MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRD QUARTER AND FIRST NINE MONTHTS OF 2008

To the Shareholders,

We report below on the Lectra group's business activity for the third quarter and first nine months of 2008, ended on September 30.

To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2008 and 2007 are based—except where otherwise stated—on 2007 exchange rates ("like-for-like"—*see chapter 2 of the notes to this report*).

1. SUMMARY OF OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS FOR Q3

With an average parity of $1.50/€1, the U.S. dollar was down 9% compared to third quarter 2007. This change mechanically reduced the various revenue components by 2 to 3% and income from operations by €0.6 million at actual exchange rates compared to like-for-like figures.

Orders Decline as Markets Slow Sharply

In the current adverse conditions since the beginning of the year, sales activity was weak. After the upsurge in uncertainty in July, the nature and unprecedented scale of the financial, stock market and banking crisis in September led directly to a further and brutal deterioration in macroeconomic conditions. The Governments of all the major countries responded vigorously. Nevertheless, all sectors of the real economy are now suffering worldwide. In the United States, Europe, as well as in India and Turkey, and now also China, companies have borne the full brunt of the slowdown in their own activity. Their financial performance has worsened, access to credit has grown more difficult, and many are now incapable of financing their investments. Anxiety and hesitancy are spreading, along with drastic cost-cutting measures and plant closures.

This situation prevails in all of the company's market sectors and geographical markets, for manufacturers as well as for brands, contractors, and subcontractors. Consequently, a growing number of customers postponed their investment decisions.

While the slowdown in orders booked in July and August—when activity is traditionally weak—was close to that observed in Q2, it intensified sharply in September (down 40% relative to September 2007). As a result, Q3 orders were down 34% (–€8 million) overall compared to Q3 2007.

Revenues and Earnings Decline

Q3 2008 revenues amounted to €48.1 million, down 5% relative to Q3 2007. At actual exchange rates they were down 8%.

Revenues from new systems sales (€22.6 million) declined 13%, while recurring revenues (€25.6 million) increased 3%.

Income from operations amounted to €2.2 million. Like-for-like, income from operations amounted to €2.8 million, down €1.4 million or 34% compared to Q3 2007. The operating margin (4.5%) decreased by 2.4 percentage points.

Net income was €1.2 million, down €1.1 million at actual exchange rates compared to Q3 2007.

Net earnings per share on basic and diluted capital came to €0.04 (down 48% and 47% respectively compared to Q3 2007).

Free cash flow before non-recurring items was negative at –€5.4 million, unchanged from Q3 2007. Free cash flow after non-recurring items was negative at –€5.8 million, compared to a negative €7.4 million in 2007.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST NINE MONTHS OF 2008

With an average parity of $1.52/€1 for the first nine months of 2008, the U.S. dollar was down 12% compared to the first nine months of 2007. This change mechanically reduced the various revenue components by 3 to 4% and income from operations by €2.9 million at actual exchange rates, compared to like-for-like figures.

Orders Decline Sharply

Overall, orders for new software licenses and CAD/CAM equipment amounted to €56.6 million, down 25% (–€19.9 million) relative to the first nine months of 2007.

The largest declines (–65%) were recorded in France (owing to the signature in June 2007 of an exceptional €4.2 million contract with a French world leader in luxury goods).

In the rest of Europe, orders were down 22% overall. Orders were down 27% in the Americas, while they fell by 13% in the Asia-Pacific region. Activity in the rest of the world (North and South Africa, Turkey, the Middle East, etc.) declined by 28%.

Orders were down by 33%, 42% and 8%, respectively, in the fashion, furniture and automotive market sectors. Orders were up 19% in other industries, thanks in particular to the fast-growing wind power sector in which Lectra commands a position of strength among leading wind turbine manufacturers. These markets respectively represent 57%, 7%, 23%, and 13% of orders.

Revenues Unchanged

Total revenues for the first nine months of 2008 totaled €150.9 million, unchanged, like-for-like, from the first nine months of 2007. They were down 4% at actual exchange rates.

Thanks to the combined impacts of the order backlog at the start of the year, which has since been partially shipped, and to the decline in business activity in 2008, revenues rose 11% in Asia-Pacific and 1% in Europe, while falling 8% in the Americas. These three regions respectively accounted for

18%, 59% (including 10% for France), and 17% of total revenues. Revenues from the rest of the world fell 7% and represented 6% of total revenues.

Revenues from New Systems Sales Decline

New software license revenues (€22.2 million) decreased by 5% overall and contributed 15% of total revenues (unchanged relative to the first nine months of 2007).

CAD/CAM equipment revenues (€44.7 million) were down by 2% and accounted for 30% of total revenues (31% in 2007).

Revenues from training and consulting (€6.2 million) were up 4%.

Overall, revenues from new systems sales (€73.8 million) fell by 3% and represented 49% of total revenues (51% in 2007).

Growth in Recurring Revenues

Recurring revenues (€77.1 million) increased by €3.1 million overall (up 4%), and accounted for 51% of total revenues (49% in the first nine months of 2007).

Revenues from recurring contracts—which alone represented 63% of recurring revenues and 32% of total revenues—were up by 3%, versus the company's expectations of 6–7%. This weaker growth resulted from a rate of cancellations exceeding the statistical record, as a direct consequence of worsening macroeconomic conditions, with certain customers halting or reducing their activity, or cutting costs. Recurring contracts, which concern approximately two-thirds of Lectra's 20,000 customers, break down as follows:

- Revenues from software evolution contracts (€21,7 million) were up 5% and represented 14% of total revenues;
- Revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to Lectra's five International Call Centers rose 2% overall to €26.7 million and represented 18% of total revenues.

Meanwhile, revenues from spare parts and consumables (€27.2 million) grew by 6%.

Recurring revenues again demonstrated their role as a key factor in the company's stability, in Lectra's business model, acting as a cushion in periods of economic slowdown.

Steep Fall in Order Backlog

Because revenues for the first nine months of 2008 exceeded orders booked in the period, the order backlog for new software licenses and CAD/CAM equipment at September 30 (€11.3 million) is down by €8.5 million relative to December 31, 2007.

The order backlog includes €7.8 million for shipment in the fourth quarter of 2008 and €3.5 million in 2009 and 2010.

Gross Margin Down Slightly

The overall gross margin worked out to 65.7%.

Like-for-like, the 1.3 percentage point decline relative to the first nine months of 2007 (68.1%) stems primarily from a lower gross margin on sales of new systems, due to differences in the product and country mix between 2007 and 2008.

Maintaining a Tight Grip on Overhead Costs

Total overhead costs were €94.1 million, down 2% compared to the first nine months of 2007. They break down as follows:

– €88.3 million in fixed overheads and allowances, down €1.4 million (–2%);

– €5.7 million in variable costs (–10%).

Research and development costs are fully expensed in the period and included in the fixed overheads referred to above. Before deducting the (French) tax credit for research *(crédit d'impôt recherche)*—including the beneficial impact of the new rules of calculation with effect from January 1, 2008—as well as R&D program grants received, these costs amounted to €14 million and represented 9.3% of revenues (compared to €12.9 million and 8.3% in first nine months of 2007). Net R&D costs after deduction of the research tax credit and grants amounted to €8.0 million, versus €10.4 million in 2007.

The particularly adverse business conditions have led the company to adopt measures aiming at limiting its expenses and, more generally, reinforcing its rigor in managing its overhead costs. Added to the positive effect of the (French) tax credit for research, these measures explain the reduction of 2% of fixed overheads and allowances during the first nine months of 2008, while an increase of 3% was anticipated at the beginning of the year.

Income from Operations Holds Up Well

Income from operations amounted to €5.1 million. On a like-for-like basis, income from operations works out to €8 million, up €0.4 million (+5%) relative to the first nine months of 2007.

The operating margin was 3.4%. On a like-for-like basis, it worked out to 5.1%, an increase of 0.3 percentage point relative to 2007.

Net financial expenses amounted to €2.8 million, of which €2.1 million corresponds to the financial cost of the €48 million medium-term bank loan put in place to finance the public stock buyback tender offer for 20% of the company's share capital carried out in May 2007. Net foreign exchange loss amounted to €0.3 million.

After an income tax gain of €0.8 million, net income amounted to €2.8 million, down €2 million at actual exchange rates compared to the first nine months of 2007.

Net earnings per share on basic and diluted capital amounted to €0.10, compared with €0.15 for the same period in 2007.

Free Cash Flow Is Negative

Free cash flow before non-recurring items amounted to a negative €5.9 million, an improvement of €2 million compared to the first nine months of 2007.

Free cash flow after €1.6 million in non-recurring disbursements amounted to a negative €7.5 million (€13.1 million in 2007).The figure for free cash flow stems from €6.4 million in operating cash flow excluding changes in working capital requirement, a temporary increase of €10.9 million in working capital requirement, and capital expenditures of €3.1 million.

The change in working capital requirement stems primarily from the adverse impact of non-collection of €5.1 million in (French) research tax credit, payment in 2008 of €2 million representing the 2007 variable portion of compensation and the (French) contractual incentive plan related to performance *(prime d'intéressement)*, and €1.6 million in non-recurring disbursements. The working capital requirement resulting from operating activities consequently rose by €2.2 million.

Balance Sheet Structure

At September 30, 2008, consolidated shareholders' equity amounted to €29 million (€26.3 million at December 31, 2007).

This figure is computed after deduction of treasury shares held under the Liquidity Agreement with SG Securities (Société Générale group), carried at cost, i.e. €1.4 million (€0.6 million at December 31, 2007).

Cash and cash equivalents totaled €9.6 million (€10.9 million at December 31, 2007).

Financial borrowings totaled €68.4 million (€61.7 million at December 31, 2007), of which €48 million correspond to the medium-term bank loan, and €18.7 million to the use of cash credit facilities (€12.6 million at December 31, 2007), due to the temporary increase in working capital requirement and more especially to the provisional absence of receipt of the (French) tax credit for research.

Net financial borrowings consequently totaled €58.8 million (€50.8 million at December 31, 2007).

Taking into account available cash and cash equivalents and unused confirmed cash credit facilities, total liquidity available to the company at September 30, 2008 amounted to €20 million. At the same time, the company held a receivable considered as certain of €13.1 million on the French State, corresponding to the (French) tax credits for research recognized since 2005, which are reimbursable at the latest three years after their recognition (*see chapter 10.3 of the notes to this report*).

The company has given an undertaking to the banks in respect of the medium term loan, to comply with certain financial ratios at December 31 of each year (*see chapter 10.1 of the notes to this report*). The company anticipates that these ratios will probably not be respected at December 31, 2008 and has recently contacted the lending banks with a view to reaching terms whereby the latter would agree to waive these covenants.

Litigation Pending

The arbitration initiated by Lectra against Induyco in June 2005 before the International Court of Arbitration of the International Chamber of Commerce (ICC Court) in hearings in London, concerning the acquisition in 2004 of Investronica Sistemas, is in progress (*see chapter 7 of the notes to this report*).

The final phase of the arbitral hearings took place in November 2007. On October 10, 2008, the arbitral tribunal informed the parties that it has completed a further stage of its deliberations and expects to conclude its final deliberations in early November and to submit a draft of its final award to the ICC Court in December. The tribunal also indicated that it expected its award would address all extant issues, including legal and arbitration costs.

Under the ICC rules, the ICC Court it is required to review and approve the draft award before the award will be notified to the parties. As a result of this process and in light of the tribunal's communication, Lectra anticipates receiving the award at the earliest at the end of December 2008, and more likely in Q1 2009.

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At September 30, 2008, share capital totaled €27,640,648.58 divided into 28,495,514 shares with a par value of €0.97 (*see chapter 8 of the notes to this report*), vs. €42,715,348.50 divided into 28,476,899 shares with a par value of €1.50 on December 31, 2007.

Since January 1, 2008, the share capital has increased by 18,615 shares as a result of the exercise of stock options.

On October 20, 2008, Delta Lloyd Asset Management N.V. (Netherlands), acting on behalf of funds managed by it, reported that it had increased its shareholding above the 5% reporting threshold and that it held 5.06% of the capital and 4.98% of the voting rights at that date.

No other change of shareholding entailing a crossing of statutory thresholds has been notified to the company since the beginning of the year.

At the date of publication of this report, the main shareholders are:

- André Harari and Daniel Harari, who together hold 39% of the capital and 38.8% of the voting rights;
- Société Financière de l'Echiquier (France) and Insinger de Beaufort AM NV (Netherlands), who each hold more than 10% (but less than 15%) of the capital and voting rights, on behalf of investment funds managed by them or for their clients.
- Delta Lloyd Asset Management N.V. (Netherlands), acting on behalf of funds managed by it, holds more than 5% (but less than 10%) of the capital and less than 5% of voting rights.

Finally, the company holds 1.1% of its own shares in treasury shares, only within the framework of the Liquidity Agreement with SG Securities.

Share Price Performance and Trading Volumes

The company's share price at September 30, 2008, was €3.90, down 32% compared to December 31, 2007 (€5.75). Since January 1, 2008, the share price reached a high of €5.80 on January 2 and a low of €2.87 on September 5. The CAC 40 and CAC Mid&Small190 indexes were down 28% and 24% respectively, over the same period.

This sharp drop occurred in especially thin trading volumes: according to Euronext figures, 2.3 million shares were traded, a decrease of 72% compared to the same period of 2007. The volume of capital traded decreased by 82%, to €8.9 million.

Lectra shares notably figure among the SBF 250, CAC Small90, and CAC Mid&Small190 indexes.

4. POST-CLOSING EVENTS

No significant event has occurred since September 30, 2008.

5. FINANCIAL CALENDAR

Financial results for the fourth quarter and fiscal year 2008 will be published on February 12, 2009, after the close of trading on Euronext Paris.

6. BUSINESS TRENDS AND OUTLOOK

In discussing the assumed evolution of the company's activity on February 11, 2008, the Board of Directors drew specific attention to the difficulty of formulating a view of the outlook, both for 2008 and for the medium term, given the persistent and particularly uncertain macroeconomic conditions.

Economic conditions look likely to remain very gloomy over the coming months. The weakness of orders is thus liable to last. However, the company considers that it is not in a position to estimate at this moment the extent of their decline, as visibility is particularly low.

As stated previously, the company has adopted an especially cautious stance in light of this situation, further tightening its grip on overheads. These will continue to decline relative to Q4 2007.

Further, after the dollar briefly fell below $1.60 / €1 on July 15, 2008, it began to appreciate against the euro in August, ending the quarter at a parity of $1.43 / €1 on 30 September (rising to $1.25 / € 1 at the date of this report). Taking advantage of the dollar's recovery, on October 10 the company hedged its estimated net exposure by selling currency forward at a parity of $1.36 / €1. On the other hand it was unable to hedge its exposure for 2009, considering the cost of the transaction prohibitive.

Against this background, in light of the order backlog's weakness at September 30, Q4 revenues are expected to fall by around 20% like-for-like, and income from operations should nevertheless remain positive or be close to breakeven.

The company will communicate its view of the outlook for 2009 in its report on Q4 and full-year 2008 results, on February 12, 2009. This view will take account of macroeconomic developments and trends in its own activities observed between now and then. While the financial crisis and its global fallout continue to hurt the company's sales activity, the dollar's rise, if it persisted, would conversely have a double positive impact—mechanically on the company's business activity and earnings *(see chapter 12 of the notes to this report),* and by reinforcing its competitiveness, its main competitor being American.

The company remains confident in the strength of its business model and its medium-term growth prospects, once the crisis is over.

The Board of Directors
October 28, 2008

Company certification of the third quarter and first nine months of 2008 report

"We certify that, to our knowledge, the financial statements have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition and results of the company and of its consolidated companies. We further certify that the third quarter and first nine months of 2008 report on operations 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, and a description of the main risks and uncertainties for the remaining three months of the fiscal year."

Paris, October 28, 2008

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

Consolidated balance sheet

ASSETS

(in thousands of euros)	As at September 30, 2008	As at December 31, 2007	As at September 30, 2007
Goodwill	36,375	36,465	36,749
Other intangible assets	5,908	5,727	5,766
Property, plant and equipment	14,857	15,236	15,460
Non-current financial assets	1,758	1,802	1,805
Deferred income tax	11,224	9,327	9,497
Total non-current assets	70,122	68,557	69,277
Inventories	29,791	30,156	32,860
Trade accounts receivable	37,769	49,806	42,260
Other current assets	25,498	19,133	18,489
Cash and cash equivalents	9,558	10,897	8,763
Total current assets	102,616	109,992	102,372
Total assets	172,738	178,549	171,649

EQUITY AND LIABILITIES

	As at September 30, 2008	As at December 31, 2007	As at September 30, 2007
Share capital	27,641	42,715	42,523
Share premium	1,033	976	606
Treasury shares	(1,377)	(581)	(311)
Retained earnings	10,144	(8,092)	(9,352)
Currency translation adjustment	(8,475)	(8,719)	(8,581)
Total equity	28,966	26,299	24,885
Retirement benefit obligations	3,685	3,518	3,673
Borrowings, non-current portion	49,546	48,849	48,650
Total non-current liabilities	53,231	52,367	52,323
Trade and other payables	39,283	51,964	47,018
Deferred revenues	29,919	32,522	28,416
Current income tax liabilities	740	454	603
Borrowings	18,844	12,817	16,050
Provisions for other liabilities and charges	1,756	2,126	2,354
Total current liabilities	90,542	99,883	94,441
Total equity and liabilities	172,738	178,549	171,649

Consolidated income statement

(in thousands of euros)	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Revenues	48,131	150,899	52,281	156,457
Cost of goods sold	(16,438)	(51,745)	(16,651)	(49,931)
Gross profit	31,693	99,154	35,630	106,526
Research and development	(2,168)	(8,009)	(3,216)	(10,430)
Selling, general and administrative expenses	(27,358)	(86,055)	(28,252)	(88,524)
Income from operations	2,167	5,090	4,162	7,572
Financial income	141	244	91	291
Financial expenses	(1,074)	(3,030)	(968)	(1,466)
Foreign exchange income (loss)	66	(321)	(361)	(469)
Income before tax	1,300	1,983	2,924	5,928
Income tax expense	(62)	807	(556)	(1,095)
Net income	1,238	2,790	2,368	4,833
Earnings per share (in euros)				
- basic	0.04	0.10	0.08	0.15
- diluted	0.04	0.10	0.08	0.15
Shares used in calculating earnings per share				
- basic	28,199,804	28,266,334	28,191,044	32,367,770
- diluted	28,199,804	28,266,334	28,590,916	32,796,881

Consolidated cash flow statement

(in thousands of euros)	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
I - OPERATING ACTIVITIES		
Net income	2,790	4,833
Depreciation and amortization	5,435	4,385
Non-cash operating expenses	14	451
Fees on public stock buyback tender offer recognised in equity	-	(380)
Loss on sale of fixed assets	(15)	(8)
Changes in deferred income taxes, net value	(1,786)	(716)
Changes in inventories	(1,762)	(7,721)
Changes in trade accounts receivable	9,535	3,417
Changes in other current assets and liabilities	(18,641)	(13,107)
Net cash used in operating activities	(4,430)	(8,846)
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,175)	(853)
Purchases of property, plant and equipment	(1,922)	(3,432)
Proceeds from sales of intangible assets and property, plant and equipment	7	64
Purchases of financial assets	(1,123)	(1,060)
Proceeds from sales of financial assets	1,140	1,025
Net cash used in investing activities	(3,073)	(4,256)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	86	2,342
Dividends paid	-	(5,198)
Purchases of treasury shares	(1,031)	(4,809)
Purchase of shares on public stock buyback tender offer	-	(47,687)
Sales of treasury shares	144	4,095
Proceeds from borrowings	800	63,907
Repayments of borrowings	(74)	(507)
Net cash (used in)/provided by financing activities	(75)	12,143
Increase (decrease) in cash and cash equivalents	(7,578)	(959)
Cash and cash equivalents at the opening	(1,715)	9,997
Increase (decrease) in cash and cash equivalents	(7,578)	(959)
Effect of changes in foreign exchange rates	128	(275)
Cash and cash equivalents at the closing	(9,165)	8,763
Free cash flow before non-recurring items	(5,949)	(7,918)
Non-recurring items of the free cash flow	(1,554)	(5,184)
Free cash flow	(7,503)	(13,102)
Income tax paid	289	1,253
Interest paid	2,675	1,023

Consolidated statement of changes in equity

(in thousands of euros, except for par value per share expressed in euros)	Share capital								
	Number of shares	Par value per share	Total par value	Share premium	Treasury shares	Retained earnings	Translation adjustment	Net income	Equity
Balances at January 1, 2007	35,772,448	1.50	53,659	3,944	(4,099)	14,700	(8,141)	12,136	72,199
Fees on public stock buyback tender offer						(380)			(380)
Fair value variation of interest-rate swap (efficient part)						(365)			(365)
Currency translation adjustment							(440)		(440)
Net expense recognised directly in equity						(745)	(440)		(1,185)
Net income								4,833	4,833
Net income (loss) recognised as at September 30						(745)	(440)	4,833	3,648
Fair value of stock options						402			402
Issuance of ordinary shares	432,466		776	1,565					2,341
Cancellation of treasury shares	(876,612)		(1,315)	(3,525)	4,840				-
Sale (purchase) of treasury shares					(1,052)				(1,052)
Profit (loss) on treasury shares						225			225
Purchase of shares in public stock buyback tender offer	(7,064,792)		(10,597)	(1,378)		(35,712)			(47,687)
Dividends paid						(5,198)			(5,198)
Appropriation of prior-year earnings						12,136		(12,136)	-
Other changes						7			7
Balances at September 30, 2007	28,263,510	1.50	42,523	606	(311)	(14,185)	(8,581)	4,833	24,885
Balances at January 1, 2008	28,476,899	1.50	42,715	976	(581)	(13,903)	(8,719)	5,811	26,299
Fair value variation of interest-rate swap (efficient part)						79			79
Currency translation adjustment							244		244
Net income recognised directly in equity						79	244		323
Net income								2,790	2,790
Net income recognised as at September 30						79	244	2,790	3,113
Fair value of stock options						324			324
Issuance of ordinary shares	18,615		28	57					86
Sale (purchase) of treasury shares					(796)				(796)
Profit (loss) on treasury shares						(61)			(61)
Reduction in share capital		(0.53)	(15,103)			15,103			-
Appropriation of prior-year earnings						5,811		(5,811)	-
Other changes						2			2
Balances at September 30, 2008	28,495,514	0.97	27,641	1,033	(1,377)	7,354	(8,475)	2,790	28,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2008

The notes to the consolidated financial statements are an integral part of the financial report.

1. BUSINESS ACTIVITY

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

The company's technology offering is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion industry, Lectra's software applications enable the management of collections and cover the entire product lifecycle, up to retailing (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 enables them to overcome their major strategic challenges: e.g., cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure communications across the supply chain; enhancing quality; satisfying the growing demand for mass-customization; and managing their corporate image and brands. The Group markets full-line 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 PCs and peripherals and certain products for which the company has formed long-term strategic partnerships, all Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors, and tested in the company's main industrial facilities in Bordeaux–Cestas (France) where most of Lectra's R&D is performed.

Lectra's strength lies in the skills and experience of its 1,550 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of its customers' businesses.

Lectra has been present worldwide since the mid-1980s. Based in France, the company serves 20,000 customers in more than 100 countries through its extensive network of 31 sales and service subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 91% of its revenues directly in 2007. Its five International Call Centers, at Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased in its Advanced International Technology & Conference Center of Bordeaux–Cestas (France) and its four International Advanced Technology Centers at Atlanta (U.S.A.), Istanbul (Turkey), Shanghai (China) and Mexico City (Mexico). Lectra is geographically close to its customers wherever they are, with nearly 940 employees in its sales and service subsidiaries. Lectra employs 230 engineers dedicated to R&D, and 165 persons in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Business Model

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

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

In addition, the business model is geared to generating free cash flow in excess of net income.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) as adopted within the European Union and by the IASB.

The condensed consolidated financial statements at September 30, 2008 have been prepared in accordance with IAS 34 (Interim Financial Statements). They do not comprise all of the financial disclosure required in the complete annual financial statements and should be read in conjunction with the notes to the consolidated financial statements to the 2007 annual report, available on the company's Web site (www.lectra.com).

In addition the Group has applied the following IFRIC interpretations with effect from January 1, 2008:

- IFRIC 11: Group and treasury shares transactions;
- IFRIC 14: The limit on a defined benefit asset, minimum funding requirements and their interaction.

In the opinion of the Group, application of these standards has had no material impact on its financial statements. Accounting rules and methods other than the new applications referred to above remain unchanged.

Comparisons identified as "like-for-like" correspond to 2008 figures restated at 2007 exchange rates, in comparison with actual data for 2007. In light of the fact that the impact of consolidation of the Indian subsidiary is immaterial, the bulk of sales in this country continuing to be billed in 2008 by the parent company, Lectra S.A., exchange rate variations alone are taken into account in like-for-like calculations.

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 methods. The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, concern goodwill impairment and deferred taxation. There has been no material change in the estimates utilized by Group Management since 31 December 2007.

Revenues

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

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

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

Revenues from software evolution contracts and recurring services contracts are booked monthly over the duration of the contracts.

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

Cost of Goods Sold

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on systems sales, and a share of depreciation of the manufacturing facilities.

This heading does not include salaries and expenses associated with service revenues, which are included under 'Selling, General and Administrative Expenses.'

Research and Development

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

Attention is drawn to the fact that the (French) tax credit for research (crédit d'impôt recherche) as well as grants, if any, linked to R&D projects are deducted from R&D expense.

Borrowings and financial debt

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

- the interest-bearing bank loans;
- non-interest bearing reimbursable advances corresponding to research and development grants.

The current portion of borrowings and financial debt comprises:

- the portion of borrowings and financial debt due in less than one year;
- cash facilities.

Accompanying the arrangement of the medium-term bank loan to finance the public stock buyback tender offer carried out in 2007, two interest-rate swap contracts were entered into to convert the floating rate loan into a fixed-rate loan.

Borrowings and financial debts are recognized initially at fair value.

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

Free Cash Flow

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

3. SCOPE OF CONSOLIDATION

At September 30, 2008, the Group's scope of consolidation comprised Lectra S.A. together with 26 fully-consolidated companies.

The company's Indian subsidiary, which was formed in September 2007 and which had no activity before 2008, is now consolidated. Its revenues were immaterial, the bulk of sales to this country continuing to be billed in 2008 by the parent company, Lectra S.A. There was no other change in the scope of consolidation in the first half of 2008 relative to the first half of 2007. There was no change in the scope of consolidation in 2007.

Five sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At September 30, 2008, their combined revenues totaled €1.1 million, and their combined assets totaled €2.1 million. They had no non-Group financial debt.

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

	Three Months Ended September 30				
	2008		2007	Changes 2008/2007	
(in thousands of euros)	Actual	At 2007 exchange rates	Actual	Actual	Like-for-like
Revenues	48,131	49,527	52,281	-8%	-5%
Cost of goods sold	(16,438)	(16,545)	(16,651)	-1%	-1%
Gross profit	31,693	32,982	35,630	-11%	-7%
(in % of revenues)	65.8%	66.6%	68.2%	-2,4 points	-1,6 point
Research and development	(2,168)	(2,168)	(3,216)	-33%	-33%
Selling, general and administrative expenses	(27,358)	(28,062)	(28,252)	-3%	-1%
Income (loss) from operations	2,167	2,752	4,162	-48%	-34%
(in % of revenues)	4.5%	5.6%	8.0%	-3,5 points	-2,4 points
Profit (loss) before tax	1,300	1,885	2,924	-56%	-36%
Income tax expense	(62)	n/a	(556)	-89%	n/a
Net income	1,238	n/a	2,368	-48%	n/a

	Nine Months Ended September 30				
	2008		2007	Changes 2008/2007	
(in thousands of euros)	Actual	At 2007 exchange rates	Actual	Actual	Like-for-like
Revenues	150,899	156,899	156,457	-4%	0%
Cost of goods sold	(51,745)	(52,147)	(49,931)	+4%	+4%
Gross profit	99,154	104,752	106,526	-7%	-2%
(in % of revenues)	65.7%	66.8%	68.1%	-2,4 points	-1,3 point
Research and development	(8,009)	(8,009)	(10,430)	-23%	-23%
Selling, general and administrative expenses	(86,055)	(88,777)	(88,524)	-3%	0%
Income (loss) from operations	5,090	7,966	7,572	-33%	+5%
(in % of revenues)	3.4%	5.1%	4.8%	-1,4 point	+0,3 point
Profit (loss) before tax	1,983	4,859	5,928	-67%	-18%
Income tax expense	807	n/a	(1,095)	n/s	n/a
Net income	2,790	n/a	4,833	-42%	n/a

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

5.1 Q3 2008

(in millions of euros)	2008 Actual	2008 %	2008 At 2007 exchange rates	2007 Actual	2007 %	Changes 2008/2007 Actual	Changes 2008/2007 Like-for-like
Europe, of which:	28.2	59%	28.5	29.4	56%	-4%	-3%
- France	5.4	11%	5.4	4.0	8%	+33%	+33%
Americas	8.8	18%	9.5	11.1	21%	-20%	-15%
Asia-Pacific	8.5	18%	8.9	9.4	18%	-9%	-5%
Other countries	2.6	5%	2.7	2.4	5%	+9%	+12%
Total	48.1	100%	49.5	52.3	100%	-8%	-5%

Three Months Ended September 30

Revenues by product line

(in millions of euros)	2008 Actual	2008 %	2008 At 2007 exchange rates	2007 Actual	2007 %	Changes 2008/2007 Actual	Changes 2008/2007 Like-for-like
Software, of which:	14.1	29%	14.5	15.6	30%	-9%	-7%
- New licenses	6.7	14%	6.9	8.2	16%	-19%	-17%
- Software evolution contracts	7.4	15%	7.6	7.3	14%	+1%	+4%
CAD/CAM equipment	13.7	28%	14.1	16.4	31%	-17%	-14%
Hardware maintenance and on-line services	9.5	20%	9.7	9.7	18%	-2%	+1%
Spare parts and consumables	8.7	18%	9.0	8.5	16%	+2%	+6%
Training and consulting services	2.0	4%	2.1	1.9	4%	+4%	+7%
Miscellaneous	0.2	0%	0.2	0.3	1%	-32%	-30%
Total	48.1	100%	49.5	52.3	100%	-8%	-5%

Three Months Ended September 30

Breakdown of revenues between new systems sales and recurring revenues

(in millions of euros)	2008 Actual	2008 %	2008 At 2007 exchange rates	2007 Actual	2007 %	Changes 2008/2007 Actual	Changes 2008/2007 Like-for-like
Revenues from new systems sales[1]	22.6	47%	23.2	26.8	51%	-16%	-13%
Recurring revenues[2], of which:	25.6	53%	26.3	25.5	49%	0%	+3%
- Recurring contracts	16.5	34%	16.9	16.4	31%	+1%	+3%
- Other recurring revenues on the installed base	9.1	19%	9.4	9.1	18%	0%	+3%
Total	48.1	100%	49.5	52.3	100%	-8%	-5%

Three Months Ended September 30

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

[2] Recurring revenues fall into two categories:

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

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

5.2 First nine months of 2008

(in millions of euros)	2008 Actual	2008 %	2008 At 2007 exchange rates	2007 Actual	2007 %	Changes 2008/2007 Actual	Changes 2008/2007 Like-for-like
	Nine Months Ended September 30						
Europe, of which :	89.7	59%	90.4	89.6	57%	0%	+1%
- France	15.0	10%	15.0	12.5	8%	+20%	+20%
Americas	26.2	17%	29.1	31.5	20%	-17%	-8%
Asia-Pacific	26.7	18%	28.8	26.0	17%	+3%	+11%
Other countries	8.3	6%	8.6	9.3	6%	-10%	-7%
Total	150.9	100%	156.9	156.5	100%	-4%	0%

Revenues by product line

(in millions of euros)	2008 Actual	2008 %	2008 At 2007 exchange rates	2007 Actual	2007 %	Changes 2008/2007 Actual	Changes 2008/2007 Like-for-like
	Nine Months Ended September 30						
Software, of which :	43.9	29%	45.6	45.8	29%	-4%	-1%
- New licenses	22.2	15%	23.1	24.3	16%	-9%	-5%
- Software evolution contracts	21.7	14%	22.5	21.5	14%	+1%	+5%
CAD/CAM equipment	44.7	30%	46.7	47.9	31%	-7%	-2%
Hardware maintenance and on-line services	28.2	19%	29.1	28.7	18%	-2%	+1%
Spare parts and consumables	27.2	18%	28.4	26.7	17%	+2%	+6%
Training and consulting services	6.2	4%	6.4	6.2	4%	+1%	+4%
Miscellaneous	0.7	0%	0.7	1.2	1%	-40%	-38%
Total	150.9	100%	156.9	156.5	100%	-4%	0%

Breakdown of revenues between new systems sales and recurring revenues

(in millions of euros)	2008 Actual	2008 %	2008 At 2007 exchange rates	2007 Actual	2007 %	Changes 2008/2007 Actual	Changes 2008/2007 Like-for-like
	Nine Months Ended September 30						
Revenues from new systems sales[1]	73.8	49%	76.9	79.5	51%	-7%	-3%
Recurring revenues[2], of which:	77.1	51%	80.0	76.9	49%	0%	+4%
- Recurring contracts	48.4	32%	50.0	48.4	31%	0%	+3%
- Other recurring revenues on the installed base	28.7	19%	30.0	28.5	18%	0%	+5%
Total	150.9	100%	156.9	156.5	100%	-4%	0%

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

[2] *Recurring revenues fall into two categories:*
- software evolution, hardware maintenance and online support contracts, which are renewable annually.
- revenues from sales of spare parts and consumables, and one-off interventions, on the installed base, which are statistically recurrent.

Breakdown of revenues from new systems sales by market sector

	Nine Months Ended September 30						
	2008			2007		Changes 2008/2007	
(in millions of euros)	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	44.2	60%	46.1	46.7	59%	-5%	-1%
Automotive	14.4	20%	15.1	17.6	22%	-18%	-14%
Furniture	5.8	8%	5.9	7.9	10%	-26%	-25%
Other industries	9.3	13%	9.8	7.3	9%	+28%	+34%
Total	73.8	100%	76.9	79.5	100%	-7%	-3%

6. CONSOLIDATED CASH FLOW SUMMARY

(in millions of euros)	Cash & Cash equivalents	Financial Debt	Net Cash (+)/ Net Debt (-)
Free cash flow before non-recurring items	(5.9)	0.0	(5.9)
Non-recurring items included in free cash flow	(1.6)	0.0	(1.6)
Capital increase[1]	0.1	0.0	0.1
Sale and purchase of treasury shares[2]	(0.9)	0.0	(0.9)
Change in borrowings	0.7	(0.7)	0.0
Impact of currency variations – other	0.1	0.0	0.1
Change in cash position for the period	(7.5)	(0.6)	(8.1)
Situation at December 31, 2007 (balance sheet)	10.9	(61.7)	(50.8)
Use of cash credit facilities	(12.6)	12.6	0.0
Situation at December 31, 2007 (cash flow statement)	(1.7)	(49.1)	(50.8)
Situation at September 30, 2008 (balance sheet)	9.6	(68.4)	(58.8)
Use of cash credit facilities	(18.7)	(18.7)	0.0
Situation at September 30, 2008 (cash flow statement)	(9.2)	(49.7)	(58.8)

(1) Resulting from the exercise of stock options (see Chapter 3 of the Report).

(2) As approved by the April 30, 2007 and April 30, 2008 General Shareholders Meetings, and integrating the Liquidity Agreement administered by SG Securities (Société Générale).

Free cash flow at September 30, 2008 was reduced as a result of the €10.9 million increase in working capital requirement in the course of the first nine months.

While accounts receivable declined by €9.5 million and inventories rose by €1.8 million, the growth in working capital requirement stemmed from the €18.6 million increase in other current assets and liabilities. The latter figure is mainly accounted for by the following items:

- €5.1 million correspond to the (French) tax credit for research (*crédit d'impôt recherche*) for the first nine months, which does not gave rise to a receipt of funds—see note 10.3 below;
- €8.4 million correspond to the reduction in payables to suppliers, due to lower Q2 2008 materials purchases than in the last quarter of 2007;
- €2 million correspond to payments in the first half of 2008 of the 2007variable portion of compensation and of the (French) contractual incentive plan related to performance *(prime d'intéressement)* , for which allowance was made in the financial statements at December 31, 2007;
- €1.6 million corresponds to non-recurring disbursements, consisting of €0.7 million in fees relating to the arbitration against Induyco and €0.9 million relating to the payment of the non-recurring expense recognized in the 2007 financial statements following the unfavorable employment court ruling against its Spanish subsidiary concerning the dismissal of employees within the framework of the restructuring initiated at the end of 2005, as authorized by the Spanish Department of Social Affairs.

7. LITIGATION PENDING

The arbitration initiated by Lectra against Induyco in June 2005 before the International Court of Arbitration of the International Chamber of Commerce (ICC Court) in hearings in London is still in progress. This procedure relates to the acquisition in 2004 of Investronica Sistemas, whose situation, among others, obliged Lectra to recognize an €11.9 million impairment of goodwill in respect of 2005. The parties agreed in the share purchase agreement signed on April 2, 2004, that the decision of the arbitral tribunal would be final.

The final phase of the arbitral hearings took place in November 2007. On October 10, 2008, the arbitral tribunal informed the parties that it has completed a further stage of its deliberations and expects to conclude its final deliberations in early November and to submit a draft of its final award to the ICC Court in December. The tribunal also indicated that it expected its award would address all extant issues, including legal and arbitration costs.

Under the ICC rules, the ICC Court it is required to review and approve the draft award before the award will be noticed to the parties. As a result of this process and in light of the tribunal's communication, Lectra anticipates receiving the award at the earliest at the end of December 2008, and more likely in Q1 2009.

In 2006, Induyco provided Lectra with first demand bank guarantees for a total amount of €17.2 million, in light of the company's outstanding claims. The total amount of this guarantee is without prejudice to the amount that might be awarded to Lectra in the arbitration.

The aggregate amount of legal fees, expert fees, and procedural and other costs incurred by Lectra in 2008 is €0.4 million. The latter is in addition to the €5.2 million figure already recognized in current assets in the balance sheet at December 31, 2007, bringing this item to €5.6 million at September 30, 2008, and bringing the total amount of fees and costs since the beginning of the procedure to €9.8 million, already paid in full (€4.2 million were expensed in the 2005 and 2006 accounts). Lectra does not anticipate significant additional

costs until the rendering of the award. The total figure for current assets recognized until the rendering of the award will be deducted from the amount that might be awarded to Lectra in the arbitration.

8. REDUCTION OF SHARE CAPITAL

The Extraordinary General Meeting of April 30, 2008 following the recommendation of the Board of Directors decided to reduce the share capital by reducing the par value of each share from €1.50 to €0.97 and to charge the corresponding amount to negative retained earnings of the parent company, Lectra S.A., resulting from the accounting treatment of the public stock buyback tender offer carried out in May 2007.

This capital reduction was carried out by the Board of Directors at its meeting on April 30, 2008 held after the Shareholders' Meeting. The reduction amounted to €15,102,622.42, and the share capital at April 30, 2008, reduced to €27,640,648.58 consists of 28,495,514 shares with a par value of €0.97.

At the close of this transaction, retained earnings of the parent company were brought back from a negative figure of €15.1 million at December 31, 2007 after appropriation of the 2007 net income to an amount close to zero, before appropriation of 2008 earnings.

9. TREASURY SHARES

As part of the company's stock buyback programs, as authorized by the Ordinary and Extraordinary Shareholders' Meeting on April 30, 2007 and April 30, 2008, the company, during the first nine months of 2008, purchased 253,244 shares and sold 39,593 shares at an average purchase price of €4.07 and €3.64, respectively, under the Liquidity Agreement administered by SG Securities (Paris). The company has neither purchased nor sold shares outside of the Liquidity Agreement.

Consequently, at September 30, 2008, the company held 314,948 Lectra shares (or 1.1% of share capital) with an average purchase price of €4.37 entirely under the Liquidity Agreement.

10. BANK BORROWINGS AND LIQUIDITY

10.1 Medium-term Bank Loan of €48 million

The public stock buyback tender offer for 20% of the company's share capital, issued on May 2007, was financed by a €48 million medium-term bank loan from Société Générale and Natixis.

The loan is repayable in eight half-yearly installments starting June 30, 2010—the first two for €3.8 million each, the following four for €5.3 millon each, and the last two for €9.6 million each (on June 30 and December 31, 2013). The contract provides for these repayments to be accelerated subject to an increase in cash and cash equivalents of a non-recurring character in the first three years, and arising from operations in subsequent years.

Further, the company is bound during the period of the loan to respect at December 31 of each year the covenants governing the ratios between its net financial borrowing and stockholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other.

The ratios to be respected until the maturity of this loan are as follows:

	2008	2009	2010	2011	2012
Leverage	<2.3	<2.1	<1.9	<1.7	<1.7
Gearing	<1.7	<1.4	<1.2	<1	<1

At December 31, 2007, the leverage ratio alone was not complied with, mainly due to the temporary deterioration in the working capital requirement, which led to a provisional rise in the company's net financial borrowings. A waiver has been obtained from the lending banks regarding compliance with this covenant at December 31, 2007.

In light of the level of cash flow generated by operations due to macroeconomic conditions, combined with the time-lag in the receipt of the (French) tax credit for research, and especially hostile euro/dollar parity since January 1, 2008, the company anticipates that the *leverage* and *gearing* ratios will probably not be respected at December 31, 2008. The company has recently contacted the lending banks with a view to reaching terms whereby the latter would agree to waive these covenants.

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

Furthermore, the company has undertaken to propose to the Ordinary Shareholders' Meeting called each year to approve the financial statements for the previous fiscal year to limit the dividend distributed to 50% of the consolidated net income for the year (if less than 50% of the consolidated net income for the year is distributed—as it was the case for fiscal 2007—the difference relative to 50% may be distributed in subsequent years).

The loan carries interest at the 3-month Euribor rate plus 1% per year (this margin may be reduced to 0.70% on certain conditions). As stated in note 2, the company has hedged its interest-rate risk exposure by converting this floating rate into a fixed rate of 5.725% per year (assuming an annual margin of 1%).

10.2 Liquidity

The table below summarizes the cash position, confirmed cash credit facilities available to the company and its net debt, at September 30, 2008:

(in thousands of euros)	Limits	Utilizations	Available amounts
Confirmed cash credit facilities			
- until March 31, 2009	8,000	-	8,000
- until July 18, 2009	6,000	5,300	700
- until July 31, 2010	15,000	13,400	1,600
Total[(1)]	29,000	18,700	10,300
Bank loan	48,000	48,000	-
Non-interest bearing repayable advances	1,668	1,668	-
Total financial debt	78,668	68,368	10,300
Cash and cash equivalents			9,558
Total	78,668	68,368	19,858

[(1)] *Excluding €23,000 in matured interest at September 30, 2008*

Taking into account cash and cash equivalents and the unused portion of confirmed cash credit facilities available to it, total liquidity available to the company at September 30, 2008 amounted to €19.8 million.

10.3 (French) Tax Credit for Reseach

Moreover, it has not been possible to charge the (French) tax credits for research *(crédit d'impôt recherche)* recognized since 2005 in full to the income tax charge of the parent company, Lectra S.A. This also applies to the amounts recognized in the first nine months of 2008.

Consequently, pending reimbursement by the French Internal Revenue of the said tax credits, which must take place within 3 years at the latest of their recognition, free cash flow is reduced by the corresponding amounts. As a result the company holds a receivable considered as certain of €13.1 million on the French State at September 30, 2008, this amount being expected to exceed €14 million at December 31, 2008. In the event that these tax credits cannot be charged to income tax in advance, the reimbursement schedule by the French Treasury to the company would amount to €0.3 million in 2008, €1.4 million in 2009, €3.2 million in 2010, €3.4 million in 2011 and approximately €6.2 millionin 2012.

11. INTEREST-RATE HEDGING INSTRUMENTS

As stated in chapters 2 and 10, the company has hedged its exposure to the interest-rate risk on the €48 million medium-term bank loan, converting the floating rate into a fixed rate by means of two interest-

rate swaps amounting to €42 million. The interest-rate hedge is based on the best possible estimate of the amount of the loan over the different periods hedged, having due regard to the contractual clauses. These swaps satisfy IFRS criteria for a hedging transaction. Their fair value at September 30, 2008 was a negative €0.4 million. These swaps are 90% effective, in consequence of which this amount is fully recognized in shareholders' equity.

12. CURRENCY RISK

Currency hedging instruments at September 30, 2008 were comprised of forward sales or purchases of foreign exchange (mainly U.S. dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €6.5 million. The Group's exposure to risks and its risk management policy are unchanged relative to December 31, 2007.

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

The company had not hedged its net dollar exposure in 2008, estimated at approximately $50 million, as it considered the cost of such a hedge prohibitive. On October 10, the company took advantage of the dollar's appreciation at the end of the quarter to hedge its net exposure for Q4 2008 by selling currency forward at a parity of $1.36/€1. However, it has not hedged its exposure for 2009, the cost of the transaction having been considered prohibitive until now.

Assuming that the euro / dollar parity remains at its October 28 level ($1.25/€1) until December 31, the average parity for 2008 would be $1.46/€1.

On an annualized basis, a variation of $0.05/€1 in the euro / dollar parity against this average parity of $1.46/€1 would result in an increase (if the euro falls) or a decrease (if the euro rises) in revenue of approximately €2.2 million and of €1.1 million in income from operations. By way of illustration, an average parity of $1.25/€1 would mechanically increase annual revenues by €9.2 million and income from operations by €4.6 million.

13. EARNINGS PER SHARE

Net earnings per share on basic capital are calculated by dividing net income attributable to shareholders by the weighted-average number of shares outstanding during the period, excluding treasury shares.

Net earnings per share on diluted capital are calculated by dividing net income attributable to shareholders by the weighted-average number of shares comprising the basic capital, plus stock options that could have been exercised considering the average market price of the shares during the period. Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the theoretical capital.

14. RESULT OF THE TAX AUDIT AT LECTRA SA FOR FISCAL YEARS 2005, 2006 AND 2007

The parent company Lectra SA was the subject of a French tax audit in 2008 covering fiscal years 2005, 2006 and 2007. The *Direction Générale des Impôts* (French internal revenue service) notified the company on October 3 that the audit was terminated with no reassessment.