased by 8% in the Americas. These three regions accounted for 24%, 46% (including 8% for France) and 24% of total revenues respectively. Revenues from the rest of the world (6% of total revenues) fell by 9%.

In 2013, these regions accounted for 21%, 44% (including 8% for France), 28% and 7% of total revenues respectively.

### *Revenues from New Systems Sales*

Revenues from new software licenses (€15.9 million) rose by €1.1 million (+7%) and accounted for 10% of total revenues, as in 2013.

CAD/CAM equipment revenues (€38.8 million) are unchanged and accounted for 25% of total revenues (26% in 2013).

Revenues from training and consulting increased by 28% to €7.7 million and represented 5% of total revenues (4% in 2013).

Overall, revenues from new systems sales (€64 million) were up by €3.3 million (+5%). They represented 42% of total revenues (41% in 2013).

### *Revenues from Recurring Contracts and Spare Parts and Consumables*

Recurring revenues (€89.9 million) increased by €3.3 million (+4%). They accounted for 58% of total revenues (59% in 2013).

Revenues from recurring contracts—which contributed to 59% of recurring revenues and 34% of total revenues—totaled €52.7 million, a 4% increase. The breakdown is as follows:

- revenues from software evolution and online services contracts (€30.8 million), up 4% compared with 2013 and representing 20% of total revenues;
- revenues from CAD/CAM equipment maintenance and online services contracts (€21.9 million), which increased by 3% and contributed 15% of total revenues.

Revenues from spare parts and consumables (€37.2 million), meanwhile, increased by 4%. They represented 24% of total revenues, as in 2013.

### **Order Backlog**

At September 30, 2014, the order backlog for new systems (€17.2 million) was up €4 million relative to December 31, 2013 and up €0.9 million relative to June 30, 2014, at actual exchange rates.

This backlog comprised orders for new software licenses and CAD/CAM equipment totaling €12 million, of which €11.6 million is for shipment in Q4 2014, and €5.2 million for training and consulting, to be delivered as projects are carried out.

### **Gross Profit Margin**

Gross profit amounted to €113.3 million. Its €7.2 million increase relative to the first nine months of 2013 is €0.6 million higher than the growth in revenues, an outstanding performance.

The overall gross profit margin was 73.6%. Like-for-like, it increased by 1.6 percentage points due to improved gross profit margins and to the change in the sales mix: with a rise in the share of software and of training and consulting in total revenues, and a fall in that of CAD/CAM equipment.

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 €99.9 million, up €5.9 million (+6%) compared with the first nine months of 2013. The breakdown is as follows:

- €89.4 million in fixed overhead costs, up €4.2 million (+5%). Investments for the future related to the company's transformation plan represented €9.6 million, or 11% of total fixed overhead costs;

- €10.5 million in variable costs, up €1.8 million (+19%), due to a rise in variable compensation, and an increase in subcontracted services.

R&D costs are fully expensed in the period and included in fixed overhead costs. They amounted to €15.7 million and represented 10.2% of revenues (€14 million and 9.4% for the first nine months of 2013). After deducting R&D grants, the research tax credit and the portion of the competitiveness and employment tax credit applicable in France and recognized since the beginning of the year, net R&D costs amounted to €9.4 million (€9.3 million in 2013). They include a €0.7 million reversal of provisions 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 (see note 9 of the notes to this report).

### Income from Operations and Net Income

Income from operations reached €13.4 million. Compared with income from operations before non-recurring items for the first nine months of 2013, it increased €1.2 million (+9%) like-for-like, and rose €0.2 million (+1%) at actual exchange rates.

This increase stems from the growth in revenues from new systems sales (€1.6 million), in recurring revenues (€2.6 million), and in gross profit margins (€1.2 million). These positive impacts were partly offset by the negative impact of currency fluctuations (€1.1 million), the natural increase in fixed overhead costs (€0.8 million), and the increase in investments for the future related to the company's transformation plan (€3.4 million).

The operating margin was 8.7%, up 0.4 percentage points like-for-like and down by 0.1 percentage points at actual exchange rates compared with the operating margin before non-recurring items for the first nine months of 2013 (8.8%).

At actual exchange rates, expenditures corresponding to investments for the future accounted for 2.1 percentage points in the reduction of operating margin before non-recurring items relative to the first nine months of 2013, and for 6.3 percentage points relative to the first nine months of 2011 (14.1%), before the transformation plan's inception and investments for the future totaling €50 million.

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

After an income tax expense of €3.5 million, net income reached €9.7 million (€8.8 million for the first nine months of 2013 excluding non-recurring items).

Net earnings per share on both basic and diluted capital were €0.32 (€0.30 in the first nine months of 2013 excluding non-recurring items).

For the first nine months of 2013, income from operations (€24.3 million) incorporated a non-recurring income of €11.1 million, and net income (€18.8 million) included a net gain of €10 million, corresponding to receipt of the outstanding amount due in the litigation against Induyco.

### Free Cash Flow

Free cash flow amounted to €9.3 million (€4.9 million for the first nine months of 2013 before non-recurring items of €11.1 million). This figure results from cash flow provided by operating activities of €13.4 million (including a €1.3 million decrease in the working capital requirement), and cash flow used in investing activities of €4.1 million (see note 8 of the notes to this report).

The research tax credit (€5.3 million) and the competitiveness and employment tax credit (€0.6 million) for the first nine months of 2014 applicable in France, and the reversal of provisions, were accounted for but not received. If these amounts had been received, free cash flow would have been €15.2 million, exceeding net income by €5.5 million.

## Shareholders' Equity

At September 30, 2014, consolidated shareholders' equity reached €89 million (€83.8 million at December 31, 2013) after payment on May 7 of the €6.6 million dividend (€0.22 per share) declared in respect of fiscal 2013, as decided at the Shareholders' Meeting of April 30, 2014.

The figure for shareholders' equity is calculated after deduction of treasury shares held under the liquidity agreement and valued at their acquisition cost of €0.2 million (€0.1 million at December 31, 2013).

Cash and cash equivalents totaled €32.5 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, the final repayment of which is due on March 31, 2015.

Consequently, the net cash position was €32.1 million (€28.6 million at December 31, 2013).

The working capital requirement amounted to €7.6 million. It includes the receivable of €28.1 million on the French tax administration (*Trésor public*) corresponding to the research tax credit recognized since fiscal 2010, and the competitiveness and employment tax credit since 2013, neither of which has yet been received or offset against income tax. Restated for this receivable, the working capital requirement was negative at €20.5 million, a key feature of the Group's business model.

It should be noted that, when these tax credits cannot be deducted from corporate income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the company in the course of the fourth year. Thus, the fiscal 2010 research tax credit amounting to €5.7 million was repaid to the company at the beginning of October (see note 9 of the notes to this report).

### 3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

#### Change in Share Capital

At September 30, 2014, the share capital totaled €30,153,816, divided into 30,153,816 shares with a par value of €1.00.

Share capital has increased by €489,401 due to the creation of 489,401 shares since January 1, 2014, resulting from the exercise of stock options (an increase of €0.5 million in share capital together with a total share premium of €1.6 million).

On February 17, 2014, Schroder Investment Management Ltd (UK), acting on behalf of its funds and clients under management, reported that it had increased its shareholding above the threshold of 10% of the company's capital stock and voting rights on February 12, and that at that date it held 10.14% of the capital stock and 10.01% of the voting rights. Schroder Investment Management Ltd also indicated that it held an additional 2% of the company's capital on behalf of clients who have retained 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 36.9% of the capital and 36.4% of the voting rights;
- Delta Lloyd Asset Management NV (Netherlands), and Schroder 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 investment funds and clients under management.

## Treasury Shares

At September 30, 2014, the company held 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 September 30, 2014, was €8.10, down 2% compared with December 31, 2013 (€8.29). During the first nine months of 2014, it registered a high of €8.73 on June 19 and a low of €7.31 on July 23. The CAC 40 index and the CAC Mid & Small index rose 3% and 4% respectively over the period. Over the last 12 months, the share price has risen 35%, while the CAC 40 index fell by 6% and the CAC Mid & Small index gained 12%.

According to Euronext statistics, the number of shares traded (4.8 million) was down 11%, and trading volumes (€37.9 million) were up 34% compared with the same period of 2013.

## 4. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred since September 30, 2014.

## 5. FINANCIAL CALENDAR

The Q4 and fiscal 2014 financial results will be published on February 11, 2015, after close of trading on 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 indicated that it expected 2014 to be as difficult and unpredictable as 2013. It also discussed business trends and the outlook for the company at length.

It indicated that the company's minimum objective for fiscal 2014 is to achieve 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% (a slight increase), and net income of around €12.5 million (stable at actual exchange rates, excluding 2013 non-recurring items). These figures were based on exchange rates at February 1, 2014, in particular \$1.35/€1.

In light of the company's financial results at September 30, full-year revenues should be slightly short of the above figure, while income from operations and net income should be slightly above these figures.

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

The company will present its outlook for 2015 and a second progress report of its roadmap on February 11, 2015.

The Board of Directors

October 29, 2014

## Company Certification of the Report for the Third Quarter and First Nine Months of 2014

We certify that, to our knowledge, the financial statements for the third quarter and the first nine months of 2014 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 29, 2014

Daniel Harari  
Chief Executive Officer

Jérôme Viala  
Chief Financial Officer

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

(in thousands of euros)	September 30, 2014	December 31, 2013	September 30, 2013
Goodwill	31,409	29,986	30,867
Other intangible assets	4,326	4,403	4,109
Property, plant and equipment	15,297	13,328	13,122
Non-current financial assets	1,891	2,121	2,415
Deferred tax assets	7,605	7,171	7,255
<b>Total non-current assets</b>	<b>60,528</b>	<b>57,009</b>	<b>57,768</b>
Inventories	21,966	20,748	21,909
Trade accounts receivable	37,723	50,269	34,448
Other current assets	37,083	28,999	28,109
Cash and cash equivalents	32,485	29,534	25,758
<b>Total current assets</b>	<b>129,257</b>	<b>129,550</b>	<b>110,224</b>
<b>Total assets</b>	<b>189,785</b>	<b>186,559</b>	<b>167,992</b>

### EQUITY AND LIABILITIES

(in thousands of euros)	September 30, 2014	December 31, 2013	September 30, 2013
Share capital	30,154	29,664	29,221
Share premium	6,666	5,043	3,155
Treasury shares	(214)	(83)	(214)
Currency translation adjustments	(8,638)	(8,721)	(8,840)
Retained earnings and net income	61,018	57,926	55,293
<b>Total equity</b>	<b>88,986</b>	<b>83,829</b>	<b>78,615</b>
Retirement benefit obligations	7,888	7,419	7,020
Borrowings, non-current portion	-	394	392
<b>Total non-current liabilities</b>	<b>7,888</b>	<b>7,813</b>	<b>7,412</b>
Trade and other current payables	48,040	45,109	43,209
Deferred revenues	37,808	43,008	32,410
Current income tax liabilities	3,310	2,391	2,038
Borrowings, current portion	394	500	500
Provisions for other liabilities and charges	3,359	3,909	3,808
<b>Total current liabilities</b>	<b>92,911</b>	<b>94,917</b>	<b>81,965</b>
<b>Total equity and liabilities</b>	<b>189,785</b>	<b>186,559</b>	<b>167,992</b>



## CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Revenues	53,751	153,909	50,764	149,997
Cost of goods sold	(13,851)	(40,652)	(13,667)	(41,488)
Gross profit	39,900	113,257	37,097	108,509
Research and development	(2,905)	(9,355)	(2,708)	(9,256)
Selling, general and administrative expenses	(29,735)	(90,523)	(28,333)	(86,028)
Income (loss) from operations before non-recurring items	7,260	13,379	6,056	13,225
Non-recurring income <sup>(1)</sup>	-	-	-	11,124
Income (loss) from operations <sup>(1)</sup>	7,260	13,379	6,056	24,349
Financial income	135	378	41	104
Financial expenses	(104)	(334)	(90)	(404)
Foreign exchange income (loss)	18	(242)	(132)	(610)
Income (loss) before tax <sup>(1)</sup>	7,309	13,181	5,875	23,439
Income tax <sup>(1)</sup>	(2,232)	(3,498)	(1,629)	(4,590)
Net income (loss) <sup>(1)</sup>	5,077	9,683	4,246	18,849

(in euros)

Earnings per share:				
- basic	0.17	0.32	0.15	0.65
- diluted	0.17	0.32	0.14	0.64
Shares used in calculating earnings per share				
- basic	30,064,575	29,876,435	29,129,997	29,020,971
- diluted	30,762,342	30,685,142	29,623,765	29,521,092

## STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended September 30, 2014	Nine months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2013
Net income (loss) <sup>(1)</sup>	5,077	9,683	4,246	18,849
Currency translation adjustments	167	83	90	-
Tax effect	-	-	-	-
Other comprehensive income (loss) to be reclassified in net income (loss)	167	83	90	0
Remeasurement of the net liability arising from defined benefits pension plans	-	(95)	(4)	(21)
Tax effect	-	28	4	4
Other comprehensive income (loss) not to be reclassified in net income (loss)	0	(67)	0	(17)
Total other comprehensive income	167	16	90	(17)
Comprehensive income (loss) <sup>(1)</sup>	5,244	9,699	4,336	18,832

(1) At September 30, 2013, income from operations and income before tax included a non-recurring income of €11.1 million, relating to the receipt of the remaining 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](http://lectra.com).

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Nine months ended September 30, 2014	Nine months ended September 30, 2013
<b>I - OPERATING ACTIVITIES</b>		
Net income (loss)	9,683	18,849
Net depreciation, amortization and provisions	3,021	5,012
Non-cash operating expenses	(571)	199
Loss (profit) on sale of fixed assets	3	(32)
Changes in deferred income taxes, net value	(1)	1,284
Changes in inventories	(1,163)	(53)
Changes in trade accounts receivable	6,626	789
Changes in other current assets and liabilities	(4,179)	(6,322)
<b>Net cash provided by (used in) operating activities <sup>(1)</sup></b>	<b>13,419</b>	<b>19,726</b>
<b>II - INVESTING ACTIVITIES</b>		
Purchases of intangible assets	(1,350)	(1,166)
Purchases of property, plant and equipment	(2,991)	(2,013)
Proceeds from sales of intangible assets and property, plant and equipment	8	63
Acquisition cost of activities purchased <sup>(2)</sup>	(1,560)	-
Purchases of financial assets <sup>(3)</sup>	(1,773)	(1,377)
Proceeds from sales of financial assets <sup>(3)</sup>	1,995	794
<b>Net cash provided by (used in) investing activities</b>	<b>(5,671)</b>	<b>(3,699)</b>
<b>III - FINANCING ACTIVITIES</b>		
Proceeds from issuance of ordinary shares	2,113	828
Dividends paid	(6,554)	(6,377)
Purchases of treasury shares	(1,800)	(789)
Sales of treasury shares	1,690	1,049
Repayments of long term and short term borrowings <sup>(4)</sup>	(500)	(5,834)
<b>Net cash provided by (used in) financing activities</b>	<b>(5,051)</b>	<b>(11,123)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,697</b>	<b>4,904</b>
<b>Cash and cash equivalents at opening</b>	<b>29,534</b>	<b>20,966</b>
Increase (decrease) in cash and cash equivalents	2,697	4,904
Effect of changes in foreign exchange rates	254	(112)
<b>Cash and cash equivalents at closing</b>	<b>32,485</b>	<b>25,758</b>
Free cash flow before non-recurring items	9,308	4,903
Non-recurring items of the free cash flow <sup>(1)</sup>	-	11,124
<b>Free cash flow</b>	<b>9,308</b>	<b>16,027</b>
Income tax paid (reimbursed), net	2,123	2,404
Interest paid	-	15

(1) At September 30, 2013, net cash provided by operating activities included €11.1 of non-recurring elements, corresponding to the receipt of the remaining amount due in the litigation against Induyco.

(2) At September 30, 2014, this amount corresponds to the acquisition cost of the activities of the Group's former agent in South Korea (see note 3 hereafter).

(3) 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.

(4) 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			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
	Number of shares	Par value per share	Share capital					
<b>Balance at January 1, 2013</b>	<b>28,948,315</b>	<b>1.00</b>	<b>28,948</b>	<b>2,600</b>	<b>(380)</b>	<b>(8,840)</b>	<b>42,676</b>	<b>65,004</b>
Net income (loss)							18,849	18,849
Other comprehensive income (loss)						-	(17)	(17)
<b>Comprehensive income (loss)</b>						<b>0</b>	<b>18,832</b>	<b>18,832</b>
Exercised stock options	272,507	1.00	273	556				828
Fair value of stock options							98	98
Sale (purchase) of treasury shares					166			166
Profit (loss) on treasury shares							62	62
Dividends paid							(6,377)	(6,377)
<b>Balance at September 30, 2013</b>	<b>29,220,822</b>	<b>1.00</b>	<b>29,221</b>	<b>3,155</b>	<b>(214)</b>	<b>(8,840)</b>	<b>55,293</b>	<b>78,615</b>
<b>Balance at January 1, 2013</b>	<b>28,948,315</b>	<b>1.00</b>	<b>28,948</b>	<b>2,600</b>	<b>(380)</b>	<b>(8,840)</b>	<b>42,676</b>	<b>65,004</b>
Net income (loss)							21,775	21,775
Other comprehensive income (loss)						119	(382)	(263)
<b>Comprehensive income (loss)</b>						<b>119</b>	<b>21,393</b>	<b>21,512</b>
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)
<b>Balance at December 31, 2013</b>	<b>29,664,415</b>	<b>1.00</b>	<b>29,664</b>	<b>5,043</b>	<b>(83)</b>	<b>(8,721)</b>	<b>57,926</b>	<b>83,829</b>
Net income (loss)							9,683	9,683
Other comprehensive income (loss)						83	(67)	16
<b>Comprehensive income (loss)</b>						<b>83</b>	<b>9,616</b>	<b>9,699</b>
Exercised stock options	489,401	1.00	489	1,623				2,113
Fair value of stock options							89	89
Sale (purchase) of treasury shares					(131)			(131)
Profit (loss) on treasury shares							14	14
Other variations							(73)	(73)
Dividends paid							(6,554)	(6,554)
<b>Balance at September 30, 2014</b>	<b>30,153,816</b>	<b>1.00</b>	<b>30,154</b>	<b>6,666</b>	<b>(214)</b>	<b>(8,638)</b>	<b>61,018</b>	<b>88,986</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2014

### 1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed since 1987 on 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 overcome their major strategic challenges: cutting costs and boosting productivity; reducing time-to-market; managing 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 1,480 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 32 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 in Bordeaux-Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers in 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 more than 800 employees dedicated to marketing, sales and services in the world. It employs 260 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 online services contracts, and CAD/CAM equipment maintenance and online 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](http://ec.europa.eu/internal_market/accounting/ias/index_en.htm)

The condensed consolidated financial statements at September 30, 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](http://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 October 29, 2014. The financial statements at September 30 have not been reviewed by the 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 adopted in advance any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2014.

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

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 7 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 added value supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross profit is retained in the income computed for the Corporate segment in order to cover its costs. Since most of the Corporate segment's general overheads are fixed, its profit margin and consequently its income from operations depend mainly on the volume of business generated by marketing regions.

## 3. SCOPE OF CONSOLIDATION

At September 30, 2014, the Group's scope of consolidation comprised Lectra SA together with 28 fully-consolidated companies.

In April 2014, the company established a new subsidiary in South Korea, Lectra Korea, with a view to accelerating its development in Asia.

On May 1, 2014, this subsidiary assumed the assets of the agent that previously represented Lectra in this country for many years. The cost of the purchase by Lectra of this activity is shown in the statement of cash flows under "Acquisition cost of activities purchased". The impact of this subsidiary's creation and of the purchase of the said assets is immaterial, the bulk of sales in this country having previously been billed by Lectra SA.

Lectra Korea has been fully consolidated since May 1, 2014.

There was no other change in the scope of consolidation during the first nine months of 2014.

Four sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At September 30, 2014, their combined revenues totaled €0.7 million, and their combined assets in their statement of financial position totaled €1.8 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 September 30, 2014.

#### **4. ORDERS FOR NEW SYSTEMS**

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 the Management discussion 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.



## 5. CONSOLIDATED STATEMENT OF INCOME—LIKE-FOR-LIKE CHANGE

### 5.1. Q3 2014

(in thousands of euros)	Three Months Ended September 30				
	2014		2013	Changes 2014/2013	
	Actual	At 2013 exchange rates	Actual	Actual	Like-for-like
Revenues	53,751	53,622	50,764	+6%	+6%
Cost of goods sold	(13,851)	(13,858)	(13,667)	+1%	+1%
Gross profit	39,900	39,764	37,097	+8%	+7%
(in % of revenues)	74.2%	74.2%	73.1%	+1.1 points	+1.1 points
Research and development	(2,905)	(2,905)	(2,708)	+7%	+7%
Selling, general and administrative expenses	(29,735)	(29,796)	(28,333)	+5%	+5%
Income (loss) from operations	7,260	7,063	6,056	+20%	+17%
(in % of revenues)	13.5%	13.2%	11.9%	+1.6 points	+1.3 points
Income (loss) before tax	7,309	7,112	5,875	+24%	+21%
Income tax	(2,232)	na	(1,629)	+37%	na
Net income (loss)	5,077	na	4,246	+20%	na

### 5.2. First Nine Months of 2014

(in thousands of euros)	Nine Months Ended September 30				
	2014		2013	Changes 2014/2013	
	Actual	At 2013 exchange rates	Actual	Actual	Like-for-like
Revenues	153,909	156,585	149,997	+3%	+4%
Cost of goods sold	(40,652)	(40,921)	(41,488)	-2%	-1%
Gross profit	113,257	115,664	108,509	+4%	+7%
(in % of revenues)	73.6%	73.9%	72.3%	+1.3 points	+1.6 points
Research and development	(9,355)	(9,355)	(9,256)	+1%	+1%
Selling, general and administrative expenses	(90,523)	(91,844)	(86,028)	+5%	+7%
Income (loss) from operations before non-recurring items	13,379	14,465	13,225	+1%	+9%
(in % of revenues)	8.7%	9.2%	8.8%	-0.1 points	+0.4 points
Non-recurring income	-	-	11,124	na	na
Income (loss) from operations	13,379	14,465	24,349	-45%	-41%
(in % of revenues)	8.7%	9.2%	16.2%	ns	ns
Income (loss) before tax	13,181	14,267	23,439	-44%	-39%
Income tax	(3,498)	na	(4,590)	-24%	na
Net income (loss)	9,683	na	18,849	-49%	na

## 6. BREAKDOWN OF REVENUES—LIKE-FOR-LIKE CHANGE

### 6.1. Q3 2014

#### Revenues by geographic region

(in thousands of euros)	Three Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Europe, of which:	24,500	46%	24,429	21,663	43%	+13%	+13%
- France	4,167	8%	4,168	4,016	8%	+4%	+4%
Americas	12,442	23%	12,423	12,565	25%	-1%	-1%
Asia-Pacific	13,594	25%	13,511	13,114	26%	+4%	+3%
Other countries	3,215	6%	3,260	3,422	7%	-6%	-5%
<b>Total</b>	<b>53,751</b>	<b>100%</b>	<b>53,622</b>	<b>50,764</b>	<b>100%</b>	<b>+6%</b>	<b>+6%</b>

#### Revenues by product line

(in thousands of euros)	Three Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Software, of which:	16,206	30%	16,196	15,219	30%	+6%	+6%
- New licenses	5,768	11%	5,752	5,130	10%	+12%	+12%
- Software maintenance and on-line services contracts <sup>(1)</sup>	10,438	19%	10,444	10,089	20%	+3%	+4%
CAD/CAM equipment	14,600	27%	14,471	13,364	26%	+9%	+8%
Hardware maintenance and on-line services contracts <sup>(1)</sup>	7,510	14%	7,505	7,321	14%	+3%	+3%
Spare parts and consumables	12,524	23%	12,539	12,192	24%	+3%	+3%
Training and consulting services	2,327	4%	2,327	2,137	4%	+9%	+9%
Miscellaneous	586	1%	584	530	1%	+10%	+10%
<b>Total</b>	<b>53,751</b>	<b>100%</b>	<b>53,622</b>	<b>50,764</b>	<b>100%</b>	<b>+6%</b>	<b>+6%</b>

(1) To make information as relevant as possible, as of January 1, 2014, online 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 online services contracts". 2013 amounts have been restated accordingly for comparison with 2014 data.

#### Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Three Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Revenues from new systems sales <sup>(1)</sup>	23,280	43%	23,134	21,161	42%	+10%	+9%
Recurring revenues <sup>(2)</sup> , of which:	30,471	57%	30,488	29,603	58%	+3%	+3%
- Recurring contracts	17,947	33%	17,949	17,411	34%	+3%	+3%
- Spare parts and consumables	12,524	23%	12,539	12,192	24%	+3%	+3%
<b>Total</b>	<b>53,751</b>	<b>100%</b>	<b>53,622</b>	<b>50,764</b>	<b>100%</b>	<b>+6%</b>	<b>+6%</b>

(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 online services contracts, and CAD/CAM equipment maintenance and online services contracts, which are renewable annually;
- Revenues from sales of spare parts and consumables, which are statistically recurrent.

## 6.2. First Nine Months of 2014

### Revenues by geographic region

(in thousands of euros)	Nine Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Europe, of which:	70,693	46%	70,607	66,430	44%	+6%	+6%
- France	12,037	8%	12,036	12,558	8%	-4%	-4%
Americas	36,791	24%	38,201	41,372	28%	-11%	-8%
Asia-Pacific	36,624	24%	37,690	31,149	21%	+18%	+21%
Other countries	9,801	6%	10,087	11,047	7%	-11%	-9%
<b>Total</b>	<b>153,909</b>	<b>100%</b>	<b>156,585</b>	<b>149,997</b>	<b>100%</b>	<b>+3%</b>	<b>+4%</b>

### Revenues by product line

(in thousands of euros)	Nine Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Software, of which:	46,674	30%	47,409	44,975	30%	+4%	+5%
- New licenses	15,911	10%	16,199	15,069	10%	+6%	+7%
- Software maintenance and on-line services contracts <sup>(1)</sup>	30,763	20%	31,210	29,906	20%	+3%	+4%
CAD/CAM equipment	38,813	25%	39,425	39,276	26%	-1%	0%
Hardware maintenance and on-line services contracts <sup>(1)</sup>	21,937	15%	22,318	21,717	15%	+1%	+3%
Spare parts and consumables	37,191	24%	37,945	36,519	24%	+2%	+4%
Training and consulting services	7,728	5%	7,905	6,156	4%	+26%	+28%
Miscellaneous	1,566	1%	1,583	1,353	1%	+16%	+17%
<b>Total</b>	<b>153,909</b>	<b>100%</b>	<b>156,585</b>	<b>149,997</b>	<b>100%</b>	<b>+3%</b>	<b>+4%</b>

(1) To make information as relevant as possible, as of January 1, 2014, online 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 online services contracts". 2013 amounts have been restated accordingly for comparison with 2014 data.

### Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Nine Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Revenues from new systems sales <sup>(1)</sup>	64,018	42%	65,113	61,854	41%	+3%	+5%
Recurring revenues <sup>(2)</sup> , of which:	89,891	58%	91,472	88,142	59%	+2%	+4%
- Recurring contracts	52,700	34%	53,527	51,624	34%	+2%	+4%
- Spare parts and consumables	37,191	24%	37,945	36,519	24%	+2%	+4%
<b>Total</b>	<b>153,909</b>	<b>100%</b>	<b>156,585</b>	<b>149,997</b>	<b>100%</b>	<b>+3%</b>	<b>+4%</b>

(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 online services contracts, and CAD/CAM equipment maintenance and online 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

(in thousands of euros)	Nine Months Ended September 30						
	2014		At 2013 exchange rates	2013		Changes 2014/2013	
	Actual	%		Actual	%	Actual	Like-for-like
Fashion and apparel	30,821	48%	31,294	28,423	46%	+8%	+10%
Automotive	24,446	38%	24,900	24,681	40%	-1%	+1%
Furniture	4,361	7%	4,381	4,770	8%	-9%	-8%
Other industries	4,390	7%	4,538	3,980	6%	+10%	+14%
<b>Total</b>	<b>64,018</b>	<b>100%</b>	<b>65,113</b>	<b>61,854</b>	<b>100%</b>	<b>+3%</b>	<b>+5%</b>

## 7. OPERATING SEGMENTS INFORMATION

Nine months ended September 30, 2014						
(in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	70,693	36,791	36,624	9,801	-	153,909
Income (loss) from operations before non-recurring items	6,329	912	1,178	1,516	3,444	13,379

  

Nine months ended September 30, 2013						
(in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate	Total
Revenues	66,430	41,372	31,149	11,047	-	149,997
Income (loss) from operations before non-recurring items	6,449	1,800	(272)	1,450	3,798	13,225

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 need to be reconciled.

## 8. CONSOLIDATED CASH FLOW SUMMARY

Nine months ended September 30, 2014			
(in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash (+) Net debt (-)
Free cash flow	9,308	-	9,308
Proceeds from issuance of ordinary shares <sup>(1)</sup>	2,113	-	2,113
Sale and purchase of treasury shares <sup>(2)</sup>	(110)	-	(110)
Acquisition cost of activities purchased	(1,560)	-	(1,560)
Dividends paid	(6,554)	-	(6,554)
Change in borrowings	(500)	500	-
Impact of currency variations – other	254	-	254
<b>Change in cash position for the period</b>	<b>2,951</b>	<b>500</b>	<b>3,451</b>
Cash position at December 31, 2013	29,534	(894)	28,640
Cash position at September 30, 2014	32,485	(394)	32,091
<b>Change in cash position for the period</b>	<b>2,951</b>	<b>500</b>	<b>3,451</b>

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

(2) Carried out solely under the liquidity agreement administered by Exane BNP Paribas (see note 10).

Free cash flow at September 30, 2014, amounted to €9.3 million (there were no non-recurring items). This figure results from a combination of €13.4 million in cash flows provided by operating activities (including a decrease in working capital requirement of €1.3 million) and of €4.1 million in investing activities.

The main variations in working capital requirement were:

- –€6.6 million corresponding to the decrease in trade accounts receivable, in particular 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 comprises the share of recurring contracts billed but not yet recognized in revenues);
- +€1.2 million corresponding to the increase in inventories;
- +€5.9 million arising from the increase of 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 nine months of 2014, accounted for but not received;

- –€1.4 million corresponding to the increase of customers down payments in the statement of financial position, due to new systems orders in Q3 2014 being higher than those in Q4 2013;
- –€0.4 million arising from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at September 30, 2014, amounted to €7.6 million. It comprised a receivable of €28.1 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 9 hereafter). Restated for this receivable, the working capital requirement was negative at €20.5 million, which is a key feature of the Group's business model.

## 9. RESEARCH TAX CREDIT – COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

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

At September 30, 2014, the parent company Lectra SA held a €28.1 million receivable on the French tax administration.

The company had until then deducted the most aged (2010) receivable relating to the research tax credit from its corporate income tax.

However, as the company learnt in October 2014 when it was reimbursed for its 2010 research tax credit, the French tax administration operates in a different way, deducting the tax credit from the corporate income tax of the same fiscal year. Thus, and since no corporate income tax was recorded for 2010, the company received the reimbursement in full of the research tax credit recognized in 2010 (€5.7 million).

According to this rule, the €28.1 million receivable held on the French tax administration at September 30, 2014, now comprises:

- The remaining amount of the research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year, for 2014 (€5.3 million), 2013 (€6.1 million), 2012 (€5.1 million), 2011 (€4.8 million), and 2010 (€5.7 million, received in October 2014);
- The competitiveness and employment tax credit accounted for and not used in 2014 (€0.6 million) and 2013 (€0.5 million).

Furthermore, 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 had booked, for the relevant years (2010 to 2013), a provision equal to the part of the annual research tax credit calculated on these bases. In its decision of March 12, 2014, the French Council of State (*Conseil d'Etat*, the supreme court for administrative justice), confirmed that the said expenses were eligible for the fiscal years in question, thus rejecting the French tax administration's position adopted until then. As a result, the company reversed the previously booked €0.7 million provision during the first quarter of 2014. This amount has no impact on the receivable booked, since it did not include this provision.

In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the company does not expect to make any payment in respect of corporate income tax, which will be deducted in full from the research tax credit and the competitiveness and employment tax credit, if any, of each fiscal year. It therefore expects to receive reimbursement of the balance outstanding of these tax credits not deducted as follows: in 2015 (in respect of the 2011 tax credit), 2016 (in respect

of the 2012 tax credit), 2017 (in respect of the 2013 tax credits) 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 corporate 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.

## 10. TREASURY SHARES

Since January 1, 2014, the company has purchased 228,471 shares and sold 211,875 shares at an average price of €7.88 and €7.98 respectively under the liquidity agreement administered by Exane BNP Paribas.

At September 30, 2014, the company held 27,004 Lectra shares (i.e. 0.09% of the share capital) with an average purchase price of €7.94 entirely under the liquidity agreement.

## 11. LIQUIDITY AND BANK BORROWINGS

### 11.1. Cash and Cash Equivalents and Net Cash

(in thousands of euros)	September 30, 2014	December 31, 2013
Cash and cash equivalents	32,485	29,534
Borrowings and financial debts	(394)	(894)
<b>Net cash</b>	<b>32,091</b>	<b>28,640</b>

The Group's net cash increased by €3.5 million during the first nine months of 2014.

### 11.2. Borrowings and Financial Debts by Category and by Maturity

At September 30, 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.

## 12. FOREIGN EXCHANGE RISK

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

During the first nine months of 2014, the average parity between the U.S. dollar and the euro was \$1.36/€1.

### Exchange Risk Hedging Instruments

Exchange risk hedging instruments at September 30, 2014 comprised forward sales or purchases of foreign currencies (mainly U.S. dollar, British pound and Russian ruble) for a net total equivalent value (sales minus purchases) of €7.7 million, intended to hedge existing positions.

Thus, the company has covered almost all its balance sheet positions.

On September 1, 2014, the company hedged its net estimated U.S. dollar exposure for the fourth quarter of 2014 by purchasing dollar puts and euro calls, guaranteeing a parity of \$1.35/€1, while fully benefiting from any dollar appreciation below this parity. However, at the date of publication of this report, it has not hedged its exposure to the U.S. dollar beyond December 31, 2014.

### 13. SENSITIVITY ANALYSIS

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

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

#### Sensitivity of Revenues and Income from Operations to a Change in 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.

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 amount.

The parity at the date of this report is \$1.27/€1.