MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE FOURTH QUARTER AND FULL-YEAR 2008

To the Shareholders,

We report below on the Lectra group's business activity for the fourth quarter and full-year ended December 31, 2008.

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 Q4 2008

With an average parity of $1.32/€1, the U.S. dollar was up 10% compared to fourth quarter 2007. This change mechanically increased the various revenue components by 2 to 3% and income from operations by €0.4 million at actual exchange rates compared to like-for-like figures.

Orders Decline Significantly in a Context of Global Crisis

As the financial and economic crisis made its impact felt worldwide, fourth-quarter sales activity was particularly weak.

Coming after the United States, Europe, Japan, and China, the last regions to remain relatively unscathed until now—Southeast Asia, India, South Korea, and South America—experienced sharp falls in economic activity in Q4.

As a result, Q4 orders for new software licenses and CAD/CAM equipment were down 48% (–€13.5 million) overall compared to Q4 2007.

Q4 2008 revenues amounted to €47.2 million, down 23% relative to Q4 2007. At actual exchange rates they were down 21%.

Total revenues from new systems sales (€20.9 million) declined 39%, while recurring revenues (€26.4 million) decreased for the first time by 4%.

Recurring revenues comprise two components:

- Revenues from recurring contracts continued to grow during Q4, the 5% increase actually exceeding the 3% for the first nine months of the year. This is a performance worth noting.
- Sales of spare parts and consumables suffered a substantial fall of 19%, after rising 6% over the first nine months of the year. This steep decline mainly reflects sharply reduced activity in the automotive industry, as many automakers and subcontractors severely cut back or halted production.

Income From Operations and Free Cash Flow Better than Forecasted

Despite the steep fall in revenues from new systems sales, income from operations came to €1.9 million, which was better than the company's forecast of positive or nearly breakeven income from operations communicated on October 28. This outcome was achieved thanks to reinforced cost-cutting measures implemented as of July. As a result, fixed overhead costs and provisions were down €2.3 million or 7% relative to Q4.

Like-for-like, income from operations amounted to €1.4 million, down 45% relative to Q4 2007 (income from operations in Q4 2007 included a non-recurring charge of €1 million). The operating margin (4%) decreased by 1.3 percentage point.

Net income was €0.4 million, down €0.5 million at actual exchange rates compared to Q4 2007.

Net earnings per share on basic and diluted capital came to €0.02 (€0.03 in Q4 2007).

Free cash flow was positive at €2.7 million. After payment of a net non-recurring charge of €1.2 million, free cash flow amounted to €4.8 million in Q4 2007. (There was no non-recurring disbursement in Q4 2008.)

2. FISCAL YEAR 2008 SUMMARY

2008: A Year of Unprecedented Financial and Economic Crisis

Activity and financial results in 2008 fell well below the company's expectations published on February 11, 2008. At that time the Board of Directors had emphasized the difficulty of formulating a view of the outlook for 2008 and for the medium term, given the prevailing uncertainty.

The macroeconomic climate has deteriorated continuously since that time. 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. In response, the governments of all the major countries announced vigorous measures to preserve and revive their economies. Their massive support for the banking system occurred simultaneously with the direct intervention of the central banks and with interest rate cuts. Nevertheless, all sectors of the real economy, all over the world, are now suffering, and several countries have slipped into recession.

Caught up in this spiral, companies have borne the full brunt of the slowdown in their activity, to an extent rarely seen in decades. Their financial performance has worsened, their prospects have become more clouded, with reduced access to credit, and many are now incapable of financing their investments. As the economy slowed and uncertainty took hold, anxiety and hesitancy spread and gathered force. This led most companies to implement drastic cost-cutting measures, reducing or temporary halting production and shutting down plants.

Consequently, a growing number of Lectra customers have suspended their decisions and frozen their investment programs. This situation prevails in all of the company's geographical markets and market sectors, for manufacturers, brands, contractors, and subcontractors.

Sharp Fall in Orders

In this context, the downturn in orders for new software licenses and CAD/CAM equipment intensified sharply throughout the year. After falling 16% in the first half, orders fell by 34% in Q3 and by 48% in Q4. Overall, orders in 2008 fell by 31% (–€33.3 million) relative to 2007, to €71.9 million.

Orders were down 34% in Europe and 29% in the Americas; they fell by 25% in the Asia-Pacific region (with a 42% fall in China, while Japan advanced 2%). Activity in the rest of the world (North and South Africa, Turkey, the Middle East, etc.) declined by 32% overall.

Orders were down by 39% in the fashion and furniture market sectors.

Orders dropped 16% in the automotive sector. Orders of airbag cutting systems remained especially weak. After falling in 2007, they again fell by nearly 50% due in particular to declining sales of vehicles fitted with several airbags (e.g. SUVs), and to resulting over-capacity at equipment suppliers. On the other hand, orders for textile and leather seat and interior cutting systems rose 4%. This performance, achieved in the market worst-hit by the crisis in 2008, confirms the quality, competitiveness, and productivity of Lectra's offer for this type of application.

Finally, orders in the other industries improved by 3%, thanks in particular to the fast-growing wind power sector in which Lectra commands a position of strength as a supplier to leading wind turbine manufacturers.

The fashion, automotive, and furniture market sectors and other industries respectively represent 58%, 21%, 8%, and 13% of orders.

Revenues and Order Backlog Drop

Revenues ended the year down 9% at €198.1 million, at actual exchange rates, and down 6% like-for-like. Revenues from new systems sales fell by 14% relative to 2007, while recurring revenues rose 2%.

The combination of a strong backlog at December 31, 2007 (due to the gradual ramp-up of the production of the new generation of Vector cutting systems, launched in early 2007, and the two exceptional contracts—totaling more than €8 million including €6.7 in software licenses and CAD/CAM equipment—signed in 2007 with a French world leader in luxury goods), together with weak orders in 2008, resulted in two phenomena:

- 2008 revenues from new software licenses and CAD/CAM equipment exceeded orders booked during the year by 15%, and
- the order backlog at December 31, 2008 (€9.1 million), was down sharply (–€10.7 million) relative to December 31, 2007. It included €5.8 million for shipment in the first quarter of 2009, €0.8 million over the rest of the year, and €2.5 million in 2010.

Income from Operations Holds Up Well Thanks to Cost-Cutting Measures

Income from operations amounted to €7.0 million. On a like-for-like basis, income from operations worked out to €9.3 million, down 9% relative to 2007.

Net income was €3.2 million, down €2.6 million (–44%) at actual exchange rates compared to 2007.

Free cash flow after €1.6 million in non-recurring disbursements was negative at €4.8 million (compared to a negative €8.3 million in 2007 after €6.4 million in non-recurring disbursements).

3. CONSOLIDATED FINANCIAL STATEMENTS FOR THE FULL-YEAR 2008

The U.S. dollar was highly volatile throughout 2008. After falling below $1.60 / €1 on July 15, 2008, it rallied from August onward, rising to $1.25 / €1 on November 13, before weakening again to end the year at $1.39 / €1 on December 31.

With an average parity of $1.47/€1 for the full-year 2008, the dollar was down 7% compared to the full-year 2007. This change mechanically reduced the various revenue components by 2 to 3% and income from operations by €2.4 million at actual exchange rates, compared to like-for-like figures.

Revenues

Total revenues for 2008 totaled €198.1 million, down 6%, like-for-like, from 2007. They were down 9% at actual exchange rates.

The decline was 5% in Europe, 12% in the Americas, and 4% in Asia-Pacific. These three regions respectively accounted for 60% (including 10% for France), 17%, and 17% of total revenues. Revenues from the rest of the world fell 14% and represented 6% of total revenues.

Revenues from New Systems Sales Decline

New software license revenues (€28.8 million) decreased by 13% overall and contributed 15% of total revenues (16% in 2007).

CAD/CAM equipment revenues (€56.2 million) were down 16% and accounted for 28% of total revenues (31% in 2007).

Revenues from training and consulting (€8.8 million) were up 2%.

Overall, revenues from new systems sales (€94.7 million) fell 14% and represented 48% of total revenues (52% in 2007).

Growth in Recurring Revenues, a Key Stabilizing Factor for the Company in Periods of Economic Crisis

Recurring revenues (€103.4 million) increased by €1.6 million overall (up 2%), and accounted for 52% of total revenues (48% in 2007).

Revenues from recurring contracts—which alone represented 64% of recurring revenues and 33% of total revenues—were up by 4%, 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 the global crisis, 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 (€29.7 million) were up 6% and represented 15% 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 €36.2 million and represented 18% of total revenues.

Meanwhile, revenues from spare parts and consumables (€35.6 million) fell by 1%, after having risen at an annual rate of close to 10% in recent years.

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

Gross Margin

The overall gross margin worked out to 66.8%.

Like-for-like, it came to 67.4%, up 0.4 percentage point relative to 2007 (67%). This change stems from the mix of new systems sales (for which gross margins are smaller and which contributed less to total revenues) and recurring revenues. Gross margins on the different product lines were stable overall relative to 2007, like-for-like.

Overhead Costs

Total overhead costs were €125.4 million, down €6.4 million (–5%) compared to 2007. They break down as follows:

- €118.4 million in fixed overheads and allowances, down €3.7 million (–3%);
- €7 million in variable costs (–27%).

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 €18.3 million and represented 9.2% of revenues (compared to €17.4 million and 8% in 2007). Net R&D costs after deduction of the research tax credit and grants amounted to €10.6 million, versus €14.2 million in 2007.

The particularly adverse business conditions led the company in July to adopt measures aimed at limiting its expenses and, more generally, managing its overhead costs more rigorously. These measures were further reinforced in September and are additional to the positive effect of the (French) tax credit for research, thereby accounting for the 3% reduction in fixed overheads relative to 2007 (compared with an expected rise of 4%).

Income from Operations and Net Income

Income from operations amounted to €7 million. On a like-for-like basis, income from operations worked out to €9.3 million, down 9%. Income from operations in 2007 included a non-recurring charge of €1 million.

The operating margin was 3.5%. On a like-for-like basis, it worked out to 4.6%, a decrease of 0.1 percentage point relative to 2007.

Net financial expenses amounted to €3.7 million, of which €2.8 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 €0.6 million.

After an income tax gain of €0.6 million, net income amounted to €3.2 million, down €2.6 million compared to 2007 at actual exchange rates.

Net earnings per share on basic and diluted capital amounted to €0.11, compared respectively to €0.19 and €0.18 in 2007.

Free Cash Flow

Free cash flow before non-recurring items amounted to a negative €3.2 million. (The figure was a negative €1.9 million in 2007.)

Free cash flow after €1.6 million in non-recurring disbursements amounted to a negative €4.8 million (–€8.3 million in 2007, after €6.4 million in non-recurring disbursements in 2007). This was the result of

€8.7 million in cash provided by operating activities (including an increase in working capital requirement resulting from current activities of €1.5 million), capital expenditures of €3.6 million, and a temporary increase in working capital requirement of €9.9 million.

The temporary increase of €9.9 million in working capital requirement stems primarily from the adverse impact of non-collection of €6 million in (French) research tax credit, payment in 2008 of €2.3 million representing the 2007 variable portion of compensation and the (French) contractual performance-related incentive plan *(prime d'intéressement)*, and from €1.6 million in non-recurring disbursements.

Balance Sheet Structure

At December 31, 2008, consolidated shareholders' equity amounted to €28.1 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. €1.5 million (€0.6 million at December 31, 2007).

Cash and cash equivalents totaled €10.2 million (€10.9 million at December 31, 2007).

Financial borrowings totaled €66.5 million (€61.7 million at December 31, 2007), of which:

- €48 million corresponds to the medium-term bank loan,
- €16.9 million corresponds 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,
- €1.6 million corresponds to interest-free repayable advances to finance research and development programs.

Net financial borrowings consequently totaled €56.4 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 December 31, 2008, amounted to €22.3 million (*see chapter 10.2 of the notes to this report*).

At the same time, the company held a receivable of €14 million on the French State, corresponding to the (French) tax credits for research recognized since 2005. Thanks to the measures announced by the French government on December 4, 2008, as part of its economic stimulus plan, providing in particular for early reimbursement of the fraction of the tax credit for research for the years 2005 through 2008 not charged to corporate income tax, the company will receive the full amount of the €14 million due to it in the first half of 2009 (*see chapter 10.3 of the notes to this report*).

The company has given an undertaking to the banks in respect of the €48 million medium term loan, to comply with certain covenants at December 31 of each year. Anticipating that it would not be in a position to comply with these covenants at that date, the company entered discussions with the lending banks in October. An amendment to the loan contract was signed on December 19 modifying the two ratios at December 31, 2008, such as to allow the company to respect them (which it did). In return for this agreement the margin was raised to 1.85% effective January 1, 2009, versus 1% previously (*see chapter 10.1 of the notes to this report).*

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 still in progress (*see chapter 7 of the notes to this report*).

On December 31, 2008, the arbitral tribunal informed the parties that it expected to formally close the proceedings shortly. As a result, Lectra anticipates that the tribunal will conclude its final deliberations and submit a draft of its final award to the ICC Court during the first quarter 2009. The arbitral tribunal has also indicated that it expects the award will address all extant issues, including legal and arbitration costs.

Under the ICC rules, the ICC Court is required to review and approve the draft award before notification of the award to the parties. As a result of this process and in light of the tribunal's communication, Lectra anticipates receiving the award before the end of the second quarter 2009.

4. APPROPRIATION OF EARNINGS

In 2004, the company initiated a policy of paying dividends to its shareholders while continuing to fund its future growth.

As last year, as a result of the Public Share Buyback Tender Offer in 2007, it will have to suspend this dividend policy in respect of the fiscal year in review, as the level of net income of the company does not justify the payment of a dividend.

Confirming its confidence in the future, the Board of Directors intends to propose to the shareholders to resume its dividend payment policy as soon as its financial condition permits.

5. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 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.

On October 20, 2008, Delta Lloyd Asset Management N.V. (Netherlands), acting on behalf of funds it manages, 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 October 1, 2008.

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

- André Harari and Daniel Harari, who together hold 39% of the capital and 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 it manages, holds more than 5% (but less than 10%) of the capital and less than 5% of voting rights.

Finally, the company holds 1.3% 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 December 31, 2008, was €3.25, down 43% 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 €2.63 on December 5. The CAC 40 and CAC Mid&Small190 indexes were down 43% and 44% respectively, over the same period.

This sharp drop occurred in especially thin trading volumes: according to Euronext figures, 5 million shares were traded, a decrease of 47% compared to the same period of 2007. The volume of capital traded decreased by 70%, to €17 million.

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

Following the steep decline in the company's stock market capitalization at December 31, 2008 (€92.6 million), Lectra's shares were transferred by Euronext from Compartment B to Compartment C in January 2009.

6. CORPORATE GOVERNANCE

In reply to the call issued by the President of the French Republic on the occasion of his speech in Toulon of September 25, 2008, the MEDEF (*Mouvement des Entreprises de France*— the Association of French companies) and AFEP (*Association Française des Entreprises Privées*— the French Association of private companies) published a set of recommendations on October 6, 2008, concerning the compensation of executive directors of companies whose shares are listed for trading on a regulated market, for the guidance of compensation committees.

The French government further called on the Boards of Directors of the companies concerned to formally accept these recommendations by the end of 2008 and to ensure that they are enforced rigorously.

In response to this demand, the Board of Directors issued a statement on November 28, 2008, declaring that the company had spontaneously been compliant for many years with these recommendations, which apply to André Harari and Daniel Harari, respectively Chairman of the Board and Chief Executive Officer.

7. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2008.

8. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 30, 2009.

First, second, and third quarter earnings for 2009 will be published on April 29, July 30, and October 28, 2009, respectively, after the close of trading on Euronext. The audited financial results for 2009 will be published on February 11, 2010.

9. BUSINESS TRENDS AND OUTLOOK

At the time of this report, macro-economic conditions are more uncertain than ever: the unprecedented scale of the 2008 economic and financial crisis continues to undermine national economies and businesses alike, despite the significant measures taken by most governments.

The year 2009 will therefore be a difficult one, for all companies around the world: the current conditions therefore call for extreme vigilance.

Once the crisis is over, however, companies in the different geographical and market sectors served by the company will presumably need to acquire the technologies required to boost their competitiveness. Lectra customers may also begin to catch up on investments frozen or shelved for the past several quarters.

The company therefore remains confident in the strength of its business model and its medium-term growth prospects. The major objectives in its strategic plan are unchanged: to increase the technological advance and high value of its product and service offer, to strengthen its competitive position and its long-term relationship with its customers, to accelerate the pace of organic growth once the crisis is over, to increase profitability by regularly increasing the operating margin, and to generate free cash flow exceeding net income (assuming full utilization of the tax credit for research accumulated during the year).

The figures for 2009 referred to below are based on the assumption of an average parity of $1.40/€1 used for the 2009 budget (compared with an average parity of $1.47/€1 in 2008)—changes are like-for-like compared to the 2008 results translated at the exchange rates used for 2009.

2009 Action Plan

Lectra has demonstrated its resilience whenever it has experienced difficult periods in its history. Its prime objective for the coming months is therefore to take the necessary measures rapidly in order to emerge strengthened from the economic crisis. As early as September 1, 2008, the Executive Committee and the Strategic Committee of the Board of Directors sought a clear view of the many dimensions of this complicated and uncertain situation, in order to frame the company's action plan for 2009. As a result, the necessary measures were taken very rapidly and implemented with immediate effect as of January 1.

At a time when the global economic paradigm has changed radically, decisions must more than even be made from a medium-term perspective, independently of financial market reactions and of any short-term measures. The overriding imperatives of the 2009 action plan are to preserve the company's strategic assets, leverage its strengths, and continue to build the future.

This action plan grew out of an exploration of every possible form of action capable of lowering the company's breakeven point, by cutting its fixed overhead costs, safeguarding its margins, raising its security ratio (i.e., the coverage of annual fixed overhead costs by gross margin on recurring revenues), and returning to a significant positive free cash flow. The two immediate imperatives are to preserve the company's short term financial position and limit its risk exposure. This approach has also clarified and refocused the company's priorities. All of the company's resources have been mobilized to ensure the plan's success.

The key parameters of the 2009 action plan are:

- fixed overhead costs of €113.8 million, down by €125 million (–10%) like-for-like relative to the €126.3 million budgeted for fiscal 2008, and down 5% relative to actual figures for 2008 which already reflected the impact of the savings measures initiated in the second half,

- preserving the gross margin at the same level as in 2008,
- keeping recurring revenues stable or growing them slightly,
- consequently increasing the company's security ratio by 4 percentage points relative to 2008 and by 8 percentage points relative to 2007, to 72% at January 1, 2009.

If the impact of the crisis proves greater than currently foreseen in the experts' scenarios, the company will be obliged to take additional cost-cutting measures in order to lower its fixed overheads further.

2009 Outlook

The company has opted to not formulate a view of its outlook for 2009, given the total lack of visibility.

Macro-economic conditions are expected to remain deteriorated over the coming quarters and orders for new software licenses and CAD/CAM equipment persistently weak, although it is impossible to estimate the extent of this weakness.

The main uncertainty for 2009 therefore concerns the level of revenues from sales of new systems. This uncertainty is all the greater since the year has begun with a particularly weak backlog, contrary to the exceptionally strong figure at the beginning of 2008. Consequently, if the volume of orders remains stable in 2009 relative to 2008, this would lead to a 12% decline in revenues from new systems.

The company expects that, in all probability, it will register an operating loss in Q1 2009.

The 2009 action plan allows for fixed overhead costs to be adjusted so as to reach the company's breakeven point (i.e., to keep net income positive) if orders for new software licenses and CAD/CAM equipment booked in 2009 are 15% less than in 2008 (representing a decline of 42% relative to 2007). Corresponding revenues would be €178 million and income from operations €1.7 million.

In the company's business model, each increase or decrease of €1 million in revenues from new systems sales would respectively increase or reduce income from operations by approximately €0.4 million.

Further, a persistent strengthening of the dollar would have two positive effects for Lectra: it would have a mechanical impact on its activity and financial results, and it would bolster its competitiveness (its main competitor being American).

An average rise in the dollar of $0.05 against the euro, taking the parity from $1.40/€1 (the parity assumed in the 2009 budget) to $1.35/€1, would mechanically increase revenues by around €2 million and income from operations by around €1 million. Conversely, a fall in the dollar of $0.05 would decrease revenues and income from operations by the same amounts.

The company has hedged approximately 70% of its exposure to the dollar for 2009 (estimated at $33–$38 million) through monthly forward-dollar sales at an average parity of $1.30/€1 *(see chapter 12 of the notes to this report)*.

At the same time, free cash flow before non-recurring items will be lifted in 2009 by the early reimbursement by the French Inland Revenue Service (*Trésor Public*) of the total figure of €14 million in respect of tax credits for research recognized in the balance sheet at December 31, 2008. This item should therefore be comfortably positive in all profit scenarios.

The Board of Directors

February 12, 2009

Company Certification of the Fourth Quarter and Fiscal Year 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 report on operations for the fourth quarter and for the fiscal year 2008 presents a true and sincere view of the changes in the operations, results, and financial condition of the company and of its consolidated companies, significant events that occurred during the year and their impact on the financial statements, and a description of the main risks and uncertainties faced by the company."

Paris, February 12, 2009

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

Consolidated balance sheet

ASSETS

As at December 31 (in thousands of euros)	2008	2007
Goodwill	36,077	36,465
Other intangible assets	5,887	5,727
Property, plant and equipment	14,420	15,236
Non-current financial assets	1,656	1,802
Deferred income tax	12,097	9,327
Total non-current assets	70,137	68,557
Inventories	28,614	30,156
Trade accounts receivable	39,997	49,806
Current income tax receivable	15,207	8,940
Other current assets	8,698	10,193
Cash and cash equivalents	10,175	10,897
Total current assets	102,691	109,992
Total assets	172,828	178,549

EQUITY AND LIABILITIES	2008	2007
Share capital	27,641	42,715
Share premium	1,033	976
Treasury shares	(1,498)	(581)
Retained earnings	9,471	(8,092)
Currency translation adjustment	(8,529)	(8,719)
Total equity	28,118	26,299
Retirement benefit obligations	3,746	3,518
Borrowings, non-current portion	49,433	48,849
Total non-current liabilities	53,179	52,367
Trade and other payables	39,490	51,964
Deferred revenues	32,310	32,522
Current income tax liabilities	654	454
Borrowings	17,096	12,817
Provisions for other liabilities and charges	1,981	2,126
Total current liabilities	91,531	99,883
Total equity and liabilities	172,828	178,549

Consolidated income statements

For year ended December 31 (in thousands of euros)	2008	2007
Revenues	198,133	216,565
Cost of goods sold	(65,757)	(71,568)
Gross profit	132,376	144,997
Research and development	(10,607)	(14,225)
Selling, general and administrative expenses	(114,808)	(119,564)
Non-recurring income and expenses	-	(997)
Income from operations	6,961	10,211
Financial income	424	377
Financial expense	(4,128)	(2,582)
Foreign exchange loss	(602)	(686)
Income before tax	2,655	7,320
Income tax expense	583	(1,509)
Net income	3,238	5,811

(in euros)	2008	2007
Earnings per share		
- basic	0.11	0.19
- diluted	0.11	0.18
Shares used in calculating earnings per share		
- basic	28,236,981	31,047,895
- diluted	28,236,981	31,471,409

Consolidated cash flow statements

For year ended December 31 (in thousands of euros)	2008	2007
I - OPERATING ACTIVITIES		
Net income	3,238	5,811
Depreciation and amortization	8,851	5,857
Non-cash operating expenses	26	894
Fees on public stock buyback tender offer recognised in equity	-	(380)
Loss on sale of fixed assets	(5)	(11)
Changes in deferred income taxes, net value	(1,956)	(599)
Changes in inventories	(1,542)	(5,402)
Changes in trade accounts receivable	8,427	(461)
Changes in other current assets and liabilities	(18,263)	(8,705)
Net cash used in operating activities	(1,224)	(2,996)
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,476)	(1,158)
Purchases of property, plant and equipment	(2,202)	(4,010)
Proceeds from sales of intangible assets and property, plant and equipment	27	-
Purchases of financial assets	(1,240)	(225)
Proceeds from sales of financial assets	1,297	71
Net cash used in investing activities	(3,594)	(5,322)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	86	2,903
Dividends paid	-	(5,198)
Purchases of treasury shares	(1,187)	(5,438)
Purchase of shares on public stock buyback tender offer	-	(47,687)
Sales of treasury shares	163	4,461
Proceeds from borrowings	800	48,400
Repayments of borrowings	(146)	(558)
Net cash used in financing activities	(284)	(3,117)
Decrease in cash and cash equivalents	(5,102)	(11,435)
Cash and cash equivalents at the openning	(1,715)	9,997
Decrease in cash and cash equivalents	(5,102)	(11,435)
Effect of changes in foreign exchange rates	92	(277)
Cash and cash equivalents at the closing	(6,725)	(1,715)
Free cash flow before non-recurring items	(3,234)	(1,930)
Non-recurring items of the free cash flow	(1,584)	(6,388)
Free cash flow	(4,818)	(8,318)
Income tax paid	256	2,026
Interest paid	3,549	2,005

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 1 January, 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)						(325)			(325)
Currency translation adjustment							(578)		(578)
Net expense recognised directly in equity				-	-	(705)	(578)	-	(1,283)
Net income								5,811	5,811
Net income (expense) recognised as at December 31				-	-	(705)	(578)	5,811	4,528
Fair value of stock options						642			642
Issuance of ordinary shares	645,855		968	1,935					2,903
Cancellation of treasury shares	(876,612)		(1,315)	(3,525)	4,840				-
Sale (purchase) of treasury shares					(1,322)				(1,322)
Profit (loss) on treasury shares						231			231
Purchase of shares on 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						3			3
Balances at December 31, 2007	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)						(1,157)			(1,157)
Currency translation adjustment							190		190
Net income (expense) recognised directly in equity				-	-	(1,157)	190	-	(967)
Net income								3,238	3,238
Net income (expense) recognised as at December, 31				-	-	(1,157)	190	3,238	2,271
Fair value of stocks options						452			452
Issuance of ordinary shares	18,615		28	57					85
Sale (purchase) of treasury shares					(917)				(917)
Profit (loss) on treasury shares						(73)			(73)
Reduction in share capital		(0.53)	(15,103)			15,103			-
Appropriation of prior-year earnings						5,811		(5,811)	-
Balances at December 31, 2008	28,495,514	0.97	27,640	1,033	(1,498)	6,233	(8,529)	3,238	28,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 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 C) since 1987. Lectra is the world leader in software, CAD/CAM equipment and related services dedicated to large-scale users of textiles, leather and industrial fabrics. Lectra addresses a broad array of major global markets, including fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), 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 1,520 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 92% of its revenues directly in 2008. 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 920 employees in its sales and service subsidiaries. Lectra employs 220 engineers dedicated to R&D, and 170 people 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 assuming utilization or receipt of the annual tax credit for research applicable in France.

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 at December 31, 2008.

In addition the Group has applied the following IFRIC interpretations since January 1, 2008:

- IFRIC 11: Treasury shares and intra-Group 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 the first-time consolidation of the Indian subsidiary *(see chapter 3 below)* is immaterial, since the bulk of sales in this country continued to be billed in 2008 by the parent company, Lectra SA, 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.

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 loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

Free Cash Flow

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

3. SCOPE OF CONSOLIDATION

At December 31, 2008, the Group's scope of consolidation comprised Lectra S.A. together with 26 fully-consolidated companies.

The company's Indian subsidiary, Lectra Technologies India Private Ltd., which was formed in September 2007 and which had no activity before 2008, has been consolidated since January 1, 2008. This subsidiary's revenue, profit and balance sheet items were immaterial in 2008, the bulk of sales to this country continuing to be billed by the parent company, Lectra S.A. There was no other change in the scope of consolidation in 2008. 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. In 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 December 31				
	2008		2007	Changes 2008/2007	
(in thousands of euros)	Actual	At 2007 exchange rates	Actual	Actual	Like-for-like
Revenues	47,234	46,053	60,108	-21%	-23%
Cost of goods sold	(14,013)	(13,887)	(21,637)	-35%	-36%
Gross profit	33,221	32,166	38,471	-14%	-16%
(in % of revenues)	70.3%	69.8%	64.0%	+6.3 points	+5.8 points
Research and development	(2,598)	(2,598)	(3,795)	-32%	-32%
Selling, general and administrative expenses	(28,752)	(28,119)	(31,040)	-7%	-9%
Income from operations before non-recurring items	1,871	1,449	3,636	-49%	-60%
(in % of revenues)	4.0%	3.1%	6.0%	-2 points	-2.9 points
Non-recurring income and expenses	-	-	(997)	n/a	n/a
Income from operations	1,871	1,449	2,639	-29%	-45%
(in % of revenues)	4.0%	3.1%	4.4%	-0.4 point	-1.3 point
Profit before tax	672	250	1,392	-52%	-82%
Income tax expense	(224)	n/a	(414)	-46%	n/a
Net income	448	n/a	978	-54%	n/a

	Twelve Months Ended December 31				
	2008		2007	Changes 2008/2007	
(in thousands of euros)	Actual	At 2007 exchange rates	Actual	Actual	Like-for-like
Revenues	198,133	202,675	216,565	-9%	-6%
Cost of goods sold	(65,757)	(66,035)	(71,568)	-8%	-8%
Gross profit	132,376	136,640	144,997	-9%	-6%
(in % of revenues)	66.8%	67.4%	67.0%	-0.2 point	+0.4 point
Research and development	(10,607)	(10,607)	(14,225)	-25%	-25%
Selling, general and administrative expenses	(114,808)	(116,768)	(119,564)	-4%	-2%
Income from operations before non-recurring items	6,961	9,265	11,208	-38%	-17%
(in % of revenues)	3.5%	4.6%	5.2%	-1.7 point	-0.6 point
Non-recurring income and expenses	-	-	(997)	n/a	n/a
Income from operations	6,961	9,265	10,211	-32%	-9%
(in % of revenues)	3.5%	4.6%	4.7%	-1.2 point	-0.1 point
Profit before tax	2,655	4,959	7,320	-64%	-32%
Income tax expense	583	n/a	(1,509)	-139%	n/a
Net income	3,238	n/a	5,811	-44%	n/a

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

5.1 Q4 2008

Revenues by geographic region

	Three Months Ended December 31						
	2008			2007		Changes 2008/2007	
(in millions of euros)	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which :	29.2	62%	29.4	35.9	60%	-19%	-18%
- France	5.9	12%	5.9	4.7	8%	+24%	+24%
Americas	8.3	18%	7.8	10.2	17%	-19%	-23%
Asia-Pacific	7.4	16%	6.3	10.3	17%	-29%	-39%
Other countries	2.4	5%	2.6	3.8	6%	-36%	-31%
Total	47.2	100%	46.1	60.1	100%	-21%	-23%

Revenues by product line

	Three Months Ended December 31						
	2008			2007		Changes 2008/2007	
(in millions of euros)	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Software, of which :	14.7	31%	14.4	17.1	28%	-14%	-16%
- New licenses	6.7	14%	6.5	9.7	16%	-32%	-33%
- Software evolution contracts	8.0	17%	7.9	7.3	12%	+9%	+8%
CAD/CAM equipment	11.4	24%	11.0	20.5	34%	-44%	-46%
Hardware maintenance and on-line services	9.8	21%	9.6	9.7	16%	+2%	-1%
Spare parts and consumables	8.5	18%	8.3	10.0	17%	-15%	-17%
Training and consulting services	2.6	5%	2.6	2.6	4%	-1%	-1%
Miscellaneous	0.2	0%	0.2	0.3	1%	-18%	-19%
Total	47.2	100%	46.1	60.1	100%	-21%	-23%

Breakdown of revenues between new systems sales and recurring revenues

	Three Months Ended December 31						
	2008			2007		Changes 2008/2007	
(in millions of euros)	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales(1)	20.9	44%	20.2	33.1	55%	-37%	-39%
Recurring revenues(2), of which:	26.4	56%	25.8	27.0	45%	-3%	-4%
- Recurring contracts	17.5	37%	17.2	16.3	27%	+7%	+5%
- Other recurring revenues on the installed base	8.9	19%	8.6	10.7	18%	-17%	-19%
Total	47.2	100%	46.1	60.1	100%	-21%	-23%

(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 Fiscal year 2008

Revenues by geographic region

(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 :	118.9	60%	119.8	125.5	58%	-5%	-5%
- France	20.9	11%	20.9	17.2	8%	+21%	+21%
Americas	34.4	17%	36.9	41.7	19%	-17%	-12%
Asia-Pacific	34.1	17%	34.7	36.3	17%	-6%	-4%
Other countries	10.7	5%	11.2	13.1	6%	-18%	-14%
Total	198.1	100%	202.7	216.6	100%	-9%	-6%

Twelve Months Ended December 31

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 :	58.6	30%	60.0	62.9	29%	-7%	-5%
- New licenses	28.8	15%	29.5	34.0	16%	-15%	-13%
- Software evolution contracts	29.7	15%	30.4	28.8	13%	+3%	+6%
CAD/CAM equipment	56.2	28%	57.7	68.4	31%	-18%	-16%
Hardware maintenance and on-line services	38.1	19%	38.7	38.4	18%	-1%	+1%
Spare parts and consumables	35.6	18%	36.4	36.7	17%	-3%	-1%
Training and consulting services	8.8	4%	8.9	8.8	4%	-	+2%
Miscellaneous	0.9	0%	0.9	1.4	1%	-36%	-35%
Total	198.1	100%	202.7	216.6	100%	-9%	-6%

Twelve Months Ended December 31

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]	94.7	48%	97.1	112.6	52%	-16%	-14%
Recurring revenues[2], of which:	103.4	52%	105.5	104.0	48%	-	+2%
- Recurring contracts	65.9	33%	67.2	64.7	30%	+2%	+4%
- Other recurring revenues on the installed base	37.5	19%	38.3	39.2	18%	-4%	-2%
Total	198.1	100%	202.7	216.6	100%	-9%	-6%

Twelve Months Ended December 31

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

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

Breakdown of revenues from new systems sales by market sector

(in millions of euros)	Twelve Months Ended December 31						
	2008			2007		Changes 2008/2007	
	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	57.6	61%	59.1	67.7	60%	-15%	-13%
Automotive	17.6	19%	18.0	23.8	21%	-26%	-24%
Furniture	6.9	7%	7.0	11.1	10%	-38%	-37%
Other industries	12.5	13%	13.0	9.9	9%	+26%	+31%
Total	94.7	100%	97.1	112.6	100%	-16%	-14%

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	(3.3)	-	(3.3)
Non-recurring items included in free cash flow	(1.6)	-	(1.6)
Capital increase[1]	0.1	-	0.1
Sale and purchase of treasury shares[2]	(1.0)	-	(1.0)
Change in borrowings	0.7	(0.7)	-
Impact of currency variations – other	0.1	0.2	0.3
Change in cash position for the period	(5.0)	(0.5)	(5.5)
Situation at December 31, 2007 (balance sheet)	10.9	(61.7)	(50.8)
Use of cash credit facilities	(12.6)	12.6	-
Situation at December 31, 2007 (cash flow statement)	(1.7)	(49.1)	(50.8)
Situation at December 31, 2008 (balance sheet)	10.2	(66.5)	(56.4)
Use of cash credit facilities	(16.9)	16.9	-
Situation at December 31, 2008 (cash flow statement)	(6.7)	(49.6)	(56.4)

(1) Resulting from the exercise of stock options (see Chapter 8 below).

(2) Carried out solely under the Liquidity Agreement administered by SG Securities (Société Générale) in the framework of the stock buyback program approved by the April 30, 2007 and April 30, 2008 General Shareholders Meetings.

Free cash flow at December 31, 2008 was reduced as a result of the €11.4 million increase in working capital requirement in the course of 2008.

While accounts receivable declined by €8.4 million and inventories rose by €1.5 million, the growth in working capital requirement stemmed from the €18.3 million increase in other current assets and liabilities. The latter figure is mainly accounted for by the following items:

- €6 million correspond to the (French) tax credit for research (*crédit d'impôt recherche*), accounted for and which did not give rise to a receipt of funds—*see note 10.3 below*;
- €9.1 million correspond to the reduction in payables to suppliers, due to lower Q4 2008 raw material purchases and other expenses than in Q4 2007;
- €2.3 million correspond to payments in the first half of 2008 of the 2007 variable 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
- €0.8 million correspond to the receipt of tax receivables.

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 December 31, 2008, the arbitral tribunal informed the parties that it expected to formally close the proceedings shortly. Consequently, Lectra expects the tribunal to conclude its deliberations and submit a draft of its final award to the ICC Court before the end of the first quarter of 2009. The arbitral tribunal has also indicated that it expects the award will address all extant issues, including legal and arbitration costs.

Under the ICC rules, the ICC Court 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 before the end of the second quarter 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 as of December 31, 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. 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.

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

9. TREASURY SHARES

Under the Liquidity Agreement administered by SG Securities (Paris), in 2008 the company purchased 302,758 shares and sold 45,596 shares at an average purchase price of €3.92 and €3.57, respectively. The company has neither purchased nor sold shares outside of the Liquidity Agreement within the framework of the company's stock buyback programs, as authorized by the Ordinary and Extraordinary Shareholders' Meetings on April 30, 2007 and April 30, 2008.

Consequently, at December 31, 2008, the company held 358,459 Lectra shares (or 1.2% of share capital) with an average purchase price of €4.18 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 million 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.

Anticipating that it would be unable to comply with these covenants at December 31, 2008—given the level of cash flow generated by slower business activity resulting from the macroeconomic climate, delays in receipt of the (French) tax credit for research, and a particularly adverse euro/dollar parity since January 1, 2008—the company entered discussions with the two lending banks in October. An amendment to the

contract was signed on December 19, modifying the two ratios at December 31, 2008 to enable the company to respect them (which it did).

The ratios to be respected at December 31 of each year until the maturity of this loan are as follows:

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

At the same time, the initial loan contract entitles the banks 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 1.85% per year as from January 1, 2009 versus 1% previously (this margin may be reduced to 0.95% depending on the company’s leverage ratio).

The company has hedged in 2007 its interest-rate risk exposure by converting this floating rate into a fixed rate via two interest-rate swaps. In 2008, the total effective interest rate, including the cost of financial hedging instruments and the amounts hedged, is 5.75%. The total effective rate for 2009, calculated on the basis of the 3-month Euribor rate at January 2, 2009, is forecast to be 6.34% (with a margin of 1.85%).

10.2 Liquidity

The table below summarizes the cash position, confirmed cash credit facilities available to the company and its net debt, at December 31, 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	5,100	900
- until July 31, 2010	15,000	11,800	3,200
Total	29,000	16,900	12,100
Bank loan	48,000	48,000	-
Non-interest bearing repayable advances	1,629	1,629	-
Total financial debt	78,629	66,529	12,100
Cash and cash equivalents			10,175
Total	78,629	66,529	22,275

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 December 31, 2008 amounted to €22.2 million.

10.3 (French) Tax Credit for Research

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 respect of 2008. At December 31, 2008 the company held a receivable of €14 million on the French State. Consequently, pending reimbursement by the French Internal Revenue (the *Trésor Public*) of the said tax credits, which must take place within four years at the latest of their recognition, free cash flow is therefore reduced by the corresponding amount.

As a result of measures within the framework of the economic stimulus plan announced by the French Government on December 4, 2008, providing for early reimbursement of the fraction not chargeable to income tax of the tax credit for research in respect of the years 2005, 2006, 2007 and 2008, the company will receive the full amount of the €14 million receivable in the first half of 2009.

11. INTEREST-RATE HEDGING INSTRUMENTS

As stated in chapter 10 above, 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 December 31, 2008 was a negative €2.2 million, due to the decline in the 3-month Euribor rate relative to the rate prevailing when these swaps were put in place. These swaps are considered effective, since their value covers closed to 90% of the risk, in consequence of which this amount is fully recognized in shareholders' equity.

12. CURRENCY RISK

Currency hedging instruments at December 31, 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 €7.7 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 dollar exposure in 2008, as it considered the cost of such a hedge prohibitive. On October 10, the company took advantage of the dollar's appreciation to hedge its exposure for Q4 2008 by selling currency forward at a parity of $1.36/€1.

The surplus of the amount of this hedge, unutilized at December 31, 2008, was carried over as a partial hedging of the company's exposure for Q1 2009, at the closing parity of $1.39/€1 at that date.

The company has made additional hedges on February 3, 2009, to hedge in total approximately 70% of its exposure to the dollar for 2009 (estimated at $33–38 million) through monthly forward dollar sales at an average parity of $1.29/€1, thus bringing to $1.30/€1 the average parity of the amounts hedged.

The average parity assumed for the 2009 budget is $1.40/€1 (versus $1.47/€1 in 2008).

A variation of $0.05/€1 in the euro / dollar parity against this average parity would result in an increase (if the dollar rises) or a decrease (if the dollar falls) in revenue of approximately €2 million and of €1 milion in income from operations. By way of illustration, an average parity of $1.30/€1 in 2009 would mechanically increase annual revenues by €4 million and income from operations by €2 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.