ANNUAL REPORT

08

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By developing and marketing **innovative technology solutions** specifically designed for industries working with textiles, leather, industrial fabrics, and composites, Lectra has grown over the past **35 years** into a €200 million, **transnational company** revolutionizing **major world markets** such as the fashion, automotive, and furniture industries. The **world leader** in its field, Lectra, based in Paris, France, serves **23,000 customers** in more than **100 countries** and is listed on the Euronext Paris stock exchange. Enriching the expertise of its 1,500 employees year after year and developing long-term, value-adding relationships with its customers, Lectra provides industry-specific **software**, **hardware**, **consulting**, and **related services**. Lectra's integrated technology offer is the ultimate CAD/CAM solution, specifically developed for each individual market. Its software ranges from design to pattern-making, 3D prototyping, and more recently to **PLM** for the fashion industry. Its high-performance automated knife and laser cutters benefit from **unrivalled technological advances**, making them the most powerful, efficient, and "intelligent" cutting machines in the world. Lectra can be found in every soft materials market across the globe, from formal footwear to sports shoes, high-end apparel and luxury leather goods, to car seats and interiors, upholstered living room suites, wind turbines, personal protective equipment, and more. Since its beginning, Lectra has been helping customers streamline and **improve quality** and **productivity** while **reducing costs** and **time-to-market**, facilitating **collaborative work** and **secure data exchanges**. Today, the need for the enhanced performance offered by Lectra has never been greater. Distinguished for its five key values—leadership, entrepreneurship, excellence, customer care, and innovation—Lectra is perfectly **geared for the future** as well as the present.

In the challenging conditions of the unprecedented worldwide economic crisis, our results held up well in 2008, due to the effective measures we have taken and our solid business model which, combined with our many assets, should enable us to emerge from this difficult period stronger.

How did Lectra fare in 2008?

André Harari: For Lectra, as for all companies, 2008 was an atypical year due to the outbreak of the global crisis. Conditions had been steadily worsening even before the financial system was shaken in September. The uncertainties were already accumulating in number as early as July. Then, at the beginning of autumn, the financial, stock market, and banking crisis took an unprecedented turn for the worse. The direct consequence of this was a further, brutal deterioration of the economy in all our sectors of activity

André Harari,
Chairman of the Board of Directors

Daniel Harari,
Chief Executive Officer

the world over. Caught up in this downward spiral, companies were fully subjected to a slowdown of their business activities, on a scale rarely seen in many decades. In these exceedingly unusual circumstances, our revenues and earnings—albeit well below our expectations—resisted as a result of the efficacy of the measures we have taken as well as of the solidity of our business model.

Daniel Harari: At €7 million, income from operations fell only 9% relative to 2007, despite a 6% drop in revenues. This performance can be credited to the speed and effectiveness of the cost-cutting measures we introduced as early as July 1 and reinforced in September, and of course to our robust business model. Our net income came to €3.2 million.

Free cash flow was negative at €4.8 million, but it would have been a positive €5.1 million and superior to net income had certain temporary factors been absent.

When you look at our sales curve over the year, you can see it clearly headed downward quarter after quarter. The decline in orders for new software licenses and CAD/CAM equipment reached 31% over the year and 48% in the fourth quarter. We've never seen anything like it. The situation is very tough for our customers. Regardless of their country or sector of activity, the economic downturn has forced them to cut back or halt production, and above all to suspend their investments. When you watch your financial performance decline, your bank credit collapse, and your outlook darken, you reduce investments to a bare minimum and take drastic actions to cut costs.

Have you seen any evolution in the crisis since its onset?

Daniel Harari: Apprehension and hesitation have spread and gained in strength, and there is great uncertainty as to the depth and the duration of the crisis.

At this time, nobody knows when it will end, and everyone is essentially playing by ear. Of course, we are seeing a few niches of opportunity through all this. Some customers are competitive enough to win market share from their competitors. And in some rare markets, activity could stay brisk. But regardless of these opportunities, which are relatively mild in any case, we need to be prepared for a difficult year in 2009. Not only are we ready to confront these conditions, we intend to emerge strengthened from this period.

How do you plan to make progress in these adverse conditions?

André Harari: Pragmatically, with determination and perseverance. Today we have an extremely robust business model. In recent years, we have sharply boosted the volume and share of recurring revenues in our total revenues. In 2008, they proved that they do make an essential contribution to business stability.

Daniel Harari: The first source of these revenues is our subscription contracts—software evolution contracts, CAD/CAM equipment maintenance contracts, and online support contracts via our five International Call Centers. These contracts concern approximately two-thirds of Lectra's 23,000 customers and account for 33% of our revenues. The second source is the sale of spare parts and consumables, which account for another 18% of our activity. We market an integrated technological offer, unmatched in reach and performance and responding to all the needs of each customer. Our solutions, specific to each market sector, benefit from a vigorous research and development program. But equally important, we also offer services enabling those customers to make the most of our solutions and optimize their investments over the long term. I'd like to stress the expansion of our training and consulting activities in 2008.

We provide our customers with global high value-added solutions geared to the specific needs of their sectors, vital for boosting their performance and competitiveness.

André Harari: In tandem with our business model, the defining strengths underlying this unmatched offer and the expertise of our teams propelled us ten years ago to global leadership, while at the same time bolstering our financial fundamentals. This has enabled us to safeguard our assets in this difficult period, and to hold to our course. Even so, we have cut our fixed overhead costs again and are constantly on the lookout for ways to adapt to the changing conditions on a daily basis.
Our two immediate imperatives are to protect the company's financial position in the short term and to limit its exposure to risks.

How much room for maneuver do you have now?

Daniel Harari: Fixed overheads were reduced by 7% in 2008 compared to our initial budget, representing a decline of 3% compared to 2007. Measures taken starting in July include, in particular, the suspension of our recruitment plan, not systematically replacing all departures, the eradication of temporary work missions, and the termination of certain subcontracting contracts. We have managed to safeguard jobs until now. Management and all our teams are fighting together for the company. Lectra has a huge amount of human capital, and its preservation has always been a priority for us. That was a prime consideration in our decision to not delocalize production to China, unlike some of our competitors. We preferred to invest heavily in research and development to bring out a new generation of equipment at the beginning of 2007, with manufacturing costs below those of the previous generation. Those companies which did choose to delocalize must be regretting that decision now, since the rise of wages in China and the appreciation of the RMB have neutralized any advantage that they could have hoped to obtain. At this time, our manufacturing costs are competitive while our offer represents more advanced technology and greater added value.

We are continuing to invest in order to build for our future, pursuing our long-term vision as before and protecting our strategic assets.

We have also kept practically all our research teams in France, which has enabled us to capitalize on our accumulated expertise while preserving our intellectual property.
André Harari: In addition, our borrowings are set to fall. Under the French government's economic stimulus plan, the €14 million research tax credit owed by the State will be paid to us in full in the first half of 2009. We are also expecting the International Court of Arbitration of the International Chamber of Commerce to issue its decision before the end of the second quarter, bringing to a close the procedure Lectra initiated against Induyco in 2005 after our acquisition of Investronica. Our financial situation is solid. Our 2009 action plan is benefiting directly from recent efforts to improve our operating ratios. And the dollar's appreciation, if it lasts, will produce two positive effects: the first is mechanical, boosting our revenues and income from operations; the second is competitive, as our main competitor is American.

What is the 2009 action plan based on, and what are your objectives?
André Harari: Given the lack of visibility, it must be understood that we have opted to not formulate an outlook for 2009. Our plan, however, is the result of exploring all types of action possible. On the one hand, we intend to continue to reduce our fixed overhead expenses, further boost our security ratio, return to significant positive free cash flow, and preserve our margins.
On the other hand, we have mobilized all the teams towards sales and customer satisfaction, favoring a strong, rapid rebound of orders

for new systems as soon as the situation allows. Our management teams are committed and accountable. Daniel and I have a large stake in the company, holding 40% of the capital and ensuring the stability of the shareholding. The turmoil dragging down our stock price is hurting us as much as the rest of our shareholders. We strive to protect and foster the value of our company over the long term.

Daniel Harari: Difficult times are also an opportunity to focus on what works best: that's why we are re-centering on our priorities. The Group's managers are concentrating on building high value-added sales which offer the best service to the customer.

André Harari: More broadly, our relational value player strategy and the pertinence of our solutions will enable us to benefit fully from the economic upturn as soon as it begins to occur. In fact, more than ever, the companies in our market sectors and regions will need to invest in vital technologies to reinforce their competitiveness. Our history is evidence of Lectra's resilience. All companies have to contend with difficulties at some time or other, and our past trials have helped us mature, consolidate, and move forward. They have taught us to confront adversity while holding to our convictions. That's what gives us confidence for the future, once the crisis is over. The key objectives of our strategic plan remain unchanged.

We reacted very quickly and took measures immediately that were paramount to tackling this crisis, with immediate effect starting January 1, 2009.

How do you account for the resistance of 2008 earnings in the current crisis?

Jérôme Viala: Once again, our business model showed its full strength. Although revenues from new systems sales registered a drop of 14%, recurring revenues rose 2%. The latter suffered from a slight decline in sales of spare parts and consumables due to the steep downturn in our customers' activities at the end of 2008—coming after nearly 10% annual growth in recent years. However, these revenues were sustained by the 4% rise in recurring subscription contracts, and they alone account for 33% of total revenues.

Is Lectra experiencing a strained debt position?

Jérôme Viala: This temporary situation is already behind us. Our net financial debt at December 31, 2008, was €56.4 million, with borrowings of €66.5 million and €10.2 million in available cash. €48 million of these borrowings correspond to the medium-term loan contracted to finance the public stock buyback tender offer in 2007, the accretive aim of which has not yet materialized. €16.9 million stems from the use of cash facilities necessitated by the temporary increase in our working capital requirement. This particular situation will improve significantly in 2009 because, as a result of the French government's economic stimulus plan, we will collect the full €14 million in research tax credits, from 2005 to 2008, in the first semester.

In this period of uncertainty, what are your budget priorities for 2009?

Jérôme Viala: 2009 will be a tough year for Lectra, as it will be for many companies the world over. We have consequently lowered our breakeven point—i.e., the amount of revenues from new systems sales needed to achieve a net income of zero—by 25% compared to 2007. This will be achieved by cutting our fixed overhead costs by €12.5 million, or 10% relative to the initial budget for 2008, like for like. We have also increased our security ratio —the coverage of annual fixed overhead costs by the gross margin generated on recurring revenues—by 4 percentage points relative to 2008 and by 7 points relative to 2007, to reach 72% as of January 1, 2009. We will nonetheless have to cut our fixed overhead costs even further if the impact of the crisis proves deeper still and the economic conditions significantly worsen.

Jérôme Viala,
Chief Financial Officer, member of the Executive Committee

What is the impact of the crisis on Lectra's Human Resources?

Véronique Zoccoletto: This crisis has led us to vigorously pursue and step up the implementation of our ambitious company transformation plan initiated in 2005. This metamorphosis towards an even higher-performance model means that our organizations must adapt to the ever-faster evolving needs of our markets while increasing our training efforts and recruitment quality. At the same time, we are streamlining our business processes in order to boost productivity.

Our action depends on three imperatives: our teams' commitment to Lectra's strategy, their mobilization to successfully carry out our crisis-crossing and recovery plan, and their preparation for the challenges of tomorrow.

How are you preparing for tomorrow's challenges?

Véronique Zoccoletto: To respond to the strategic challenges of our customers, the development of sales of high value-added solutions and of large projects is a priority. This is why we are making sure we are optimizing skills management, from R&D to the sales and service teams, so as to stretch the expertise of those teams to the maximum and to share their experience with other teams, thereby guaranteeing ultimate performance throughout the world. Enhancing the value of our teams is essential to crossing the crisis and effectively addressing the recovery period. One of our strengths is our solid capacity to anticipate and to react. Up until now, we have been able to maintain jobs, which has always been a priority for us. Our human capital is the forefront of our success: now more than ever, it continues to be our primary asset and our strength.

Véronique Zoccoletto,
Chief Human Capital Officer, Chief Information Officer, member of the Executive Committee

What are your goals for 2009?

Véronique Zoccoletto: A capacity for resilience is one of Lectra's defining characteristics. Although times are particularly difficult right now, our managers and their teams stand shoulder to shoulder, mobilized to face the crisis together, fully determined to seize this situation as an opportunity and to emerge from it strengthened. All are keenly aware of a collective challenge: doing all we can to cut costs, bolster our operating ratios, and continuously improve the efficiency and performance of our organization, while growing sales and preparing for their rebound as soon as the crisis is over. Since October 2008 we have involved Group managers in developing the company's 2009 action plan to arm them with the means to rally their own teams around a version of the plan geared to their specific geography. The entire company fully understands, without a doubt, the objectives that we have set and how we will achieve them.

To provide each customer with the benefits of high **value-added**, **innovative solutions** and **expert teams**, Lectra has enacted its "pure player" strategy. Dedicated to industries that use soft materials (textiles, leathers, industrial fabrics, and composite materials), Lectra maximizes the **synergy** among its different markets to respond to their **specific**, individual **needs** while developing **long-term** relationships. Lectra serves sectors where innovation is a key **differentiating factor**—fashion, automotive, furniture, and a wide range of others, such as the aeronautical, marine, and wind power industries. In its 35 years of existence, it has never ceased to innovate, so that all these industries may benefit from the most advanced **technologies**. Lectra's investment in **R&D** has been far greater than that of its competitors.

markets and businesses

fashion
automotive
furniture
other industries

The **current economic climate** is now, more than ever before, forcing **fashion companies** to **control the costs** of development and production and **reduce time-to-market**. To help them reach this strategic objective, Lectra, with a **leadership** built on 35 years of close partnerships with the fashion industry, offers them automated cutting solutions that generate material savings of up to 10% and can increase productivity by up to 60%. Furthermore, Lectra's **integrated technological solutions** for design, pattern-making, and prototyping enable them to reduce development costs and time, unleash greater **creativity**, increase **responsiveness**, and perpetuate their **brand universe**. Companies can thus satisfy the expectations of consumers looking for new ranges of original, high-quality models at attractive prices, every four to six weeks.

Capitalizing on brands' design assets

To renew their collections while remaining loyal to their fundamental identities, fashion companies must exercise their creative liberties within the scope of their respective, established brand images and design assets. The force of Lectra's technological solutions is found in their capacity to accelerate the visualization of ideas in a virtual environment, thereby increasing the number of creative options and possibilities that may be explored. It is also found in the instant access designers now have to their brand's model archives, which enables them to draw on the company's design culture and continue to invent its future while maintaining respect for its past. It is no coincidence that 80% of European luxury ready-to-wear companies use Lectra's design or pattern-making solutions.

The powerful automatic marker-making algorithms in Lectra's DiaminoFashion have brought us significant material savings, up to 3%. We've been able to realize a return on investment in only a few months. Lectra's technology has enabled us to increase our efficiency, achieve greater profits, and be more competitive.

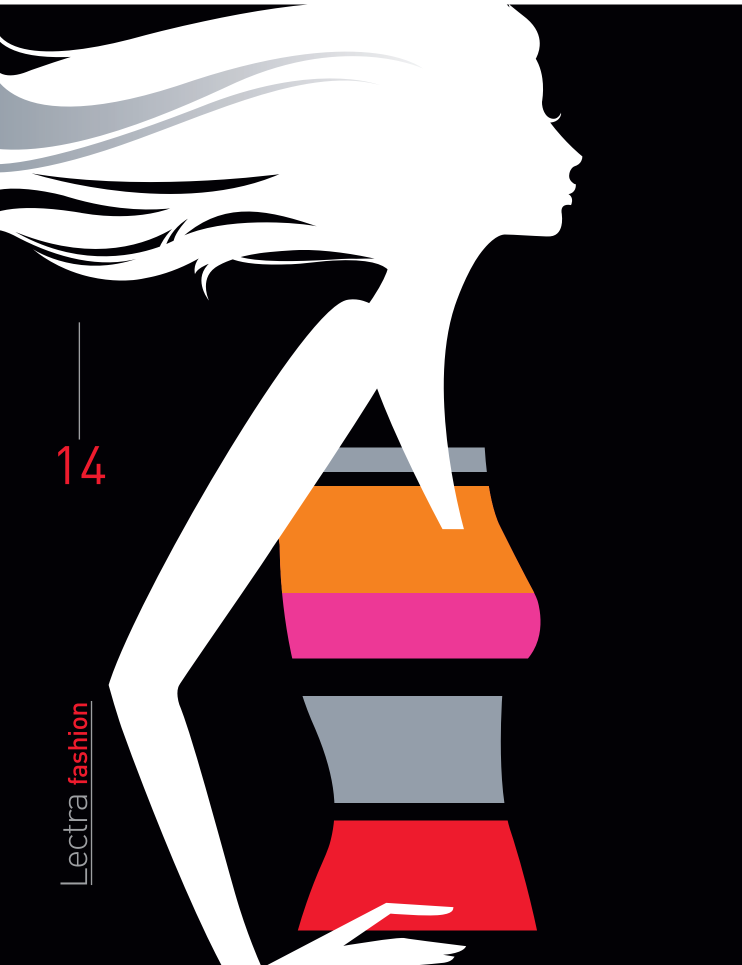
Jean-Luc Lando,
Head of IT Systems for Collection Development,
Groupe Chantelle, France

Reducing time-to-market. Lectra's pattern-making and prototyping solutions have been the industry standard among the biggest names in apparel for more than 30 years. These solutions shorten the development process for all types of garments—men's wear, women's wear, children's wear, lingerie, and corsetry, as well as uniforms and work clothing. Manufacturers have the power to make product launch decisions corresponding to the most recent trends and consumer demands, thereby limiting the risks of running out of stock or ending up with unsold products.

Lectra Fashion PLM and Kaledo Collection have enabled us to streamline our processes, making our work both more efficient and more consistent. Now we can focus on chasing business more. Our whole team is excited about the opportunities that Lectra is bringing to our company.

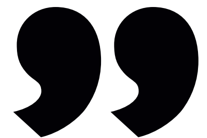
Cathy Thorpe,
President, ***Please Mum, Canada***

APPAREL



We have a reputation for high technology, production speed, and quality in the manufacturing of bags, packs, luggage, and sporting products for world-renowned customers such as Coach, Montblanc, Eastpak, and adidas. When potential clients hear that we cut using Lectra equipment, they are always very impressed and feel more confident signing a contract with us, knowing they can rely on our quality and delivery commitment.

Sahng Lee, *Vice President,* ***Pungkook Corporation, Korea***



«The world's leading luxury brand, since 1854 the name Louis Vuitton has been synonymous with the art of traveling in style. In 1987, Louis Vuitton became part of the French conglomerate LVMH Moët Hennessy-Louis Vuitton, the world's number one luxury group, headed up by Bernard Arnault. Since 1997, with the arrival of designer Marc Jacobs, the brand has branched out into women's and men's ready-to-wear apparel, footwear, watches, jewelry, and glasses. Combining artisanal know-how with intuition and innovation, the brand offers a comprehensive range for the art of living. Louis Vuitton now has a network of 430 boutiques across the globe. Through our partnership with Lectra we have devised an integrated approach to our design and production processes. The core of the system and of the method is based on Lectra's solutions, which are currently being adapted and implemented to suit the needs of Louis Vuitton's management and workshops.*

Emmanuel Mathieu,
Head of Manufacturing,
Franck Le Moal,
Head of IT Systems,
Louis Vuitton Malletier, France

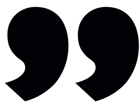
»

FOOTWEAR

ACCESSORIES

Optimizing production

By introducing intelligence into the cutting room, Lectra optimizes and streamlines spreading, marker-making, and cutting operations, thereby maximizing the use of raw materials. At the core of these operations is Lectra's automated cutter, available in specific versions designed for the needs of each market, from mass-produced jeans to small-run luxury lingerie, with a constant standard of productivity and quality. Integrated Smart Services ensure the reliability of the equipment and minimize machine downtime, in particular through a direct link with Lectra's experts based in its Call Centers.



Streamlining processes. Incorporating business and process applications, Lectra's collaborative software platform is the only one on the market specifically developed for the fashion industry. It enables more participants to communicate a greater volume of data in real time, facilitating interaction among the company's marketing, design, pattern-making, production, and management teams, even if they are thousands of kilometers apart and separated by language and cultural barriers.

automotive

The **automotive sector** is among those most affected by today's difficult economic situation, at a time when the industry has already been going through a phase of **profound change**. As a result, major international players are being forced to make increased efforts to ensure their survival or retain their market share, while increasing their **productivity**, **flexibility**, and **competitive edge**.
As partner to the largest auto makers and equipment manufacturers, Lectra offers the most comprehensive technological response for the design and production of car seats, interiors, and airbags. Covering **3D development** and **automated cutting**, Lectra's solutions generate significant material savings, supporting flexible production methods adapted to shorter runs. They are specific to each type of material, whether fabrics, leathers, or airbag textiles. In addition to **lowering costs**, these solutions help shorten time-to-market for new models and guarantee the high level of **quality** imposed by contractors and consumers.

When we introduced the complex-shaped inflatable curtain airbags, Lectra responded to this challenge with a sophisticated vision-based cutting system for One Piece Woven airbags which has perfectly met our needs. Lectra has made a veritable contribution to our productivity and our competitiveness in this highly competitive automotive environment. We appreciate the support and cooperation we have received from Lectra. They show great understanding for our products and our challenges.

Lars-Eric Florberger,
Director of Special Projects Autoliv Textiles, ***Autoliv, Sweden***

SEATS AND INTERIORS, AIRBAGS

We chose Lectra because it provides a whole process solution which offers great flexibility and ease of use. Since implementing Lectra's leather cutting solution, CLS Auto, we have seen an increase in productivity of between 5% and 8%. In addition, Lectra's experts have trained our workers to be efficient with the solution in less than two weeks.

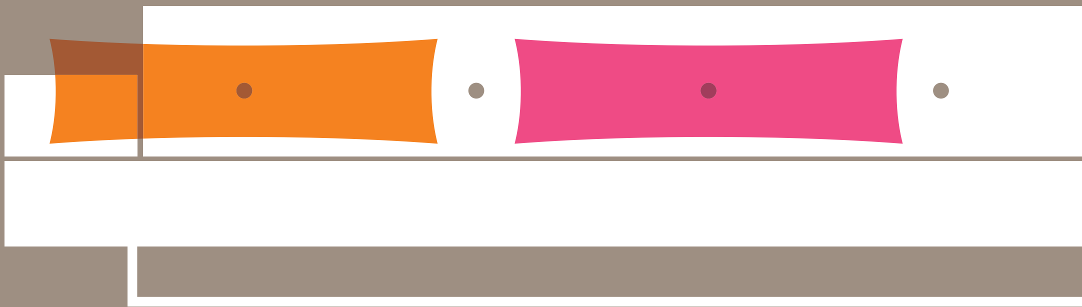
Ulrich Sandmeyer,
Product Engineering Manager, ***Zenda, Germany***

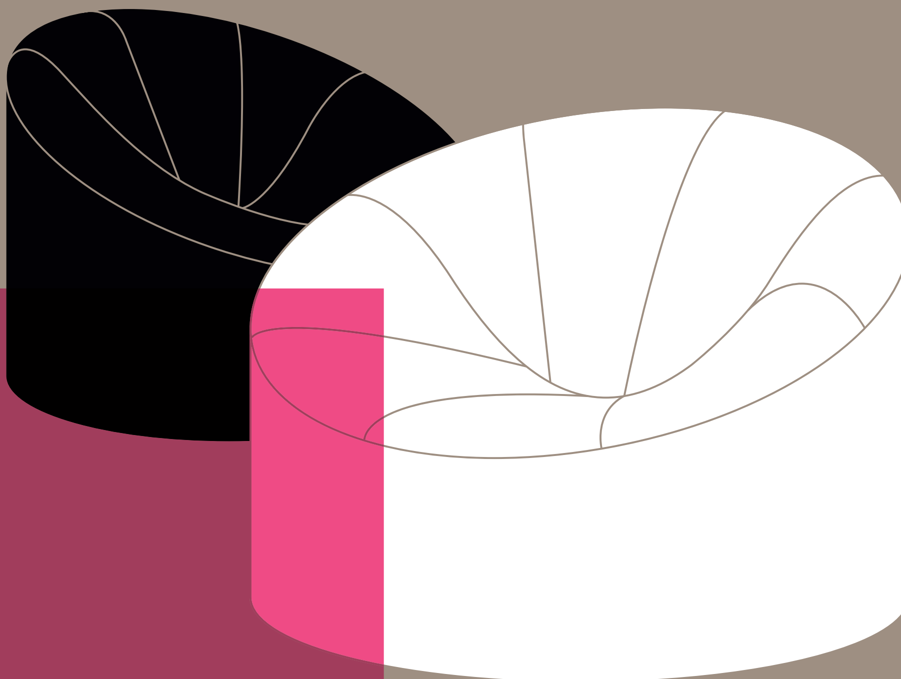
furniture

The upholstered **furniture market** is currently affected by a fundamental trend reflecting a demand for product **customization**, model **diversification**, and rapid collection **renewal**. At the same time, companies must remain conscious of the increasing obligation to be more **competitive** and **productive** in order to strengthen their position, faced with the growing numbers of evermore aggressive competitors. Lectra's business expertise and technological know-how set it apart from others in its field in terms of creativity, productivity, and responsiveness. By speeding up the crucial prototyping phase, its **3D technology** gives users the opportunity to rapidly multiply the number of variants for a basic model. It also facilitates decision-making, as close to the production phase as possible. Lectra's **automated cutting solutions**, specialized for different types of materials, fabrics, or leathers, yield material savings, accelerate the rate of production, and guarantee high quality standards.

We recently presented two of our models made using Lectra's DesignConceptFurniture at a trade show, and we were very satisfied with the end result. The efficiency of this powerful 3D software is really impressive. Our pattern templates made with this solution are 100% accurate, something that is noticeable from the very first physical prototype. We no longer have flaws to correct, and quality has improved. Problems with fabric stress which can occur in a manual development process have been eliminated—all such problems are corrected on-screen when the virtual model is being developed. DesignConceptFurniture gives us greater precision, and the result is an improvement in the quality of our products.

Pierre Wegnez,
Head of Design, Research, and Development, ***Mobitec, Belgium***





ARMCHAIRS AND SOFAS

With Lectra's MFC Furniture automated leather cutting solution we are attaining new levels of leather optimization unlike anything we have reached before, and we are producing faster and at constant levels of quality without additional costs. At Poltrona Frau, where quality is crucial, we can count on Lectra to help maintain our solid leadership and reputation for excellence.

Daniele Pelliccioni,
Production Director, ***Poltrona Frau, Italy***

other industries

The extensive range of Lectra's solutions present a value-creating potential which has been embraced by a number of **industries using soft materials**. Adapted to the technical constraints of a wide variety of materials, including industrial fabrics, composites, foams, and vinyls, these solutions respond to the needs of the marine, aeronautical, and energy (wind turbine blades) sectors. They also extend to manufacturers of sporting and leisure goods, as well as of personal protective equipment, such as bullet-proof vests. Lectra's **innovative** and **high-performance solutions** enable each sector to increase **technological lead**, shorten time-to-market, ensure production **quality** and precision, diversify models, manage feasibility conditions for decision-making purposes, and **reduce development** and **production costs**.

We trust Lectra with the pivotal starting point of our composites production process—the design and the cut. The quality of our entire process depends on these crucial initial steps. With DesignConceptTechTex, DiaminoTechTex, and the VectorTechTex FX, we can feel confident that we are meeting the industry challenges of producing high-quality fuselages and other composite aviation structures for Airbus, Dassault Aviation, and other major aircraft manufacturers, while respecting their deadlines.

Vincent Colonna d'Istria,
Production Manager, ***Corse composites aéronautiques, France***

Photograph: Engineered and manufactured by global subcontracting by Corse composites aéronautiques.

WIND ENERGY

Since acquiring Lectra solutions, Suzlon has been able to rise above the challenges of company expansion while maintaining its reputation for innovation, timeliness, and quality. We are satisfied with our choice of Lectra as technology partner.

Sanjiv Tipnis,
Vice President of Operations, ***Suzlon, India***

MARINE

leadership: as the world leader, Lectra has always strived to be the best. **entrepreneurship**: 35 years after its creation, Lectra has preserved its fundamentally entrepreneurial spirit. **excellence**: at Lectra, the quest for excellence in all domains is a permanent objective, both individually and collectively. **customer care**: Lectra constructs long-term relationships with its customers based on trust, because only partnerships built on such a foundation can create value. **innovation**: beyond technological research, Lectra views innovation as a global undertaking and has made its pursuit the driving force of its business model and competitiveness.

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In an ever-changing world, over the last 35 years, Lectra has never wavered in its commitment to development and innovation, continually taking initiatives to anticipate change and increase its leadership to become Number One worldwide. Unique on today's market, Lectra's offer has expanded and improved over time. Now, with a comprehensive product range that responds to the specific needs of each customer, Lectra enables companies to overcome their biggest strategic challenges. At every step in its development, Lectra has demonstrated its resilience.

From 1973 to 1990

1973

Two visionary engineers create the company, originally named Lectra Systèmes, near Bordeaux, France.

1976

The first computer-aided design (CAD) system for apparel pattern-making and grading is sold. Lectra employs fewer than 10 people and has revenues of €0.25 million when the founders meet André Harari, a pioneer of venture capital in France. He raises the capital necessary to implement the company's business development plan. His investment firm, Compagnie Financière du Scribe, becomes Lectra's second-biggest shareholder.

1977-1982

In 1977, Lectra gains a foothold in Spain and Japan. The first international subsidiary is opened in Germany, followed in 1982 by offices in Spain, Great Britain, Italy, and the U.S. Lectra has since opened 31 subsidiaries worldwide and developed its relationships with 23,000 customers in more than 100 countries. Lectra's unique sales and services network is a major advantage for its customers.

1985

Lectra enters the field of computer-aided manufacturing (CAM) with the launch of its first automated fabric cutting system.

1986

Lectra is established as the world leader in CAD solutions for the apparel industry. Its offer and international presence already respond to needs created by economic globalization.

1987

Initial public offering.

1990

Lectra is hit by a serious financial crisis. The company risks closure. In December, André Harari and Daniel Harari, who have been minority shareholders since 1977 through their investment firm, Compagnie Financière du Scribe (which merged with Lectra in 1998), propose a rescue plan.

Company History

From 1991 to 2008

1991

André Harari and Daniel Harari recapitalize the company and take over its management. This new team immediately implements a recovery plan followed by a strategic redeployment, transforming the company's business model and propelling it to worldwide leadership.

1991-1996

The company begins restructuring. Lectra launches an extensive R&D program to renew its entire product range. It accelerates geographical expansion and moves into new market sectors, including furniture, automobile, aeronautics, and footwear. In 1995, Lectra becomes joint world leader in CAD/CAM software and hardware.

1998-2000

After 25 years of internal growth, Lectra makes its first targeted acquisitions, thus reinforcing and developing the company's design software offer and customer base.

2000

Lectra becomes Number One worldwide. To mark this development, in 2001 Lectra Systèmes changes its name to Lectra and opens its first International Call Center.

2001

Facing worsening global economic conditions, Lectra once again takes drastic measures to reestablish solid operating fundamentals.

2002

A new comprehensive technology offer is completed and includes the most widely used design software solutions on the market and laser cutters for the production of airbags. Intrinsically linked to these solutions, Lectra's services offer, both international and local, is the most extensive on the market.

2004

Lectra acquires the Spanish company Investronica Sistemas (Number Three worldwide), along with a Canadian company specialized in laser cutting and a German leather-cutting specialist.

2005

The end of textile quotas boosts the company's evolution in line with its new strategic challenges and mid-term development opportunities.

2006

Lectra launches its PLM solution, specially developed for the management of product and collection lifecycle in the fashion industries, to which it offers the benefit of its fashion expertise through comprehensive consultancy services.

2007

The result of five years of research and development and a total investment of nearly €50 million, Lectra's new technology offer is unveiled at Lectra World 2007. Lectra further extends its leadership with the launch of its range of Smart Services. It also reinforces its education partnerships. Lectra carries out a successful public stock buyback tender offer for 20% of its capital stock.

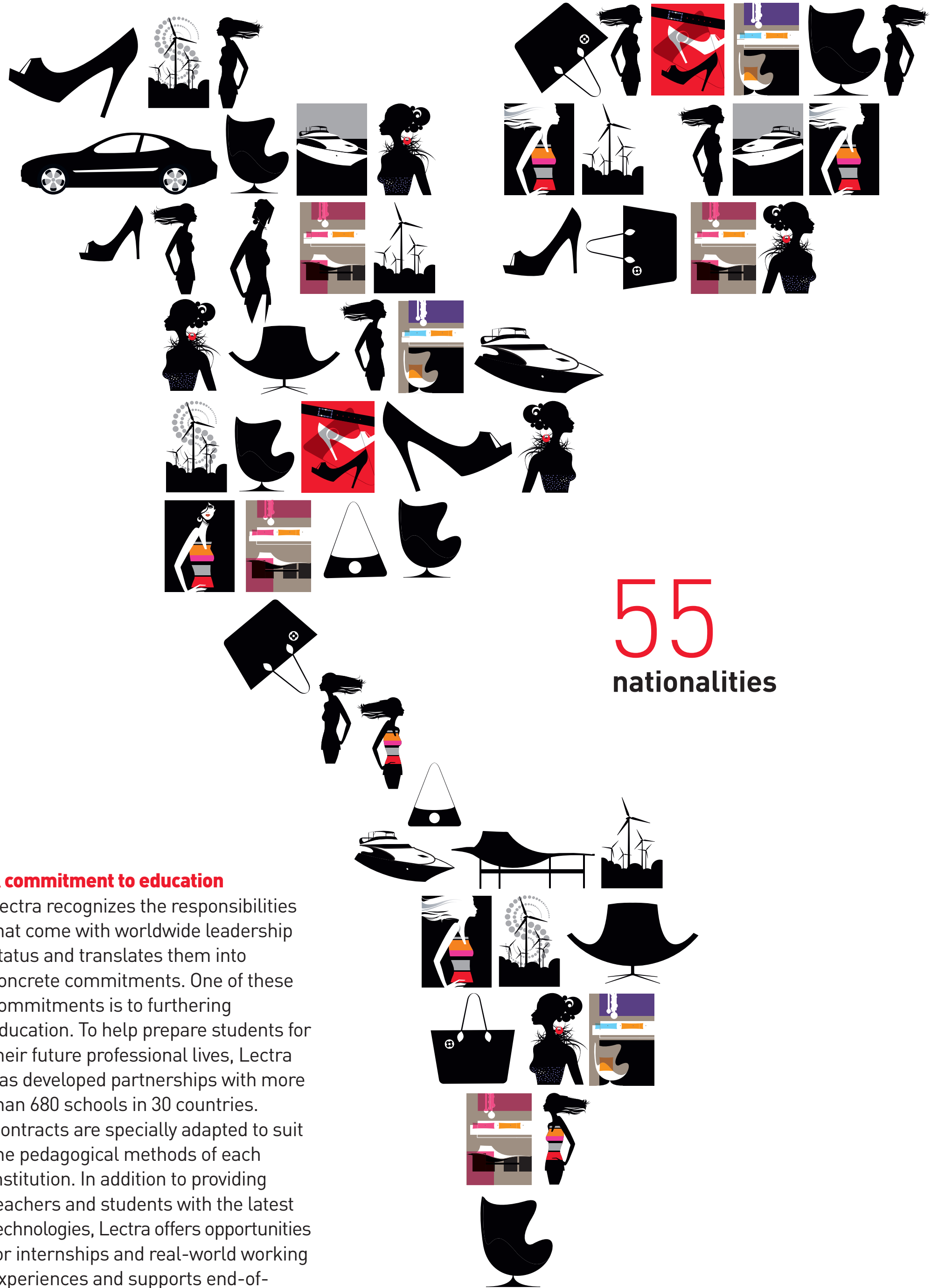
2008

A global economic and financial crisis on an unprecedented scale affects all Lectra market sectors and geographic markets. Demonstrating once again its resilience, Lectra reinforces its financial fundamentals and implements an action plan with the aim of emerging from the global crisis stronger than ever.

a transnational company

Ethics and diversity—genes inherent to Lectra's DNA

Two essential values make up the foundations of Lectra's philosophy: uncompromising ethics in conducting its business activities and the respect of each individual. As for diversity, there is no need for Lectra to even insist on this point, as it has been, since the creation of the company itself, one of its most essential characteristics. Well beyond just banning all forms of discrimination, diversity represents a vital force in the company. Lectra's teams, working in 35 different countries and representing 55 different nationalities and of all ages and origins, open Lectra's doors together every day, drawing supplemental sources of creativity and strength from their differences.



1,500
employees worldwide

€198
million
in revenues

55
nationalities

A commitment to education

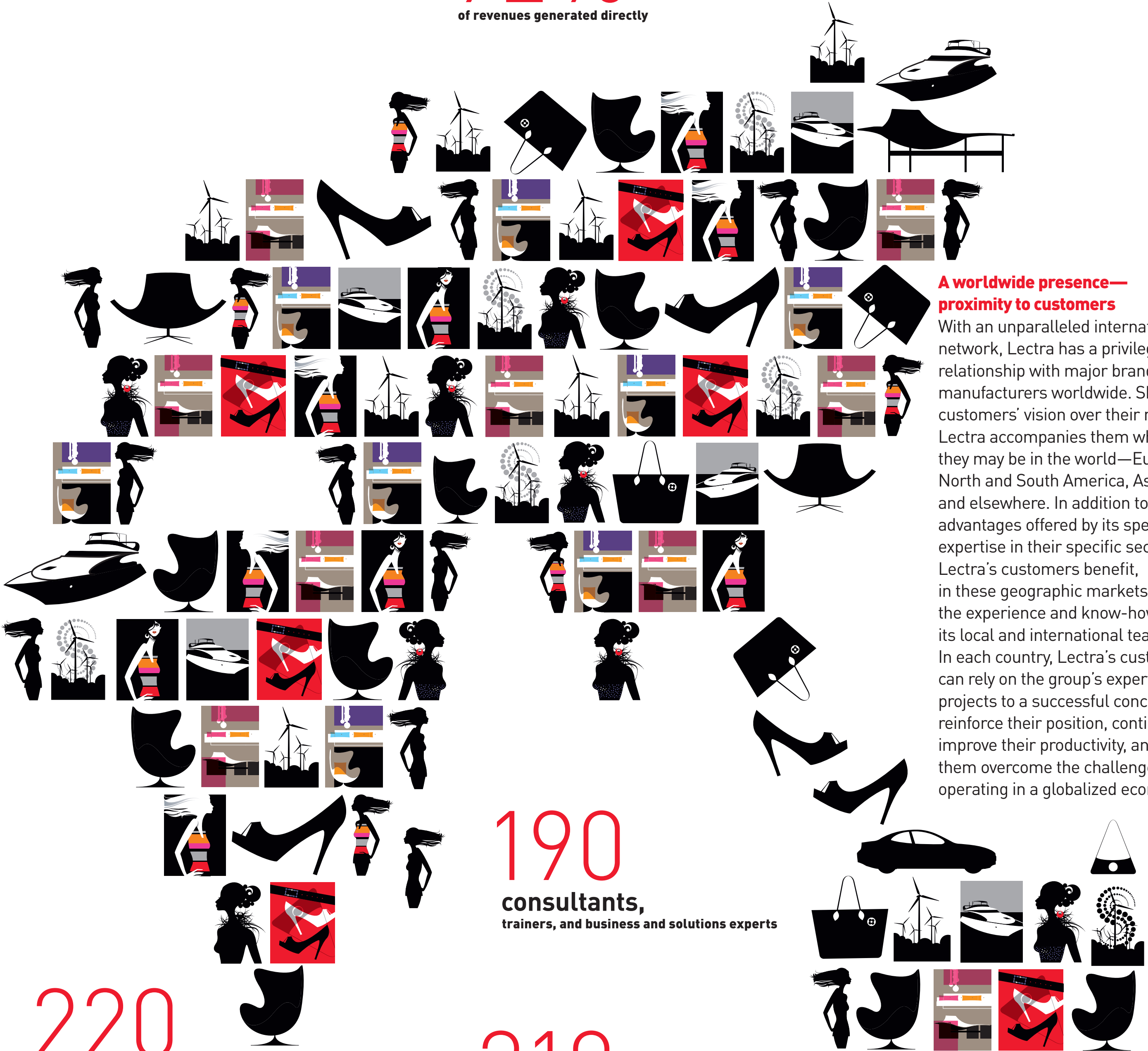
Lectra recognizes the responsibilities that come with worldwide leadership status and translates them into concrete commitments. One of these commitments is to furthering education. To help prepare students for their future professional lives, Lectra has developed partnerships with more than 680 schools in 30 countries. Contracts are specially adapted to suit the pedagogical methods of each institution. In addition to providing teachers and students with the latest technologies, Lectra offers opportunities for internships and real-world working experiences and supports end-of-study projects. In addition, a special space has been dedicated to the world of education on lectra.com.

31
sales and services
subsidiaries

90%
of revenues generated outside of France

23,000
customers
in more than 100 countries

92%
of revenues generated directly



A worldwide presence—proximity to customers

With an unparalleled international network, Lectra has a privileged relationship with major brands and manufacturers worldwide. Sharing its customers' vision over their markets, Lectra accompanies them wherever they may be in the world—Europe, North and South America, Asia-Pacific, and elsewhere. In addition to the advantages offered by its specialized expertise in their specific sectors, Lectra's customers benefit, in these geographic markets, from the experience and know-how of both its local and international teams. In each country, Lectra's customers can rely on the group's experts to bring projects to a successful conclusion, reinforce their position, continually improve their productivity, and help them overcome the challenges of operating in a globalized economy.

190
consultants,
trainers, and business and solutions experts

220
R&D engineers

210
maintenance engineers

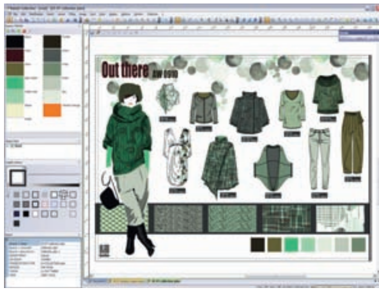
680
partner schools
and universities

120
experts
in 5 International Call Centers

products and services

create develop produce manage optimize create develop produce manage optimize create

Lectra is the only player on the market able to offer all industries using soft materials such a wide range of solutions and services adapted to the specificities of each sector. Lectra's offer covers the entire development and production cycle. For the fashion industry, it includes a specific offer for collection cycle management and performance dashboard monitoring.

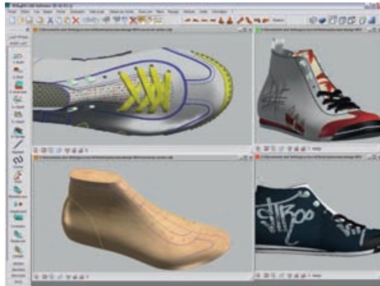


Kaledo®
Lectra's solution for designing fabrics and styles, *Kaledo,* provides designers with an intuitive and user-friendly working environment for proposing, testing, modifying, and developing variations on creative ideas, while respecting the brand's design capital. Created with the specificities of each profession in mind, *Kaledo* gives all participants in the collection development process real-time access to information through very realistic visual simulations. An innovative offer, *Kaledo* significantly accelerates creativity and the development cycle to overcome the constraints of the fast fashion business model.

Modaris® and PGS
Lectra's pattern-making solutions have been the industry standard for the biggest names in apparel worldwide for more than 25 years. *Modaris* and *PGS* cover the entire development chain: on-screen pattern creation, modification of existing patterns, digitization, industrialization, verification of constructions, grading in all sizes and morphologies, pre-production, and more. They are compatible with all types of apparel. Their information exchange capacities with other CAD systems on the market make these applications essential for companies working online in an extended business organization. *Modaris 3D Fit* enables users to visualize the fit of a garment and test all its possible variations in terms of materials and colors.

Training, Evaluation, and Consulting
Lectra provides its customers with more than 190 professional trainers and consultants who bring together their pedagogical know-how, product expertise, and business knowledge. They are dedicated to delivering specially tailored training programs to help customer teams acquire and develop all the skills they need to get the most out of their Lectra solutions.
In the ongoing interest of accompanying its customers through their development and evolution, Lectra's team of specialists is available to analyze their particular business issues and identify the Lectra technologies that will best meet their needs. With solid expertise in the fashion, automotive, and furniture industries, Lectra's consultants draw on proven experience in design, development, and manufacturing to carry out accurate evaluations and deliver assessments with recommendations for change management and project implementation.

Automobile: specific teams for large accounts
For major international automotive accounts, Lectra provides special worldwide consulting teams who ensure a global approach and provide consistently solid expertise to support the implementation of new Lectra solutions throughout each customer's network of sites across the globe. Users are thus able to constantly optimize the performance of their industrial processes.

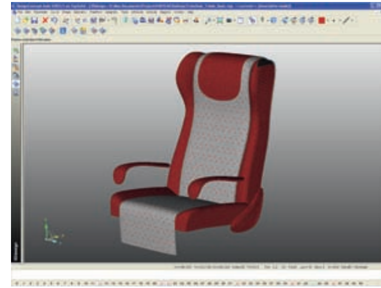


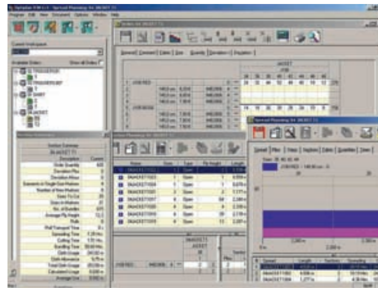
Romans Cad®

Specific to the footwear and accessories industries, *Romans Cad* is the most advanced solution on the market, cutting collection development time in half. Completely oriented to each activity in the product development process, it unites advanced technological expertise with the traditional skills of designers and pattern makers. Through the simulation of virtual 3D models, users' creative horizons are broadened, and productivity and competitiveness are improved through the reduction of costs and numbers of required physical prototypes. Dimension verification functions and features that facilitate flattening enable users to specify a model's measurements quickly and simply, all the while guaranteeing quality.

DesignConcept

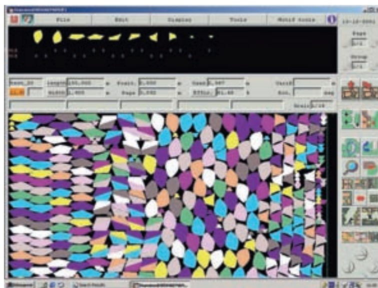
DesignConcept offers users a full range of functions, enabling them to create virtual models, develop templates, analyze feasibility, anticipate costs, and flatten 3D designs into 2D pattern pieces ready for cutting. As a result, fewer prototypes are necessary, and decision-making is improved while manufacturing and lead times are reduced. *DesignConcept* is available in three versions—*Auto, TechTex,* and *Furniture,* each specifically adapted to the needs and constraints of seat and interiors production for the automotive, aeronautical, and marine industries and for those of the furniture industry.





Optiplan®

At the very core of Lectra's intelligent cutting room is *Optiplan* management software, the key link in a chain of different technological sytems and operations: pattern-making, marker-making, spreading, and cutting. *Optiplan* enables users to develop a unique, high-performance process which ensures that operations run smoothly and that quality and costs are optimally controlled.



Diamino® and MGS

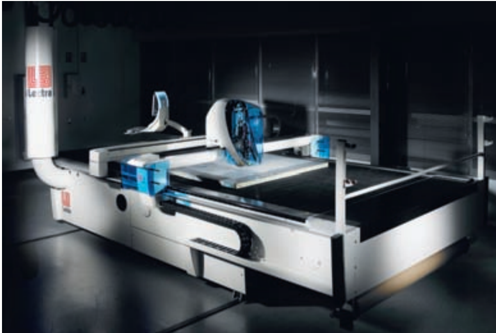
Lectra's advanced technological solutions for the creation of cut-ready markers, *Diamino* and *MGS,* offer all the advantages of interactive and automatic marker-making, taking the material and complexity of each model to be cut into account. In association with very precise management of the constraints of different fabrics, products, and markets—fashion, footwear, furniture, and industrial fabrics—the solutions' powerful algorithms are defining new limits in material savings and productivity.

Progress® Brio

Lectra's automatic spreaders, *Progress Brio,* guarantee the highest quality spreading of materials to be cut. Connected to CAD software, *Progress Brio* can be programmed to function automatically for continuous production with excellent management of flaws and a high level of flexibility. Material savings are guaranteed, regardless of the type of fabric and spreading method.

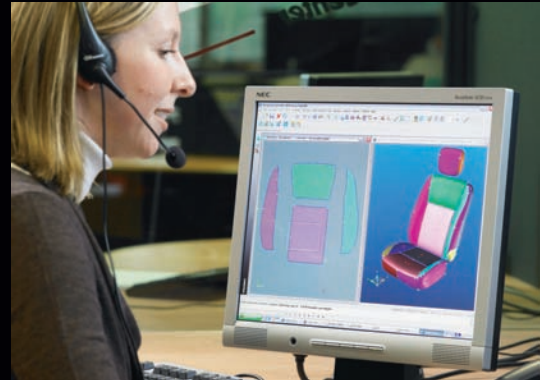
products and services

create develop produce manage optimize create develop produce manage optimize create



Vector®
Lectra's strength lies in the specialization of its automated cutting offer. Uniquely engineered according to industry sector, production type, level of complexity, or even the thickness of the material to be cut (denim, lingerie, or industrial fabrics), each model of cutter has its own specific characteristics.
The new generation of *Vector* cutters, introduced in 2007, is unparalleled on today's market and consists of three different ranges:
– the entry-level offer consists of the *Vector FP, M55,* and *M88* lines. Even these cutters are higher performance than almost all other machines on the market;
– the more productive *Vector FX, MH,* and *MH8* lines guarantee constant quality even when cutting the most difficult materials. They come with built-in Smart Services;
– the *Vector MX* and *MX9* lines ensure productivity, quality, and an unequaled return on investment for mass production.

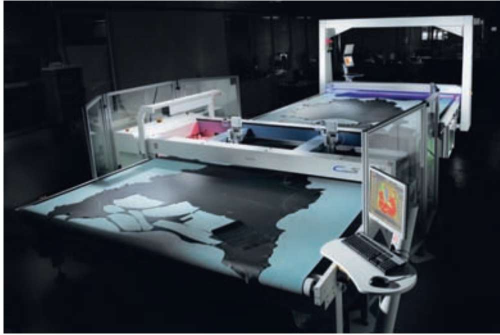
FocusAirbag OPW
Developed in response to an increase in the quantity and different types of airbags used in vehicles, the *FocusAirbag OPW* (One Piece Woven) laser-cutting solution manages and automatically adjusts its cutting path. With its scanning vision system, this technology ensures a better quality of cut pieces. The *FocusAirbag OPW* is used by all market leaders and their sub-contractors.



Maintenance and Support
Lectra has more than 300 engineers and experts able to maintain customer equipment and software both on-site and at a distance through remote control in real time, working out of its five internally managed International Call Centers. These high value-added services enable customers to secure and maximize their return on investment through user assistance, preventive and reparative maintenance, and the optimization of design, product development, and even production processes. They guarantee a significant increase in productivity by optimizing the customer's use of equipment.

Smart Services, onboard intelligence
Lectra's new cutting solutions come equipped with *Smart Services*—onboard intelligence which monitors the machines in real time, updates pilot software, and runs the machine's preventive maintenance program, as well as performing an array of other high value-added functions. A permanent communication link between the equipment and experts in Lectra's five International Call Centers enables the company's teams to resolve most potential problems remotely and without delay.

® Kaledo, Modaris, Optiplan, Diamino, Progress, Vector, ProSpin and Focus are registered trademarks of Lectra SA, France.
® Romans Cad is a registered trademark of Stratégies SA, France.

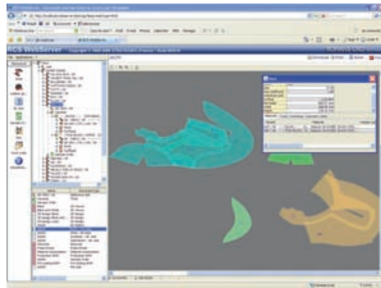


Leather cutting: HLC – MFC – CLS

Lectra's specially developed solutions for automated leather cutting take the specific constraints generated by the complex structure of this material into consideration—for example, grain, visible and invisible flaws, thickness, etc. Cutting can be carried out either by automatic marker-making of CAD-developed pieces on a digital image of the hide or by direct projection onto the hide itself.

Romans Cad® Data Management

Romans Cad Data Management is the only comprehensive PDM solution entirely dedicated to the footwear and leather goods sector. With new 3D imaging functions and electronic transmission capacities, it cuts the time needed to create a collection in half by enabling decision-makers, designers, suppliers, and customers to share information in real time.



Lectra Fashion PLM

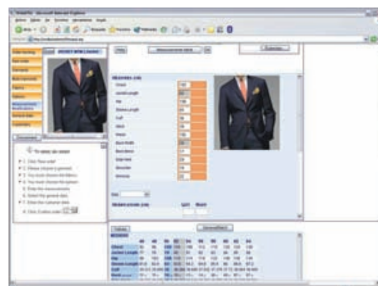
The expansive reach and specialized content of *Lectra Fashion PLM* make it an unprecedented performance accelerator for fashion professionals. Vastly multifunctional, it facilitates the management of business processes, task execution, collaborative work, and optimal collection management throughout the lifecycle of each product—from a designer's initial ideas to a finished product, ready to be marketed. It is the only PLM solution to integrate applications dedicated to process management—notably for managing the product design and development—with market-leading business applications for design *(Kaledo)*, pattern-making *(Modaris* and *PGS)*, physical and virtual 3D prototyping *(Modaris 3D Fit)*, and marker-making *(Diamino* and *MGS)*.

ProSpinFashion ST

A highly flexible cutting system, the *ProSpinFashion ST* is specifically intended for prototyping and small runs. The equipment is entirely modular and consists of a single-ply cutter with a fixed table. Available in a variety of widths and lengths, this machine adapts to different working environments.

Gallery and PM Web

Lectra's *Product Data Management Gallery* and *PM Web* solutions are particularly suited to small and medium-sized companies. They enable users to centralize, structure, and share detailed, visual product data, thus reducing the number of iterations involved in the modification of prototypes. *Gallery* automatically generates status reports on style and product line development for verification and monitoring purposes. This application integrates perfectly with each company's other installed tools. Using Internet technology, *PM Web* allows a company's internal contributors and external partners to share product information in real time, throughout the entire supply chain.



strategy and business model

Lectra's development is based on a clear strategy and on a robust, sustainable business model.

Five strategic objectives

- accentuating Lectra's technological leadership and the high added value embodied in its products and services offer across all markets;
- strengthening Lectra's competitive position and long-term relationships with its customers;
- accelerating organic growth once the crisis is over;
- boosting profitability by regularly increasing the company's operating margin;
- generating free cash flow in excess of net income.

A proven business model

A balanced business mix
Inherent risks in Lectra's business are naturally hedged by their spread across:
- major market sectors: fashion, automobile, furniture, and many other industries with decorrelated cycles;
- the entire world: Lectra does business on all five continents, benefitting from their dissimilar growth patterns;
- 23,000 customers, none representing more than 3% of total revenues;
- a broad products and services offer, with no product taking a predominant share in new systems sales.

Consequently, except in times of severe economic crisis, the different risks balance each other.

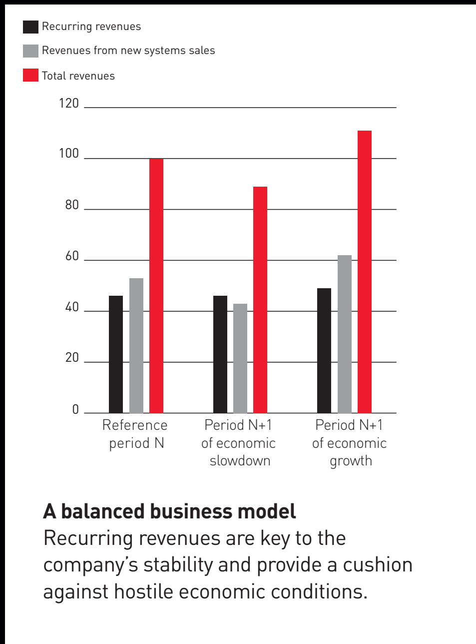
A balanced revenue mix
Lectra's business model is based on its two revenue components:
- revenues from new systems sales (sales of new software licenses, CAD/CAM equipment and related services), the company's growth driver;
- recurring revenues, resulting from subscription contracts (software evolution, CAD/CAM equipment maintenance, and online support contracts), together with statistically recurring revenues on the installed base (i.e., sales of spare parts and consumables, and one-off maintenance interventions).

In addition, the free cash flow generated exceeds net income.*

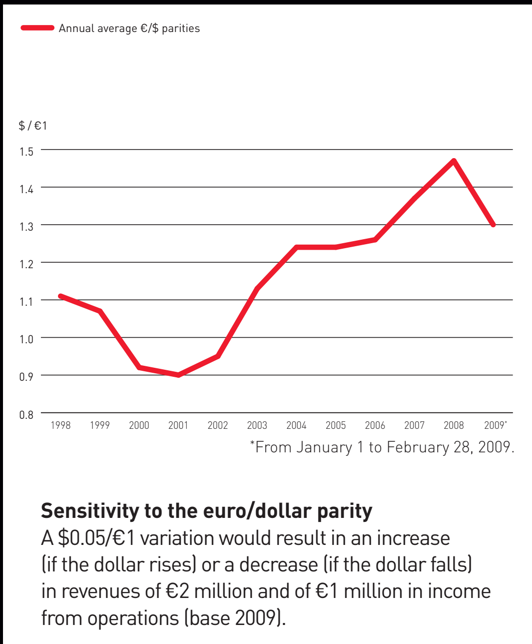
Sensitivity of Lectra's business model to new systems sales
Each €1 million change up (or down) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.4 million (base 2009).

Sensitivity of Lectra's business model to the dollar
The euro/dollar parity has a double direct impact:
- mechanical: a $0.05/€1 variation would result in an increase (if the dollar rises) or a decrease (if the dollar falls) in revenues of €2 million and of €1 million in income from operations (base 2009);
- competitive: Lectra's main competitor is American, so a weak dollar versus the euro penalizes Lectra.

*Assuming utilization or receipt of the annual research tax credit applicable in France.

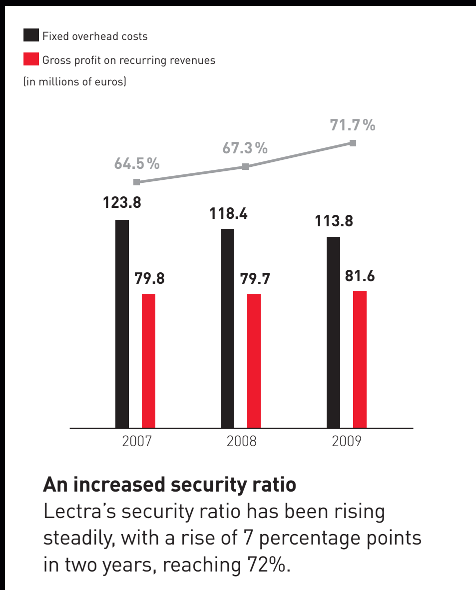


A balanced business model
Recurring revenues are key to the company's stability and provide a cushion against hostile economic conditions.

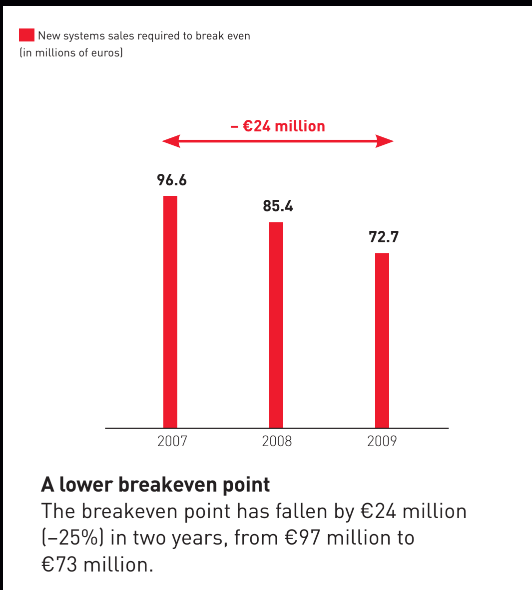


*From January 1 to February 28, 2009.

Sensitivity to the euro/dollar parity
A $0.05/€1 variation would result in an increase (if the dollar rises) or a decrease (if the dollar falls) in revenues of €2 million and of €1 million in income from operations (base 2009).



An increased security ratio
Lectra's security ratio has been rising steadily, with a rise of 7 percentage points in two years, reaching 72%.



A lower breakeven point
The breakeven point has fallen by €24 million (–25%) in two years, from €97 million to €73 million.

Key features of the 2009 action plan

Increase the company's security ratio
The security ratio is a key performance indicator of Lectra's management. This measures the coverage of annual fixed overhead costs by gross profit on recurring revenues. 95% of contractual recurring revenues are known from the start of the year. Revenues from subscription contracts have grown naturally at a rate of between 5% and 7% in previous years, and revenues from spare parts and consumables have been growing at close to 10%. These increases stem from the large number of customers (more than 15,000) having signed subscription contracts, and from the scale of the installed base of software licences and CAD/CAM equipment.

Lower the company's breakeven point
Complementing the security ratio, the breakeven point measures the amount of revenues from new systems sales Lectra needs to generate in the year to achieve a net income equal to zero.
With the order backlog at January 1, 2009 (€9.1 million), down sharply (– €10.7 million) relative to January 1, 2008, the 2009 action plan adjusts fixed overhead costs to ensure that breakeven is achieved if orders for new software licenses and CAD/CAM equipment in 2009 are down 15% compared to 2008 (representing a decline of 42% relative to 2007). This would result in revenues of €178 million and an income from operations of €1.7 million.

Impact of the euro/dollar parity
A persistent strengthening of the dollar would have two positive effects for Lectra: it would have a mechanical impact on its revenues and income from operations, and it would bolster its competitiveness.

key figures

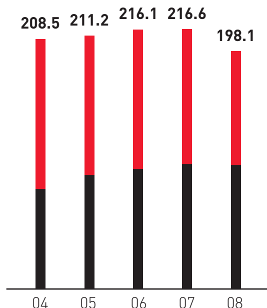
2008 was a year of economic and financial **crisis**. Across all our markets, cost-cutting and frozen investments led to a **31%*** **fall** in orders for new systems, after growing 11%* in 2007. Revenues fell 6%* to **€198.1** million. Income from operations **held up** well, falling **9%*** to €7 million—achieved thanks to recurring revenues of **€103.4** million and cost-cutting measures. Over the past five years, the dollar's decline has mechanically depressed revenues by 5%* and income from operations by 45%.* Over the same period, Lectra generated an aggregate **€34.5**** million in free cash flow and invested **€87** million in R&D.

* At constant exchange rates.
** Excluding non-recurring items.

Revenues

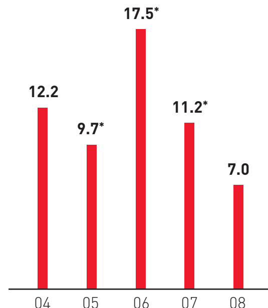
By type of business	
Software	30%
CAD/CAM equipment	28%
Services (training, consulting, hardware maintenance, online services)	23%
Spare parts and consumables	18%
Other	1%
By region	
Europe	60%
Americas	17%
Asia-Pacific	17%
Other countries	6%
By market sector*	
Fashion	61%
Automotive	19%
Furniture	7%
Other industries	13%

* Revenues from new systems sales.



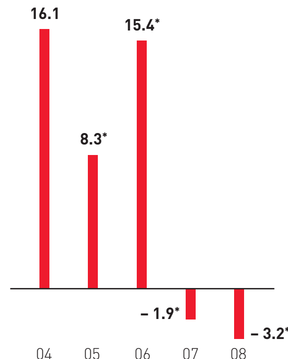
Revenues
(in millions of euros)

- New systems sales
- Recurring revenues



Income from operations*
(in millions of euros)

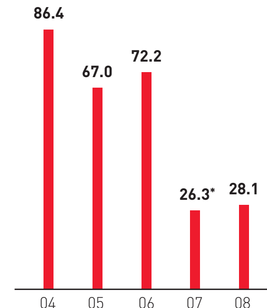
* Before non-recurring items.



Free cash flow
(in millions of euros)

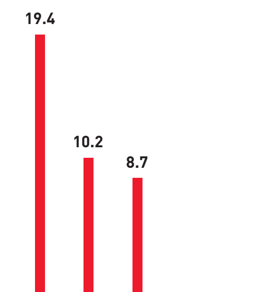
Free cash flow is equal to net cash provided by operating activities, minus cash used in investing activities—excluding cash used for acquisitions of companies (net of cash acquired).

* Before non-recurring items.



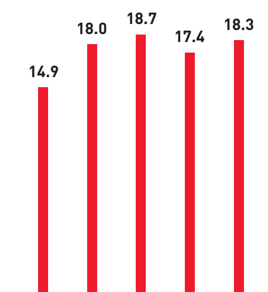
Shareholders' equity
(in millions of euros)

* Public stock buyback tender offer for 20% of its capital stock issued in 2007.



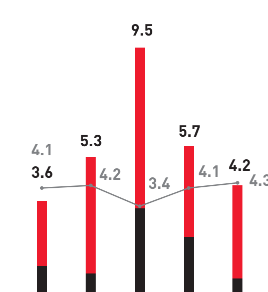
Net cash (+)/net financial debt (–)
(in millions of euros)

* Public stock buyback tender offer for 20% of its capital stock issued in 2007.



Research and development
(in millions of euros)

Before research tax credit and R&D grants deduction.

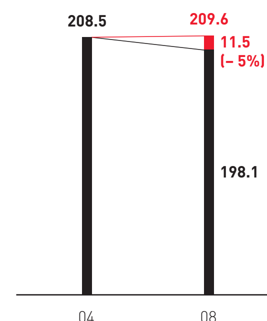


Capital expenditure
(in millions of euros)

- Other investments
- Management information systems
- – Yearly depreciation and amortization

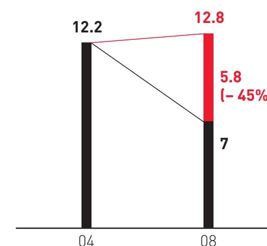
Evolution at constant exchange rates

Base: 2004 average exchange rates



Revenues
(in millions of euros)

- Impact of currency fluctuations
- At actual exchange rates*



Income from operations
(in millions of euros)

- Impact of currency fluctuations
- At actual exchange rates*

* In particular, a parity of $1.24/€1 in 2004 and $1.47/€1 in 2008.

Financial Highlights

in millions of euros[1]	2008	2007	2006	2005	2004
Revenues	198.1	216.6	216.1	211.2	208.5
Income from operations before non-recurring items[2]	7	11.2	17.5	9.7	12.2
Income from operations after non-recurring items[2]	7	10.2	17.3	(9.5)	12.2
Net income	3.2	5.8	12.1	(12.3)	6.1
Free cash flow before non-recurring items	(3.2)	(1.9)	15.4	8.3	16.1
Free cash flow after non-recurring items	(4.8)	(8.3)	5.7	7.6	16.1
Shareholders' equity[3][4]	28.1	26.3	72.2	67	86.4
Net cash (+) / net financial debt (–)[3][4]	(56.4)	(50.8)	8.7	10.2	19.4
Research & development[5]	18.3	17.4	18.7	18	14.9
Capital expenditure	3.6	5.3	9.5	5.7	4.2
Number of employees[3]	1,518	1,551	1,496	1,532	1,500

(1) Except for earnings per share (in euros).
(2) The (French) research tax credit *(crédit d'impôt recherche)* is deducted from R&D expenses in the Group financial statements and has been included in income from operations since 2007. This change has been restated in the 2004-2006 financial statements for purposes of comparison.
(3) At December 31.
(4) In 2007, Lectra carried out a public stock buyback tender offer for 20% of its capital stock, financed by a €48 million medium-term bank loan.
(5) Before deduction of research tax credit and grants for R&D programs.

shareholder information

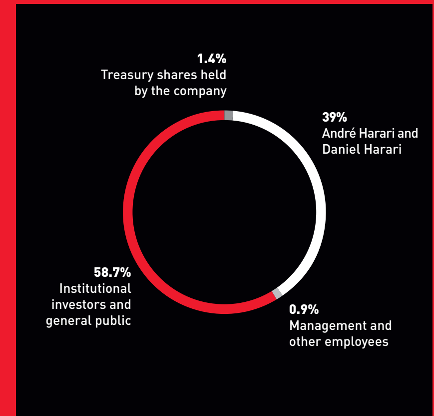
In euros	2008	2007	2006	2005	2004
Share price – high	5.8	6.5	6.24	5.94	8.45
Share price – low	2.63	5.15	4.14	3.51	4.35
Share closing price(1)	3.25	5.75	5.53	4.54	5
Shareholders' equity per share(1)	0.99	0.92	2.02	1.84	2.27
Net cash (+)/debt (-) per share(1)	(1.98)	(1.78)	0.24	0.28	0.51
Earnings per share(2)					
• Basic	0.11	0.19	0.34	(0.34)	0.17
• Diluted	0.11	0.18	0.34	(0.34)	0.16
Number of shares(1) (3)	28.5	28.5	35.8	36.4	38
Market capitalization(1) (4)	92.6	163.7	197.8	165.3	190.1
Annual volume traded(4) (5)	17	56.5	43.5	51	89.6
Annual volume traded(3) (5)	5	9.5	8.3	11.4	13.9

(1) At December 31.
(2) Earnings per share on basic capital are calculated using the weighted average number of shares.
(3) In millions of shares.
(4) In millions of euros.
(5) Source Euronext Paris.

Share price evolution from January 1, 2008, to March 3, 2009
(in euros)

Dividend
Net income for 2008 is insufficient to pay a dividend in respect of that fiscal year. Confirming its confidence in the future, the Board of Directors intends to propose to the company's shareholders resuming the dividend payment policy as soon as this can be justified by its financial condition.

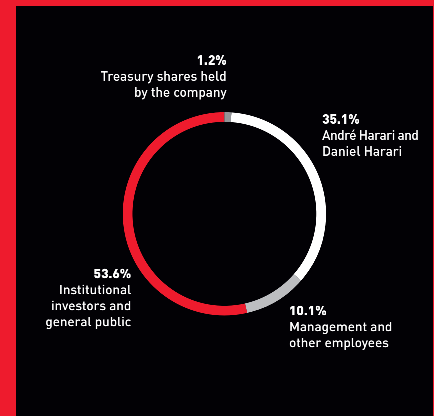
Capital: 28,495,514 shares (at March 3, 2009)



Breakdown of capital

The free float is close to 60%. Most is held by institutional investors, including Financière de l'Echiquier (France) and Insinger de Beaufort (Netherlands) each with more than 10% but less than 15% of the capital and voting rights, and Delta Lloyd (Netherlands), with more than 5% but less than 10% of the capital and less than 5% of voting rights, on behalf of investment funds managed by them.

Diluted capital: 31,648,284 shares (at March 3, 2009)



Breakdown of diluted capital

Thanks to a motivating stock option program, the management (other than André Harari and Daniel Harari) and key employees (210 in total) hold close to 10% of the diluted capital. The Group intends to pursue this selective policy of promoting employee share-ownership.
At March 3, 2009, fully-vested stock options totaled 8.7% of the base capital; all have an exercise price exceeding the stock market price on that date, due to the sharp fall in Lectra's share price.

FINANCIAL REPORT 08

management discussion and analysis of financial condition and results of operations

This Management Discussion and Analysis reports on the company's operations and results, as well as on those of all of its subsidiaries, for its thirty-fifth fiscal year, ended December 31, 2008.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2009 (available in French only), which discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA, and which presents the reasons underlying the draft resolutions submitted for approval by the shareholders.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 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").

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 on 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, consumption levels have dropped heavily and several countries have slipped into recession.
Caught up in this spiral, companies have suffered a severe 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 temporarily 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 million 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).

2. ACQUISITIONS AND PARTNERSHIPS

The company made no acquisition in 2008 and did not enter into any new strategic partnership agreement.

3. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are an integral part of this report.
The US 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 to 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 23,000 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 fixed overheads. Before deducting the (French) research tax credit *(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 research tax credit, thereby accounting for the 3% reduction in fixed overheads relative to 2007 (compared with an expected rise of 4%), a 7 percentage-point improvement.

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 research tax credit, from the 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 solely 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 non-collection of the research tax credit;
– €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 note 13.3 to the consolidated financial statements).
At the same time, the company held a receivable of €14 million on the French State, corresponding to the research tax credit 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 research tax credit 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 note 8.1 to the consolidated financial statements).
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 December 31, 2008, the company entered into 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 note 13.2 to the consolidated financial statements).

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 of 2009.
In 2006 and 2007, 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.

4. RISK FACTORS – MANAGEMENT OF RISKS

This chapter describes the main risks facing the company having regard to the specific characteristics of its business, its structure and organization. It further describes how the company manages and prevents these risks, depending on their nature.

Identification of Risks

For internal controls to be effective, the company needs to identify and assess the risks to which it is subject. These risks are identified by means of a continuous process of analyzing the Group's external environment together with the organizational changes rendered necessary by the evolving nature of its markets. This process is overseen by the Finance division and the Legal Affairs division, with input from all Group operating and corporate divisions.
The key risks that could prevent the Group from achieving its objectives are described below.

4.1 Economic Risks Specific to the Company's Business

Lectra designs, produces and markets full-line technological solutions, comprising software, CAD/CAM equipment and related services dedicated to a broad array of major global markets: 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, personnel protective equipment, etc.
This activity demands continuous creativity and a relentless search for innovation, and the company consequently invests heavily in research and development. The corresponding expenditures are fully expensed in the year. As a corollary of this policy, the company must ensure both that its innovations are not copied and that its products do not infringe third parties' intellectual property. It therefore has a dedicated team of intellectual property specialists that takes both offensive and defensive measures with regard to patents.
A substantial portion of the manufacturing of the equipment the company markets is subcontracted, with Lectra providing only the R&D, final assembly and testing.
The selection of subcontractors is based on continuous evaluation of their technological, industrial capabilities nd their financial condition. A technical, logistic or financial failure on the part of an important subcontractor could result in delays or defects in equipment shipped by the company to its clients.

To reduce this risk to a minimum, subcontractors undergo technological, industrial and financial scrutiny prior to selection. Once selected, their situation and performance is under constant review. The assessment is then updated at regular intervals, the frequency depending on the criticality of the product supplied by the subcontractor.
Given the use made of the equipment commercialized by it, the Group is exposed to the risk of injury to its clients' employees while operating certain items of equipment supplied by it. Safety is a major concern of the Group, and it takes care to insure that the products it commercializes satisfy the strictest standards regarding safety of personnel. Despite all its efforts, there is no such thing as zero risk. The Group's product liability insurance contract covers it against adverse monetary consequences arising from claims arising from its sales of systems or provision of services in accordance with the conditions described in chapter 4.9 below.
Inventory valuation risk is minimized by means of just-in-time supply and manufacturing methods.
Where software is concerned, the main risk lies in the revenue recognition criteria of this intangible revenue source. This risk is covered by the internal control procedures relative to the quality of accounting and financial information.

4.2 Information System Risks

The Group is exposed to various risks in connection with its information systems and the extensive use made of them, which is essential to the company's operations.
With respect to the security of its information system, the Group has put in place a business continuity plan incorporating resources designed to guarantee a coherent and rapid restoration of critical data and applications in the event of an incident.
Foremost among these means is the replication of systems in a backup room, physical protection of technical facilities (with a generator, surge protector, redundant climate control, and a permanently monitored fire control system on constant alert, and daily backup on tapes stored (in an offsite safe in a remote building). Virtual server technology, clusters and replication of storage bays all serve to guarantee very rapid deployment of the business continuity plan.

4.3 Counterparty Risk

The Group is exposed to credit risks in the event of default by a counterparty. It pays close attention to the security of payment for the systems and services delivered to its customers. It notably manages this risk by preventively analyzing its customers' solvency. Sales to countries subject to high economic or political risks are for the most part guaranteed by irrevocable and confirmed letters of credit or by bank guarantees. As in earlier years, no individual client represented more than 3% of consolidated revenues in 2008.

4.4 Macroeconomic Environment Risk

The solutions marketed by Group sometimes represent a major investment for clients. Part of the decision to make these investments depends on the general macroeconomic environment and on the state of the sector of activity in which the client operates. Group clients generally tend to scale back or defer their investment decisions when global economic growth slows or when a particular sector suffers a downturn or is in crisis.
The current global economic and financial crisis is an additional risk factor. Its unprecedented scale is expected to lead to further deterioration in the situation of both countries and individual firms, in all sectors and in all parts of the world. The resulting sharp slowdown in activity among Group clients, their deteriorating financial performance, their uncertain outlook, and reduced access to credit are making it hard for them to finance their investments. Most companies have therefore taken drastic steps to reduce their costs, cut back or temporarily halt production, and to close plants.
These situations impact Group revenues and financial results.

4.5 Legal and Regulatory Risks

The company markets its products to 23,000 customers in more than 100 countries through a network of 31 sales and services subsidiaries, supplemented by agents and distributors in countries where it does not have a direct presence. Consequently, it is subject to a very large number of legal, customs, tax and social regulations in these countries.

While the company's internal control procedures provide reasonable assurance of compliance with the prevailing laws and regulations, unexpected or sudden changes in certain rules (particularly regarding the establishment of trade barriers), as well as political or economic instability in certain countries, are all liable to impact the revenue and results of the Group.

The company is listed on Euronext Paris and is therefore subject to stock market regulations (particularly those of the AMF, the French Financial Markets Authority).

From a tax point of view, there are many intra-Group flows requiring the existence of a transfer pricing policy compliant with French, local and international guidelines (in particular the OECD). Adequate documentation setting forth Group policy in this regard has been put in place.

The parent company Lectra SA was the subject of a French tax audit in 2008 regarding income tax, value added tax, research tax credit, among others, for the fiscal years 2005, 2006 and 2007. The audit did not give rise to any observations and was concluded with a notice of "non-reassessment".

In the normal course of its business, the Group may be involved in various disputes and lawsuits. While the Group considers that the disputes pending will neither individually nor collectively materially impact its financial condition and results (with the exception of the dispute with Induyco now at arbitration, see chapter 3 above), it must be borne in mind that the outcome of any dispute is by nature uncertain.

4.6 Market Risks

Because of its international presence, the Group is exposed to foreign exchange risk. It is also exposed to interest rate risk. It is Group policy to manage these risks conservatively, refraining from any form of speculation, by means of hedging instruments.

Specific Foreign Exchange Risk

A substantial proportion of revenues is denominated in various currencies whose fluctuations against the euro creates a foreign exchange risk for the company. The mechanical and competitive effects on the Group's financial statements of fluctuations in these currencies (and more particularly the US dollar) against the euro are particularly large since its only research and development sites are located in France (mainly), Spain and Germany, while its production is done primarily in its facilities located in France, and the remaining in Germany. Approximately 33% of the Group's consolidated revenues, 10% of its cost of sales and 25% of its overhead expenses are denominated in US dollars or in currencies linked to the dollar.

The Lectra Group is exposed to currency risk resulting from variations in the exchange rate of certain currencies against the euro. Its financial results are particularly sensitive to fluctuations in the US dollar/euro parity.

These currency fluctuations impact the Group at two levels:

– impact on competitive position: the Group sells its products and services in global markets, competing primarily with its main competitor, a US company. As a result, prices are generally dependent on the US dollar;

– translation impact:
  - on income from operations, the financial statements are consolidated in euros. Consequently, the revenues, gross profit and net income of a subsidiary conducting its business in a foreign currency will mechanically be affected by exchange rate fluctuations when translated into euros;
  - on balance sheet positions: this refers primarily to foreign currency accounts receivable, in particular to those between the parent company Lectra SA and its subsidiaries, and it corresponds to the variation between exchange rates at collection date and those at billing date. This impact is recognized in "Foreign exchange loss/gain" in the income statement.

Currency risk is borne by the parent company. The Group seeks to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation.

The bulk of foreign currency risks concerns the US dollar. The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the US dollar (revenues less all expenses denominated in US dollars or strongly correlated currencies) by purchasing dollar puts or by forward currency contracts, depending on the cost of the hedge. The financial impact of fluctuations in the US dollar/euro parity on the Group financial statements before hedging, if any, is discussed in chapter 14 of this report. The Group's balance sheet exposure is monitored in real time and it utilizes forward currency contracts to hedge all relevant receivables and debts.

Interest-Rate Risk

Given the characteristics of its financial debt and the interest-rate risk hedge put in place to cover the €48 million medium-term bank loan (with interest-rate swaps), the Group's exposure to interest-rate variations applies solely to actual drawings on cash facilities. At the same time, it manages its cash surpluses conservatively, investing them exclusively in money market funds.
Consequently, in light of the hedges in place and based on the spread of its borrowings at December 31, 2008, 25% of total debt at that date is exposed to interest rate risk. Sensitivity to interest rate fluctuations is discussed in note 13.5 to the consolidated financial statements.
At the same time the Group follows a conservative policy in short-term investing its cash surpluses, placing them only in money market mutual funds classified as "euro money market funds" by the Autorité des Marchés Financiers.

Stock Market Risks

The Group does not hold any interests in listed companies other than its own shares held under a Liquidity Provision contract (see note 9.2 to the consolidated financial statements), and is therefore not subject to market risk.

4.7 Liquidity Risk

Group borrowings at December 31, 2008 totaled €66.5 million. The contract terms of the €48 million medium-term bank loan, which represents a substantial portion of this total borrowing, are presented in note 13.2 to the consolidated financial statements.
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 shareholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other. In the event of failure to comply with one of these ratios the lenders would be entitled to demand early repayment of the balance of the loan outstanding. The repayment terms of the balance outstanding of this borrowing, particularly in the event of non-compliance with these financial ratios, are spelled out in note 13.4 to the consolidated financial statements.
In view of the amendment to the contract signed with the lending banks on December 19, 2008, there is no clause in the loan contract liable to entail early repayment at December 31, 2008.
At the same time, at December 31, 2008 the parent company Lectra SA had access to the following confirmed cash facilities:

- €8 million until March 31, 2009;
- €6 million until July 18, 2009;
- €15 million until July 31, 2010.

Taking into account available cash and cash equivalents of €10.2 million and unused confirmed cash credit facilities, total liquidity available to the company at December 31, 2008, amounted to €22.3 million.
At the same time, the fraction of prior year research tax credits not charged to income tax, amounting to €14 million, will be paid to the company in the first half of 2009 under the French Government stimulus plan (see chapter 3 of this report).
In light of these elements and of the Group's cash generation capacity (its working capital requirement being structurally close to zero), the risk that the Group may have to contend with a short-term cash shortage is very low. However, cash flows may vary substantially depending on the level of sales.

4.8 Human Resources Risks

The Group's performance depends to a large extent on the competence and commitment of its personnel and on the quality of its management. Given the breadth of its international reach, its size, its many different activities—research and development, manufacturing and logistics, pre-sales and sales of value added technology solutions, deployment by consultants who are experts in the businesses of the different market sectors, solutions experts, support services, maintenance, training, consulting, etc.—any departure from the management team or of certain experts can affect the company's operations and financial results.

The mission of the Group's human resources staff, both corporate and in each of the subsidiaries beyond a certain critical size, is to limit these risks, doing so in three main ways. These encompass an ambitious training policy to sustain competencies and transfer experience and expertise; compensation based on principles of fairness, and rewarding merit and performance; continuously adapting the Group's organization to changes in its geographic markets and market sectors, thanks in particular to a policy of targeted hiring and adapting flexibly.

However, given budgetary constraints, especially in hostile macroeconomic conditions, the company has only limited means to ensure the presence of internal replacements for each key position. Departures are generally followed by transitory solutions, entrusting a Group manager with an ad hoc mission for the time needed to appoint someone from inside the company or to recruit someone from outside.

The performance of personnel is another ongoing concern. Measures taken in this regard include: investing in internal information systems to optimize business processes and procedures; deploying leading edge IT infrastructures permitting direct exchanges between teams wherever they are located in the world, with connections to match these needs; and proactive internal communications.

Lectra places a high premium on compliance with existing labor regulations wherever it operates. It regularly audits its subsidiaries to ensure they are compliant with local laws and regulations. Its active policy of transparency in the disclosure of information and in managing its labor relations is one means to achieving a positive climate in the workplace, enabling the company to deal constructively with economic uncertainty.

4.9 Insurance and Risk Cover

The parent company Lectra SA oversees the management of risks and the writing of insurance programs for the Group as a whole. Lectra SA's Legal Affairs Department formulates Group policy with respect to the evaluation of its risks and their coverage, and coordinates the administration of insurance contracts and claims with respect to legal liability, property and transport.

The Group exercises its judgment when assessing risks incurred in the conduct of its business, the utility or otherwise of writing insurance cover with an outside insurer and the cost of the guarantees provided. It may therefore decide to review this policy at any time.

The Group works through international brokers whose network has the capacity to assist it throughout its different geographies. Insurance programs are written with reputable insurers of sufficient size and capacity to provide cover and administer claims in all countries.

At regular intervals, when programs come due for renewal, insurance companies are invited to submit competing bids in order to secure the best possible terms and conditions. The guarantees provided by these programs are calculated on the basis of estimated possible losses, the guarantee terms generally available on the market, notably for companies of comparable size and characteristics to Lectra, and depending on insurance companies' proposals.

The Group has taken the following insurance coverage:

- legal liability, business continuity, post-delivery and professional liability (Errors and Omissions in the United States);
- directors and officers liability;
- property damage;
- transported goods.

Lectra manages uncertainty with respect to general liability by means of a contractual policy that excludes its liability for indirect damage and limits its liability for direct damage to the extent allowed by applicable regulations. General liability cover is capped at €25 million per claim per year.

The Property Damage program provides for payment of claims for material damage to buildings or physical assets in accordance with the declared value of each of its sites worldwide, which the Group reports annually. The program comprises additional guarantees to finance the continuity or reorganization of activity following a loss event.

Special emphasis is placed on protecting the Bordeaux-Cestas site, which houses research and development and production activities as well as critical services for the Group as a whole. The program notably comprises "business continuity" cover against financial loss in the event of a major accident affecting the Bordeaux-Cestas site and jeopardizing the continuity of all or part of the Group's business. This program is backed up by risk prevention measures at this site.

5. OFF-BALANCE SHEET ITEMS

Derivative Financial Instruments

Exchange risk hedging instruments at December 31, 2008 were comprised of forward sales or purchases of foreign currencies (mainly US dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €7.7 million.
The company had hedged in 2007 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. 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 interest-rate swaps hedged a total of €42 million at December 31, 2008.
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 three-month Euribor rate relative to the rate prevailing when these swaps were put in place. These swaps are considered effective, since their value covers close to 90% of the risk, in consequence of which this amount is fully recognized in shareholders' equity.

Other Off-Balance Sheet Items

The parent company, Lectra SA, provided a total of €2.7 million in sureties to banks, mainly to guarantee loans made by the latter to the company's subsidiaries and in guarantees given to customers or to lessors.
These sureties were previously authorized by the Board of Directors, as required under article L. 225-34 al. 4 of the French Commercial Code.

In addition, the company received:
– a €17.2 million security from Induyco in 2006 and 2007, in the form of a bank guarantee payable on first demand, in respect of Lectra's outstanding claims related to the arbitration initiated by Lectra against this company before the International Chamber of Commerce in hearings in London (see chapter 3 above);
– within the framework of the acquisition agreements, representations and warranties from the former shareholders of Investronica, Lacent and Humantec concerning certain assets and liabilities in the balance sheet as well as all potential litigation arising in respect of events predating the respective acquisitions. With the exception of liabilities arising out of intentional breaches not time-barred at the time of publication, the warranties obtained on the occasion of the Lacent acquisition have expired. The warranties received at the time of the acquisition of Investronica has expired also, except for those concerning tax, customs or social security liabilities that remain in force beyond the contractual three-year period stipulated in the purchase contract and not yet time-barred at the date of this report. The liabilities warranty pertaining to the acquisition of Humantec remains in force. The maximum amount of this warranty is limited to the consideration paid, except in the case of tax or customs liabilities arising from serious breaches
Finally, OSEO Innovation, a French public body, has given the company a commitment to aid a new R&D program in the form of an interest-free advance. OSEO Innovation's total commitment will amount to €2 million if the company completes this program. Two initial payments of €0.4 million and €0.8 million were received in 2007 and 2008. Assuming the program is completed, the balance would be received between 2009 and 2010.
The only other off-balance sheet liabilities concern normal office, motor vehicle and office equipment leasing and rental contracts, which may be cancelled in accordance with contract terms. These liabilities are discussed in the Notes to the Consolidated Financial Statements.
Finally, no earn-outs are due on the acquisitions made by the company.

6. DIVIDEND

In 2004, the company initiated a policy of paying dividends to its shareholders while continuing to fund its future growth. As in 2007, as a result of the public share buyback tender offer, it will have to suspend this dividend policy in respect of fiscal year 2008, as the level of borrowings and net income of the company do 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 warrants.
Furthermore, in accordance with the provisions of the €48 million medium-term bank loan, 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 the difference relative to 50% may be distributed in subsequent years).

7. 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, vs. €42,715,348.50 divided into 28,476,899 shares with a par value of €1.50 on December 31, 2007.
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 the negative retained earnings of the parent company, Lectra SA, 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.

The share capital has increased by 18,615 shares as a result of the exercise of stock options.
Deutsche Bank AG reported on July 7, 2008 that it had directly and indirectly crossed above the 5% capital ownership and voting rights reporting threshold, directly or indirectly holding 6.19% of the capital and 6.08% of the voting rights. It subsequently reported that it had crossed below these thresholds on July 14, 2008, directly or indirectly holding only 0.02% of the capital and voting rights. These crossings of the reporting threshold resulted from stock borrowing and lending transactions.
On October 20, 2008, Delta Lloyd Asset Management NV (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 the beginning of the year.
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'Échiquier (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 NV (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.

Treasury Shares

At December 31, 2008, the company held 1.3% of its own shares in treasury shares, only within the framework of the Liquidity Agreement with SG Securities.
All of the information required under article L. 225-211 of the French Commercial Code concerning purchases and sales by the company of its own shares is presented in chapter 10 below.

Granting of Stock Options – Potential Capital Stock

The Extraordinary General Shareholders Meeting of April 30, 2008 authorized the creation of a new stock option plan for a maximum of 1.5 million options for the same number of shares with a par value of €0.97, in accordance with the conditions described in the report of the Board of Directors to said meeting and in its first resolution. The exercise price may not be less than the average opening price of Lectra shares listed for the twenty stockmarket trading sessions preceding the options' grant date.

The 2008 Stock Option Plan

On June 11, 2008, at the recommendation of the Compensation Committee, the Board of Directors granted a total of 101,678 stock options with an exercise price of €6.30 per share to 45 beneficiaries under plan 10a, entitling them to as many shares with a par value of €0.97 and 428,370 stock options with an exercise price of €4.10 per share to 90 beneficiaries under plan 10b.
All of the options granted in fiscal 2008 by the Board of Directors concerned company employees. No options were granted to the executive directors *(mandataires sociaux)* of Lectra SA.
These options generally vest over a period of four years from January 1, 2008, depending on the beneficiary's presence in the Group at the end of each annual period (the beneficiary must retain links with the company or with one of its affiliates in the form of an employment contract or as an executive director or officer).
The options are valid for a period of eight years from the date of granting.
Further, at its meeting of June 11, the Board undertook to grant a maximum of 366,015 options to 43 persons in 2009 consequent upon their fulfillment of their annual targets for 2008; the final number of options and their exercise price—which will in any case be equal to or greater than €4.10—will be set by the Board of Directors on the date of their granting.

Options Outstanding at December 31, 2008

18,615 options were exercised in 2008 and 791,342 options lapsed following the departure of their beneficiaries.
In addition, 47,342 options ceased to be valid between January 1, 2009 and the date of publication of this report.
There were 233 beneficiaries of stock options outstanding (including former employees) at December 31, 2008 (245 at December 31, 2007).
At the date of publication of this report, the maximum number of shares liable to comprise the capital stock, including all new shares that may be issued following the exercise of stock options outstanding and eligible for the subscription of new shares, is 31,696,541, consisting of:
– capital stock: 28,495,514 shares;
– stock options: 3,201,027 options.
Each stock option gives the beneficiary the right to acquire one new share with a par value of €0.97, at the exercise price decided by the Board of Directors on the date of granting (adjusted to take account of the public stock buyback tender offer of May 2007). If all of the options were exercised, regardless of whether these are fully vested or have not yet vested, and regardless of their exercise price relative to the market price of Lectra shares at December 31, 2008, the company's capital (at par value) would increase by a total of €3,104,996, together with a total additional paid-in capital of €13,663,344.
No subsidiary of Lectra has opened a stock-option plan.
The notes to the consolidated financial statements contain full details of the vesting conditions, exercise price and exercise dates and conditions of all outstanding stock options at December 31, 2008.
The Board of Directors' Special Report, as mandated under article L. 225-184 of the French Commercial Code and resulting from the May 15, 2001 New Economic Regulations Act, is provided in a separate document (available in French only).

Bonus Shares

The company has not granted any bonus shares and no plan for such shares has been submitted for approval to the Shareholders' Meeting.
In light of the foregoing, the Board of Directors has not prepared a special report on the granting of bonus shares as provided under article L. 225-197-4 of the French Commercial Code.

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.

8. CORPORATE GOVERNANCE – CORPORATE SOCIAL RESPONSIBILITY

The company has taken strenuous measures over many years to implement the requirements of corporate governance.

Voting Rights

Following the decision of the Extraordinary General Meeting of May 3, 2001, shares whose registration was requested subsequent to May 15, 2001, and those purchased after that date, no longer carry double voting rights (barring special cases covered by the corresponding resolution passed by the said Extraordinary General Meeting). At their own initiative, André Harari and Daniel Harari have cancelled in 2001 the double voting rights that were attached to the shares they held.
As a result of the foregoing, only 487,781 shares (representing 1.7% of the capital stock) carried double voting rights at December 31, 2008.

Separation of the Functions of Chairman of the Board of Directors and Chief Executive Officer

In 2002, the Board of Directors separated the functions of Chairman of the Board of Directors and Chief Executive Officer, as permitted under the May 15, 2001 Economic Regulations Act.
Furthermore, the (French) August 1, 2003 Financial Security Act introduced two new changes. First, the Chairman of the Board of Directors no longer represents the Board. Second, in a report attached to the Management Discussion and Analysis, he is henceforth required to present to the General Meeting of Shareholders a report on internal control procedures and corporate governance established by the company.
Under this organization, and pursuant to French legislation, the Board of Directors is responsible for setting strategy and broad policy governing the company's activities, and for overseeing their implementation. The Chairman organizes and directs its proceedings, being responsible for reporting to the General Meeting of Shareholders, and for overseeing the proper functioning of the company's management organization. The Chief Executive Officer is invested with full powers to act in the name of the company in all circumstances, and to represent it in its relations with third parties. He may be assisted by one or more Executive Vice-Presidents. As resolved by the shareholders of Lectra, the Chief Executive Officer must be a member of the Board of Directors.
The Board of Directors believes this format for the management and administration of the company, which has been in application for the past seven years, achieves a better balance and greater operational efficiency.
It considers that the format is better suited to the size of the company, its worldwide structure and mode of operation, and will allow it to comply more fully with the requirements of corporate governance.
The Chief Executive Officer is thus free to devote his full attention to the execution of the company's short-term goals and action plan, in the current particularly hostile macroeconomic climate and as the company speeds its transformation to address the new challenges facing it—while continuing to pursue its medium-term business plan.

The Shareholders' Meeting of April 28, 2006 renewed the directorships of André Harari and Daniel Harari for a further period of six years, and the Board reelected André Harari to the position of Chairman of the Board of Directors and Daniel Harari to the position of Chief Executive Officer. The Board did not name an Executive Vice-President.
Daniel Harari chairs the Executive Committee, the other two members being Jérôme Viala, Chief Financial Officer, and Véronique Zoccoletto, Chief Human Capital and Information Officer.

Criteria Defining Board Members' Independence

One of the criteria of independence in the Code of Corporate Governance published by the AFEP (*Association Française des Entreprises Privées* – Association of French Private Corporations) and the MEDEF (*Mouvement des Entreprises de France* – French Business Confederation) in December 2008 concerns the duration of a director's term, specifying that a person who has been a director for more than twelve years can no longer be deemed independent. Louis Faurre and Hervé Debache have both been directors for more than twelve years now. All of the other criteria of independence, apart from the fact of having been directors for more than twelve years, are satisfied.
At the motion of the Board of Directors, the Shareholders' Meeting of April 30, 2008 re-elected Louis Faurre and Hervé Debache to the Board for a further six-year period expiring at the close of the Ordinary Shareholders' Meeting called to approve for the financial statements for fiscal year 2013.
Louis Faurre and Hervé Debache were first elected to the Board by the Ordinary Shareholders' Meeting of May 22, 1996, and were re-elected by the Ordinary Shareholders' Meeting of May 3, 2002.
In furtherance of the company's strategic aims, and having particular regard to the difficult macroeconomic conditions prevailing since 2007, the Board recommended to the Shareholders' Meeting of April 30, 2008 that it would be in the interests of the company and its shareholders to continue to benefit from their experience and deep knowledge of the company.

Audit Committee, Compensation Committee and Strategic Committee

The Board of Directors established an Audit Committee and a Compensation Committee in 2001, and a Strategic Committee in 2004. Each of these committees is made up of three directors, two of them independent within the meaning of the rules laid down in the Code of Corporate Governance of Listed Companies, with the aforementioned exception of the criterion of longevity. The Audit Committee is chaired by Hervé Debache, the Compensation Committee by Louis Faurre, and the Strategic Committee by André Harari, Chairman of the Board of Directors.
The membership, functions and activities of these committees are discussed in the Report of the Chairman on internal control procedures and corporate governance appended to this report.

Executive Directors' Compensation

In reply to the call issued by the President of the French Republic on the occasion of his speech of September 25, 2008, the MEDEF and AFEP 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. These recommendations have subsequently been consolidated with the AFEP and MEDEF report of October 2003 and their recommendations of January 2007 on the compensation of executive directors of listed companies to comprise the Code of Corporate Governance of Listed Companies of December 2008.

These recommendations:
– spell out principles for setting the compensation of executive directors of listed companies;
– prohibit the simultaneous holding of a position as executive director and an employment contract;
– place a cap on one-time termination payments ("golden parachutes") to two years' compensation, and abolish the granting of indemnities in the event of voluntary resignation and in the event of failure by executive directors in their performance;

– strengthen the rules governing pension plans and place a cap on additional pension benefits;
– make stock option plans for senior managers conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;
– terminate the granting of bonus shares unrelated to performance to executive directors; the latter must also purchase shares at market price additional to any performance-related shares granted to them;
– make compensation policies more transparent by means of a standardized disclosure format.

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 company issued a statement on November 28, 2008, declaring that:
– it has already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer. In particular, they have never combined their positions as executive directors with an employment contract, are not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, to any additional defined benefit pension plan, stock options or bonus shares;
– it has decided to adopt the recommendations issued jointly by the AFEP and the MEDEF as the code of corporate governance to which the company shall voluntarily refer in matters of compensation of its executive directors, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.

Policy Governing the Compensation of Executive Directors

This subject is discussed in detail in the Report of the Chairman on internal control procedures and corporate governance appended to this report.

The sole executive directors *(dirigeants mandataires sociaux)* at present are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer.

The executive directors are not the beneficiaries of any special arrangement or specific benefits concerning deferred compensation, severance compensation or pension liabilities committing the company to pay any form of indemnity or benefit in the event of termination of their functions, or at the time of their retirement (they are not under any employment contract to the company), or more generally subsequent to the termination of their functions.

Compensation of executive directors of the company comprises a fixed and a variable portion. The company does not award bonuses in any form.

Each year the Board of Directors determines the total amount of target-based compensation for the year. This was unchanged for the years 2005, 2006, 2007 and 2008, and has been renewed for fiscal 2009. The same holds for the fixed portion of compensation since 2003, and for the variable portion of annual target-based compensation since 2005.

Conditional upon the fulfillment of annual targets, variable compensation was equal to 60% of total compensation for the Chairman of the Board of Directors and the Chief Executive Officer.

Variable compensation is set in accordance with the following two quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets, excluding non-recurring items. The two criteria are consolidated pre-tax profit (which accounts for 67%) and consolidated free cash flow (which accounts for 33%). Below a certain threshold, it is equal to zero, to 100% if annual targets are achieved, with a cap of 200% if annual targets are exceeded. Between these bounds, the amount is calculated on a straight-line basis.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee.

The Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent with the evaluation of corporate officers' performance, the company's medium-term strategy and the general macroeconomic context, and more particularly conditions in the company's geographic and sector markets. After the close of each fiscal year, the Committee verifies the annual application of these rules and the final amount of variable compensation paid, on the basis of the audited financial statements.
These targets apply also to the two members of the Executive Committee who are not executive directors, and to around twenty managers of the parent company Lectra SA, the only differences concerning the portion relating to target-based variable compensations, which is set individually for each manager. In 2008, both the annual profit target and the free cash flow target were not fulfilled. Altogether, the percentage obtained for the variable portion of compensation paid to the Chairman of the Board of Directors and to the Chief Executive Officer represented 33% of the amount tied to the fulfillment of annual targets. In 2007 the applicable percentage represented 26%. Consequently the actual compensation due in respect of 2008 was 60% of the target-based compensation, and 56% in 2007.

Details of Individual Compensation Paid to Each Executive Director

The table below presents the fixed and variable compensation (gross amounts before employee contribution deductions) assuming fulfillment of annual targets and the compensation effectively earned, in respect of each fiscal year:

	2008			2007		
(in euros)	Compensation assuming fulfillment of annual targets	Actural compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfillment of annual targets	Compensation assuming fulfillment of annual targets	Actural compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfillment of annual targets
André Harari, Chairman of the Board of Directors						
Fixed compensation	190,000	190,000	100%	190,000	190,000	100%
Variable compensation	285,000	94,909	33%	285,000	73,676	26%
Total	475,000	284,909	60%	475,000	263,676	56%
Daniel Harari, Chief Executive Officer						
Fixed compensation	190,000	190,000	100%	190,000	190,000	100%
Variable compensation	285,000	94,909	33%	285,000	73,676	26%
Total	475,000	284,909	60%	475,000	263,676	56%

The table below shows fixed and variable compensation (gross amounts before deduction of social security contributions), fringe benefits, and director's fees due in respect of the fiscal year and amounts actually paid in the year.

(in euros)	2008		2007	
	Amounts earned in respect of the fiscal year[1]	Amounts paid in the year[1]	Amounts earned in respect of the fiscal year[1]	Amounts paid in the year[1]
André Harari, Chairman of the Board of Directors				
Fixed compensation	190,000	190,000	190,000	190,000
Variable compensation	94,909	73,676	73,676	405,093
Directors' fees[2]	25,000	25,000	25,000	25,000
Benefits in kind[3]	24,680	24,680	18,758	18,758
Total	334,589	313,356	307,434	638,851
Daniel Harari, Chief Executive Officer				
Fixed compensation	190,000	190,000	190,000	190,000
Variable compensation	94,909	73,676	73,676	405,093
Directors' fees[2]	25,000	25,000	25,000	25,000
Benefits in kind[3]	20,366	20,366	12,766	12,766
Total	330,275	309,042	301,442	632,859

(1) Differences between amounts earned in respect of 2008 and 2007 and the amounts paid in 2008 and 2007 stem from leads and lags in the payment of this compensation. Allowance for variable compensation due in respect of a given fiscal year is made in the financial statements of the said fiscal year, the final amount being calculated after closure of the annual accounts and paid in the following fiscal year.
(2) Director's fees in respect of 2008 shown here are subject to approval by the Shareholders' Meeting of April 30, 2009.
(3) The amounts shown for fringe benefits reflect the value for tax purposes of the use of company cars and payments to life insurance policies for André Harari (€11,730) and Daniel Harari (€6,032).

These amounts were paid in full by the parent company, Lectra SA. Directors and officers received no compensation or special benefits from subsidiaries controlled by Lectra SA under article L. 233-16 of the French Commercial Code (for the record, Lectra SA is not controlled by any other company).

Aggregate and Individual Attendance Fees Paid to Directors and Rules Governing their Distribution

Directors' fees paid are detailed in the table below. The total figure of €100,000 approved by the General Meeting of Shareholders on April 30, 2008 in respect of 2007 was divided equally among the directors (€25,000, or one quarter of the total, for each director).

(in euros)	2008[1]	2007
André Harari, Chairman of the Board of Directors	25,000	25,000
Daniel Harari, Chief Executive Officer	25,000	25,000
Hervé Debache, Director	25,000	25,000
Louis Faurre, Director	25,000	25,000
Total	100,000	100,000

(1) Director's fees shown in respect of 2008 are subject to approval by the Shareholders' meeting of April 30, 2009.
The amounts indicated for André Harari and Daniel Harari are shown in the table above giving details of their total compensation.

Policy Governing the Granting of Stock Options to all Beneficiaries and Specific Policy Governing the Granting of Stock Options to Executive Directors

Stock options are reserved for persons within the company or an affiliated company that are linked by an employment contract and/or in their capacity as an executive director, and who are entitled by law to receive stock options, whose responsibilities, missions and/or performance justify their being given a stake in the capital stock of the corporation by the granting of stock options. Additional disclosure on options granted is provided in chapter 7 of this report.
No stock options have been granted to either André Harari or Daniel Harari. Neither of them has been entitled to receive any further stock options since 2000, under French legislation, insofar as each of them has held more than 10% of the capital stock since that date. Daniel Harari holds no stock options. André Harari, who held 340,680 options exercisable at a price of €16.17 (after adjustments for the outcome of the public stock buyback tender offer) until June 22, 2008, has not exercised any options.
He no longer holds any options.

Appointments and Other Directorships Held by Directors and Executive Directors in the Year under Review

André Harari holds no directorship or general management position in any company other than the parent company, Lectra SA.
Daniel Harari holds no directorship or general management position in any company other than the parent company Lectra SA and certain of its international subsidiaries.
He is Chairman of the Board of Directors of Lectra Sistemas Española SA and of Lectra Italia SpA and President of Lectra Systems (Shanghai) Co. Ltd, all of which are direct subsidiaries of Lectra SA, located respectively in Spain, Italy, and China. He has also been a member since December 1, 2008 of the Board of Directors of Lectra USA Inc., a direct subsidiary of Lectra SA in the United States.
Finally, he was also a member of the Board of Directors of Lectra Technologies India Private Limited until July 4, 2008.
Louis Faurre holds no outside directorship or general management position outside Lectra SA.

Hervé Debache is director and Executive Vice-President of AWF Financial Services (France), which specializes in financial engineering, mergers and acquisitions and private equity financing. He is also a director of Cyber Capital (France), a venture capital company specializing in audiovisual and media companies. These directorships are held in France.

Transactions Subject to article L. 621-18-2 of the French Financial and Monetary Code and article 223-22 of the General Regulation of the Autorité des Marchés Financiers

No trading in the shares of Lectra, as referred to in article L. 621-18-2 of the French Financial and Monetary Code and article 223-22 of the General Regulation of the AMF, was carried out in 2008 by directors or by Jérôme Viala and Véronique Zoccoletto, who are members of the Executive Committee, and who are the only senior executives (other than the directors) having the power to make management decisions regarding the company's development and strategy and with regular access to inside information concerning the company; Jérôme Viala and Véronique Zoccoletto did not exercise any stock options in 2008.

Compliance with the Transparency Directive of the Autorité des Marchés Financiers – Regulated Disclosure

The company complies with the new regulations regarding the financial disclosure obligations of companies listed on Euronext, which took effect on January 20, 2007. These obligations are spelled out in Title 2, Book II of the General Regulation of the AMF concerning periodic and continuous disclosure. The General Regulation defines regulated disclosure in the form of a list of reports and information to be disclosed by companies, together with rules governing its dissemination and storage. Lectra has recourse to the services of Hugin, a professional information provider approved by the AMF that satisfies the criteria laid down in the General Regulation. At the same time as being published, the regulated information is filed with the AMF and published on the company's website.

Group Auditors' Fees

The Lectra Group booked a total of €873,000 in fees for the audit of the financial statements of the parent company and all of its subsidiaries in 2008, including €680,000 to PricewaterhouseCoopers and €193,000 to KPMG, as detailed below:

	PWC				KPMG			
	Amount		%		Amount		%	
	2008	2007	2008	2007	2008	2007	2008	2007
Audit								
– Statutory audits, certification and examination of individuals and consolidated financial statements								
Issuer (Lectra S.A.)	150	139	22%	19%	142	129	74%	76%
Fully-consolidated subsidiaries	417	426	61%	59%	51	41	26%	24%
– Others services directly related to the Auditors' engagement								
Issuer (Lectra S.A.)	–	–	–	–	–	–	–	–
Fully-consolidated subsidiaries	–	–	–	–	–	–	–	–
Sub-total	567	565	83%	79%	193	170	100%	100%
Other services consolidated subsidiaries								
– Legal, tax and social reviews	113	151	17%	21%	–	–	–	–
Sub-total	113	151	17%	21%	–	–	–	–
Total	680	716	100%	100%	193	170	100%	100%

Appointment of Statutory Auditors and Alternate Statutory Auditors

The Shareholders' Meeting of April 30, 2008 renewed the appointments of PricewaterhouseCoopers Audit and KPMG as Statutory Auditors for a period of six fiscal years expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal year 2013. In virtue of the "six-year rotation" principle concerning members of audit firms signing the financial statements, Jean-Pierre Raud has been replaced by Anne Jallet-Auguste at the time of KPMG's reappointment, while Christian Libéros will remain co-signatory until the Ordinary Shareholders' Meeting called to approve the fiscal 2010 financial statements. This rotation also applies to Marc Ghiliotti, signatory for PricewaterhouseCoopers Audit, who will be replaced by Bruno Tesnière at the end of the Ordinary Shareholders' Meeting of April 30, 2009. Further, Franck Cournut was reappointed as alternate Statutory Auditor by the Ordinary Shareholders' Meeting of April 30, 2008, and Jacques Denizeau, alternate Statutory Auditor, was replaced by Étienne Boris. These two appointments will run for a period of six years expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal year 2013.

Information Concerning Items Covered by article L. 225 100-3 of the French Commercial Code as Amended by the March 31, 2006 Public Tender Offers Act

Article L. 225-100-3 requires companies whose securities are eligible for trading on a regulated market to disclose and where applicable to explain the following items if they are liable to be material in the event of a public tender offer:

– the structure of the company's capital stock;

– any restrictions contained in the by-laws on the exercise of voting rights and on the transfer of shares, or clauses contained in agreements notified to the company in application of article L. 233-11 of the French Commercial Code;

– direct or indirect shareholdings in the capital of the company known to it in virtue of articles L. 233-7 and L. 233-12;

– the list of holders of all securities carrying special control rights and the description thereof;

– control mechanisms provided for in the event of an employee share ownership system, when the employees do not exercise controlling rights;

– agreements between shareholders that are known to the company and that may entail restrictions on the transfer of shares and on the exercise of voting rights;
– the rules governing the appointment and replacement of members of the Board of Directors and amendments to the company by-laws;
– the powers of the Board of Directors and in particular concerning the issuance or buyback of shares;
– agreements entered into by the company that will be modified or terminated in the event of change of company control;
– agreements providing for the payment of indemnities to members of the Board of Directors or employees in the event of resignation or dismissal without genuine and serious cause, or if their employment is terminated by reason of a public tender offer.

Under present conditions, none of these items is liable to be of consequence in the event of a public tender offer for the shares of Lectra SA, subject to the stipulations contained in the contract governing the €48 million loan granted to the company by Natixis and Société Générale on June 8, 2007 to finance the public stock buyback tender offer. This contract entitles each of the lenders to demand early repayment of the balance of the loan outstanding in the event that one or more of the company's shareholders, acting in concer—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the capital stock and/or voting rights.

Social Policy

The Group's "relational value player" strategy implies forging and maintaining long-term relationships with customers in order to optimize their installed base of Lectra technologies and accompany them in their development. The sustainable development of its activities worldwide depends primarily on the expertise of its teams and on its sales and service network of subsidiaries in close proximity to its customers.

Since 2005, Lectra has undertaken major programs to drive forward the company's transformation in depth in order to respond to the deep changes taking place in its markets, boost its competitiveness and concentrate its resources in order to fulfill its growth potential.

2008 was a difficult year. As a result, steps were taken to slow the implementation of the recruitment plan introduced in 2005 at the first signs pointing to the economic crisis. The company has taken the necessary measures to tighten its control over its human resources management, to clarify and refocus its priorities with a view to streamlining organizations and their processes, and to further boost the effectiveness of its marketing and sales organization. Human capital is a key factor in the performance of the Group. A key focus of the human resources plan is to continue investing significantly in training and skills management, to ensure Lectra's work force is suitably qualified and adapted to the strategic challenges facing it.

Diversity and Ethical Values

Lectra Group's economic headcount at December 31, 2008 was 1,518 worldwide, with a broad array of industry skills and talents. Of these, 55.5% are dedicated to marketing, sales and services activities, 14.5% to research and development, 11% to production and logistics, and 19% to administration and finance, human capital management and information systems.

98% of Group employees are on open-ended contracts. Fixed-term contracts apply mainly to persons hired to replace staff on maternity or long-term leave.

Thanks to a proactive policy of promoting parity (men account for 63% of total staff), women accounted for 49% of hiring in 2008, compared with 43% in 2007 (the figure has been rising in recent years).

Lectra operates in a multicultural environment and shares its know-how with its clients the world over. Its work force is spread across 31 subsidiaries, with more than 50 nationalities represented. Lectra's objective is to hire the best international talent and develop their skills, both at headquarters and in its subsidiaries. This diversity is a major source of wealth and a key competitive advantage for the Group.

One of the company's core values is respect for the individual. Lectra rejects all notion or practice of discrimination between people, on grounds of sex, age, handicap, ethnic origin, social origin or nationality, notably.

Training and Integration

Hiring people with a wide diversity of profiles and skills development are a company priority since 2005 to ensure perfect adequacy between the skills and competencies of its teams and the strategic challenges facing the Group. The goal in this process is to identify, develop and retain talent, bolster the Group's attractiveness worldwide, and to manage its employees' careers. As in 2007, 30% of its headcount have joined it in the last thirty-six months.

Training plays a central role in skills development and transmitting the corporate culture. The company organizes a broad array of training to enable its employees the world over to develop their professional competencies and their industry know-how. It has greatly expanded its training activities since 2005 with the establishment of the Lectra Academy training center at Bordeaux-Cestas, staffed by a wholly-dedicated team working directly with the heads of each department. They design and implement training plans geared to the specific nature of the company's different businesses. Seminars are organized by Lectra Academy and run by outside instructors and/or Group experts in their respective area of competence.

The Group invested €2.8 million in training in 2008, representing 3.6% of total staff costs (versus €3 million and 3.9% of the Group payroll in 2007). 71% of employees attended at least one training program (75% in 2007), and the number of training days amounted to 5,200 (versus 6,600 in 2007). This still represents a very substantial training effort given that 2007 was an exceptional year. That year saw very extensive training programs at the beginning of that year, concerning more than 500 people, to accompany the launch of the new product offering and deployment of the new IT system.

Subcontractors

The company subcontracts the production of sub-assemblies of the CAD/CAM equipment it markets to a network of regional, national and foreign firms (most of them located in European Union countries). These sub-assemblies are then assembled and tested at the Bordeaux-Cestas industrial facilities. Other subcontracted activities are mainly confined to cleaning and maintenance of premises and green areas, to security, staff canteens, packing and transportation of equipment shipped the world over.

The company is not aware of any violation by its subcontractors and foreign subsidiaries of the fundamental provisions of the International Labor Organization (ILO).

Relations Between the Group and Educational Institutions

As a world leader, Lectra believes it has a responsibility to actively help students in their personal development and preparation for their career, especially in the fashion industries. For the past several years the company and its foreign subsidiaries have forged partnerships with more than 680 schools based in 30 countries on 5 continents. These partners mainly comprise:

- fashion schools and universities;
- schools of engineering, especially those specializing in textiles and computer sciences;
- fashion trade associations.

The company has intensified its relations with the educational community starting in 2007. It embarked on a new partnership policy providing increased support for tomorrow's professionals and assisting them throughout the duration of their studies. Partnerships are adapted to the specific characteristics of each institution, including the nature of their programs and their students' course requirements. In particular, it has signed 24 "privileged" (the most wide-ranging) partnerships with top schools and universities in France, Switzerland, Italy, the United States and China.

Lectra offers these students access to its latest technologies and to the full extent of its expertise, so that instructors can incorporate these into their programs. It also offers internships and actively recruits students graduating from these institutions.

In addition within the framework of certain partnerships, Lectra affords students opportunities to gain practical experience of new technological innovations and of real world business activities through seminars, in which they benefit of the experience of its best experts and by offering its support as well as an exceptional showcase for their final course projects, notably thanks to its international network and dedicated website.
These partnerships are part of a joint and customized approach, forming part of a long-term reciprocal commitment.

9. RESEARCH AND DEVELOPMENT

The company invests heavily in R&D annually.
Lectra employs 218 engineers dedicated to R&D, including 197 in France, 15 in Spain, and 6 in Germany. They span a wide array of specialties across a broad spectrum from software development through electronics, mechanical engineering, online services, and expert knowledge of the Group's clients' businesses.
The company also has recourse to specialized subcontractors, accounting for a small proportion of its total R&D spending, especially for certain specific software developments and tests.
As stated above, all R&D expenditures are fully expensed in the year and booked in fixed overheads. Before deduction of the research tax credit and grants relating to specific programs, these expenditures totaled €18.3 million in 2008, or 9.2% of revenues. The company has invested more than €80 million in R&D over the five-year period 2002-2006.
One significant outcome was the new technology offering launched at the beginning of 2007.
Year-by-year, these investments have enabled the company to maintain and even strengthen its technology lead over its competitors.

10. AUTHORIZATION GIVEN TO THE COMPANY TO ACQUIRE AND SELL ITS OWN SHARES

The Shareholders' Meeting of April 30, 2008 renewed the program existing since the Shareholders' Meeting of April 30, 2007, and granted authority to the company to trade in its own shares for a period of eighteen months from the date of the said Meeting.
Moreover, the Shareholders' Meeting of April 30, 2007 had authorized the Board of Directors, for a period of twenty-four months ending April 30, 2009, to cancel shares representing up to 10% of the capital stock held by the company, or shares that it may come to hold as a result of purchases already made or made within the framework of the buyback program decided by the said Meeting or of any future authority that may be granted by an Ordinary Meeting of Shareholders pursuant to article L. 225-209 of the French Commercial Code. In accordance with the General Regulation of the AMF published on January 18, 2006, which notably abolishes the need for a visa on the information document presenting stock buyback programs, replacing the latter by a "program description", the company made this document available to shareholders on its website and on that of the AMF on March 21, 2008.

Treasury Shares

The company has not made any purchases or sales within the framework of the mandate given to SG Securities (Paris) (part of the Société Générale Group) to purchase company shares on its account in accordance with the terms of the program authorized by the Shareholders' Meeting.

Liquidity Agreement

Between January 1 and December 31, 2008, the company purchased 302,758 shares at an average price of €3.92 and sold 45,596 shares at an average price of €3.57, under the Liquidity Agreement administered by SG Securities (Paris), and in compliance with the Charter of Ethics established by the *Association Française des Entreprises d'Investissement* (AFEI, French association of investment companies) and approved by AMF.
The company consequently held 358,459 (or 1.3%) of its own shares at December 31, 2008, with a par value of €0.97, purchased at an average price of €4.18 and fully held within the framework of this contract.

Renewal of the Share Buyback Program

The Board of Directors has proposed to the General Meeting of Shareholders of April 30, 2009 to renew the share buyback program pursuant to article L. 225-209 of the French Commercial Code, for a period of eighteen months from the date of the next Annual Meeting of Shareholders, i.e. until October 30, 2010.

In light of the public stock buyback tender offer in 2007 and the current financial condition of the company, the new program's objectives have been scaled back by comparison with earlier years, and are confined to maintaining market liquidity in Lectra shares. The program will be carried out by an investment services provider acting under a liquidity agreement compliant with the Charter of Ethics established by the AFEI or any other code of conduct approved by AMF.

Concerning the new share buyback program, the company will act in conformity with the requirements of French law with regard to the maintenance of sufficient retained earnings and the elimination of voting rights attached to treasury shares.

As previously, this program will concern a variable number of shares such that the company does not come to hold a number of treasury shares exceeding 10% of the capital stock (representing 2,849,551 shares at the time of preparation of this report) adjusted for transactions affecting it subsequent to the Shareholders' Meeting of April 30, 2009, where appropriate. Shareholders are reminded that it will not be possible in any circumstances, under this program, to hold a number of shares representing 10% of the existing capital stock.

The shares may be repurchased in all or in part by trading in the market or over-the-counter, including by block purchases, by recourse to warrants or to securities carrying a right to shares in the company in accordance with the terms established by the AMF, and at such times as may be decided by the Board of Directors or any person acting on the authority of the Board.

The Board of Directors will provide shareholders with the information required in articles L. 225-211 of the French Commercial Code, in its reports to the Annual Meeting of Shareholders.

The Board of Directors has proposed the following terms:

- maximum purchase price: €10 per share;
- maximum amount to be utilized in the stock buyback program: €2.5 million.

If the shareholders approve this resolution, the new program will replace the one authorized by the General Meeting of Shareholders of April 30, 2008. It will have a duration of eighteen months from the date of the Annual Meeting of Shareholders, e.g., until October 30, 2010.

In accordance with the General Regulation of the AMF, the company will make this program description available to shareholders on its website (www.lectra.com) and on that of the AMF (www.amf-france.org). A printed copy can be obtained free of charge (on application to Lectra, Investor Relations department, 16 18 rue Chalgrin, 75016 Paris, France).

11. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2008.

12. 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.

13. REPORT ON AUTHORITY TO INCREASE THE CAPITAL

Article L. 225-100 of the French Commercial Code, as amended by the Executive Order *(Ordonnance)* of June 24, 2004, requires that the Management Discussion and Analysis comprises a table summarizing the authorities and powers granted to the Board of Directors by the Shareholders' Meeting, with respect to capital increases in application of articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code, and their utilization by the Board of Directors in the course of the year. The table is attached to this report.
The Extraordinary General Meeting of April 28, 2006 approved a general renewal of the authorities granted by the General Meeting of Shareholders of April 30, 2004 (not utilized by the Board of Directors) and extended its delegation of powers to include the new measures authorized under the law and regulations following the Executive Order (Ordonnance) no. 2004-604 reforming the legislation on securities issued by commercial companies.
Within the framework of the "global delegation" mechanism, the Extraordinary General Meeting of April 28, 2006 delegated to the Board of Directors the power to increase the capital stock by a maximum par value of €15 million, excluding additional paid-in capital (i.e., a maximum of 10 million shares with a par value of €1.50).
Moreover, in the event of a bond issue carrying a right to equity in the capital stock by conversion, exchange or otherwise, the Extraordinary General Meeting delegated authority to the Board of Directors to issue bonds for a maximum nominal amount of €100 million, allowing for the duration of the bonds and the anticipated appreciation of the company's shares over the said period.
The Extraordinary General Meeting of April 28, 2006 also granted authority to the Board of Directors, within the framework of its "global delegations of authority" to increase the capital stock of the company by means of public offerings representing up to 10% of the said capital stock per year, within the aforementioned maximum par value of €15 million. It further authorized the Board of Directors to increase the number of shares for issuance in the event of a capital increase, with or without the maintenance of preferential subscription rights, within the limit of 15% of the initial issuance, and within the aforementioned maximum amount. It further granted authority to the Board of Directors to increase the capital stock in remuneration of capital contributions in kind, up to a limit of 10% of the capital stock, within the aforementioned maximum amount. In addition, it granted authority to the Board of Directors to increase the capital stock within the framework of a stock option plan up to a maximum par value of €2.7 million.
Finally, it granted to the Board of Directors the necessary authority to increase the capital stock up to a maximum par value of €25 million, in one or more installments, by capitalization of all or part of retained earnings, additional paid-in capital, or merger or transfer premiums, by raising the par value of the shares. This capital increase, if carried out, would be distinct from the "global delegation".
These delegations had a duration of twenty-six months from the date of the Shareholders' Meeting, i.e., until June 28, 2008 inclusive, with the exception of the delegation authorizing the issuance of securities for the benefit of a category of designated persons, which had a duration of eighteen months, expiring on October 28, 2007, and the delegation for a duration of thirty-eight months expiring on June 28, 2009, authorizing the issuance of shares within the framework of a stock option plan.

The Board of Directors has not made use of these authorities, with the exception of the authority to issue shares within the framework of a stock option plan.

Further, the Extraordinary Shareholders' Meeting of April 30, 2008 authorized the issuance of shares within the framework of a stock option plan for a duration of thirty-eight months expiring on June 30, 2011 (see chapter 7). This authority automatically terminated the authority to issue shares within the framework of a stock option plan, decided by the aforementioned Extraordinary Shareholders' Meeting of April 28, 2006.

14. BUSINESS TRENDS AND OUTLOOK

At the time of this report, macroeconomic 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 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 research tax credit 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 ever 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 €12.5 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.
At the date of this report, 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.
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 research tax credit recognized in the balance sheet at December 31, 2008.
This item should therefore be comfortably positive in all financial scenarios.

The Board of Directors
March 3, 2009

Schedule of authorizations to increase the capital at the close of fiscal year 2008

note to chapter 13 of the Management Discussion

Type of issue	Authorization date	Maturity	Term	Maximum amount	Utilization 2006-2008
General authorities granted					
Issuance of securities granting access to equity in the capital stock with maintenance of preferential subscription rights	April 28, 2006	June 28, 2008	26 months	Capital* : € 15,000,000 Debt : € 100,000,000	Unused - Expired
Issuance of securities granting access to equity in the capital stock with waiver of preferential subscription rights	April 28, 2006	June 28, 2008	26 months	Capital* : € 15,000,000 Debt: € 100,000,000	Unused - Expired
Issuance of securities by public offering within an annual limit of 10% of capital stock	April 28, 2006	June 28, 2008	26 months	10% of capital stock per year	Unused - Expired
Increase in number of securities for issuance in the event of a capital increase, with or without waiver of preferential subscription rights in case of overallocation	April 28, 2006	June 28, 2008	26 months	Capital*: 15% of initial issue and at same price	Unused - Expired
Increase of capital by capitalization of reserves, additional paid-in capital, or earnings	April 28, 2006	June 28, 2008	26 months	Capital* : € 25,000,000	Unused - Expired
Issuance of securities in remuneration of capital contributions in shares	April 28, 2006	June 28, 2008	26 months	10% of capital stock	Nil - Expired
Specific authorities granted in favor of employees and directors and officers					
Stock options	April 28, 2006	June 28, 2008	38 months	Capital* : € 1,746,000[1]	Amount utilized: € 1,085,847
Stock options	April 30, 2006	June 30, 2008	38 months	Capital* : € 1,455,000	Amount utilized: € 487,767
Total authorized, non expired and unutilized at December 31, 2008				€ 1,627,386	

* Par value.

(1) The General Shareholders Meeting of April 28, 2006 authorized the creation of a new stock option plan for a maximum of 1,800,000 options with a par value of €1.50. The maximum amount and amounts utilized at December 31, 2008 are shown with the par value of the shares at December 31, 2008, i.e. €0.97 (see note 9.5 to the consolidated financial statements).

Company Certification of the Annual Financial 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 management discussion and analysis presents a true and fair view of the operations, results, and financial condition of the parent company and consolidated companies, together with a description of the main risks and uncertainties faced by the company."

Paris, March 3, 2009

Daniel Harari
Chief Executive Officer

Jérôme Viala
Chief Financial Officer

Report of the Chairman on internal control procedures and corporate governance

To the Shareholders,

The French Financial Security Act of August 1, 2003, modifying the obligations of French sociétés anonymes, notably amended article L. 225-37 of the French Commercial Code. This requires the Chairman of the Board of Directors of a société anonyme to append to the Management Discussion and Analysis of Financial Condition and Results of Operations a report giving details of the manner in which the Board's proceedings are prepared and organized, and on the company's internal control procedures.
The French December 30, 2006 "Employee Profit Sharing and Share Ownership Development Act" (law no. 2006-1770) again amended article L. 225-37 of the French Commercial Code. Under the amended legislation, the report of the Chairman of the Board of Directors on conditions governing the preparation and organization of board proceedings and on internal control procedures is also required to describe the principles and rules established by the Board regarding compensation and benefits of all kind of the company's executive directors (mandataires sociaux).
The French law no. 2008-649 of July 3, 2008, which amends various aspects of French company law in order to comply with European Union law (and transpose Directive 2006/46/EC amending the directives on the annual financial statements and consolidated financial statements) has further amended the terms of article L. 225-37 of the French Commercial Code. In particular, this requires that, when a company voluntarily refers to a code of corporate governance framed by representative organizations of corporations, the report of the Chairman on internal control procedures and corporate governance must identify the provisions it has chosen not to apply and the reasons for doing so. Alternatively, if the company does not refer to any such code of corporate governance, the report must state which rules it has adopted in addition to those required by law and explain why the company has decided not to apply any of the provisions of this code of corporate governance.
Furthermore, the *Autorité des Marchés Financiers* (AMF – French financial markets authority) published the reference framework of this report, together with an application guide in its Recommendation of January 22, 2007. In the position issued on January 9, 2008 by the working group on the adaptation of financial regulations to smaller and mid-sized market participants, chaired by Yves Mansion, the AMF has published a specific application guide for implementation of this reference framework by these companies.
Finally, in reply to the call issued by the President of the French Republic on the occasion of his speech of September 25, 2008, the Afep (*Association Française des Entreprises Privées* – Association of French Private Corporations) and the Medef (*Mouvement des Entreprises de France* – French Business Confederation) 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. These recommendations have subsequently been consolidated with the AFEP and MEDEF report of October 2003 and their recommendations of January 2007 on the compensation of executive directors of listed companies to comprise the Code of Corporate Governance of listed companies of December 2008, hereafter referred to as the "AFEP-MEDEF Code".
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:
– has already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer;
– has decided unanimously to adopt the recommendations issued jointly by the AFEP and the MEDEF as the code of corporate governance to which the company shall voluntarily refer in matters of compensation of its executive directors, and to comply with its provisions or, should any of these provisions be deemed inappropriate with respect to the specific circumstances of the company, to explain the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code.
This report describes (i) the conditions in which the Board prepared and organized its proceedings in the fiscal year ended December 31, 2008, (ii) the internal control and risk management procedures implemented by the company, (iii) the rules established by the Board of Directors for

the purpose of determining the compensation and benefits of executive directors, and (iv) identifies which of the recommendations of the AFEP-MEDEF Code have been considered ill-suited to the particular characteristics of the company, and explains the reasons for not applying them, as prescribed in article L. 225-37 of the French Commercial Code. This report was submitted and commented on to the Audit Committee and approved by the Board of Directors at their meeting of March 3, 2009.

1. CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF BOARD PROCEEDINGS

1.1 Role and Operation of the Board of Directors

The Board of Directors is responsible under French law for setting the company's strategy and direction for company operations, and for overseeing their implementation.
In 2002, as permitted under the newly enacted New Economic Regulations Act of May 15, 2001, the Board of Directors separated the functions of Chairman of the Board of Directors from those of Chief Executive Officer. The Chairman of the Board is responsible for organizing and directing the Board's proceedings, and for reporting to the General Meeting of Shareholders; he is also responsible for ensuring the proper operation of the company's management bodies. The Chief Executive Officer is invested with full powers to act in the company's name in all circumstances and represents the company in its dealings with third parties. He may be assisted by one or more Executive Vice-Presidents. As required in the second resolution of the Extraordinary Shareholders' Meeting of May 3, 2002, the Chief Executive Officer must be a member of the Board of Directors.

1.2 Membership of the Board of Directors

The Board of Directors has four members, out:
André Harari, Chairman of the Board of Directors, Daniel Harari, Hervé Debache, and Louis Faurre.
Article 12 of the company's by-laws stipulates that each director must hold at least one share of the company throughout his or her term as a director.

At December 31, 2008, André Harari held 5,606,851 of the company's shares, and Daniel Harari 5,507,560 shares. Also, at that date, Louis Faurre held 65,296 of the company's shares, and Hervé Debache directly held one share and indirectly held 140,000 shares through AW Financial Services, of which he holds 25% of the capital and is a director and Executive Vice-President.

Criteria Defining Board Members' Independence

André Harari, who is Chairman of the Board of Directors, and Daniel Harari, the Chief Executive Officer, are the two executive directors and as such are not deemed to be independent.
To comply with the rules of corporate governance, as set forth in the AFEP-MEDEF Code, the Board of Directors must include at least two independent directors. A director is deemed to be independent of company's management when there is no relationship whatever between him and the company or the group to which it belongs liable to compromise the said director's freedom of judgment. Such is the case for two of the four members of the Board of Directors, namely Hervé Debache and Louis Faurre.
One of the criteria of independence in the AFEP-MEDEF Code concerns the length of a director's term, specifying that a person who has been a director for more than twelve years can no longer be deemed independent. This is now the case for Louis Faurre and Hervé Debache. All of the other criteria of independence, apart from the fact of having been directors for more than twelve years, are satisfied.
At the motion of the Board of Directors, the Shareholders' Meeting of April 30, 2008 re-elected Louis Faurre and Hervé Debache to the Board for a further six-year period expiring at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal year 2013. Louis Faurre and Hervé Debache were first elected to the Board by the Ordinary Shareholders' Meeting of May 22, 1996, and were re-elected by the Ordinary Shareholders' Meeting of May 3, 2002.
In furtherance of the company's strategic aims, and having particular regard to the difficult macroeconomic conditions prevailing since 2007, in its recommendations to the Meeting of April 30, 2008, the Board considered that it would be in the interests of the company and its shareholders to continue to benefit from their experience and deep knowledge of the company.

Duration of Board Appointments

The AFEP-MEDEF Code recommends that duration of Board appointments laid down in the corporate by-laws should not exceed four years. This is not the case at Lectra, where for very many years the by-laws have stipulated a duration of six years.
The appointments of André Harari and Daniel Harari expire at the close of the Shareholders' Meeting called to approve the financial statements for fiscal year 2012, while those of Hervé Debache and Louis Faurre will expire at the close of the Shareholders' Meeting called to approve the financial statements for fiscal year 2013.

1.3 Committees of the Board of Directors

The Board of Directors has created 3 committees: an Audit Committee (2001), a Compensation Committee (2001) and a Strategic Committee (2004). Each committee has three members, including the two independent directors (in keeping with the rule requiring that independent directors represent a minimum of two thirds of each committee's members), the Audit Committee and the Compensation Committee being chaired by an independent director.
Given the limited number of directors, the functions of the Nominating Committee as laid down in the AFEP-MEDEF Code is performed either by the Compensation Committee or by the Board of Directors in plenary session, depending on the case.
The AFEP-MEDEF Code recommends that the Audit and Compensation Committees contain no executive director. This is not the case, since the Board has considered it useful for the Chairman of the Board of Directors, André Harari, to take part in these committees (André Harari does not hold any operational position, being neither Chief Executive Officer nor Executive Vice-President, but he is closely involved in the oversight of the company's operations).

Audit Committee

Membership

The members of the Audit Committee are Hervé Debache, Committee Chairman, Louis Faurre and André Harari.
The AFEP-MEDEF Code requires the members of the Committee to be competent in financial and accounting matters, and that, upon their appointment, they should be provided with information regarding the specific accounting, financial and operational characteristics of the company. This is the case with three of its members. In particular, the Chairman is a certified accountant and a graduate of HEC Business School (Paris, France) and of Harvard Business School (International Teachers Program, United States).

Mission

As recommended by the AFEP-MEDEF Code, the mission of the Audit Committee is to:

– review the financial statements, and in particular to ensure that the Company's accounting methods used in preparing the consolidated and statutory financial statements are appropriate and permanent, and to review the effective implementation of processes for the preparation of financial disclosure and of internal control and risk management procedures. The Committee scrutinizes important transactions liable to give rise to conflicts of interest;

– oversee application of the rules governing the independence and objectivity of the Statutory Auditors, guide the procedure for the selection of Statutory Auditors when their current appointment expires, and to make its recommendation to the Board of Directors.

The Statutory Auditors also inform the Committee each year of fees paid to members of their network by Lectra Group companies in respect of fees not directly related to their mission as Statutory Auditors, as well as providing information to the Committee concerning the services performed in respect of audits directly related to their mission as Statutory Auditors.

Meetings and Activities

The Audit Committee meets at least four times per year, before the Board meetings called to review the quarterly and annual financial statements. The Statutory Auditors and the Chief Financial Officer attend all of these meetings. The Audit Committee held five meetings in 2008. All members of the Committee were present or represented at all five of its meetings, with an effective attendance rate, excluding proxies, of 93%.
The review of the financial statements by the Committee, which takes place quarterly, is accompanied by a presentation by the Chief Financial Officer of the company's results, accounting choices made, risk exposure and significant off-balance sheet liabilities.

It is also accompanied by a presentation by the Statutory Auditors drawing attention to the essential points raised in regard to financial results, together with accounting choices made. The Committee Chairman systematically asks the Statutory Auditors if their reports will be qualified.
The Audit Committee continuously oversees the preparation of the company accounts, internal audits and financial communication, together with the quality and fairness of the company's financial reports. The Chief Financial Officer assists the Committee in the discharge of its duties, and the Committee periodically reviews with him areas of potential risk to which it needs to be alerted or requiring closer attention. The Committee also works with him in reviewing and approving guidelines for the work program on management control and internal control for the year in progress. He also reviews the assumptions used in closing the consolidated and statutory, quarterly, half-year and annual financial statements before they are submitted to the Board of Directors.
In 2008, and on February 12, 2009, for the review of the fiscal 2008 financial statements, the Committee notably reviewed the goodwill impairment tests, deferred tax assets at December 31, 2008, as well as the possible consequences of the arbitration procedure initiated by the company before the International Chamber of Commerce in London against Induyco, following the acquisition of Investronica in 2004, together with the accounting treatment of expenses relating to the arbitration.
The Committee also reviewed the company's 2009 budget as well as the revenue and income from operations scenarios basing the information communicated to the market. For fiscal year 2009, it has in particular reviewed the plan to cut costs and to increase the Group's security ratio. It has also reviewed the question of the covenants contained in the €48 million medium-term loan contract and the corresponding negotiations with the lending banks;
The Committee has not identified any operations liable to give rise to a conflict of interests.
Finally, the Committee reviews and discusses with the Statutory Auditors the scope of their engagement and their fees, and ensures that these are sufficient to enable them to exercise a satisfactory level of control: each Group company is subject to an annual verification, usually carried out by a local member of the Statutory Auditors' firms; a limited review is conducted on the half-year reporting package of the main subsidiaries. At each meeting the Committee invites them to report on their control program and on new areas of risk they may have identified in the course of their work, and it discusses the quality of accounting information with them. Once a year, it receives from the Statutory Auditors a report prepared exclusively for its attention on the findings of their audit of the statutory and consolidated financial statements for the year ended, and confirming the independence of their firms in accordance with the French code of professional ethics and the August 1, 2003 Financial Security Act.
The AFEP-MEDEF Code recommends that at the time of expiration of their appointment, the selection or renewal of the Statutory Auditors by the Audit Committee should be preceded by a call for tenders, to be decided by the Board and supervised by the Audit Committee, with the latter insuring selection of the "best bidder" and not the "lowest bidder". Giving priority to continuity and the expertise gained by its Statutory Auditors, the company did not comply with this recommendation on the occasion of the renewal in 2008 of the appointments of the full and alternate Statutory Auditors, but their fees were discussed.
The Committee conducts an annual review with the Statutory Auditors of the risks to their independence.
Given the size of the Lectra Group, there is no cause to review safeguard measures required in order to attenuate these risks: the size of the fees paid by the company and its subsidiaries and the share of revenues paid to the audit firms and their networks, are immaterial and are not therefore such as to impair the independence of the Statutory Auditors.
The Committee assures itself each year that the mission of the Statutory Auditors is exclusive of any other service unrelated to statutory audit, and in particular of any form of consulting activity (legal, tax, IT, etc.) directly or indirectly performed for the benefit of the company and its subsidiaries. However, additional work or work directly complementing the audit of the financial statements are performed after prior approval by the Committee, and the corresponding fees are insignificant.
The Committee has not seen fit to call upon outside experts.

Compensation Committee

Membership

The members of the Compensation Committee are Louis Faurre, Committee Chairman, Hervé Debache and André Harari.

Mission

The mission of the Compensation Committee is broader than that laid down in the recommendations of the AFEP-MEDEF Code, and is to:

– lay down the principles and amount of fixed and variable compensation, together with the corresponding annual targets serving to determine the variable portion thereof, and the additional benefits paid to executive directors and other members of the Executive Committee. At balance sheet date the Committee validates the actual amount corresponding to variable compensation earned during the year elapsed;

– review the fixed and variable compensation of all Group managers whose annual compensation exceeds €145,000 or $190,000;

– review prior to the meeting of the Board of Directors the procedures and regulations and the granting of stock option plans;

– be apprised annually of the Group's human resources performance report, of its policies and of the corresponding plan for the current fiscal year.

Meetings and Activities

The Compensation Committee meets before each meeting of the Board whenever the setting of executive directors and other members of the Executive Committee's compensation and related benefits or the granting of stock options are placed on the Board's agenda. It also reviews the compensation of the Group's senior managers once a year. The Committee reviews in detail all corresponding documents prepared by the Chief Executive Officer and the Chief Human Capital Officer, and communicates its recommendations to the Board. The Committee met twice in 2008. All members of the Committee were either present or represented at both meetings, with an effective attendance rate of 100%.

For the reasons given above, the Board of Directors has not seen fit to appoint a Selection or Nominating Committee, this mission being performed as required by the Compensation Committee or the Board of Directors in full session.

Moreover, the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the Compensation Committee to the Board of Directors, the executive directors should be absent when the Board discusses and votes on their compensation. In view of the way in which the Board of Directors functions, the independent directors of the company, who are both members of the Compensation Committee, have not seen fit to discuss the matter in the absence of the executive directors.

Strategic Committee

Membership

The members of the Strategic Committee are André Harari, Committee Chairman, Hervé Debache, and Louis Faurre.

Mission

The prime mission of the Strategic Committee is to review the coherence of the company's strategic plan, its key challenges, and the internal and external growth drivers allowing it to optimize its development in the medium term.

Meetings and Activities

The Committee met four times in 2008, in particular to review the broad driving directions of the three-year business plan for 2008-2010, the different quantified scenarios and the main phases contained in it. It also reviewed and discussed the main strategic challenges, risks and priorities for the Group for 2008, together with the broad outlines of its corresponding research and development, marketing and human resources plans. All of the Committee's members attended its meetings, resulting in a 100% effective attendance rate.

As the financial and economic crisis spread worldwide in early-September, the Strategic Committee met three times in October and November. It has been kept closely informed of the impact of this situation on the operations of the Group and of the progress of the Executive Committee in drawing up the 2009 action plan, on which it has contributed recommendations.

The Strategic Committee also met on February 5, 2009, before the meeting of the Board of Directors called to close the financial statements for fiscal year 2008. In particular it reviewed the definitive 2009 action plan, scrutinizing plans for its practical implementation as of January 1, 2009, together with the specific action plans for North America, the results of the first PLM projects, and the main points of the research and development plan.
All of the Committee's members were present.

Limits to the Decision Making Powers of the Committees

Subjects that the Chairman of either of these committees wish to discuss are placed on the agenda of the Committee concerned. When an item on the agenda of the Board of Directors requires prior discussion by the Audit Committee, the Compensation Committee, or the Strategic Committee, the Chairman of the Committee concerned communicates his Committee's comments and recommendations, if any, to the full session of the Board. This communication enables the Board to be fully informed, thus facilitating its resolutions.
No decision within the competence of the Board of Directors is made by the Audit Committee, the Compensation Committee, or the Strategic Committee. All decisions required to be made by the Board of Directors, and in particular those concerning the compensation of executive directors and the granting of stock options or bonus shares issue programs to managers and employees, together with all external growth operations, are reviewed and approved in full sessions of the Board of Directors.
Moreover, all financial press releases and notices published by the company are submitted to prior review by the Board and the Statutory Auditors, and are published on the same evening after the close of Euronext.
The AFEP-MEDEF Code recommends that, at the time of reporting on the work of the Compensation Committee on the compensation of executive directors, the Board of Directors should discuss the matter in the absence of the latter. This has not been the practice at Lectra since all issues are discussed fully and openly by the Board in plenary session. However, André Harari and Daniel Harari abstain from voting on decisions concerning them.

1.4 Internal Rules and Procedures of the Board of Directors and Board Committees

The AFEP-MEDEF Code recommends the establishment of internal rules to govern the procedures of the Board of Directors and the Board Committees.
The Board of Directors has not seen fit to introduce internal rules, considering that its size does not justify the institution of such rules to govern its proceedings and functioning.

1.5 Timetable and Meetings of the Board of Directors

The company's financial calendar setting out the dates for the publication of quarterly and annual financial results, those of the Annual General Meeting of Shareholders and the two annual analysts' meetings, is established before the end of the previous fiscal year. The calendar is published on the company's website and communicated to Euronext.
The dates of six meetings of the Board of Directors are decided on the basis of this calendar. These comprise the quarterly and annual financial results publication dates, approximately 45-60 days prior to the Annual General Meeting of Shareholders in order to review the documents and decisions to be presented, and approximately 20 trading days after the dividend approved by the Annual Meeting of Shareholders is made payable for the granting of the annual stock option plan. The Statutory Auditors are invited to, and systematically attend, these meetings (with the exception of the meeting to decide on the annual stock options plan).
In addition, the Board also meets outside of these dates to discuss other subjects falling within its responsibilities (including all planned acquisitions or the review of the company's strategic plan) or those that the Chairman wishes to submit to the directors. The Chief Financial Officer was appointed Board Secretary in 2006, and is systematically invited to attend and takes part in all Board meetings, except when prevented from doing so.
The Board of Directors met seven times in 2008. All members of the Committee were present or represented at all seven of its meetings, with an effective attendance rate, excluding proxies, of 96%.

1.6 Organization of Board Proceedings – Communication of Information to Directors

The agenda is set by the Chairman of the Board of Directors after consulting with the Chief Executive Officer, the Chief Financial Officer and, where appropriate, the Chairman of the Audit Committee or the Compensation Committee in order to place on the agenda all subjects they wish to be discussed at the forthcoming Board meeting.
In advance of each Board meeting, a set of documents is systematically addressed to each director, to the employees' Works Council representatives and to the Chief Financial Officer, as well as to the Statutory Auditors for the four meetings called to review the financial statements and for the meeting to prepare for the Annual General Meeting of Shareholders. Details of each item on the agenda are provided in a written document prepared by either the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, or the Chief Human Capital and Information Officer, as required.
As in previous years, in 2008 all documents required to be communicated to the directors were made available to them in compliance with regulations. Further, the Chairman regularly asks directors if they require additional documents or reports in order to complete their information.
Detailed minutes are produced for each meeting and submitted to the Board of Directors for approval at a subsequent meeting.

1.7 Evaluation of the Board of Directors

The AFEP-MEDEF Code recommends that once a year the Board should devote an item on its agenda to a discussion of its own functioning. It also recommends a formal evaluation exercise every three years at least, and that the shareholders be informed annually of the performance of these evaluations. No such evaluation has been performed by the company.
The Board considers that, because of its small size, the comprehensive nature of the subjects discussed, the extent of its disclosure, and the fact that the directors have many years experience of working together and regularly discussing its functioning, this recommendation is satisfied informally, and that there is no need for a formal evaluation.
The AFEP-MEDEF Code further recommends that the outside directors meet periodically in the absence of the internal directors. In light of the functioning of the Board of Directors, the company's independent directors have not seen fit to meet without the executive officers being present.

2. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ESTABLISHED BY THE COMPANY

In its work, and in preparing this report, the Board referred to the principles set forth in the reference framework published by the AMF on January 22, 2007, and to the guide to implementing this recommendation for small and mid-sized companies, published in January 2008. The approach adopted for the purpose of carrying out these procedures and drawing up this report makes due allowance for issues specifically applicable to the company and its subsidiaries having regard to their size and respective activities.
This chapter refers to the parent company Lectra SA and to its consolidated subsidiaries.

2.1 Lectra Group Internal Control System

The internal control system designed and implemented by the Group comprises a body of rules, procedures and charters. It also encompasses reporting obligations and the individual conduct of all of the players involved in the internal control system by virtue of their knowledge and understanding of its aims and rules.
This system aims at providing reasonable assurance of achieving the following objectives:

2.1.1 Legal and Regulatory Compliance

The company's internal control procedures are designed to provide assurance that the operations carried out in all Group companies comply with the laws and regulations in force in each of the countries concerned for the different areas in question (e.g. company, customs, labor and tax, etc. law).

2.1.2 Oversight of Proper Application of General Management Instructions

A range of procedures have been put in place to define the scope and the limits to the powers of action and decision of Group employees at all levels of responsibility. In particular these serve to ensure that the business of the Group is conducted in accordance with the policies and ethical rules laid down by General Management.

2.1.3 Protection of Assets and Optimizing Financial Performance

The purpose of the processes in place and procedures to control their application is to optimize the financial performance consistently with the company's short and medium-term financial goals.

Internal control procedures contribute to ensure the safeguarding of Group fixed and intangible assets (such as intellectual property, company brands, customer relationships and corporate image), as well as the Group human capital, all of which play a key role in its property, business activity and growth dynamism.

2.1.4 Reliable Financial Information

Among the control mechanisms in place, special emphasis is placed on procedures for preparing and processing accounting and financial information. Their aim is to generate reliable, high quality information that presents a fair view of the company's operations and financial condition. In addition, these procedures are designed to produce timely quarterly and annual financial statements, ready for publication 30 days after the close of each quarter at the latest, and a maximum of 45 days after fiscal year end.

The internal control system put in place by Lectra covers all Group companies, taking into account their diversity in terms of size and the goals and situation of the different subsidiaries and the parent company. Similarly, the cost of implementing the system's performance target for covered risks versus residual risks is compatible with the Group's resources, its size and the complexity of its organization.

While this system provides reasonable assurance of fulfillment of the aforesaid objectives, it can provide no absolute guarantee of doing so. Many factors independent of the system's quality, in particular human factors or those attributable to the outside environment in which the company operates, could impair its effectiveness.

2.2 Components of Internal Control

2.2.1 Organization, Decision-Making Process, Information Systems and Procedures

a) Organization and Decision-Making Process

As indicated in Chapter 1, the Board of Directors is responsible under French law for setting the company's strategy and direction for company operations, and for overseeing their implementation. The Chairman of the Board is responsible for ensuring the proper operation of the company's management bodies.

The Audit Committee discusses the internal control system at least once a year with the Group Statutory Auditors. It gathers their recommendations and, notably, ensures that their level and quality of coverage are adequate. It reports on its proceedings and opinions to the Board of Directors.

The Executive Committee implements the strategy and policies defined by the Board of Directors. The Executive Committee is chaired by the Chief Executive Officer and comprises two other members, the Chief Financial Officer and the Chief Human Capital and Information Officer, to whom broad powers have been delegated and who are critical to the effectiveness of the internal control system.

The Chief Executive Officer is directly responsible for worldwide sales and service operations, and the regional managers and subsidiaries report directly to him.

The heads of the Lectra Group's various corporate divisions also report directly to the Chief Executive Officer, i.e.:

- the Finance division, which comprises: treasury, accounting and consolidation, management control and audit, legal affairs, industrial affairs (purchasing, manufacturing, logistics, quality control);
- the Human Resources and Information Systems division;
- the Software and Hardware Research and Development divisions;
- the Marketing and Communications division;
- the market sector divisions;
- the Services division.

All important decisions (sales strategy, organization, investments and recruitment) relating to the operations of a region or Group subsidiary are made by a "board of directors" responsible for the region or subsidiary concerned.

These boards, chaired by the Chief Executive Officer, usually meet quarterly for the regions and/or main countries, with the regional managers and heads of the subsidiaries concerned as well as their management teams attending. The latter submit to the "boards" their detailed action plans drawn up on the basis of Group strategic and budget directives, and they report on the implementation of decisions as well as on their operations and performance.

The powers and limits to the powers of Directors of subsidiaries and regions and of the Directors of the various corporate divisions are laid down by the Chief Executive Officer or by a member of the Executive Committee, depending on the area concerned. These powers and their limits are communicated in writing to the Directors concerned. The Directors are then required to account for their utilization of the powers thus conferred on them in the pursuit of their objectives, in monthly reports on their activities to the Chairman of the Board of Directors and to the members of the Executive Committee.

The internal control process involves a large number of other players. The corporate divisions are at the center of this organization. They are responsible for formulating rules and procedures, for monitoring their application and, more generally, for approving and authorizing a large number of decisions connected with the operations of each Group entity. Clear and precise delineation of organizations, responsibilities and decision making processes, together with regular written and verbal exchanges, allow all players to understand their role, discharge their duties and form a precise assessment of their performance vis-a-vis the objectives assigned to them and also vis-a-vis those of the Group as a whole.

b) Information Systems

The Group's information and reporting systems allow it to monitor the performances contributing to fulfillment of its objectives regularly and precisely.

The information systems have been upgraded and adapted to the expanded requirements of General Management in terms of the quality, relevance, timeliness and comprehensiveness of information, while at the same time providing stronger controls.

Phase one of the Elios project to overhaul all IT systems, launched in 2005, which concerned all front office and back office activities in France and in all subsidiaries, entered into operations on January 1, 2007. Functions concerned currently comprise purchasing, supply chain, accounting, order and billing processing, and after sales services of the parent company, Lectra SA. The new system has introduced new operational modes with improved management procedures and rules, thanks in particular to better integration of business processes.

Deployment was accompanied by extensive training in the new procedures and support for the change process. *Elios* has been deployed in certain Group subsidiaries since the beginning of 2008, and will be deployed in all subsidiaries by the end of 2010. Additional benefits further bolstering the Group's internal controls will include the integration of inter-company financial information and homogeneous IT tools offering greater interoperability, the system being better adapted to business and operational processes, which spell improved performance and more effective controls.

Over the period 2001-2004 the company deployed a Customer Relationship Management (CRM) system dedicated to marketing and sales.

Finally, specific procedures are in place to insure the physical security and preservation of data, these procedures being periodically upgraded in response to the changing nature of risks.

c) Procedures

A large number of procedures spell out the manner in which the different processes are to be performed, together with the roles of the different persons concerned, the powers delegated to them within the framework of these processes. They further prescribe the method of controlling compliance with rules for the performance of processes. The main cycles or subjects entailing issues critical to Group objectives are:

Sales

A series of procedures exists to cover the sales cycle and more generally the entire marketing and sales process. In particular the "Sales rules and guidelines" clearly set forth rules, delegations of powers, and circuits, together with the controls performed at the different stages in the sales process to verify the authenticity and content of orders, together with shipment and billing thereof.

Credit Management

Credit management procedures are designed to limit the risks of non-recovery and shorten accounts collection delays. These procedures also track all Group accounts receivable above a certain threshold, providing for both upstream control of contractual payment terms and the customer's solvency prior to booking of the order, together with the systematic and sequenced implementation of all means of recovery, from simple reminders to legal proceedings. These means of recovery are coordinated by the credit management department in conjunction with the Legal Affairs department.

Historically, bad debts and customer defaults have been rare.

Purchasing

The parent company's purchases and capital expenditure account for the bulk of Group outlays under these headings. Procedures are in place to ensure that all purchases from third parties are compliant with budgetary authorizations. They further spell out formally the delegations of powers regarding expenditure commitments and signatures, based on the principle of the separation of tasks within the process. The deployment of the new computerized purchasing management systems at the parent company on January 1, 2007 has further enhanced control of these procedures.

Personnel

Under the procedures in place all forecast or actual personnel changes are communicated to the Group Human Resources division. All recruitments and dismissals must receive the division's prior authorization. In the case of dismissals, the division must systematically assess the actual and forecast costs of the dismissal and communicate its findings to the Finance division, which in turn ensures that the resulting liability is recognized in the Group financial statements.

Compensation is reviewed annually and submitted to the Chief Human Capital Officer for approval. Finally, for all personnel whose total annual compensation exceeds €145,000 or $190,000, the Executive Committee submits the annual compensation review, together with rules for the calculation of variable compensation, to the Compensation Committee for prior approval.

Treasury and Currency Risk

The company's internal control procedures regarding treasury operations mainly concern bank reconciliations, security of payment means, delegation of signing authority, and monitoring of currency risk.

Bank reconciliation procedures are systematic and comprehensive. They entail verification of all treasury department book entries, together with reconciliation between treasury balances and the accounts' bank balances.

The company has implemented secure means of payment to avoid or limit as far as possible all risks of fraud, and agreements covering check security have been signed with each of the Group's banks. This stage, which is intended to secure all means of payment (implementing the ETEBAC 5 protocol), was finalized in 2006.

Bank signature authorizations for each Group company are governed by written procedures laid down by the Executive Committee and are revocable at all times with immediate effect. Signing powers delegated under these procedures are notified to the banks, which must acknowledge receipt thereof.

Recourse to short and medium-term borrowing is strictly limited and is subject to prior approval by the Chief Financial Officer within the framework of delegations previously authorized by the Board of Directors.

All decisions pertaining to currency hedging instruments are made jointly by the Chief Executive Officer and the Chief Financial Officer, and are implemented by the Group Treasurer.

2.2.2 Identification and Management of Risks

Risk factors and risk management processes are described in detail in chapter 4 of the Management Discussion to which this report is appended.

2.2.3 Control Activity: Players Involved in Risk Control and Management Processes

The Group does not have an internal audit department as such, but the Group Finance division—in particular the treasury and management control teams—and the Department of Legal Affairs are central to the internal control and risk management system.

Controls are in place at many points throughout the Group's organization. These are adapted to the critical aspects of the processes and risks to which they apply, depending on their influence on the performance and fulfillment of Group objectives. Controls are conducted by means of IT applications, procedures subject to systematic manual control, via ex post audits, or via the chain of command, in particular by members of the Executive Committee. Spot checks are also performed in the various Group subsidiaries.

In each subsidiary, the person in charge of finance and administration, which usually comprises legal affairs, also plays a major role in the organization and conduct of internal controls. The primary mission of this person, who reports functionally to the Group Finance division, is to ensure that the subsidiary complies with the rules and procedures established by the corporate divisions.

The Information Systems division is responsible for guaranteeing the integrity of data processed by the various software packages in use within the Group. It works with the Group Finance division to ensure that all automated processing routines contributing to the preparation of financial information are compliant with accounting rules and procedures. In addition, it verifies the quality and completeness of information transferred between the different software applications. Finally, it is responsible for information systems security.

The Group Legal Affairs department and Human Resources division perform legal and social audits of all Group subsidiaries.

Their role notably consists in verifying that their operations are compliant with the laws and other legal and social regulations in force in the countries concerned. They also supervise most of the contractual relations entered into between Group companies and employees or third parties. The Legal Affairs department works with a network of law firms located in the countries concerned and specializing in the subjects at issue, as needed. The Legal Affairs department is also responsible for identifying risks requiring insurance and formulating a policy for covering these risks by means of appropriate insurance contracts. It supervises and manages potential or pending litigation, in conjunction with the Group's attorneys where appropriate.

Currency risk is managed centrally by the Group Treasurer. Group exposure is hedged by a range of derivative instruments. Forward currency contracts are used to hedge foreign exchange balance sheet positions; purchases of currency puts are utilized—when their cost relative to their benefits is not prohibitive—to hedge estimated net exposure to currency fluctuations for a stipulated future period.

Finally, the company employs a dedicated intellectual property team that works in conjunction with the Legal Affairs department. It acts preventively to protect the company's innovations and avert all risks of intellectual property rights infringement. In 2008, the procedures and actions initiated by the Group on this subject have been significantly reinforced.

2.2.4 Continuous Oversight of the Internal Control System

Incidents observed on the occasion of controls or the findings of ex post audits of compliance with internal control rules and procedures serve both to ensure the proper functioning of the latter and to consider appropriate improvements.

Given the nature of its business, the Group is obliged to adapt its organization to market changes whenever necessary. Each change in its organization or modus operandi is preceded by a review process to ensure that the proposed change is consistent with the preservation of an internal control environment complying with the objectives described in chapter 2.1 above.

Within this context, the scope and distribution of the powers of individuals and teams, reporting lines and rules for the delegation of signing authority, are subject to scrutiny, and are adjusted if necessary, prior to all organizational changes.
Oversight of internal controls is underpinned by a continuous improvement process focused notably on:
– updating the Group's risk mapping;
– updating and/or formalizing accounting and financial procedures, procedures relating to human resources management and internal control rules;
– updating and improving reporting and information systems;
– general improvements to internal control procedures, IT systems and rules as part of the deployment of the *Elios* project to Group subsidiaries.

2.3 Specific Procedures to Ensure the Reliability of Accounting and Financial Information

In addition to the elements described in the foregoing paragraphs, the Group has implemented precise procedures for the preparation and control of accounting and financial information. This is notably the case regarding reporting and budget procedures, and procedures for the preparation and verification of the consolidated financial statements, which are an integral part of the internal control system. Their purpose is to ensure the quality of accounting and financial information communicated to management teams, the Audit Committee, the Board of Directors, and to the shareholders and the financial market, with particular reference to the consolidated and statutory financial statements.
The Finance Department regularly identifies risks liable to impair the compilation and processing of accounting and financial information, together with the quality of that information. It communicates continuously with the accounting and finance departments of the Group's subsidiaries to insure that these risks are managed. Difficulties arising in the management of a specific risk are dealt with and/or give rise to specific action by the financial control teams. This analysis and centralized risk management process are additional to the procedures described below to reduce the risks of deliberate or involuntary error in the accounting and financial information published by the company.

2.3.1 Reporting and Budget Procedures

The company produces a comprehensive and detailed financial reporting that covers all aspects of the activities of each parent company unit and each subsidiary.
This is based on a sophisticated financial information system built around a market-leading software package.
Reporting procedures are based primarily on the budgetary control system put in place by the Group.
The Group's annual budget is prepared centrally by the Finance division management control teams.
This detailed, comprehensive process consists in analyzing and quantifying the budgetary targets of each subsidiary and Group unit under a very wide range of income statement and treasury headings, working capital requirements, together with indicators specific to each activity and the structure of operations. This system permits rapid identification of any deviation in actual or forecasted results, and of any risk of error in the financial information produced.

2.3.2 Accounts Preparation and Verification Procedures

a) Monthly Financial Results

The actual results of each Group company are verified and analyzed on a monthly basis, and new forecasts for the current quarter are consolidated. Each deviation is identified and described in detail in order to determine its causes, verify that procedures have been respected and the financial information properly prepared. This approach is designed to ensure that transactions recorded in the accounts fully reflect the economic reality of the Group's business and operations.
Assets and liabilities are subject to regular controls to ensure the accuracy of monthly reported results. These controls include physical counting of fixed assets and reconciliation with accounts; a revolving physical count of inventories (the most important references being counted four times per year); a comprehensive monthly review, with the credit management department, of overdue accounts receivable (see paragraph 2.2.1 (c) above); a monthly analysis of provisions for risks and charges, and provisions for asset impairment.

b) Quarterly Consolidation

Group financial statements (balance sheet, statement of income, statement of cash flows, and statements of changes in shareholders' equity) are consolidated on a quarterly basis. The process of preparing the consolidated financial statements comprises a large number of controls to ensure the quality of the accounting information communicated by each of the consolidated companies and of the consolidation process itself.

All Group subsidiaries employ a single standard consolidation reporting package and the procedure is subject to a wide range of precise controls. Actual results are compared with forecasts received previously in the monthly reporting procedure. Discrepancies are analyzed and justified and, more generally, the quality of information transmitted is verified. Upon completion of the consolidation process, all items in the statement of income, balance sheet and statement of cash flows are analyzed and justified.

The resulting financial statements are reviewed by the Chief Executive Officer and then submitted to the Audit Committee, before being reviewed and approved by the Board of Directors, and published by the company.

3. PRINCIPLES AND RULES ESTABLISHED BY THE BOARD OF DIRECTORS FOR DETERMINING THE COMPENSATION AND BENEFITS OF EXECUTIVE DIRECTORS

The recommendations of the AFEP-MEDEF Code:

– spell out principles for setting the compensation of executive directors of listed companies;
– prohibit the simultaneous holding of a position as executive director and an employment contract;
– place a cap on one-time termination payments ("golden parachutes") to two years' compensation, and abolish the granting of indemnities in the event of voluntary resignation and in the event of failure;
– strengthen the rules governing pension plans and place a cap on additional pension benefits;
– make stock option plans for senior managers conditional on the extension of such option plans to all employees or to the existence of mechanisms entitling all employees to a share of profits;
– terminate the granting of bonus shares unrelated to performance to executive directors; the latter must also purchase shares at market price additional to any performance-related shares granted to them;
– make compensation policies more transparent by means of a standardized disclosure format.

In its statement on November 28, 2008, the company declared that:

– it has already been in spontaneous compliance with these recommendations for many years with regard to André Harari and Daniel Harari in their respective capacities as Chairman of the Board of Directors and Chief Executive Officer;
– in particular, André Harari and Daniel Harari have never combined their positions as executive directors with an employment contract, are not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to them in virtue of a termination or change of their functions, to any additional defined benefit pension plan, stock options or bonus shares.

3.1 Executive Directors

Principles and Rules Determining the Compensation and Benefits of any Kind Granted

The sole executive directors at present are André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer.

The principles and rules for determining the compensation and benefits of executive directors are subject to prior review and recommendation by the Compensation Committee. This Committee notably reviews total compensation and the precise rules for determining its variable portion and the specific annual performance targets that serve to calculate it. All of these components are then discussed by the Board of Directors in full session and are subject to its sole discretion.

No bonuses in any form are paid, as a matter of principle. The compensation of executive directors is paid in its entirety by Lectra SA. They receive no compensation or particular benefit from companies controlled by Lectra SA within the meaning of article L. 233-16 of the French Commercial Code (Lectra SA is not controlled by any company). No stock options have been granted to executive directors since 2000. The only benefit accorded to them concerns the valuation for tax purposes of the utilization of company cars and the payment of life insurance premiums, which amount is indicated in the Management Discussion and Analysis to which this report is amended.

Finally, the executive directors are not the beneficiaries of any particular arrangement or specific benefit regarding deferred compensation, termination payment or retirement benefit committing the company to pay them any form of indemnity or benefit if their duties are terminated, at the time of their retirement (they are not bound to the company by any form of employment contract) or, more generally, subsequent to the termination of their functions.

Each year the Board of Directors determines the total amount of target-based compensation for the year if annual targets are achieved. This was unchanged for the years 2005, 2006, 2007 and 2008, and has been renewed for fiscal year 2009. The same holds for the fixed portion of compensation since 2003, and for the variable portion of annual target-based compensation since 2005.

The variable portion of target-based compensation for the Chairman of the Board of Directors and the Chief Executive Officer is equal to 60% of their total compensation.

The variable portion of their compensation is determined on the basis of two quantitative criteria (to the exclusion of all qualitative criteria) expressed in terms of annual targets, excluding non-recurring items, namely: consolidated pre-tax income (67%), and consolidated free cash flow (33%). This variable portion is equal to zero if certain thresholds are not met, to 100% if annual targets are achieved, with a cap of 200% if annual targets are exceeded. Between these bounds, the amount is calculated on a straight-line basis.

Annual targets are set by the Board of Directors as recommended by the Compensation Committee. The Committee carefully examines each year the consistency of the rules for determining the variable portion of compensation with evaluation of executive directors performance and with the company's medium-term strategy, the general macro-economic conditions and in particular those of the geographic markets and market sectors in which the company operates. After year-end closing it audits the annual application of these rules and the actual amount of variable compensation paid, based on the audited financial statements. These targets apply also to the two members of the Executive Committee who are not executive directors – namely Jérôme Viala, Chief Financial Officer, and Véronique Zoccoletto, Chief Human Capital and Information Officer – together with around twenty managers of the parent company Lectra SA, the only differences concerning the portion relating to target-based variable compensation, which is set individually for each manager.

Directors' fees approved annually by the General Meeting of Shareholders are distributed in equal proportions among the Directors. Directors who are also executive directors therefore receive their Directors' fees in addition to their fixed and variable compensation described above.

3.2 Non-Executive Directors

Non-executive directors—i.e. the two independent Directors—receive no form of compensation other than Directors' fees.

4. PROHIBITION ON TRADING IN SHARES APPLICABLE TO CERTAIN GROUP MANAGERS

In keeping with the rules of corporate governance, the Board of Directors decided on May 23, 2006 to prohibit members of the corporate management and management teams of the Lectra Group from buying or selling the company's shares during the period starting fifteen (15) calendar days before the end of each calendar quarter and expiring two (2) stock market trading days after the meeting of the Board of Directors closing the quarterly and the annual financial statements of the Lectra Group. This prohibition does not apply to the exercise of stock options during the period in question by any person figuring on the list drawn up by the Board of Directors, but the said persons are required to hold any resulting shares until the expiration of the period.

The Board of Directors has further decided that, in addition to each of its members, only the two members of the Executive Committee who do not hold a directorship have "the power to make management decisions regarding the company's development and strategy" and, further, have "regular access to inside information" and are therefore required to notify the AMF within the stipulated deadlines of any purchases, sales, subscriptions or exchanges of financial instruments issued by the company.

Daniel Dufag, the company's General Counsel, has also been named compliance officer for all matters pertaining to the General Regulation of the AMF concerning the drawing up of lists of insiders. His duties include adapting the guidelines published by the ANSA and to draw up the guide to procedures specific to Lectra, to draw up lists of permanent and occasional insiders, to notify these people individually in writing, accompanied by a memorandum spelling out the procedures specific to Lectra.

The list drawn up on the occasion of the meeting of the Board of Directors of July 27, 2007, which has been updated to indicate the people on this list that have left the company, together with those whom the General Management proposes to add to this list in virtue of their new duties or because they have reached a level of responsibility and information within the Group justifying their inclusion, or because they have been recently recruited is reviewed and approved annually by the Board of Directors.

5. POWERS OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is invested with full and unlimited powers. He exercises his powers within the limits of the corporate aims and subject to those explicitly attributed to the Shareholders' Meetings and to the Board of Directors.

6. SPECIFIC FORMALITIES FOR ATTENDANCE AT SHAREHOLDERS' MEETINGS

The right of attendance at shareholders' meetings, to vote by correspondence or to be represented, is subject to the following conditions:

– for registered shareholders (actionnaires nominatifs): shares must be registered in their name or in the name of an authorized intermediary in the company register, which is maintained by Société Générale in its capacity as bookkeeper and company agent, at zero hour, Paris time, on the third working day preceding the day set for the said Meeting;

– for holders of bearer shares (actionnaires au porteur): receipt by the General Meetings Department of Société Générale of a certificate of attendance noting the registration of the shares in the register of bearer shares at zero hour, Paris time, on the third working day preceding the day set for the said Meeting, delivered by the financial intermediary (bank, financial institution or brokerage) that holds their account.

Shareholders are free to dispose of their shares in whole or in part until the time of the Meeting. However, if the disposal takes place before zero hour, Paris time, on the third working day preceding the day set for the said Meeting, the financial intermediary that holds their account shall notify the disposal to Société Générale, and shall transmit the necessary information. The company shall invalidate or modify the vote by correspondence, proxy vote, admission card or the certificate of attendance in consequence of the foregoing. However, if the disposal takes place after zero hour, Paris time, on the third working day preceding the day set for the said Meeting, it will not be notified by the financial institution holding the account, nor taken into consideration by the company for the purposes of attendance at the Shareholders' Meeting.

Registered shareholders and holders of bearer shares unable to attend the Meeting in person may vote by correspondence or by proxy by applying to Société Générale for a voting form at least six days before the Meeting. Correspondence and proxy voting forms together with all documents and information relating to the Meetings are available on the company website at www.lectra.com at least twenty-one days before the time of these Meetings. These documents are also obtainable on request, free of charge, from the company. Written questions for submission to the Meeting may be addressed to the company by electronic mail.

All correspondence and proxy voting forms sent by post must reach Société Générale by the day prior to the date of the Meeting.

Shareholders holding a fraction of the capital defined in article L. 225-102 para. 2 and R. 225-71 para. 2 of the French Commercial Code must transmit any draft resolutions they wish to place on the agenda of the Meeting at least twenty-five days prior to the date of the Meeting. Practical details pertaining to the above will be communicated in the Notice of Meeting sent to the shareholders.

7. PUBLICATION OF INFORMATION CONCERNING POTENTIALLY MATERIAL ITEMS IN THE EVENT OF A PUBLIC TENDER OFFER

As required under article L. 225-37 para. 9 of the French Commercial Code, potentially material information is disclosed in chapter 8 of the Management Discussion and Analysis to which this report is appended, under *"Information Concerning Items Covered by article L. 225-100-3 of the French Commercial Code as Amended by the March 31, 2006 Public Tender Offers Act".*

Balance sheet
consolidated

ASSETS

As at December 31 (in thousands of euros)		2008	2007
Goodwill	note 1	36,077	36,465
Other intangible assets	note 2	5,887	5,727
Property, plant and equipment	note 3	14,420	15,236
Non-current financial assets	note 4	1,656	1,802
Deferred income tax	note 5.3	12,097	9,327
Total non-current assets		70,137	68,557
Inventories	note 6	28,614	30,156
Trade accounts receivable	note 7	39,997	49,806
Current income tax receivable	note 8.1	15,207	8,940
Other current assets	note 8.2	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	note 9	27,641	42,715
Share premium		1,033	976
Treasury shares	note 9.1	(1,498)	(581)
Retained earnings	note 10	9,471	(8,092)
Currency translation adjustment	note 11	(8,529)	(8,719)
Total equity		28,118	26,299
Retirement benefit obligations	note 12	3,746	3,518
Borrowings, non-current portion	note 13.2	49,433	48,849
Total non-current liabilities		53,179	52,367
Trade and other payables		39,490	51,964
Deferred revenues	note 14	32,310	32,522
Current income tax liabilities		654	454
Borrowings	note 13.2	17,096	12,817
Provisions for other liabilities and charges	note 15	1,981	2,126
Total current liabilities		91,531	99,883
Total equity and liabilities		172,828	178,549

The notes on pages 86 through 132 are an integral part of the Consolidated Financial Statements.

Income statement

consolidated

For year ended December 31 (in thousands of euros)		2008	2007
Revenues	notes 17 and 18	198,133	216,565
Cost of goods sold	note 19	(65,757)	(71,568)
Gross profit	note 19	132,376	144,997
Research and development	note 20	(10,607)	(14,225)
Selling, general and administrative expenses	note 21	(114,808)	(119,564)
Non-recurring income and expenses	note 22	–	(997)
Income from operations		6,961	10,211
Financial income	note 25	424	377
Financial expense	note 25	(4,128)	(2,582)
Foreign exchange loss	note 26	(602)	(686)
Income before tax		2,655	7,320
Income tax expense	note 5.1	583	(1,509)
Net income		3,238	5,811

(in euros)		2008	2007
Earnings per share	note 27		
– 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

The notes on pages 86 through 132 are an integral part of the Consolidated Financial Statements

Cash flow statement
consolidated

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	note 30	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	note 5.3	(1,956)	(599)
Changes in inventories	note 31	(1,542)	(5,402)
Changes in trade accounts receivable	note 31	8,427	(461)
Changes in other current assets and liabilities	note 31	(18,263)	(8,705)
Net cash used in operating activities		(1,224)	(2,996)
II. INVESTING ACTIVITIES			
Purchases of intangible assets	note 2	(1,476)	(1,158)
Purchases of property, plant and equipment	note 3	(2,202)	(4,010)
Proceeds from sales of intangible assets and property, plant and equipment		27	–
Purchases of financial assets	note 4	(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	note 9.1	86	2,903
Dividends paid		–	(5,198)
Purchases of treasury shares	note 9.2	(1,187)	(5,438)
Purchase of shares in public stock buyback tender offer	note 9.1	–	(47,687)
Sales of treasury shares	note 9.2	163	4,461
Proceeds from borrowings	note 33	800	48,400
Repayments of borrowings	note 34	(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	note 35	(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	note 32	(4,818)	(8,318)
Income tax paid		256	2,026
Interest paid		3,549	2,005

The notes on pages 86 through 132 are an integral part of the Consolidated Financial Statements

Statement of changes in equity

consolidated

(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 swaps (efficient part)							(325)			(325)
Currency translation adjustment	note 11							(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	note 9.1	645,855		968	1,935					2,903
Cancellation of treasury shares		(876,612)		(1,315)	(3,525)	4,840				–
Sale (purchase) of treasury shares	note 9.2					(1,322)				(1,322)
Profit (loss) on treasury shares							231			231
Purchase and cancellation of shares in public stock buyback tender offer		(7,064,792)		(10,597)	(1,378)		(35,712)			(47,687)
Dividends paid	note 10						(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 swaps (efficient part)							(1,157)			(1,157)
Currency translation adjustment	note 11							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	note 9.1	18,615		28	57					85
Sale (purchase) of treasury shares	note 9.2					(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

The notes on pages 86 through 132 are an integral part of the Consolidated Financial Statements.

Notes to the consolidated financial statements

The Lectra Group, hereafter the Group, refers to Lectra SA, hereafter the company, and its subsidiaries.
The Group's consolidated financial statements were approved by the Board of Directors on February 12, 2009 and will be proposed to the General Meeting of Shareholders for approval on April 30, 2009.

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, personnel 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 also enable the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM). Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.
The Group's customers comprise large national and international corporations and medium-sized companies. Lectra enables them to overcome their major strategic challenges: e.g., cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure electronic communications across the supply chain; enhancing quality; satisfying the growing demand for mass-customization; and monitoring and developing 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 more than 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 23,000 customers in more than 100 countries through its extensive network of 31 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 92% of its revenues directly in 2008. Its five International Call Centers, at Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased in its International Advanced Technology & Conference Center at Bordeaux-Cestas (France), and its four International Advanced Technology Centers at Atlanta (USA), Istanbul (Turkey), Shanghai (China) and Mexico City (Mexico). Lectra is geographically close to its customers wherever they are, with nearly 920 employees dedicated to marketing, sales and services. It employs 220 engineers dedicated to R&D, and 170 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

BUSINESS MODEL

Lectra's business model comprises two types of revenue streams:
– revenues from new systems sales (new software licenses and CAD/CAM equipment, and related services), the company's growth driver;
– recurring revenues, consisting partly of recurring contracts (e.g., software evolution, hardware maintenance and on-line support contracts), and partly of other statistically recurring revenues generated by the installed base (sales of spare parts and consumables, and per-call maintenance and support interventions). These recurring revenues are a key factor in the company's stability, acting as a cushion in periods of slow overall economic growth.
In addition, the business model is geared to generating free cash flow in excess of net income assuming utilization or receipt of the annual research tax credit applicable in France.

POST-CLOSING EVENTS

No significant event has occurred.

DIVIDEND

The company will declare no dividend in 2009, in respect of the 2008 fiscal year, net income for the year being insufficient to justify payment of one.
Given the mechanical accounting treatment of the public stock buyback tender offer, carried out in 2007, on the parent company Lectra SA's reserves available for distribution, the company has not paid a dividend in 2008.

ACCOUNTING RULES AND METHODS

Framework for the Preparation and Presentation of Financial Statements

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) as adopted by the European Union on December 31, 2008. This framework can be consulted on the European Commission website: http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission
Since January 1, 2008, the Group has applied the following IFRIC interpretations:
– IFRIC 11: Group and Treasury Share 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.

The Group did not opt for an earlier adoption on January 1, 2008 of IFRS 8 (Operating Segments). It is currently considering the definition of the sectors of activity it intends to present in its financial reports from January 1, 2009 onward.

Consolidation Method

The consolidated financial statements include the accounts of the parent company and the subsidiaries the Group controls. A company is deemed to be controlled when the Group has the power to determine, either directly or indirectly, the financial and operating policies of the company such as to benefit from the said company's operations.
Subsidiaries are fully consolidated from the date of transfer of control over them to the Group. They are deconsolidated from the date at which it ceases to control them.
The parent company holds more than 99% of the voting rights of the fully-consolidated companies. They are designated FC (fully consolidated) in the schedule of consolidated companies below. Certain sales and service subsidiaries not material to the Group, either individually or in the aggregate, are not consolidated and are designated NC in the schedule.
Companies are consolidated on the basis of company documents and financial statements closed in each country and restated in accordance with the aforementioned accounting rules and methods.
All intra-Group balances and transactions, together with unrealized profits arising from these transactions, are eliminated upon consolidation.
All consolidated companies close their annual financial statements at December 31.

Changes in Scope of Consolidation

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

Company	City	Country	% of ownership and control		Consolidation method (1)	
			2008	2007	2008	2007
Parent company						
Lectra SA	Cestas	France			FC	FC
Subsidiaries						
Lectra Systems Pty Ltd.	Durban	South Africa	100.0	100.0	FC	FC
Lectra Deutschland GmbH	Ismaning	Germany	99.9	99.9	FC	FC
Humantec Industriesysteme GmbH	Huisheim	Germany	100.0	100.0	FC	FC
Lectra Australia Pty Ltd.	Melbourne	Australia	100.0	100.0	FC	FC
Lectra Benelux NV	Ghent	Belgium	99.9	99.9	FC	FC
Lectra Brasil Ltda.	Sao Paulo	Brazil	100.0	100.0	FC	FC
Lectra Canada Inc.	Montreal	Canada	100.0	100.0	FC	FC
Lectra Systems (Shanghai) Co. Ltd.	Shanghai	China	100.0	100.0	FC	FC
Lectra Hong Kong Ltd.	Hong Kong	China	99.9	99.9	FC	FC
Pan Union International Ltd.	Hong Kong	China	100.0	100.0	FC	FC
Prima Design Systems Ltd.	Hong Kong	China	100.0	100.0	FC	FC
Lectra Danmark A/S	Ikast	Denmark	100.0	100.0	FC	FC
Lectra Sistemas Española SA	Madrid	Spain	100.0	100.0	FC	FC
Lectra USA Inc.	Atlanta	USA	100.0	100.0	FC	FC
Lectra Suomi Oy	Helsinki	Finland	100.0	100.0	FC	FC
Lectra Hellas EPE	Athens	Greece	99.9	99.9	FC	FC
Lectra Technologies India Private Ltd.	Bangalore	India	100.0	100.0	FC	NC
Lectra Italia SpA	Milan	Italy	100.0	100.0	FC	FC
Lectra Japan Ltd.	Osaka	Japan	100.0	100.0	FC	FC
Lectra Systèmes SA de CV	Mexico	Mexico	100.0	100.0	FC	FC
Lectra Portugal Lda.	Matosinhos	Portugal	99.9	99.9	FC	FC
Lectra UK Ltd.	Shipley	United Kingdom	99.9	99.9	FC	FC
Lectra Sverige AB	Borås	Sweden	100.0	100.0	FC	FC
Lectra Taiwan Co. Ltd.	Taipei	Taiwan	100.0	100.0	FC	FC
Lectra Systèmes Tunisie SA	Tunis	Tunisia	99.8	99.8	FC	FC
Lectra Systèmes CAD-CAM AS	Istanbul	Turkey	99.0	99.0	FC	FC
Lectra Chile SA	Santiago	Chile	99.9	99.9	NC	NC
Lectra Israel Ltd.	Natanya	Israel	100.0	100.0	NC	NC
Lectra Maroc Sarl	Casablanca	Morocco	99.4	99.4	NC	NC
Lectra Philippines Inc.	Manila	Philippines	99.8	99.8	NC	NC
Lectra Singapore Pte Ltd.	Singapore	Singapore	100.0	100.0	NC	NC

(1) FC: Fully consolidaded - NC: Non-consolidaded

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 SA.
There has been no other change in the scope of consolidation in 2008. There was no change in the scope of consolidation in 2007.
In view of the parent company's percentage of interest in its consolidated subsidiaries, minority interests are immaterial and are therefore not shown in the financial statements.

CURRENT ASSETS AND LIABILITIES

Group consolidated financial statements are prepared on a historical cost basis with the exception of the assets and liabilities listed below:
– cash equivalents, marked to market in the income statement;
– derivative financial instruments marked to market.
The Group uses these instruments to hedge its foreign exchange risks and recognizes them at fair value in the income statement (see section on Risk Hedging Policy), and to hedge interest-rate risk, which is recognized at fair value in shareholders' equity (see section on Interest-Rate Hedging Policy).
Current assets comprise assets connected with the normal operating cycle of the Group, assets held with a view to disposal in the twelve months following the close of the fiscal year, together with cash and cash equivalents. All other assets are non-current. Current liabilities comprise debts maturing in the course of the normal operating cycle of the Group or in the twelve months following the close of the fiscal year.

GOODWILL

Goodwill is the difference between purchase cost (including a best estimate of earn-outs stipulated in the purchase agreement, if any) and fair value of the purchaser's share in the acquired identifiable assets, liabilities and potential liabilities.
Goodwill recognized in a foreign currency is translated at the year-end exchange rate.
Goodwill is tested for impairment at the close of each fiscal year in order to identify possible impairment.
Each goodwill item is allocated to a cash-generating unit according to the specific nature of the acquisition concerned with respect to geography or product line.

OTHER INTANGIBLE ASSETS

Intangible assets are carried at their purchase cost less cumulative amortization and impairment, if any.
Amortization is charged on a straight-line basis depending on the estimated useful life of the intangible asset.

Management Information Software

This item contains only software utilized for internal purposes.
The new information system deployed on January 1, 2007 is amortized on a straight-line basis over eight years. Activation of costs relating to this project has been made possible by the fact that the project's technical feasibility has been consistently demonstrated and the probability that this fixed asset will generate future benefits for the Group.
Other purchased management information software packages are amortized on a straight-line basis over three years.
In addition to expenses incurred in the acquisition of software licenses, the Group also activates direct software development and configuring costs, comprising staff costs for personnel involved in development of the software and external expenses directly relating to these items.

Patents and Trademarks

Patents, trademarks and associated costs are amortized on a straight-line basis over three to ten years from the date of registration. The amortization period reflects the rate of consumption by the company of the economic benefits generated by the asset. The Group is not dependent on any patents or licenses that it does not own. In terms of intellectual property, no patents or other industrial property rights belonging to the Group are currently under license to third parties.

The rights held by the Group, notably with regard to software specific to its business as a software developer and publisher, are used under license by its customers within the framework of sales activity.
The Group does not activate any internally-generated expense relating to patents and trademarks.

Other

Other intangible assets are amortized on a straight-line basis over two to five years.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less accumulated depreciation and impairment, if any.
When a tangible asset comprises significant components with different useful lives, the latter are analyzed separately. Consequently, costs incurred in replacing or renewing a component of a tangible asset are booked as a distinct asset. The carrying value of the component replaced is written-off. The useful life of assets is reviewed at each closing date and adjusted as required.
Subsequent expenditures relating to a tangible asset are capitalized if they increase the future economic benefits of the specific asset to which they are attached. All other costs are expensed directly at the time they are incurred.
Financial expense is not included in the cost of acquisition of tangible assets. Investment grants received are deducted from the value of tangible assets.
Losses or gains on disposals of assets are recognized in the income statement under other operating expenses, in "Selling, general and administrative expenses".

Depreciation is computed on the straight-line method over their estimated useful lives as follows:

- buildings and building main structures: 20 to 35 years;
- secondary structures and building installations: 15 years;
- fixtures and installations: 5 to 10 years;
- land arrangements: 5 to 10 years;
- technical installations, equipment and tools: 4 to 10 years;
- office equipment and computers: 3 to 5 years;
- office furniture: 5 to 10 years.

FIXED ASSET IMPAIRMENT—IMPAIRMENT TESTS

When events or changes in the market environment, or internal factors, indicate an impairment of value of goodwill, other intangible assets or property, plant and equipment, these are subjected to detailed scrutiny.
In the case of goodwill, impairment tests are carried out systematically at least once a year.
Goodwill is tested for impairment by comparing its carrying value with its recoverable amount or value in use, which is defined as the present value of future cash flows attached to them, excluding interest and tax. The results utilized are derived from the Group's three-year plan.
Beyond the time frame of the three-year plan, cash flows are projected to infinity, the assumed growth rate being dependent on the growth potential of the markets and/or products concerned by the impairment test. The discount rate is computed under the Weighted Average Cost of Capital (WACC) method, the cost of capital being determined by applying the Capital Asset Pricing Model (CAPM). If the impairment test reveals an impairment of value relative to the carrying value, an irreversible impairment loss is recognized to reduce the carrying value of the goodwill to its recoverable amount. This charge, if any, is recognized under "Goodwill impairment" in the income statement.
Other intangible assets and property, plant and equiment are tested by comparing the carrying value of each relevant group of assets (which may be an isolated asset or a cash-generating unit) with its recoverable amount.
If the latter is less than the carrying value, an impairment charge equal to the difference between these two amounts is recognized. In the case of Lectra's new information system, impairment testing consists in periodically verifying that the initial assumptions regarding the useful life and functions of the system remain valid. The base and the schedule of amortization/depreciation of the assets concerned are reduced if a loss is recognized, the resulting charge being recorded as an amortization/depreciation charge under "Cost of goods sold", "Research and development expenses", or "Selling, general and administrative expenses" in the income statement depending on the nature and use of the assets concerned.

NON-CURRENT FINANCIAL ASSETS

This item mainly comprises investments in subsidiaries and receivables relating to financial investments in unconsolidated companies.
Investments in subsidiaries are classified with available for sale securities.

DEFERRED INCOME TAX

Deferred income tax is accounted for using the liability method on temporary differences arising between the accounting bases and tax bases of assets and liabilities. The same is true for tax loss carry-forwards. Deferred taxes are calculated at the future tax rates enacted or substantially enacted at the fiscal year closing date. For a given entity, assets and liabilities are netted where taxes are levied by the same tax authority, and where permitted by the local tax authorities. Deferred tax assets are recognized where their future utilization is deemed probable in light of expected future taxable profits. Deferred taxes are recognized in respect of timing differences relating to investments in subsidiaries and associates, except when the Group controls the timetable for reversal of these timing differences and when it is probable that this reversal will not take place in the near future.

INVENTORIES

Inventories of raw materials are valued at the lower of purchase cost (based on weighted-average cost, including related costs) and their net realizable value. Finished goods and works-in-progress are valued at the lower of standard industrial cost (adjusted at year-end on an actual cost basis) and their net realizable value. Net realizable value is the probable sale price in the normal course of business, less the estimated cost of completion or upgrading of the product and unavoidable selling costs. Industrial cost does not include interest expense.
A write-down is recorded if net realizable value is less than the book value.

Write-downs on inventories of spare parts and consumables are calculated by comparing book value and probable net realizable value after a specific analysis of the rotation and obsolescence of inventory items, taking into account the utilization of items for maintenance and after-sales services activities, and changes in the range of products marketed.

TRADE ACCOUNTS RECEIVABLE

Accounts receivable are shown at their fair value, which generally corresponds to their nominal value. Provisions for impairment are recorded on the basis of the risk of non-collectibility of the accounts, measured on a case-by-case basis in light of how long they are overdue, the results of reminders sent out, the local payment practices, and the risks specific to each country.
Sales in those countries presenting a high degree of political or economic risk are generally secured by letters of credit or bank guarantees.
Owing to the very short collection delays, trade accounts receivable are not discounted.

CASH AND CASH EQUIVALENTS

Cash (as shown in the cash flow statement) is defined as the sum of cash and cash equivalents, less bank overdrafts where applicable. Cash equivalents comprise investments in money-market funds recorded at market value at year-end, convertible at any time into a known amount of cash.
Net financial debt (as shown in note 13.3) is defined as the amount of "Cash and cash equivalents" less borrowings (as shown in note 13.2) when this difference is negative. When this difference is positive, the result corresponds to a net cash.
Cash equivalents are recognized at their fair value; changes in fair value are recognized in the income statement.

CAPITAL MANAGEMENT POLICY

In managing its capital, the Group seeks to achieve the best possible return on capital employed and to comply with the gearing ratio (net financial debt to shareholders' equity) attached to its €48,000,000 bank loan (see note 13.4).
The liquidity of Lectra's shares on the stock market is insured by means of a Liquidity Agreement with SG Securities (Société Générale Group) (see note 9.2).
The payment of dividends is an important instrument in the Group's capital management policy, the aim being to compensate shareholders adequately as soon as this is justified by the financial situation.

STOCK OPTIONS

The company has granted stock options to Group employees and managers. All plans are issued at an exercise price greater than the average stock market price for the twenty trading days prior to granting.
Under the regulations governing the company's stock option plans, which have been accepted by all of their beneficiaries, the Group is not exposed to the risk of liability for payment of French social security charges on capital gains arising from sales of shares within four years of the granting of options.
The application of IFRS 2 has resulted in the recognition of a charge corresponding to the fair value of the advantage granted to beneficiaries. This charge is recognized in staff costs and retained earnings. It is measured using the Black & Scholes model and is deferred prorata temporis over the stock options' vesting period.

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

RETIREMENT BENEFIT OBLIGATIONS

The Group is subject to a variety of deferred employee benefit plans, depending on the subsidiary concerned. The only deferred employee liabilities are retirement benefit obligations.

Defined Contributions Plans

These refer to benefits payable subsequent to the period of employment. Under these plans, for certain employee categories, the Group pays defined contributions to an outside insurance company or pension fund. Contributions are paid in exchange for services performed by employees in respect of the fiscal period. They are expensed as incurred, according to the same logic as wages and salaries. Defined contributions plans do not create future liabilities for the Group and hence do not require recognition of provisions.
Most of the defined contributions plans to which the company and its subsidiaries contribute are additional to the employees' legal retirement plans. In the case of the latter, the Company and its subsidiaries contribute directly to a social security fund, their contributions being charged to income according to the same logic as wages and salaries.

Defined Benefit Plans

These refer to benefits payable subsequent to the period of employment under plans that guarantee contractual additional income for certain employee categories (in some cases these plans are governed by specific industrywide agreements). For the Group, the plans cover lump-sum termination payments solely as required by legislation or as defined by the relevant industrywide agreement.
The guaranteed additional income represents a future liability.
This liability is calculated by estimating the benefits to which employees will be entitled having regard to projected end-of-career salaries.
Benefits are reviewed in order to determine the net present value of the liability in respect of defined benefits in accordance with the principles set forth in IAS 19.
Actuarial assumptions notably include a rate of salary increase, a discount rate (this corresponds to the average annual yield on bonds with maturities approximately equal to those of the Group's obligations) an average rate of social charges and a turnover rate, in accordance with local regulations where appropriate, based on observed historical data.
The Group has opted to record actuarial differences in full in the income statement. When plan's terms are modified, the portion relating to the increase in benefits pertaining to past services performed by personnel is booked as a charge and accounted for on a straight-line basis over the average residual vesting period of the corresponding entitlements. To the extent that rights vest immediately, the cost is directly expensed.
The total charge represented by all of the foregoing is recognized in staff costs in the income statement.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

All known risks at balance sheet date are reviewed in detail and a provision is recognized if an obligation exists, if the costs entailed to settle this obligation are probable or certain, and if they can be measured reliably.
In view of the short-term nature of the risks covered by these provisions, the discounting impact is immaterial and therefore not recognized.
At the time of the effective payment, the provision is deducted from the corresponding expenses.

Provisions for Warranties

A provision for warranties covers, on the basis of historical data, probable costs arising from warranties granted by the Group to its customers at the time of the sale of CAD/CAM equipment, for replacement of parts, travel of technicians and labor. This provision is recorded at the time the sale is booked by the company.

REVENUES

Revenues from sales of hardware are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.
For hardware, or for software in cases where the company also sells the computer equipment on which the software is installed, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.
For software not sold with the hardware on which it is installed, these conditions are generally fulfilled at the time of installation of the software on the customer's computer (either by CD-ROM or downloading).
Revenues from software evolution contracts and recurring services contracts are 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) research tax credit *(crédit d'impôt recherche)* is deducted from research and development expenses.

GOVERNMENT GRANTS

Government investment grants are deducted from the cost of the fixed assets in respect of which they were received. Consequently they are recognized in income over the period of consumption of the economic benefits expected to derive from the corresponding asset.
Operating grants are recognized in deferred income at the time of receipt, then deducted from their associated charges in the income statement.
The Group receives interest-free reimbursable advances which are recognized at their amortized cost. Benefits arising from the non-remuneration of these advances are initially recognized as operating grants in deferred income, then deducted from research and development expenses in the income statement.

BASIC AND DILUTED 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 diluted capital.

SEGMENT INFORMATION

The Group operates in a single sector of activity, namely industries that utilize soft materials. Because it serves customers in different market sectors, including fashion (apparel, accessories, footwear), automotive, aeronautical, marine, and furniture, and in many countries worldwide, the Group has differentiated its global offering in order to respond more precisely to the specific needs of its different customers. Nevertheless the resources and means deployed (including assets) to design, manufacture and commercialize its products and services are generally pooled across the company and cannot be differentiated in the same way as above.
Consequently, the Group considers that it is neither possible nor relevant to measure the performances and the distribution of its assets for a given line of products, market sector or geographic region.

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. Although such estimates are made in a particularly uncertain environment, their relevance is supported by the business model features.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, concern goodwill impairment (see note 1) and deferred taxation (see note 5.3). There has been no material change in the estimates utilized by Group Management since December 31, 2007.

TRANSLATION METHODS

Translation of Financial Statements of Foreign Subsidiaries

Most subsidiaries' functional currency is the local currency, which corresponds to the currency in which the majority of their transactions are denominated.
Accounts of foreign companies are translated as follows:
– assets and liabilities are translated at the official year-end closing rates;
– reserves and retained earnings are translated at historical rates;
– income statement items are translated at the average monthly exchange rates for the year for revenues and cost of products and services sold, and at the annual average rate for all other income statement items other than in the case of material transactions;
– items in the cash flow statement are translated at the annual average exchange rate. Thus, movements in short-term assets and liabilities are not directly comparable with the corresponding balance sheet movements, due to the currency translation impact, which is shown under a separate heading in the cash flow statement: "Effect of changes in foreign exchange rates";
– gains or losses arising from the translation of the net assets of foreign consolidated subsidiaries, and those derived from the use of average exchange rates to determine income or loss, are recognized in "Currency translation adjustment" in shareholders' equity and therefore have no impact on earnings, unless all or part of the corresponding investments are divested.
They are adjusted to reflect long-term unrealized gains or losses on internal Group positions.

Translation of Balance Sheet Items Denominated in Foreign Currencies

Third Party Receivables and Payables

Foreign currency receivables and payables are booked at the average exchange rate for the month in which they are recorded, and may be hedged.
Receivables and payables denominated in foreign currencies are translated at the December 31 exchange rate. Unrealized differences arising from the translation of foreign currencies appear in the income statement. Where a currency has been hedged forward, the translation adjustment reflected on the income statement is offset by the variation in fair value of the hedging instrument.

Inter-Company Receivables and Payables

Translation differences on short-term receivables and payables are included in net income using the same procedure as for third party receivables and payables.
Unrealized translation gains or losses on long-term assets and liabilities, whose settlement is neither scheduled nor probable in the foreseeable future, are recorded as a component of shareholders' equity under the heading "Currency translation adjustment" and have no impact on net income, in compliance with the paragraph "Net Investment in a Foreign Operation" of IAS 21.

EXCHANGE RATE TABLE FOR MAIN CURRENCIES

(equivalent value of one euro)	2008	2007
US dollar		
Annual average rate	1.47	1.37
Closing rate	1.39	1.47
Japanese yen (100)		
Annual average rate	1.52	1.61
Closing rate	1.26	1.65
British pound		
Annual average rate	0.80	0.68
Closing rate	0.95	0.73
Canadian dollar		
Annual average rate	1.56	1.47
Closing rate	1.70	1.44
Hong Kong dollar		
Annual average rate	11.45	10.69
Closing rate	10.78	11.48
Chinese Yuan		
Annual average rate	10.22	10.42
Closing rate	9.50	10.75

RISK HEDGING POLICY

In addition to the discussion of risks contained in these notes to the consolidated financial statements, the Group's risk management policy is also discussed in the Management Discussion, in chapter 4, Risk Factors—Management of Risks, and in chapter 14, Business Trends and Outlook.

CURRENCY RISK—DERIVATIVE FINANCIAL INSTRUMENTS

Exchange rate fluctuations impact the Group's income in two ways:

Competitive Impact

Lectra sells on worldwide markets and its main competitor is a US company. As a result, prices are generally dependent on the US dollar.

Translation Impact

On income from operations, the financial statements are consolidated in euros. Consequently, the revenues, gross profit and net income of a subsidiary whose transactions are expressed in a foreign currency are automatically affected by exchange rate fluctuations when translated into euros.

The impact of balance sheet positions chiefly concerns foreign currency receivables, in particular those between the parent company Lectra SA and its subsidiaries, and corresponds to the variation between exchange rates at collection date and those at billing date. Such impact is reflected in the foreign exchange loss/gain in the income statement. Currency risk is borne by the parent company. Practically all billings by the company and its subsidiaries of transactions with customers located outside the euro-zone are expressed in foreign currencies and represent 40% of revenues (see note 17). The Group monitors its exposure in real time. As far as possible and insofar as is economically reasonable, the Group seeks

to protect all of its foreign currency receivables and debts as well as future cash flows against currency risk, using the following financial instruments for this purpose:
– forward currency contracts to hedge receivables and debts;
– forward currency contracts and currency options to hedge future flows of sales and purchases when there is a strong probability that they will take place.
Hedging decisions take into account currency risks and trends where these are likely to impact significantly the Group's financial condition and competitive situation.
To hedge its balance sheet positions, the Group uses financial instruments to hedge its net foreign currency positions (receivables and debts). Consequently, all changes in the value of these instruments offset foreign exchange gains and losses on the remeasurement of these receivables and debts. However, these hedges are not treated as such within the meaning of IAS 39.
Derivative financial instruments to hedge future flows of funds are initially booked at fair value. Thereafter they are marked to market at the balance sheet date. Resulting profits or losses are recognized in shareholders' equity or in the income statement, depending upon whether the hedge (or the portion of the hedge concerned) was deemed to be effective or not, as defined by IAS 39.
In the event that an appreciation was initially recognized in shareholders' equity, the accumulated profits or losses are then included in income for the period in which the initially planned transaction actually takes place.

INTEREST RATE RISK

The Group manages its financing costs by limiting the impact of interest-rate variations on the income statement. In 2007, it entered two interest-rate swap contracts in order to hedge the medium-term bank loan contracted to finance the public stock buyback tender offer, carried out in the course of the fiscal year, by swapping the floating interest rate for a fixed rate. These contracts qualify for recognition as hedges. Consequently, changes in the fair value of these derivatives are directly recognized in shareholders' equity.
The Group did not use any instruments to hedge interest rate risks in prior years, since its financial borrowings consisted exclusively of interest-free repayable advances. Available cash is held in money-market funds.

THIRD-PARTY RISK

The Group is exposed to credit risk in the event of default by a third party. It manages its exposure through careful selection of third parties and by verifying guarantees before accepting orders from them.
The Group's exposure to this risk is limited, and it considers that there is no substantial concentration of risk on a single counterpart.
It does not anticipate any third-party default likely to have a major impact on the financial statements of the Group.

LIQUIDITY RISK

The main indicator monitored by the Group in order to measure a possible liquidity risk is the cumulative unused confirmed credit lines granted to the Group and available cash (see note 13.3).

notes to the consolidated balance sheet

NOTE 1 GOODWILL

No acquisition was made in fiscal years 2008 and 2007.

Tests of goodwill shown in the balance sheet at December 31, 2008 revealed no impairment.

The projections used are based on the 2009-2011 plan for each cash-generating unit concerned and on a projection to infinity using a growth rate assumption based on forecast trends in each market concerned. The assumed growth rate beyond the 2009-2011 plan is 2%.

Future flows after tax are discounted using the weighted average cost of capital. The discount rates adopted differ depending on the Cash Generating Unit (CGU) to allow for exposure to certain riskier sectors of activity (in particular the automobile sector). They range from 8.48% to 9.33% and are broken down as follows:

- the cost of capital is determined on the basis of the average yield on French Government 10-year OAT bonds plus a market risk premium of 5% adjusted for the sector's beta;
- a specific risk premium of 1% is added for certain CGUs;
- the cost of debt is determined on the basis of average market conditions for the fourth quarter of 2008 (three-month Euribor) plus the margin applied by the banks.

An identical valuation of the CGUs would result from application of a pre-tax discount rate to pre-tax cash flows.

The following sensitivity calculations have been performed:

- a 1 percentage point rise in the discount rate (from 8.48% and from 9.33% respectively to 9.48% and 10.33%) would not entail any impairment of goodwill;
- a 1 percentage point decline in the growth rate to inifity (from 2% to 1%) would not lead to an additional impairment of goodwill.

As in 2007, the Group did not recognize any additional goodwill impairment in 2008, and the only material changes concerned currency translation adjustment.

All acquisitions have been paid for in full, and no further earn-out is due on these transactions.

(in thousands of euros)	2008	2007
Book value at January 1	36,465	36,919
Goodwill adjustment	(89)	–
Exchange rate differences	(300)	(454)
Book value at December 31	36,077	36,465

Breakdown of goodwill at December 31, 2008:

(in thousands of euros)	Date of acquisition	Book value
CDI UK Ltd.	1998	384
CDI US Inc.	1998	4,357
Prima Design Systems Ltd.	1999	2,142
Cadtex	2000	2
Prima UK Ltd.	2000	17
Investronica Sistemas SA	2004	19,527
Lacent Technologies Inc.	2004	2,611
Sétif	2005	1,256
Humantec Systems Inc.	2005	784
Humantec Industriesysteme GmbH	2005	4,997
Total		36,077

For all goodwill items, the cash-generating units considered are associated with product lines, with the exception of goodwill on Investronica Sistemas SA, which is associated with a geographic region.

COMMITMENTS RECEIVED

The company has received within the framework of the acquisition agreements, representations and warranties from the former shareholders of Investronica, Lacent and Humantec concerning certain assets and liabilities in the balance sheet as well as all potential litigation arising in respect of events predating the respective acquisitions. With the exception of liabilities arising out of intentional breaches not time-barred at the time of publication, the warranties obtained on the occasion of the Lacent acquisition have expired. The warranty obtained on the occasion of the Investronica acquisition also expired, except for the liabilities of a tax, customs or social nature subject to a prescription longer than the three year contractual prescription stipulated in the acquisition contract and that have not yet expired. The warranty obtained on the Humantec acquisition is limited to the acquisition price, except for liabilities of a tax or customs nature resulting from serious misconducts.

Further, within the framework of the arbitration initiated by Lectra against Induyco, the former shareholder of Investronica, in June 2005 before the International Court of Arbitration of the International Chamber of Commerce (ICC Court) in hearings in London, Induyco provided Lectra with first demand bank guarantees for a total amount of €17,200,000. The total amount of this guarantee is without prejudice to the amount that might be awarded to Lectra in the arbitration.

NOTE 2 OTHER INTANGIBLE ASSETS

(in thousands of euros) 2007	Management information software	Patents and trademarks	Other	Total
Gross value at January 1, 2007	17,896	2,414	5,334	25,644
External puchases	634	210	72	916
Internal developments	241	–	–	241
Write-offs and disposals	(47)	–	–	(47)
Exchange rate differences	(40)	–	(4)	(44)
Gross value at December 31, 2007	18,684	2,624	5,402	26,710
Amortization at December 31, 2007	(13,606)	(2,231)	(5,146)	(20,983)
Net value at December 31, 2007	5,078	393	256	5,727

(in thousands of euros) 2008	Management information software	Patents and trademarks	Other	Total
Gross value at January 1, 2008	18,684	2,624	5,402	26,710
External puchases	752	244	44	1,040
Internal developments	356	–	–	356
Write-offs and disposals	–	–	–	–
Exchange rate differences	65	–	2	67
Gross value at December 31, 2008	19,857	2,868	5,448	28,173
Amortization at December 31, 2008	(14,734)	(2,404)	(5,148)	(22,286)
Net value at December 31, 2008	5,123	464	300	5,887

Changes in amortization:

(in thousands of euros) 2007	Management information software	Patents and trademarks	Other	Total
Amortization at January 1, 2007	(12,438)	(2,093)	(5,148)	(19,679)
Amortization charges	(1,255)	(138)	(2)	(1,395)
Amortization write-backs	47	–	–	47
Exchange rate differences	40	–	4	44
Amortization at December 31, 2007	(13,606)	(2,231)	(5,146)	(20,983)

(in thousands of euros) 2008	Management information software	Patents and trademarks	Other	Total
Amortization at January 1, 2008	(13,606)	(2,231)	(5,146)	(20,983)
Amortization charges	(1,137)	(173)	–	(1,310)
Amortization write-backs	–	–	–	–
Exchange rate differences	9	–	(2)	7
Amortization at December 31, 2008	(14,734)	(2,404)	(5,148)	(22,286)

MANAGEMENT INFORMATION SOFTWARE

As part of an ongoing process of upgrading and reinforcing its information systems, in 2007 and 2008 the Group purchased licenses of new management information software together with additional licenses for software already in use in order to increase the number of users.

Investments concerned license purchase costs together with the cost of developing and configuring the corresponding software.

The company capitalized €648,000 in 2008 corresponding to the deployment of its upgraded IT system in its subsidiaries. Phase one of this upgrade project became operational on January 1, 2007. The capitalized amount is amortized under the straightline method over eight years. Internal development expenses amounted to €356,000. In 2007, the company capitalized an expense of €296,000 on this project, including €241,000 in respect of internal development expenses.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

(in thousands of euros) 2007	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2007	9,060	13,090	20,708	42,858
Additions	416	1,135	2,460	4,011
Write-offs and disposals	–	(80)	(857)	(937)
Exchange rate differences	–	(156)	(230)	(386)
Gross value at December 31, 2007	9,476	13,989	22,081	45,546
Accumulated depreciation at December 31, 2007	(6,482)	(7,128)	(16,700)	(30,310)
Net value at December 31, 2007	2,994	6,861	5,381	15,236

(in thousands of euros) 2008	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2008	9,476	13,989	22,081	45,546
Additions	2	530	1,673	2,205
Write-offs and disposals	–	(481)	(584)	(1,065)
Transfers	–	21	(11)	10
Exchange rate differences	–	61	79	140
Gross value at December 31, 2008	9,478	14,120	23,238	46,836
Accumulated depreciation at December 31, 2008	(6,546)	(7,929)	(17,941)	(32,416)
Net value at December 31, 2008	2,932	6,191	5,297	14,420

Changes in depreciation:

(in thousands of euros) 2007	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2007	(6,418)	(6,239)	(15,954)	(28,611)
Additional depreciation	(64)	(1,016)	(1,704)	(2,784)
Write-offs and disposals	–	69	794	863
Exchange rate differences	–	58	164	222
Accumulated depreciation at December 31, 2007	(6,482)	(7,128)	(16,700)	(30,310)

(in thousands of euros) 2008	Land and buildings	Fixtures and fittings	Equipment and otherh	Total
Accumulated depreciation at January 1, 2008	(6,482)	(7,128)	(16,700)	(30,310)
Additional depreciation	(64)	(1,005)	(1,742)	(2,811)
Write-offs and disposals	–	211	562	773
Transfers	–	–	(10)	(10)
Exchange rate differences	–	(7)	(51)	(58)
Accumulated depreciation at December 31, 2008	(6,546)	(7,929)	(17,941)	(32,416)

"Land and buildings" pertain solely to the Group's industrial facilities in Bordeaux-Cestas (France), amounting to €9,478,000, net of investment grants received.
The facility covers an area of 11.4 hectares (28.5 acres) and the buildings represent 27,300 m^2 (295,000 sq.ft.).

Land and buildings were partly purchased outright by the company, and partly under financial leases. These have been paid for in full.
The assets purchased outright by the company (excluding fixtures and fittings) represent €5,022,000, of which €2,360,000 has been depreciated.
The assets (including fixtures and fittings) purchased under finance leases are valued at €4,745,000 including €4,272,000 for the buildings, depreciated in full, and €473,000 for the land. In October 2002, the company became owner of the entire Bordeaux-Cestas land and buildings facilities.
Purchases of land, construction, and fixtures and fittings in 2008 mainly concerned fixtures and fittings relating to the Bordeaux-Cestas (France) industrial site amounting to €142,000, premises for Lectra Hong Kong amounting to €143,000, and for Lectra USA amounting to €133,000.
No acquisitions of new equipment were made using finance leases in 2007 or 2008.
Other fixed assets purchased in 2007 and 2008 mainly concerned manufacturing molds and tools for the Bordeaux-Cestas (France) industrial facility.

NOTE 4 NON-CURRENT FINANCIAL ASSETS

(in thousands of euros) 2007	Loans	Investment in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2007	247	2,932	1,079	4,258
Additions	–	247	1,743	1,990
Disposals	(11)	–	(1,755)	(1,766)
Exchange rate differences	–	(2)	(38)	(40)
Gross value at December 31, 2007	236	3,177	1,029	4,442
Impairment provision at December 31, 2007	–	(2,571)	(69)	(2,640)
Net value at December 31, 2007	236	606	960	1,802

(in thousands of euros) 2008	Loans	Investment in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2008	236	3,177	1,029	4,442
Additions	–	–	1,387	1,387
Disposals	(236)	(162)	(1,296)	(1,694)
Exchange rate differences	–	(2)	74	72
Gross value at December 31, 2008	–	3,013	1,194	4,207
Impairment provision at December 31, 2008	–	(2,481)	(70)	(2,551)
Net value at December 31, 2008	–	532	1,124	1,656

"Loans" and "Investments in subsidiaries" exclusively concern companies not included in the scope of consolidation.
"Other non-current financial assets" at December 31, 2008 primarily consist of deposits and guarantees.

RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2008 or December 31, 2008, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts (in thousands of euros)
Receivables	Trade accounts receivable	Lectra Maroc Sarl (Morocco)	881
		Lectra Chile SA (Chile)	300
		Lectra Systemes Inc. (Philippines)	167
		Other subsidiaries	49
Payables	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	169
		Lectra Maroc Sarl (Morocco)	34
		Other subsidiaries	(71)
Sales	Revenues	Lectra Maroc Sarl (Morocco)	259
		Lectra Chile SA (Chile)	111
		Lectra Israel Ltd (Israel)	54
		Lectra Systemes Inc. (Philippines)	15
Commissions	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(136)
		Other subsidiaries	(2)
Personnel invoiced	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(372)
Financial interest	Interest income	Lectra Maroc Sarl (Morocco)	35
		Lectra Singapore Pte Ltd (Singapore)	11
		Lectra Chile SA (Chile)	11
		Other subsidiaries	8

The parties concerned are either agents or distributors of the company's products in their respective countries. The transactions in question mainly concern purchases from the parent company for the purposes of their local operations or charges and commissions billed to the parent company in order to cover their overheads in the case of agents. Transactions with the Chairman of the Board of Directors, the Chief Executive Officer and the other members of the Executive Committee are disclosed in notes 23.4 and 23.5.

NOTE 5 TAXES

NOTE 5.1 CORPORATE INCOME TAX

(in thousands of euros)	2008	2007
Current tax charge	(1,373)	(2,229)
Deferred tax	1,956	720
Net tax charge	583	(1,509)

The research tax credit *(crédit d'impôt recherche),* applicable in France, is deducted from research and development expenses (see note 20). It amounted to €6,306,000 in 2008 (€3,193,000 in 2007).
Income tax payable totaled €654,000 at December 31, 2008 (€454,000 at December 31, 2007).

NOTE 5.2 EFFECTIVE TAX RATE

(in thousands of euros)	2008		2007	
	in %	in value	in %	in value
Standard rate of corporate income tax in France[1]	33.33%	(886)	33.33%	(2,440)
Impact of unrecognized deferred tax assets	17.35%	(461)	–11.19%	819
Effect of other countries' different tax rates	–4.44%	118	–1.29%	95
Effect of income and expenses with a low or nil/zero tax rate[2]	–71.08%	1,890	–5.11%	374
Others	2.92%	(78)	4.90%	(357)
Effective tax rate	–21.92%	583	20.64%	(1,509)

(1) By convention, for tax rates, a plus sign indicates a tax charge and a minus sign a tax credit.
(2) This corresponds primarily to non-tax deductible charges for the year and to the elimination for tax purposes of certain consolidation entries.

NOTE 5.3 DEFERRED TAXES

Owing to uncertainty over the future profit-earning capacity of some subsidiaries, none, or only part, of the said subsidiaries' tax losses and other potential deferred tax assets on timing differences is recognized as a deferred tax asset.
At December 31, 2008, unrecognized deferred tax assets totaled €10,042,000, compared with €9,736,000 at December 31, 2007. The Spanish subsidiary accounted for the bulk of this figure.
The share of deferred taxes directly recognized in retained earnings totals €579,000 and corresponds to the tax effect on the mark-to-market of interest-rate swaps (see note 13.8). Deferred taxes are listed below according to the type of timing difference:

(in thousands of euros)	2007	Impact P&L	Impact equity	Translation adjustments	2008
Losses available for carry-forward	3,929	1,914	–	36	5,879
Depreciation/amortization of tangible and intangible assets	2,928	(284)	–	(31)	2,613
Impairment of accounts receivable	220	52	–	3	275
Write-downs of inventories	1,385	54	–	123	1,562
Financial instruments	164	–	579	-	743
Other timing differences	701	220	–	104	1,025
Total	9,327	1,956	579	235	12,097

(in thousands of euros)	2006	Impact P&L	Impact equity	Translation adjustments	2007
Losses available for carry-forward	2,512	1,494	–	(77)	3,929
Depreciation/amortization of tangible and intangible assets	2,794	132	–	2	2,928
Impairment of accounts receivable	300	(71)	–	(9)	220
Write-downs of inventories	1,541	(5)	–	(151)	1,385
Financial instruments	–	–	164	–	164
Other timing differences	1,567	(830)	–	(36)	701
Total	8,714	720	164	(271)	9,327

NOTE 5.4 SCHEDULE OF ACTIVATED TAX LOSS CARRY-FORWARDS

(in thousands of euros)	Expiration date			
	Until 2009	Between 2010 and 2014	Beyond 2014	Total
Deferred tax assets on tax losses [1]	9	2,820	3,050	5,879

(1) The above expiration date corresponds to the maximum period of utilization. Apart from Lectra Sistemas Española SA activated deferred tax assets are expected to be utilized within a period of between one and five years.

NOTE 6 INVENTORIES

(in thousands of euros)	2008	2007
Raw materials	25,416	26,112
Finished goods and works-in-progress [1]	13,609	13,907
Inventories, gross value	39,025	40,019
Raw materials	(5,313)	(4,717)
Finished goods and works-in-progress [1]	(5 098)	(5 146)
Write-downs	(10,411)	(9,863)
Raw materials	20,103	21,395
Finished goods and works-in-progress [1]	8,511	8,761
Inventories, net value	28,614	30,156

(1) Including demonstration and second-hand equipment.

€2,540,000 of inventory fully written down was scrapped in the course of 2008 (€753,000 in 2007), thereby diminishing the gross value and write-downs by the same amount.
Inventory rose in 2007 due to the launch of the new generation of *Vector* cutting systems and the gradual ramp-up of manufacturing capacity. Inventory fell by less than expected in 2008 as a result of weak sales of CAD/CAM equipment in a hostile macroeconomic environment.
Inventory write-downs charged for the year amounted to €3,652,000 (€3,002,000 in 2007). Reversals of previous write-downs relating to sales transactions amounted to €818,000 (€1,612,000 in 2007), booked against the charges for the period.

NOTE 7 TRADE ACCOUNTS RECEIVABLE

(in thousands of euros)	2,008	2,007
Trade accounts receivable excluding deferred revenues	12,592	21,709
Deferred recurring software evolution and services contracts	30,544	30,708
Other deferred equipment and services revenues	1,766	1,814
VAT on deferred recurring contracts and on deferred revenues	3,971	4,228
Trade accounts receivable, gross value	48,873	58,459
Provision for impairment	(8,876)	(8,653)
Trade accounts receivable, net value	39,997	49,806

Trade receivables at December 31, 2008 include €32,310,000, excluding value-added and other sales taxes on recurring contracts, other services and equipment billed in advance for 2009 (compared with €32,522,000, excluding value-added and other sales taxes, at December 31, 2007 in respect of 2008). These amounts have no impact on income, since an identical amount is recorded in "Deferred revenues" (see note 14).
The Group recognizes an impairment charge on trade accounts in light of an individual analysis of accruals. Changes in impairment charges are analyzed below:

(in thousands of euros)	2008	2007
Provisions at January 1	(8,653)	(8,708)
Additional provision	(2,747)	(2,191)
Write-back of provisions no longer required	55	339
Write-back of provisions on receivables paid	1,288	777
Write-back of provisions on irrecoverable receivables now cancelled	1,159	1,077
Exchange rate differences	22	53
Provisions at December 31	(8,876)	(8,653)

Changes in provisions for impairment of accounts receivable and related accounts, net of irrecoverable receivables, are recognized under "Selling, general and administrative expenses" in the income statement, on the line "Net provisions".

NOTE 8 TAX CREDIT AND OTHER CURRENT ASSETS

NOTE 8.1 INCOME TAX RECEIVABLES

(in thousands of euros)	2008	2007
Research tax credit	14,035	8,015
Income tax down payment	1,172	925
Total income tax receivaibles	15,207	8,940

The measures within the framework of the economic stimulus plan announced by the French Government on December 4, 2008, provide for early reimbursement, in 2009, by the French tax administration *(Trésor public)* of the fraction not chargeable to income tax of the research tax credit in respect of the years 2005, 2006, 2007 and 2008. The company will receive the full amount of the €14,035,000 shown in the table above.

NOTE 8.2 OTHER CURRENT ASSETS

(in thousands of euros)	2008	2007
Other tax receivables	1,061	2,311
Advances to personnel	270	266
Other current assets	7,367	7,616
Other current assets	8,698	10,193

Other tax receivables at December 31, 2008 comprised the parent company's (French) recoverable value-added tax in the amount of €755,000 (€1,743,000 at December 31, 2007).
Other current assets notably comprise €5,608,000 (€5,161,000 at December 31, 2007) in legal fees and costs relating to the arbitration initiated by Lectra against the former Investronica's shareholder, Induyco, together with rental expenses, insurance premiums and equipment rental charges.

NOTE 9 SHARE CAPITAL

At December 31, 2008, the Group's capital stood at €27,640,648.58, including 28,495,514 shares with a par value of €0.97 per share.

NOTE 9.1 CHANGES IN SHARE CAPITAL AND SHARE PREMIUM

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 SA, 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 held on April 30, 2008 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 consisting 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 €15,131,000 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.
The tables below provide details of changes in the number of shares, the capital and additional paid-in capital and merger premiums in fiscal 2007 and 2008.
At December 31, 2008, apart from the authority to increase the capital granted by the Shareholders' Meeting within the framework of the granting of stock options to senior managers and employees, there is no other authorisation outstanding such as to alter the number of shares comprising the Group's capital.

note 9.1.1 Share Capital

	2008		2007	
	Number of shares	Share capital (total par value, in euros)	Number of shares	Share capital (total par value, in euros)
Share capital at January 1	28,476,899	42,715,348.50	35,772,448	53,658,672.00
Stock options exercised	18,615	27,922.50	645,855	968,782.50
Cancellation of treasury shares	–	–	(876,612)	(1,314,918.00)
Repurchase and cancellation of shares in public stock buyback tender offer	–	–	(7,064,792)	(10,597,188.00)
Capital reduction	–	(15,102,622.42)	–	–
Share capital at December 31	28,495,514	27,640,648.58	28,476,899	42,715,348.50

The shares comprising the Group's capital are fully paid up.

note 9.1.2 Share Premium

(in thousands of euros)	2008	2007
Share premium at January 1	976	3,944
Stock options exercised	57	1,935
Cancellation of treasury shares	–	(3,525)
Repurchase and cancellation of shares in public stock buyback tender offer	–	(1,378)
Share premium at December 31	1,033	976

NOTE 9.2 TREASURY SHARES

The General Meeting of Shareholders on April 30, 2008 renewed the existing share buyback program and authorized the Board of Directors to buy and sell company shares. The purposes of this program, which contributes to the financial management of the company's equity, are, by order of priority:

– to maintain liquidity in the market in the company's shares, via an authorized investment services provider acting within the framework of a liquidity agreement in compliance with the Charter of Ethics of the French Association of Investment Companies (AFEI) or any other charter recognized by the French Financial Markets Authority (AMF);

– to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions;

– to grant shares, notably to present or future officers or employees of the company and/or the Lectra Group, or to some of them, and in particular within the framework of articles L. 225–179 and subsequent, and L. 225-197-1 and subsequent of the French Commercial Code;

– to deliver shares in the company on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the company's equity;

– to cancel shares by reduction of the capital stock.

This share buyback program was published on March 21, 2008 on the Lectra website (www.lectra.com).
In accordance with French stock market regulations, the company has rolled over its Liquidity Agreement with SG Securities (Paris) (Société Générale Group) in order to maintain the liquidity for Lectra's shares on the stock market, and has traded in its own shares.

In addition, the company continued its contract with SG Securities (Paris) to buy and sell its own shares in accordance with the terms of the program authorized by the General Meeting of Shareholders. No transaction was carried out in 2008 under this contract.

Overall, at December 31, 2008, the company held 1.3% of its capital within the framework of the Liquidity Agreement (compared with 0.4% at December 31, 2007) for a total of €1,498,000 representing an average purchase price of €4.18 per share (compared with €581,000 at December 31, 2007), which has been deducted from shareholders' equity.
Further, as at December 31, 2007, the company no longer held any shares at December 31, 2008 within the framework of the mandate given to SG Securities (Paris) to trade on its own account.

	2008			2007		
	Number of shares	Amount (in thousands of euros)	Average price per share (in euros)	Number of shares	Amount (in thousands of euros)	Average price per share (in euros)
Treasury shares at January 1						
Liquidity agreement	101,297	581	5.74	300,707	1,465	4.87
Treasury shares owned by the company on its own account	–	–	–	440,803	2,634	5.97
Total at January 1 (historical cost)	101,297	581	5.74	741,510	4,099	5.53
Liquidity agreement						
Purchases (at purchase price)	302,758	1,188	3.93	281,668	1,628	5.78
Sales (at sale price)	(45,596)	(163)	3.57	(481,078)	(2,895)	6.02
Net cash flow	257,162	1,025		(199,410)	(1,267)	
Gains (losses) on disposals	–	(108)		–	383	
Purchases and sales by the company on its own shares						
Purchases (at purchase price)	–	–		685,809	3,810	5.56
Sales (at sale price)	–	–		(250,000)	(1,567)	6.27
Net cash flow	–	–		435,809	2,243	
Gains (losses) on disposals	–	–			(37)	
Cancellations [1]	–	–		(876,612)	(4,840)	5.52
Treasury shares at December 31						
Liquidity agreement	358,459	1,498	4.18	101,297	581	5.74
Treasury shares owned by the company on its own account	–	–		–	–	
Total at December 31 (historical cost)	358,459	1,498	4.18	101,297	581	5.74

(1) The company had cancelled 454,115 shares and 422,497 shares respectively on February 9 and June 8, 2007.

SUMMARY OF CASH FLOWS

(in thousands of euros)	2008	2007
Treasury shares at January 1 (historical cost)	581	4,099
Treasury shares at December 31 (historical cost)	1,498	581
Gross changes in the year (historical cost)	917	(3,518)
- of which gains (losses) on disposals	(108)	346
- of which cancellation of shares	–	(4,840)
Net cash flow of the period[1]	1,025	976

(1) A positive figure corresponds to a net outflow reflecting purchases and sales of its own shares by the company.

NOTE 9.3 VOTING RIGHTS

Voting rights are proportional to the capital represented by stock held.
However, double voting rights, subject to certain conditions, existed until May 3, 2001.
The Extraordinary Meeting of Shareholders of May 3, 2001 decided that shares registered after May 15, 2001, together with shares purchased after that date, are not eligible for double voting rights (with the exception of special cases covered by the corresponding resolution submitted to the said Extraordinary Meeting).

At their own initiative, André Harari and Daniel Harari have canceled the double voting rights attached to the shares they held. Overall, at December 31, 2008, 27,649,274 shares qualified for normal voting rights, and only 487,781 (i.e. 1.71% of the capital stock) for double voting rights. Moreover, no other shares could potentially qualify for double voting rights at some future date.
In principle, at December 31, 2008, the total number of voting rights attached to the company's shares was 28,983,295. This number is reduced to 28,624,836 due to the fact that no voting rights are attached to treasury shares.

NOTE 9.4 STATUTORY THRESHOLDS

Other than the legal notification requirements for crossing the thresholds established by French law, there is no special statutory obligation.

NOTE 9.5 STOCK OPTION PLANS

At December 31, 2008, Lectra's management and employees held 3,201,027 stock options each exercisable for one share of Lectra SA, the Group's parent company, with a par value of €0.97.
If all stock options were exercised, 3,201,027 ordinary shares would be issued and the capital increased by €3,104,996.19 (plus a total additional paid-in capital of €13,663,344.27). The company's capital would thereby be raised to €30,745,644.77, divided into 31,696,541 shares with a par value of €0.97 each.
The number of beneficiaries decreased from 245 at December 31, 2007 to 233 at December 31, 2008 (i.e. 15% of Group employees at that date); this figure takes into account the departure of certain beneficiaries still holding exercisable options.
IFRS 2 requires companies to expense the value of the benefit granted to the beneficiaries of stock options.
Fair value of stock options granted in 2008 and 2007 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

(in euros)	2008	2007
Exercise price (1)	6.30/4.10	6.30
Share price on the date of allocation (2)	3.92	6.26/6.00
Risk-free interest rate	4.38%	4.41%
Dividend payout rate (2)	2.87%	2.40%/2.50%
Volatility (3)	30.00%	30.00%
Duration of options	4 years	4 years
Fair value of one option	0.37/0.85	1.50

(1) The company made two grants on June 11, 2008, namely: 101,678 options at an exercise price of €6.30, and 428,370 options at an exercise price of €4.10 (see note 9.5.6).
(2) The company made two grants in 2007, one concerning 633,374 options on June 8, 2007 carrying a 2.40% dividend, and the other concerning 37,891 options on July 27, 2007 carrying a 2.50% dividend.
(3) Expected volatility is calculated on the basis of the observed historical volatility of the company's shares.

Volatility is calculated on the basis of the observed historical volatility of the company's share price over a time frame corresponding to the vesting period. This calculation ignores peaks resulting from exceptional events such as the public stock buyback tender offer. Fair value of the options granted on June 11, 2008 amounts to €402,000.
An expense of €452,000 is recognized in the 2008 financial statements, including €156,000 in respect of the grants made in 2008, and €296,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses. Plans in force at December 31, 2008 will impact the years 2009, 2010 and 2011 alone in the amounts of €240,000, €99,000 and €22,000 respectively. The Group made an employer's contribution based on the fair value of the options granted in 2008. This contribution, amounting to €20,000, is fully expensed in staff costs for 2008.

note 9.5.1 Stock Options Outstanding: Options Granted, Exercised and Canceled During the Year

	2008		2007	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	3,480,936	6.48	3,458,383	6.13
Stock options granted during the year	530,048	4.52	671,265	6.30
Stock options exercised during the year	(18,615)	4.59	(645,855)	4.54
Stock options expired/cancelled during the year	(791,342)	10.26	(65,660)	5.81
Stock options following the public stock buyback tender offer [1]	-	n/a	62,803	6.31
Stock options outstanding at December 31	3,201,027	5.24	3,480,936	6.48
- of which fully vested	2,482,566	5.22	2,735,295	6.59
- for which exercise rights remain to be acquired	718,461	5.31	745,641	6.09

(1) As required under Article R. 225-138 of the French Commercial Code, on June 8, 2007, the Board of Directors adjusted the number of options pertaining to the plans in force at May 22, 2007.

For plans in force at December 31, 2008, the terms relating to the vesting of options are determined on an annual basis generally over a period of four to five years and may reflect one or several of the following criteria, depending on the beneficiary:

- beneficiary was a Group employee at December 31 of the elapsed fiscal year;
- group performance;
- performance of the department or subsidiary for which the beneficiary is responsible.

From fiscal year 2006 onward, performance-based options are granted by the Board of Directors only upon final approval of the relevant actual results against the corresponding targets for that year and are notified in advance to beneficiaries individually. The number of potential options concerned in this respect is indicated in note 9.5.6.

The average exercise price for options exercised in 2008 was €4.59.

note 9.5.2 Breakdown of Stock Options Outstanding at December 31, 2008, by Category of Beneficiaries

	Number of beneficiaries	Number of stock options	%	Of which fully-vested	Of which exercise rights remain to be acquired
Executive directors and other members of the Executive Committee [1]	2	626,206	20%	497,242	128,964
Group management	32	1,223,250	38%	879,949	343,301
Other employees	184	1,291,231	40%	1,045,035	246,196
Persons having left the company and still holding unexercised options	15	60,340	2%	60,340	–
Total	233	3,201,027	100%	2,482,566	718,461

(1) The executive directors are: André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer. Having each held more than 10% of the capital since 2000, they have been ineligible since then to benefit from further stock option plans under French legislation, and no option has been granted to them. The last options held by André Harari expired unexercised in July 2008; Daniel Harari no longer held any options. Jérôme Viala, Chief Financial Officer and Véronique Zoccoletto, Chief Human Capital and Information Officer are the only other members of the Executive Committee alongside Daniel Harari.

note 9.5.3 Breakdown of Stock Options at December 31, 2008, by Expiration Date and Exercise Price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
November 27, 2001	November 27, 2009	682,125	4.21
June 4, 2002	June 4, 2010	161,980	5.09
September 10, 2002	September 10, 2010	45,405	4.21
September 10, 2002	September 10, 2010	20,788	5.09
May 27, 2003	May 27, 2011	313,312	4.75
May 28, 2004	May 28, 2012	342,303	6.61
May 23, 2006	May 23, 2014	573,637	5.63
June 8, 2007	June 8, 2015	520,733	6.30
July 27, 2007	July 27, 2015	37,891	6.30
June 11, 2008	June 11, 2016	97,132	6.30
June 11, 2008	June 11, 2016	405,721	4.10
Total		3,201,027	

note 9.5.4 Breakdown of Stock Options for Which Exercise Rights Remain to be Acquired After December 31, 2008 by the Beneficiaries

Year of vesting	Number of stock options
2009	331,274
2010	261,611
2011	125,576
Total	718,461

note 9.5.5 Stock Option Plans of Executive Directors at December 31, 2008

No stock options were granted in 2008 or in 2007 to André Harari and Daniel Harari, each of whom owns more than 10% of the capital since 2000 and is therefore prohibited since this date by French law from being granted further stock options. The executive directors held no stock options at December 31, 2008. All of the options held by Mr. André Harari at December 31, 2007 expired unexercised in 2008.

note 9.5.6 Stock Options Granted in 2008

In June 2008, the Board of Directors granted twice stock options under the authority given to it by the Extraordinary General Meeting of April 28, 2008:

– 101,678 stock options to 45 Group employees, each option entitling the beneficiary to one share at an exercise price of €6.30 in respect of performance in 2007;

– 428,370 stock options to 90 Group employees, each option entitling the beneficiary to one share at an exercise price of €4.10.

A maximum of 366,015 options have been committed for granting in 2009 in respect of performance in 2008.

Of the 530,048 stock options granted in 2008, the 10 Group employees other than executive directors receiving the largest number of options in 2008 were granted a total of 229,076 options.

note 9.5.7 Stock Options Exercised in 2008

One person exercised options in 2008 before leaving the company. The options exercised are broken down as follows:

	2008	
	Number of stock options exercised	Exercise price (in euros)
November 27, 2001 stock option plan	5,355	4.21
May 27, 2003 stock option plan	13,260	4.75
Total	18,615	4.59

No executive directors exercised options in 2008.
The average subscription price of these 18,615 options was €4.59 per share.

NOTE 10 RETAINED EARNINGS

Details of changes in retained earnings are shown in the statement of changes in shareholders' equity. The balance on this item totaled €6,233,000 at December 31, 2008.
The parent company will not declare a dividend in 2009, in respect of fiscal 2008, net income being insufficient to justify such payment.
In light of the mechanical accounting treatment of the public stock buyback tender offer on the parent company Lectra SA's reserves available for the distribution, the company has paid no dividend in 2008.

NOTE 11 CURRENCY TRANSLATION ADJUSTMENT

Analysis of changes recorded in 2007 and 2008:

(in thousands of euros)	2008	2007
Cumulative translation adjustment at January 1	(8,719)	(8,141)
Differences on translation of subsidiaries' income statements	(456)	167
Adjustment required to maintain subsidiaries' retained earning at historical exchange rate	756	(754)
Other movements	(110)	9
Cumulative translation adjustment at December 31	(8,529)	(8,719)

NOTE 12 RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations correspond to lump-sum amounts payable under defined benefit plans. These lump-sum amounts are generally paid at the time of retirement, but they may also be paid upon resignation or dismissal, depending on local legislation. These obligations apply mainly in France, in Italy and Japan, as detailed below:

(in thousands of euros)	France	Italy	Japan	Taiwan	Others	Total
Retirement benefits at January 1, 2007	1,019	2,185	551	–	151	3,906
Charges of the year	42	(272)	15	67	44	(104)
Benefits paid	–	(190)	–	(67)	–	(257)
Exchange rate differences	–	–	(27)	–	–	(27)
Retirement benefits at December 31, 2007	1,061	1,723	539	–	195	3,518

(in thousands of euros)	France	Italy	Japan	Taiwan	Others	Total
Retirement benefits at January 1, 2008	1,061	1,723	539	–	195	3,518
Charges of the year	–	166	7	37	1	211
Benefits paid	–	(106)	–	(37)	–	(143)
Exchange rate differences	–	–	167	–	(7)	160
Retirement benefits at December 31, 2008	1,061	1,783	713	–	189	3,746

Breakdown of net annual charge:

(in thousands of euros)

2007	France	Italy	Japan	Taiwan	Others	Total
Cost of benefits provided in the year	65	45	49	36	44	239
Interest paid	1	88	12	21	–	122
Write-back relating to the new regulations	–	(283)	–	–	–	(283)
Actuarial gains/losses for the year	(24)	(122)	(46)	10	–	(182)
Charge (income) of the year	42	(272)	15	67	44	(104)

2008	France	Italy	Japan	Taiwan	Others	Total
Cost of benefits provided in the year	43	–	54	34	1	132
Interest paid	49	95	13	20	–	177
Actuarial gains/losses for the year	(92)	71	(60)	(17)	–	(98)
Charge (income) of the year	–	166	7	37	1	211

Main actuarial assumptions used:

	France	Italy	Japan	Taiwan
Discount rate	4.49%	5.00%	2.20%	3.00%
Average rate of salary increase, including inflation	2.70%	2.00%	1.77%	1.50%
Personnel turnover rate [1]	2.19% / 10.12%	5.00%	3.49%	9.67%

(1) Calculated via a table based on age group. The personnel turnover rate for France is 2.19% for non-managerial grade personnel and 10.12% for managerial grade personnel.

NOTE 13 BORROWINGS

NOTE 13.1 BREAKDOWN OF BORROWINGS BY CURRENCY

At December 31, 2008, 100% of the company's financial debt was euro-denominated, as at December 31, 2007.

NOTE 13.2 SCHEDULE OF BORROWINGS BY CATEGORY AND BY MATURITY

At December 31, 2008, the repayment schedule is as follows:

	Short term	Long term		
(in thousands of euros)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Interest-bearing bank loan	–	48,000	–	48,000
Interest-free repayable advances [1]	196	1,433	–	1,629
Cash facilities	16,900	–	–	16,900
Total	17,096	49,433	–	66,529

(1) The repayable advances correspond to public grants to finance research and development programs.

During the course of 2007 the company contracted a €48 million bank loan in order to finance the public stock buyback tender offer in May. This medium-term loan is repayable in eight half-yearly installments starting June 30, 2010—the first two for €3,840,000 each, the following four for €5,280,000 each, and the last two for €9,600,000 each (on June 30 and December 31, 2013). The contract provides for an acceleration of these repayments 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. The repayment dates listed above are the latest contractual dates assuming no acceleration of repayments.

In 2008, the loan carried interest at the three-month Euribor rate plus 1% per year. This margin was increased to 1.85% as from January 1, 2009 (and may be reduced to 0.95% depending on the company's leverage ratio) (see note 13.4 below). The company has hedged in 2007 its interest-rate risk exposure (see note 13.8 below). The total effective fixed rate after inclusion of the cost of the hedging instruments is 5.75% in 2008 (assuming an annual margin of 1%). The total effective rate for 2009, calculated on the basis of the three-month Euribor rate at January 2, 2009, is forecast to be 6.34% (with a margin of 1.85%) representing interest paid of €3,086,000 calculated on €48,000,000.

Further, in 2008 the company booked a €800,000 repayable advance from OSEO Innovation, a French public body. The Group had already received an initial repayable advance of €400,000 under the same R&D program aid contract in 2007 (see note 13.6 below). These have been booked at fair value for €682,000 and €324,000 respectively. The advances are repayable subject to the success and profitability of the corresponding R&D project after March 31, 2012. The utilization of cash facilities results from the temporary increase in working capital requirement.

NOTE 13.3 NET FINANCIAL DEBT

(in thousands of euros)	2008	2007
Cash	7,813	8,174
Cash equivalents	2,362	2,723
Total borrowings	(66,529)	(61,666)
Net financial debt	(56,354)	(50,769)

The table below summarize the Group access to liquidity at December 31, 2008 via available cash, cash facilities confirmed by its banks, and its borrowings:

(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 borrowings	78,629	66,529	12,100
Cash and cash equivalents			10,175
Total	78,629	66,529	22,275

NOTE 13.4 COVENANTS

During the period of the €48 million bank loan contracted in 2007, the company is bound by covenants governing the ratios between its net financial borrowing and shareholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other. Anticipating that it would be unable to comply with these covenants at December 31, 2008, the company signed an amendment to the loan contract with the two lending banks in December 2008, modifying the 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.

The ratios to be respected 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

Moreover, 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.
Finally, the company's compliance with these covenants will be calculated yearly on the basis of the annual financial statements. Furthermore, the company has undertaken to limit its capital expenditures to €10 million per year and the dividends distributed to 50% of the consolidated net income for the year elapsed, subject to certain conditions (if less than 50% of consolidated net income for a given year has been distributed, the difference relative to 50% may be distributed in subsequent years).

NOTE 13.5 ANALYSIS OF FINANCIAL BORROWINGS BY TYPE OF INTEREST RATE AND SENSITIVITY ANALYSIS

All financial borrowings are in euros.
The analysis of financial borrowings by type of interest rate and sensitivity analysis is the following:

	2008			2007		
(in thousands of euros)	Carrying amount	Annual average	Impact on financial expenses of a 50bp increase	Carrying amount	Annual average [1]	Impact on financial expenses of a 50bp increase
Total debt at fixed rate (bank loans)	48,000	48,000	15	48,000	26,696	–
Total debt at floating rate (credit lines)	1,629	1,228	–	1,054	1,040	–
Interest free advance from OSEO	16,900	16,841	84	12,612	10,292	51
Total	66,529	66,069	99	61,666	38,028	51

(1) The €48,000,000 bank loan having been contracted in June 2007, the figure of €26,696,000 corresponds to its inclusion prorata temporis in the annnual average for 2007.

NOTE 13.6 COMMITMENTS GIVEN AND RECEIVED

Commitments given:

(in thousands of euros)	Payments due by period			
Contractual commitments	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Rental contracts : offices	5,330	14,456	6,376	26,162
Rental contracts : others[1]	4,676	3,295	12	7,983
Total rental contracts	10,006	17,751	6,388	34,145
Other guarantees: sureties[2]	1,601	48	1,083	2,732

(1) These contracts mainly cover IT and office equipment.
(2) This mainly concerns sureties given by banks on the company's behalf, or given by the company to financial institutions against loans made by the latter to its subsidiaries.

Rentals booked as charges in 2008 amounted to €11,973,000.
No provision is made for employee training entitlements since future training represents a use value in return for the Group. The cumulative number of hours is mentioned in note 23.7.

Commitments received:

In addition to the confirmed cash facilities available to the parent company Lectra SA, details of which are provided in note 13.3 above, the company's German subsidiary, Lectra Deutschland GmbH, has access to a confirmed bank credit facility of €1 million intended for the giving of guarantees. These facilities are generally renewed annually.

Repayable advances from OSEO Innovation

OSEO Innovation, a French public body, has given the company a commitment to aid a new R&D program in the form of an interest-free advance. OSEO Innovation's total commitment will amount to €2,000,000 if the company completes this program. Two initial payments of €400,000 and €800,000 were received in 2007 and 2008. Assuming the program is completed, the balance would be received between 2009 and 2010.

NOTE 13.7 FINANCIAL INSTRUMENTS: CURRENCY HEDGES

The Group mainly uses forward sales and purchases of currencies to hedge its foreign currency balance sheet positions at the end of each month. The currencies commonly concerned are the US dollar, the Hong Kong dollar, the Australian dollar, the Canadian dollar, the Taiwanese dollar, the Japanese yen and the British pound.

The Group may have occasion to purchase currency put options to hedge its exposure to the US dollar. However, the company has not had recourse to such options since January 1, 2006 given their very high cost owing the volatility of the financial markets.

Forward transactions entered into by the company to hedge balance sheet currency positions at December 31, 2008 and 2007 are analyzed below:

	2008				2007			
	In foreign currency[1] (in thousands)	Equivalent value[2] in thousands of euros	Difference in value	Expiration date	In foreign currency[1] (in thousands)	Equivalent value[2] in thousands of euros	Difference in value	Expiration date
USD	15,536	11,004	(160)	January 29, 2009	6,546	4,428	(18)	January 23, 2008
AUD	(1,297)	(632)	7	January 29, 2009	(1,313)	(789)	(5)	January 23, 2008
CAD	5,184	3,034	(15)	January 29, 2009	4,415	2,946	(110)	January 23, 2008
CHF	5	5	1	January 29, 2009	–	–	–	
DKK	(9,052)	(1,214)	1	January 29, 2009	–	–	–	
GBP	(501)	(524)	1	January 29, 2009	(557)	(760)	(1)	January 23, 2008
HKD	(1,850)	(170)	1	January 29, 2009	(7,583)	(662)	(2)	January 23, 2008
INR	3,928	21	(36)	January 29, 2009	–	–	–	
JPY	(487,881)	(3,862)	5	January 29, 2009	(458,848)	(2,858)	(77)	January 23, 2008
SEK	(4,259)	(390)	2	January 29, 2009	–	–	–	
SGD	(550)	(270)	4	January 29, 2009	(1,077)	(510)	(1)	January 23, 2008
TWD	28,808	626	40	January 29, 2009	21,469	458	8	March 25, 2008
ZAR	1,389	101	(4)	January 29, 2009	(598)	(60)	(1)	January 23, 2008
		7,729	(153)			2,192	(206)	

(1) For each currency, net balance of forward sales (and purchases) against euros.
(2) Equivalent value of forward contracts is calculated by multiplying the amounts in local currencies hedged by the closing rate.

Fair value of forward currency contracts at December 31, 2008 is calculated on the basis of exchange rates published by the European Central Bank (ECB) or, in the absence of quotation by the ECB, on the basis of rates published by Natixis. This valuation is comparable to the procedure utilized for information purposes by the banks with which these forward currency contracts were entered into.

With the exception of Mexico, Tunisia, and Turkey (together representing less than 5% of Group revenue), each entity bills and is billed in local currency. Consequently, Group exposure to currency risk is borne by the parent company.

The table below, showing foreign currency exposure, lists all of the parent company's foreign currency assets and liabilities, together with the net value of forward transactions unexpired at December 31, 2008 and December 31, 2007:

(in thousands of currencies)	2008													
	USD	AUD	BRL	CAD	CHF	DKK	GBP	HKD	INR	JPY	SEK	SGD	TWD	ZAR
Carrying position to be hedged:														
Trade account receivables	15,785	(1,212)	3,821	5,219	–	(7,988)	(295)	938	–	(438,016)	(4,104)	6	21,697	3,433
Cash	254	–	–	–	–	–	–	–	–	–	–	–	–	–
Trade payables	(4,769)	(17)	(3,222)	(85)	5	(271)	(19)	(884)	(3,778)	(19,585)	(40)	(326)	8,836	(930)
Total	11,270	(1,229)	599	5,134	5	(8,259)	(314)	54	(3,778)	(457,601)	(4,144)	(320)	30,533	2,503
Nominal net of hedges	(15,536)	1,297	–	(5,184)	(5)	9,052	501	1,850	(3,929)	487,881	4,259	550	(26,808)	(1,389)
Net residual position	(4,266)	68	599	(50)	–	793	187	1,904	(7,707)	30,280	115	230	3,725	1,114
Equivalent value in euros at closing rate	(3,065)	34	185	(29)	–	106	196	177	(113)	240	11	115	81	85
Analysis of sensitivity to currency fluctuations														
Closing rates	1,392	2,027	3,244	1,700	1,485	7,451	0,953	10,786	68,220	126,140	10,870	2,004	45,731	13,067
5% currency depreciation relative to closing rate														
Closing rates parity depreciated by 5%	1,461	2,129	3,406	1,785	1,559	7,823	1,000	11,325	71,631	132,447	11,414	2,104	48,018	13,720
P&L impact	146	(2)	(9)	1	–	(5)	(9)	(8)	5	(11)	(1)	(5)	(4)	(4)
Impact on shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5% currency appreciation relative to closing rate														
Closing rates parity appreciated by 5%	1,322	1,926	3,081	1,615	1,411	7,078	0,905	10,247	64,809	119,833	10,327	1,904	43,444	12,413
P&L impact	(161)	2	10	(2)	–	6	10	9	(6)	13	1	6	4	4
Impact on shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–

(in thousands of currencies)	2007													
	USD	AUD	BRL	CAD	CHF	DKK	GBP	HKD	INR	JPY	SEK	SGD	TWD	ZAR
Carrying position to be hedged:														
Trade account receivables	16,675	(1,165)	7,189	4,915	–	(3,016)	(204)	1,357	–	(407,590)	(4,475)	105	25,846	1,147
Cash	823	–	–	–	(135)	–	–	–	–	–	–	–	–	–
Trade payables	(4,797)	(47)	(2,555)	(8)	–	(73)	(40)	(7,449)	(8,999)	(20,003)	–	(1,107)	(7,798)	(1,016)
Total	12,701	(1,212)	4,634	4,907	(135)	(3,089)	(244)	(6,092)	(8,999)	(427,593)	(4,475)	(1,002)	18,048	131
Nominal net of hedges	(6,546)	1,313	–	(4,415)	–	–	557	7,583	–	458,848	–	1,077	(21,648)	598
Net residual position	6,155	101	4,634	492	(135)	(3,089)	313	1,491	(8,999)	31,255	(4,475)	75	(3,600)	729
Equivalent value in euros at closing rate	4,181	60	1,781	341	(82)	(414)	427	130	(155)	190	(474)	35	(75)	73
Analysis of sensitivity to currency fluctuations														
Closing rates	1,472	1,676	2,602	1,442	1,655	7,458	0,733	11,480	58,120	164,930	9,442	2,116	47,750	10,030
5% currency depreciation relative to closing rate														
Closing rates parity depreciated by 5%	1,546	1,759	2,732	1,514	1,737	7,831	0,770	12,054	61,026	173,177	9,914	2,222	50,138	10,531
P&L impact	(199)	(3)	(85)	(16)	4	20	(20)	(6)	7	(9)	23	(2)	4	(3)
Impact on shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5% currency appreciation relative to closing rate														
Closing rates parity appreciated by 5%	1,398	1,592	2,472	1,370	1,572	7,085	0,697	10,906	55,214	156,684	8,969	2,010	45,363	9,528
P&L impact	220	3	94	18	(4)	(22)	22	7	(8)	10	(25)	2	(4)	4
Impact on shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–

NOTE 13.8 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES AND SENSITIVITY ANALYSIS

The company has hedged its interest-rate risk exposure in connection with the €48 million medium-term bank loan by converting the floating interest rate payable on the loan (three-month Euribor rate) into a fixed rate via two interest-rate swap contracts. The interest-rate has been hedged on the basis of the best estimate of the amount of the loan over the different periods covered, having due regard to the contract terms.
These €42 million swaps meet the hedging criteria of IFRS. Their fair value at December 31, 2008 is a negative €2,226,000. The effective part, corresponding to their full fair value, is entirely recognized in shareholders' equity.
No ineffective part has been booked in net financial expenses in 2008.
For a 0.5% (50 basis points) variation in the three-month Euribor (the interest rate on the underlying borrowing being hedged), the value of the swaps would rise by €607,000 if the interest rate rose, and would fall by the same amount if the interest rate fell. The counterpart of this variation in the value of swaps would be recognized in shareholders' equity.

NOTE 14 DEFERRED REVENUES

(in thousands of euros)	2008	2007
Deferred recurring software evolution and services contracts	30,544	30,708
Other deferred revenues [1]	1,766	1,814
Total	32,310	32,522

(1) Other deferred revenues mainly correspond to invoiced services, which were not completed at year-end.

The counterpart of "Deferred recurring software evolution and services contracts" and "Other deferred revenues" is recorded for the same amount (plus VAT and related taxes) in "Trade accounts receivable" in the balance sheet (see note 7).

NOTE 15 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(in thousands of euros)	Provisions for litigation	Provisions for warranty	Other provisions	Total
Provisions at January 1, 2008	710	627	789	2,126
Additional provisions	291	362	180	833
Used during the year	(17)	(461)	(224)	(702)
Unused amounts reversed	–	–	(148)	(148)
Exchange rate differences	(117)	–	(11)	(128)
Provisions at December 31, 2008	867	528	586	1,981

Potential Liabilities

The Group has no knowledge, at the balance sheet date, of any potential liability at December 31, 2008.

Environmental Risks

Given the nature of its business the Group is not exposed to any environmental risks.

NOTE 16 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

The Group has designated the following main categories of financial assets and liabilities:

At december 31, 2008	IAS 39 category	Carried at amortized cost	Carried at cost	Carried at fair value through profit or loss	Carried at fair value with changes recognized in equity	Carrying amount	Fair value
Loans, deposits and guarantees	Loans and receivables		X			–	–
Other non current financial assets	Loans and receivables		X			1,124	1,124
Trades account receivables	Loans and receivables		X			40,150	40,150
Other current assets	Loans and receivables		X			8,698	8,698
Derivatives not designated as hedges	Financial assets at fair value through profit and loss			X		(153)	(153)
Derivatives designated as hedges [1]	Financial assets at fair value with changes recognized in equity				X	–	–
Cash ans cash equivalents	Financial assets at fair value through profit and loss			X		10,175	10,175
Total financial assets						59,994	59,994
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X				48,000	48,000
Repayable advance OSEO	Financial liabilities carried at amortized cost	X				1,629	1,629
Cash facilities	Financial liabilities carried at amortized cost	X				16,900	16,900
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss			X		–	–
Derivatives designated as hedges [1]	Financial liabilities at fair value with changes recognized in equity				X	2,226	2,226
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X				39,490	39,490
Total financial liabilities						108,245	108,245

At december 31, 2007	IAS 39 category	Carried at amortized cost	Carried at cost	Carried at fair value through profit or loss	Carried at fair value with changes recognized in equity	Carrying amount	Fair value
Loans, deposits and guarantees	Loans and receivables		X			236	236
Other non current financial assets	Loans and receivables		X			960	960
Trades account receivables	Loans and receivables		X			50,012	50,012
Other current assets	Loans and receivables		X			10,193	10,193
Derivatives not designated as hedges	Financial assets at fair value through profit and loss			X		(206)	(206)
Derivatives designated as hedges [1]	Financial assets at fair value with changes recognized in equity				X	–	–
Cash ans cash equivalents	Financial assets at fair value through profit and loss			X		10,897	10,897
Total financial assets						72,092	72,092
Interest-bearing bank loans	Financial liabilities carried at amortized cost	X				48,000	48,000
Repayable advance OSEO	Financial liabilities carried at amortized cost	X				1,054	1,054
Cash facilities	Financial liabilities carried at amortized cost	X				12,612	12,612
Derivatives not designated as hedges	Financial liabilities at fair value through profit and loss			X		–	–
Derivatives designated as hedges [1]	Financial liabilities at fair value with changes recognized in equity				X	481	481
Trade payables and other current liabilities	Financial liabilities carried at amortized cost	X				51,964	51,964
Total financial liabilities						114,111	114,111

(1) Concerns swaps intended to hedge the bank borrowing against interest-rate risk.

Fair value of loans and trade accounts receivable, suppliers and other current liabilities is identical to their book value.
Group borrowings essentially comprise floating-rate borrowings (excluding hedges where applicable). Consequently, fair value of financial borrowings corresponds to their face value.

Notes to the consolidated income statement

By convention, a minus sign in the tables of notes to the income statement represents a charge for the year, and a plus sign an income or gain for the year.
To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2008 and 2007 are also provided at 2007 exchange rates ("like-for-like"), as indicated in the notes concerned.

NOTE 17 REVENUES

No single customer represents more than 3% of annual revenues.

Breakdown of Revenues by Currency

	2008	2007
Euro	60%	59%
US dollar	22%	23%
Japanese yen	4%	3%
British pound	3%	4%
Chinese yuan	3%	3%
Other currencies [1]	8%	8%
Total	100%	100%

(1) No other single currency represents more than 2% of total revenues.

NOTE 18 SEGMENT INFORMATION

The Group develops, manufactures and markets software and equipment entirely dedicated to the major industrial users of textiles, leather and other soft materials, and provides related services. The Group analyzes its sales according to two broad criteria: by country or geographic region, and by product line. The Group also analyzes its new systems sales by market sector.

NOTE 18.1 REVENUES BY GEOGRAPHIC REGION

	2008			2007		Changes 2008/2007	
(in thousands of euros)	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	118,891	60%	119,844	125,502	58%	–5%	–5%
– France	20,862	11%	20,862	17,199	8%	+21%	+21%
Americas	34,427	17%	36,855	41,682	19%	–17%	–12%
Asia - Pacific	34,073	17%	34,728	36,289	17%	–6%	–4%
Other countries	10,742	5%	11,248	13,092	6%	–18%	–14%
Total	198,133	100%	202,675	216,565	100%	–9%	–6%

NOTE 18.2 REVENUES BY PRODUCT LINE

(in thousands of euros)	2008			2007		Changes 2008/2007	
	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Software, of which :	58,566	30%	59,973	62,858	29%	–7%	–5%
– New licenses	28,830	15%	29,537	34,047	16%	–15%	–13%
– Software evolution contracts	29,736	15%	30,437	28,811	13%	+3%	+6%
CAD/ CAM equipment	56,172	28%	57,719	68,386	32%	–18%	–16%
Hardware maintenance and on-line services	38,072	19%	38,695	38,427	18%	–1%	+1%
Spare parts and consumables	35,636	18%	36,416	36,715	17%	–3%	–1%
Training and consulting services	8,769	4%	8,942	8,753	4%	+0%	+2%
Miscellaneous	918	0%	930	1,426	1%	–36%	–35%
Total	198,133	100%	202,675	216,565	100%	–9%	–6%

NOTE 18.3 BREAKDOWN OF REVENUES BETWEEN NEW SYSTEMS SALES AND RECURRING REVENUES

(in thousands of euros)	2008			2007		Changes 2008/2007	
	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales [1]	94,689	48%	97,128	112,611	52%	–16%	–14%
Recurring revenues [2], of which:	103,444	52%	105,547	103,954	48%	–0%	+2%
– Recurring contracts	65,910	33%	67,215	64,743	30%	+2%	+4%
– Other recurring revenues on the installed base	37,534	19%	38,332	39,211	18%	–4%	–2%
Total	198,133	100%	202,675	216,565	100%	–9%	–6%

(1) Revenues from new systems sales 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.

NOTE 18.4 BREAKDOWN OF REVENUES FROM NEW SYSTEMS SALES BY MARKET SECTOR

(in thousands of euros)	2008			2007		Changes 2008/2007	
	Actual	%	At 2007 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	57,588	61%	59,078	67,711	60%	–15%	–13%
Automotive	17,615	19%	18,048	23,827	21%	–26%	–24%
Furniture	6,936	7%	7,031	11,140	10%	–38%	–37%
Other industries	12,550	13%	12,971	9,933	9%	+26%	+31%
Total	94,689	100%	97,128	112,611	100%	–16%	–14%

NOTE 19 COST OF GOODS SOLD AND GROSS PROFIT

(in thousands of euros)	2008	2007
Revenues	198,133	216,565
Cost of goods sold, of which:	(65,757)	(71,568)
Purchases and freight-in costs	(57,587)	(68,081)
Inventory movement, net	(1,327)	4,432
Industrial added value	(6,843)	(7,919)
Gross profit	132,376	144,997
(in % of revenues)	66.8%	67.0%

Staff costs and other operating expenses incurred in the performance of service activities are not included in cost of goods sold but are recognized in "Selling, general and administrative expenses".

NOTE 20 RESEARCH AND DEVELOPMENT

(in thousands of euros)	2008	2007
Fixed staff costs	(15,910)	(15,444)
Variable staff costs	(14)	(27)
Other operating expenses	(1,975)	(1,568)
Depreciation expenses	(413)	(402)
Total before research tax credit	(18,312)	(17,441)
(in % of revenues)	9.2%	8.1%
Research tax credit and grants	7,705	3,216
Total	(10,607)	(14,225)

NOTE 21 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

(in thousands of euros)	2008	2007
Fixed staff costs	(67,006)	(64,498)
Variable staff costs	(3,940)	(6,408)
Other operating expenses	(39,140)	(43,683)
Depreciation expenses	(3,046)	(3,181)
Net provisions	(1,676)	(1,794)
Total [1]	(114,808)	(119,564)
(in % of revenues)	57.9%	55.2%

(1) "Selling, general and administrative expenses" do not include the expenses comprised in "Industrial added value" (see note 19), which amounted to €6,843,000 in 2008 (€7,919,000 in 2007).

Group Auditors' Fees

Other operating expenses comprise €873,000 in respect of the audit of all Group companies. Details of fees paid by the company in 2008 to each of the statutory auditors are provided below:

(in thousands of euros)	PWC				KPMG			
	Amount		%		Amount		%	
(in thousands of euros)	2008	2007	2008	2007	2008	2007	2008	2007
Audit								
– Statutory audits, certification and examination of individuals and consolidated financial statements								
Issuer (Lectra SA)	150	139	22%	19%	142	129	74%	76%
Fully-consolidated subsidiaries	417	426	61%	59%	51	41	26%	24%
– Others services directly related to the Auditors' engagement	–	–	–	–	–	–	–	–
Issuer (Lectra SA)	–	–	–	–	–	–	–	–
Sub-total	567	565	83%	79%	193	170	100%	100%
Other services to consolidated entities								
– Legal, tax and social reviews	113	151	17%	21%	–	–	–	–
Sub-total	113	151	17%	21%	–	–	–	–
Total	680	716	100%	100%	193	170	100%	100%

NOTE 22 NON-RECURRING INCOME AND EXPENSES

No non-recurring item was booked in 2008.
In fiscal 2007, the company recognized a non-recurring charge of €997,000 relating to the dismissal of nine employees of Lectra Sistemas Española SA (previously employees of Investronica Sistemas before its merger into Lectra Sistemas Española SA), who had been dismissed in 2006 as part of the restructuring of operations in Spain.

NOTE 23 STAFF

NOTE 23.1 TOTAL PERSONNEL EXPENSES

The table below combines all fixed and variable staff costs for the Group.

(in thousands of euros)	2008	2007
Research and development	(15,924)	(15,471)
Selling, general and administrative	(70,946)	(70,906)
Manufacturing, logistics and purchasing [1]	(4,640)	(5,707)
Total	(91,510)	(92,084)

(1) "Manufacturing, logistics and purchasing" personnel expenses are included in the cost of goods sold, in "Industrial added value" (see note 19).

NOTE 23.2 WORKFORCE AT DECEMBER 31

	2008	2007
Parent company	677	694
Subsidiaries[1], of which:	841	857
Europe	405	416
Americas	167	178
Asia - Pacific	198	187
Other countries	71	76
Total	1,518	1,551

(1) Refers to all consolidated and non-consolidated Group companies.

Analysis of Workforce by Function

	2008	2007
Administration, finance, human resources, management information systems	291	305
Research and development	218	232
Manufacturing, logistics, purchasing	168	165
Marketing, sales, training, consulting	457	450
Call centers, technical maintenance, support	384	399
Total	1,518	1,551

NOTE 23.3 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLANS

Profit-Sharing Plan

A rider to the October 1984 employee profit-sharing plan was signed in October 2000. Under this plan, applicable solely to parent company employees, a portion of the special employee profit-sharing reserve set aside annually may be invested in equity securities via four types of funds, one consisting exclusively of Lectra SA stock, at the beneficiary's discretion. In light of the deterioration of the Group's results and in particular those of its parent company, Lectra SA, there was no profit-sharing in respect of 2008, as in 2007.

Incentive Plan

A collective employee incentive plan, applicable solely to parent company employees, was signed for the first time in September 1984.
Similar plans have been renewed every year since that date. The most recent incentive plan was signed in June 2008 to cover the period 2008 to 2010.
Incentive payments in respect of 2008 totaled €64,000 (€516,000 in 2007).

NOTE 23.4 COMPENSATION OF GROUP MANAGEMENT

The Group management team consists of the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, and the Chief Human Capital and Information Officer.
Their compensation, regardless of whether they are executive directors, comprises a fixed and a variable portion. They do not receive bonuses in any form.

Variable compensation is set in accordance with two criteria expressed in terms of annual targets:

– consolidated income before non-recurring items, if any, net financial expenses, and income tax (which accounts for 67%);

– and consolidated free cash flow restated for disbursements and receipts booked in respect of non-recurring items, if any, net financial expenses, and income tax (which accounts for 33%).

This variable compensation is equal to zero below a certain threshold, to 100% at annual targets fulfilled, and is capped at 200% in the event that annual targets are exceeded. Between these thresholds, it is calculated on a linear basis.

Conditional upon fulfillment of annual targets, variable compensation for 2008 and 2007 was equal to 60% of total compensation for the Chairman of the Board of Directors and Chief Executive Officer, 30% for the Chief Financial Officer, and 30% for the Chief Human Capital and Information Officer.

The Board of Directors sets annual targets based on the recommendations of the Compensation Committee. The Committee is careful to ensure that the rules framed each year for setting variable compensation are consistent with the evaluation of executive directors' performance, the company's medium term strategy, general macroeconomic conditions and, more particularly, the state of the company's geographic and sectoral markets. After the end of the year, it verifies the annual application of these rules and the final amount of variable compensation on the basis of the audited financial statements.

These targets also apply to the two members of the Executive Committee who are not executive directors, and to approximately twenty managers of the parent company, Lectra SA. Only the performance-based share of variable compensation varies, being set individually for each executive.

Both the annual targets for income and free cash flow were not fulfilled in 2008. Altogether, the percentage achieved for the variable portion of compensation represented 33% of the figure set assuming fulfillment of the annual targets.

In 2007, both the annual targets for income and free cash flow were not fulfilled : the percentage achieved for the variable portion of compensation represented 26% of the figure set upon fulfillment of the annual targets.

Aggregate compensation and benefits in kind paid to the Group management team in 2008, excluding directors' fees, amounted to €1,086,000, of which €783,000 in fixed compensation, €247,000 in variable compensation, and €56,000 in benefits in kind.

Aggregate compensation and benefits in kind paid to these same managers in respect of 2007 amounted to €993,000 (of which €765,000 in fixed compensation, €190,000 in variable compensation, and €38,000 in benefits in kind).

Of the Group management team, only the Chief Financial Officer and the Chief Human Capital and Information Officer were granted stock options in the course of the year (respectively 44,812 and 28,680).

A charge of €61,000 and €38,000 was recognized in respect of 2008 as a result of the new stock option plan together with prior-year plans concerning these two beneficiaries (respectively €78,000 and €47,000 in respect of 2007). The executive directors held no stock options at December 31, 2008 (see note 9.5.5).

NOTE 23.5 DIRECTORS' FEES

Subject to the approval of the General Meeting of Shareholders on April 29, 2009, €100,000 in directors' fees will be allocated to the four members of the Board with respect to fiscal 2008 (€100,000 in 2007), split equally among the four directors.

Compensation paid to the two non-executive directors in respect of 2008 consists exclusively of directors' fees amounting to €25,000 each.

NOTE 23.6 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid. During 2008, subsidiaries subject to defined-contribution pension plans booked a sum of €3,624,000 under staff costs in respect of their contributions to these pension or retirement funds. The main subsidiaries concerned, in addition to the parent company, were those in the United States, the United Kingdom, Italy, Taiwan, and Hong Kong.

NOTE 23.7 INDIVIDUAL TRAINING RIGHTS (PARENT COMPANY)

According to French regulation, the accumulated number of hours corresponding to rights acquired by employees of the parent company is 51,367. Employees have not yet exercised their rights to 50,511 hours of training.

NOTE 24 DEPRECIATION AND AMORTIZATION CHARGES

The table below combines all depreciation and amortization charges on tangible and intangible fixed assets (excluding goodwill) and their allocation between income statement items:

(in thousands of euros)	2008	2007
Research and development	(413)	(402)
Selling, general and administrative	(3,046)	(3,181)
Manufacturing, logistics and purchasing [1]	(665)	(596)
Total	(4,124)	(4,179)

(1) "Manufacturing, logistics and purchasing" depreciation and amortization charges are included in "Industrial added value" (see note 19).

NOTE 25 FINANCIAL INCOME AND EXPENSES

(in thousands of euros)	2008	2007
Financial income, of which:	424	377
– Gains on sales of cash equivalents	177	39
– Other interest income	149	338
– Reversal of provisions for depreciation of investments and loans	98	–
Financial expense, of which:	(4,128)	(2,582)
– Bank charges	(550)	(454)
– Other interest expense	(3,561)	(1,974)
– Provisions for impairment of investments and loans	(17)	(154)
Total	(3,704)	(2,205)

Interest expense on borrowings in 2008 comprised €2,804,000 (€1,532,000 in 2007) in interest on the medium-term bank loan contracted to finance the public stock buyback tender offer and €757,000 (€442,000 in 2007) on drawings on cash facilities (see note 13.2).

NOTE 26 FOREIGN EXCHANGE LOSS

A foreign exchange loss of €602,000 was recognized in 2008, comprising a loss of €478,000 against the US dollar and US dollar-linked currencies (i.e. the Canadian dollar, the Hong Kong dollar, the Australian dollar, the Singapore dollar, the Chinese yuan and the Taiwan dollar).
At December 31, 2008, as at December 31, 2007, the company held no currency options (see note 13.7).

NOTE 27 SHARES USED TO COMPUTE EARNINGS PER SHARE

Earnings per share have been calculated in accordance with revised IAS 33, using the share repurchase method.
The net income used is identical under both calculations.

(in thousands of euros)	2008	2007
Number of shares used for basic earnings calculation[1]	28,236,981	31,047,895
Number of shares corresponding to stock options (treasury stock method) [2]	–	423,514
Number of shares used for diluted earnings calculation	28,236,981	31,471,409

(1) 18,615 stock options were exercised in the course of 2008 (see note 9.5.7). The number of shares created as a result has been included *prorata temporis* in the basis for calculating earnings per share. At December 31, 2008, the company held 358,459 treasury shares (see note 9.1) within the framework of the Liquidity Agreement managed by SG Securities. The average number of treasury shares held in the course of the year has been deducted from the basis for calculating earnings per share.
(2) In 2008, the exercise price of all of the options was below the stock market price. Consequently, the number of shares used to compute diluted earnings per share is identical to the number used to compute basic earnings. Net earnings per share based on diluted earnings are therefore identical to basic earnings.

NOTE 28 INCOME STATEMENT AT CONSTANT EXCHANGE RATES

	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%
Research and development	(10,607)	(10,607)	(14,225)	–25%	–25%
Selling, general and administrative expenses	(114,808)	(116,768)	(119,564)	–4%	–2%
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%		

The company's net operational exposure to foreign exchange fluctuations corresponds to the difference between revenue and total costs denominated in each of these currencies. This exposure mainly concerns the US dollar, which is the principal currency in which business is transacted after the euro. The other currencies having a significant impact on Group exposure to foreign exchange risk are the Japanese yen, the Chinese yuan, the Canadian dollar, the Hong Kong dollar, and the Brazilian real. Currency variations between 2007 and 2008 have reduced Group revenue by €4,542,000 and income from operations by €2,304,000. The US dollar alone (average parity versus the euro $1.37/€1 in 2007 and $1.47/€1 in 2008) accounts for €3,437,000 and €1,831,000 of these variations, respectively.

NOTE 29 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(in thousands of euros)

2008 : quarter ended	March 31	June 30	Sept. 30	Dec. 31	2008
Revenues	51,973	50,795	48,131	47,234	198,133
Cost of goods sold	(18,156)	(17,151)	(16,438)	(14,013)	(65,757)
Gross Profit	33,817	33,644	31,693	33,221	132,376
Research and development	(2,823)	(3,018)	(2,168)	(2,598)	(10,607)
Selling, general and administrative expenses	(29,389)	(29,308)	(27,358)	(28,752)	(114,806)
Non-recurring income and expenses	–	–	–	–	–
Income from operations	1,605	1,318	2,167	1,871	6,961
Net Income	649	903	1,238	448	3,238

2007 : quarter ended	March 31	June 30	Sept. 30	Dec. 31	2007
Revenues	49,545	54,631	52,281	60,108	216,565
Cost of goods sold	(16,041)	(17,239)	(16,651)	(21,637)	(71,568)
Gross Profit	33,504	37,392	35,630	38,471	144,997
Research and development	(3,565)	(3,649)	(3,216)	(3,795)	(14,225)
Selling, general and administrative expenses	(30,063)	(30,209)	(28,252)	(31,040)	(119,564)
Non-recurring income and expenses	–	–	–	(997)	(997)
Income (loss) from operations	(124)	3,534	4,162	2,639	10,211
Net Income	214	2,251	2,368	978	5,811

NOTE 30 NON-CASH OPERATING EXPENSES

In 2008, as in 2007, "Non-cash operating expenses" includes unrealized translation gains or losses on short-term balance sheet positions affecting the gain or loss on foreign exchange translation (see note on "translation of balance sheet items denominated in foreign currency" in accounting rules and methods), additional financial provisions, the impact of measurement of stock options, and reversal of the provision for impairment of investments in non-consolidated subsidiaries.

NOTE 31 CHANGES IN WORKING CAPITAL REQUIREMENT

Working capital requirement increased by €11,378,000 in 2008. While accounts receivable declined by €8,427,000 and inventories rose by €1,542,000 million, the growth in working capital requirement stemmed from the €18,263,000 increase in other current assets and liabilities. The latter figure is mainly explained by the following items:
– €6,020,000 correspond to the 2008 research tax credit *(crédit d'impôt recherche)*, accounted for and which did not give rise to a receipt of funds, less the refund of the balance outstanding of the research tax credit in respect of 2004;
– €9,133,000 correspond to the reduction in payables to suppliers, due to lower Q4 2008 raw material purchases and other expenses than in Q4 2007; and to the change in other current assets and liabilities;
– €2,326,000 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;
– €1,584,000 corresponds to non-recurring disbursements, consisting of €677,000 in fees relating to the arbitration against Induyco (see note 8.2), €863,000 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 (see note 22) and €44,000 relating to the restructuring of a subsidiary initiated in 2005;
– €800,000 corresponds to the collection of tax receivables.

In 2007, the €14,568,000 increase in the working capital requirement was primarily due to a €5,402,000 increase in inventory, to the uncollected research tax credit for the period (€3,193,000) and to €5,337,000 in non-recurring disbursements, concerning in particular fees and expenses relating to the arbitration procedure with Induyco.

As in 2007, and as indicated above, the volume of trade accounts receivable net of prepaid income in 2008, fell relative to the previous year (see note 7). This impacted positively on cash provided by operating activities. At December 31, 2008, the net accounts receivable DSO (Days Sales Outstanding) ratio represented 6 days of revenue (inclusive of VAT), compared with 14 days at December 31, 2007.

NOTE 32 FREE CASH FLOW

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

(in thousands of euros)	2008	2007
Net cash (used in) / provided by operating activities	(1,224)	(2,996)
Net cash used in investing activities	(3,594)	(5,322)
Free cash flow	(4,818)	(8,318)

Net cash provided by operating activities consists of cash flow amounting to €10,154,000 in 2008 (compared with €11,572,000 in 2007) and a €11,378,000 increase in working capital requirement (this increased by €14,568,000 in 2007).
Details of changes in working capital requirement are provided in note 31 above.
Net cash provided by investing activities amounted to €3,594,000 in 2008 (versus €5,322,000 in 2007). Not including €1,584,000 in non-recurring payments, free cash flow would have amounted to a negative figure of €3,324,000 for 2008.
In 2007, net non-recurring payments amounted to €6,388,000.

NOTE 33 INCREASE IN BORROWINGS

The increase in non-current borrowings in 2008 was due to the granting of a €800,000 repayable advance by OSEO Innovation in France (see note 13.2). The amount of cash facilities drawn at December 31, 2008, considered as borrowings in the balance sheet (see note 13.2), is included in the computation of cash in the cash flow statement (see note 35).
The increase in borrowings in 2007 comprised €48,000,000 relating to the bank loan contracted to finance the public stock buyback tender offer carried out in May 2007 and €400,000 relating to a repayable advance granted by OSEO Innovation in France (see note 13.2). The amount of cash credit facilities used at December 31, 2007, considered as borrowings in the balance sheet (see note 13.2) is included in the calculation of cash and cash equivalents in the cash flow statement (see note 35).

NOTE 34 REPAYMENT OF BORROWINGS

Repayment of borrowings in 2008 chiefly concerns public subsidies previously received to finance research and development programs (€147,000).
Repayment of borrowings in 2007 chiefly concerned public subsidies previously received to finance research and development programs (€440,000).

NOTE 35 RECONCILIATION OF CASH IN THE CONSOLIDATED CASH FLOW STATEMENT

At December 31	2008	2007
Cash and cash equivalents (balance sheet)	10,175	10,897
Cash credit facilities used	(16,900)	(12,612)
Cash and cash equivalents (cash flow statement)	(6,725)	(1,715)

Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2008

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders

Following our appointment as Statutory Auditors by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2008, on:
– the audit of the accompanying consolidated financial statements of Lectra SA;
– the justification of our assessments;
– the specific verification required by law.
The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, on a test basis or by selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2008 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

2. JUSTIFICATION OF OUR ASSESSMENTS

Accounting estimates used in connection with the preparation of the financial statements at December 31, 2008 have been made in an economic environment making it difficult to assess business prospects. In such an uncertain context and in accordance with the requirements of article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:
Your Company systematically performs impairment tests of goodwill at year end and also assesses any impairment indicators, as explained in the notes to the consolidated financial statements "Summary of Accounting Policies" in relation to goodwill, other intangible assets and impairment of fixed assets. We examined the ways this impairment test was implemented as well as the cash flow forecasts and the assumptions upon which these forecasts were based. We verified the appropriateness of the information provided in the notes "Summary of accounting policies" and in note 1 "Goodwill".
As explained in the note "Summary of Accounting Policies" concerning deferred taxes, your Company is obliged to make estimates and assumptions with respect to the evaluation of deferred tax assets. In the context of our assessments, our procedures consisted in assessing the overall consistency of the data and the underlying assumptions used to support the evaluation of these deferred tax assets and in reviewing the company's calculations and the appropriateness of the information provided in note 5.3.

These assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

3. SPECIFIC VERIFICATION

We have also performed the specific verification required by law of the information given in the Group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Mérignac, March 3, 2009

The Statutory Auditors

PricewaterhouseCoopers Audit SA	KPMG SA	
Marc Ghiliotti	Anne Jallet-Auguste	Christian Libéros

Statutory Auditors’ report prepared in accordance with article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Lectra SA

Year ended December 31, 2008

This is a free translation into English of the Statutory Auditors’ report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditors of Lectra SA, and in accordance with article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2008.
It is the Chairman’s responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.
It is our responsibility:
– to report to you on the information set out in the Chairman’s report on internal control procedures relating to the preparation and processing of financial and accounting information; and
– to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.
We conducted our work in accordance with professional standards applicable in France.

Information concerning the internal control procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control procedures relating to the preparation and processing of financial and accounting information set out in the Chairman’s report. These procedures mainly consisted of:
– obtaining an understanding of the internal control procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman’s report is based, and of the existing documentation;
– obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
– determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman’s report.
On the basis of our work, we have no matters to report on the information given on internal control procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board’s report, prepared in accordance with article L. 225-37 of the French Commercial Code.

Other information

We attest that the Chairman’s report sets out the other information required by article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Mérignac, March 3, 2009

The Statutory Auditors

PricewaterhouseCoopers Audit SA
Marc Ghiliotti

KPMG SA
Anne Jallet-Auguste
Christian Libéros

Biographies of Lectra directors and corporate officers

André Harari

André Harari, 65, Chairman of the Board of Directors of Lectra since May 3, 2002. He had been Vice-Chairman of Lectra's Board of Directors since 1991, and Vice-Chairman and Executive Vice-President since 1998. He was a member of the Supervisory Board of Lectra from 1978 to 1990, Compagnie Financière du Scribe having been a minority shareholder of Lectra since its early stage, before taking control of it at the end of 1990. André Harari holds no outside directorships. André Harari was Chairman and Chief Executive Officer of Compagnie Financière du Scribe (Paris, France), a venture capital firm specializing in technology companies, which he founded in 1975. Together with his brother, Daniel Harari, he was the main shareholder in Compagnie Financière du Scribe until its merger with Lectra on April 30, 1998. He began his career with the consulting division of Arthur Andersen (Paris, 1970-1975). André Harari is a graduate of the École Polytechnique and the École Nationale de la Statistique et de l'Administration Économique (Paris, France). He also holds a doctorate in management science from the University of Paris-Dauphine.

Daniel Harari

Daniel Harari, 54, Director and Chief Executive Officer of Lectra since May 3, 2002. He was Chairman and Chief Executive Officer of Lectra from 1991, following its takeover by Compagnie Financière du Scribe at the end of 1990. He holds no directorships outside the company and its subsidiaries. Daniel Harari has been a director (since 1981) and Chief Executive Officer (since 1986) of Compagnie Financière du Scribe, a venture capital firm specializing in technology companies founded by his brother André Harari, of which they were the main shareholders until its merger with Lectra on April 30, 1998. He began his career as Vice-President of la Société d'Etudes et de Gestion Financière Meeschaert, an asset management company (Paris, France, 1980-1983). He was then Chairman and Chief Executive Officer of La Solution Informatique (1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the US software publisher, both of which he founded in Paris. Daniel Harari is a graduate of the École Polytechnique (Paris, France) and the Institut Supérieur des Affaires (Paris, coupled with the second year of the Stanford Business School MBA program, Palo Alto, CA, United States).

Jérôme Viala

Jérôme Viala, 47, Chief Financial Officer of Lectra since 1994, responsible for all financial, legal and manufacturing functions. He joined the finance department of Lectra in 1985, then successively held the positions of Controller for Europe and North America (1988-1991), CFO for France (1992-1993) and CFO for the Product Division (1993-1994). Jérôme Viala began his career as a credit analyst at Esso (France). He is a graduate of the École Supérieure de Commerce de Bordeaux (Bordeaux, France).

Véronique Zoccoletto

Véronique Zoccoletto, 49, Chief Human Capital Officer, Chief Information Officer since 2005. She joined Lectra in 1993 as Chief Financial Officer for the Lectra France division, and subsequently was Group Controller (1996-1998), Group Sales Administration manager (1998-2000), and Director of Organization and Information Systems (2000-2004). She began her career with Singer (France) in 1983 as Controller, and then was head of the budget and internal audit department. From 1989 to 1991 she was Chief Financial Officer of SYS-COM Ingénierie (France). In 1991 she became CFO of Riva Hugin Sweda France. Véronique Zoccoletto graduated from the University of Paris-Dauphine (France).

Hervé Debache

Hervé Debache, 63, Director of Lectra since 1996. Hervé Debache is a Director and Executive Vice-President of AWF (Paris, France), which specializes in financial engineering, mergers and acquisitions and private equity finance since it merged in 2002 with Tertiaire Développement (Paris) of which he was the founder and Chairman and Chief Executive Officer since 1991. He is also a director of Cyber Capital (Paris), a venture capital company specializing in audiovisual and media companies. Hervé Debache began his career as an auditor and consultant at Price Waterhouse (Paris, 1967-1981) before joining SEMA Group as Chief Operating Officer of its consulting subsidiary (1982-1988). He then co-founded Compagnie Financière JP Elkan, a French investment bank specializing in mergers and acquisitions and private equity finance, of which he was Chief Operating Officer. Hervé Debache is a graduate of École des Hautes Études Commerciales (Paris) and a French Certified Public Accountant, as well as a graduate of the Harvard Business School's International Teachers Program (Cambridge, Mass., United States).

Louis Faurre

Louis Faurre, 75, Director of Lectra since 1996. He holds no outside directorships. Now retired, Louis Faurre was Chairman and Chief Executive Officer of Sagem-Sat-Service (1983-1995, Paris, France), which specializes in IT and office automation equipment. He began his career as an engineer at Sagem (1964-1970, Paris), becoming Senior Vice-President, IT division (1970-1983). Louis Faurre was a Director of Compagnie Financière du Scribe (since 1981) until its merger with Lectra on April 30, 1998. Louis Faurre is a graduate of the École Polytechnique and the École Nationale Supérieure des Télécommunications (Paris, France).

addresses of lectra subsidiaries and offices

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Board of directors and group management

Board of directors

André Harari, *Chairman*
Daniel Harari, *Chief Executive Officer*
Hervé Debache
Louis Faurre

Audit Committee
Hervé Debache, *Chairman*
Louis Faurre
André Harari

Compensation Committee
Louis Faurre, *Chairman*
Hervé Debache
André Harari

Strategic Committee
André Harari, *Chairman*
Hervé Debache
Louis Faurre

Group management

Executive Committee
Daniel Harari, *Chief Executive Officer, Chairman*
Jérôme Viala, *Chief Financial Officer*
Véronique Zoccoletto, *Chief Human Capital Officer, Chief Information Officer*

Management team
Antoine Bertier, *Director, Software R&D*
Hervé Claverie, *Director, Strategic Accounts and Projects*
Daniel Dufag, *General Counsel*
Laurence Jacquot, *Director, Manufacturing*
Didier Teiller, *Director, Services*
Jean-Marc Vigneron, *Director, Hardware R&D*

Europe

Corinne Barbot-Morales,
Director, Spain

Fabio Canali,
Director, Italy

Alexander Neuss,
Director, Germany and Eastern Europe

Philippe Heckenbenner,
Director, Northern Europe

Bernard Karmin,
Director, France

Rodrigo Siza,
Director, Portugal

Americas

Roy Shurling,
Director, North America

Édouard Macquin,
Director, South America

Asia-Pacific

Robert Agnes,
Director, Asia-Pacific

Yves Delhaye,
Director, ASEAN, South Korea, India

Hotsumi Baba,
Director, Japan

Statutory auditors

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Represented by Marc Ghiliotti[1]

Crystal Park – 63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

KPMG SA
Represented by Anne Jallet-Auguste and Christian Libéros

Domaine de Pelus – 11, rue Archimède
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(1) In virtue of the "six-year rotation" principle concerning members of audit firms signing the financial statements, Marc Ghiliotti will be replaced by Bruno Tesnière at the end of the Ordinary Shareholders' Meeting of April 30, 2009.

Share Listing

Lectra shares are listed on Euronext Paris (compartment C).

They figure among the French stocks making up the SBF 250, CAC Small90 and CAC Mid&Small190 of Euronext Paris.

ICB sector: 9537 – Software

ISIN code: FR 00000 65484

Liquidity Provider: SG Securities (Société Générale) – Paris.

Financial Information and Regulatory Disclosures

Lectra's financial statements are compliant with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The company publishes its financial results quarterly.

This English version of the 2008 Annual Report is a translation of the original French Annual Report prepared in the format currently adopted by French publicly traded companies in accordance with French legal requirements.

The following documents exist only in French: the parent company's financial statements and notes for 2008; the Board of Directors' report submitted to the Ordinary General Meeting of shareholders of April 30, 2009; the Board of Directors' special report on stock options granted or exercised in 2008; the Board of Directors' report to the Extraordinary General Meeting of shareholders of April 30, 2009; the statutory auditors' report to the Ordinary General Meeting on the parent company's financial statements; the statutory auditors' special report to the Extraordinary General Meeting of Shareholders of April 30, 2009; and the resolutions submitted to the Ordinary and Extraordinary General Meetings of April 30, 2009.

Copies of these documents, as well as all financial information and regulatory disclosures, as defined in the General Regulation *(Règlement Général)* of the French *Autorité des Marchés Financiers,* are available on www.lectra.com, or by request from the Investor Relations department.

2009 financial calendar

Publication of quarterly and annual financial results

- First quarter 2009 .... April 29, 2009
- Second quarter 2009 .... July 30, 2009
- Third quarter 2009 .... October 28, 2009
- Full year 2009 .... February 11, 2010

(after the close of Euronext Paris)

Annual Meeting of Shareholders – Paris .... April 30, 2009

Analyst Conferences

- Paris .... October 29, 2009
- Paris .... February 12, 2010

The financial calendar is updated on www.lectra.com

Analyst coverage

Analysts from the following institutions have issued regular reports on the company's performance:
Natixis Securities, SG Securities (Société Générale).

Investor Relations

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Lectra would like to thank the following companies and individuals for their assistance with the illustrations featured in this report: Corse composites aéronautiques, Maria Grachvogel, Hervé Lefebvre/Studio Twin, Mobitec, Mulberry, Please Mum, Poltrona Frau, Pungkook, DR.
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