



**ANNUAL**  
report

09

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Lectra is the **world leader** in integrated technology solutions—**software, CAD/CAM equipment and associated services**—specifically for industries using textiles, leather, industrial fabrics and composites to manufacture their products. It caters for major world markets such as **fashion, automotive and furniture**, as well as a broad array of other industries including the aeronautical and marine industries, wind power, and personal protective equipment. **A transnational company**, Lectra serves **23,000 customers** in more than **100 countries**, developing long-term relationships. With its state-of-the-art technology, which meets the specific needs of each industry, and the expertise of its 1,400 employees, Lectra sets the standard in its field. Lectra's solutions enable customers to **automate, streamline and accelerate** product design, development and manufacturing. For the fashion industry, they also facilitate the planning and management of the entire collection lifecycle. Established in 1973 and based in France, Lectra is **listed on Euronext Paris**.

with André Harari and Daniel Harari

## Strengthened for a reset economy

Faced with an unprecedented drop in orders, Lectra's **earnings held up well**, demonstrating the effectiveness of its management by durable cuts in costs and preserved margins, as well as the robustness of its business model. Having proved its **resilience** in the past, Lectra prepared to confront the **new global challenges** of the post-crisis economy. It has a number of major assets in terms of technology, marketing and human resources, along with a clear strategic roadmap for emerging strengthened from this difficult period, with a unique range of solutions indispensable to customers in its different markets.

### You expected 2009 to be difficult. How did Lectra fare?

**Daniel Harari:** During the first three quarters, the reality was worse than anything we had imagined, even in our most pessimistic scenarios. Like all companies, the economic crisis continued to have a severe impact on Lectra. Most of our customers experienced a

decline in their activity—to levels rarely seen in decades. Regardless of their country or sector of activity, they were forced to take drastic measures, cutting back or halting production and, above all, keeping their investments to a strict minimum or freezing them altogether. Consequently, our sales activity dipped sharply right from the earliest signs of the crisis. The decline in orders for new software licences and CAD/CAM equipment reached 65% in the second quarter of 2009, compared to 2007, the pre-crisis reference year, and ended the year down 55%. In these extraordinary circumstances, our revenues suffered a serious decline: At €153.2 million, they were down 23% relative to 2008. Compared to 2007, the decrease in revenues works out to €63.3 million, or 30%. Although it came to a loss of €2.8 million, income from operations before non-recurring items held up well. This was due to effective cost-cutting measures implemented as early as 2008, and again in 2009; the preservation of our margins in spite of severe competition; and the robustness of our business model. Our net loss came to €3.6 million, and we registered a highly positive free cash flow of €9.3 million.



**André Harari**  
Chairman of the Board of Directors

**Last year, you said you would tackle the difficult conditions arising from the crisis with pragmatism, determination and perseverance. Where do you stand now, a year later?**

**Daniel Harari:** Our two immediate imperatives were to safeguard the company's financial position and limit its exposure to risks. The entire company has been mobilized to carry the action plan through to a successful conclusion and optimize our sales activity by making supporting our customers our main priority.

**André Harari:** In May, Daniel and I embarked upon a long process of careful consideration, taking the distance necessary to rethink the company fundamentally and map out the strategy for the years to come. Our primary goal was to ensure Lectra emerges from this crisis strengthened, sustainably growing its revenues and earnings to match its potential. We are convinced that the world we are entering will be different, with upheavals taking place across the board. There will be new patterns of macroeconomic growth, new value propositions and new regulations. There will be a shake-up geographically and in every sector of industry. So, we needed to take a fresh look at the way we think and conduct business. This plan seeks to "reset" Lectra for the post-crisis "reset economy." In building our future, we have deliberately withstood the powerful external pressures on most listed companies to focus on the short term. To construct our future growth on solid foundations, we have given priority to the long term, accelerated the necessary reforms, taken precise, decisive action, and initiated projects, all with the appropriate level of ambition.

**Our primary goal was to ensure Lectra emerges from this crisis strengthened, sustainably growing its revenues and earnings to match its potential.**

This has implied taking controlled risks, without endangering the company. When growth returns—in 2010 or after—the economic and competitive landscape will have changed substantially. We will be ready to take full advantage of these historic conditions. Our preference is for organic growth, but we do not rule out the possibility of seizing suitably targeted acquisition opportunities, provided their financial terms are especially favorable, given the context created by the crisis.



**Daniel Harari**  
Chief Executive Officer

**Daniel Harari:** Jérôme Viala and Véronique Zoccoletto, who sit with me on the Executive Committee, immediately joined us in the process of re-thinking our future. By October, the entire international management team was working on framing our action plan for 2010, to take immediate effect as of January 1. We are aware that we are now facing the difficult part—the execution of our plan—but we also know that this represents a motivating new challenge for our teams. The success of this strategy and of the far-reaching transformation of our company calls for the utmost discipline in its execution. Lectra has acquired this culture over the years. Alongside our highly entrepreneurial spirit, this provides additional reasons to feel confident. Our plan remains totally faithful to our enduring fundamentals. This is true of our vision, strategic objectives, value proposition and our business model. We are now taking these to the next level by accelerating our evolution—but seamlessly, without breaking with the past.

**To build our future growth on solid foundations, we have given priority to the long term, accelerated the necessary reforms, taken precise, decisive action, and initiated projects, all with the appropriate level of ambition.**



**You often speak of entrepreneurship as one of your core values. In what way does this now represent an advantage?**

**André Harari:** Lectra is a great entrepreneurial adventure. The entire company is demonstrating tireless combativeness in executing this strategy and proving its relevance through its results. Never look back; always move forward until you reach your stated goal. Never give up, and never let pessimism get the upper hand. Find an answer to every problem; exude energy; demonstrate courage and perseverance to keep pressing onward. Have a clear vision; set goalposts for each person; be willing to take risks and seize opportunities in a tough economic environment. Reinvent yourself continuously; be bold. Forge teams capable of confronting today's challenges while building for the long term. Those are the principal attributes of entrepreneurship and motivating factors for our teams. This is our modus operandi. The crisis has revived the key role of entrepreneurial-shareholdership, one of Lectra's main strengths within its competitive battlefield. Our 40% stake in the capital is a guarantee of the stability of our shareownership, enabling us to preserve our assets while building for the long term. Our primary goal is to create value for our customers and maximize their long-term satisfaction. That, in return, will create value for our employees, our industrial partners and, of course, our shareholders.

**Daniel Harari:** We have suffered a sharp drop in our market capitalization, down to €64 million at the end of 2009. Most investors have been discouraged by a lack of visibility, the weakness of our share price, down 60% since the onset of the crisis, and the illiquidity of our shares market. This poor stock market performance has dragged us back 17 years—clearly an unpleasant situation. But our plan should progressively restore our market capitalization to a level that reflects the true value of the company and enable us to resume appropriate remuneration of our shareholders as soon as possible.

**You mentioned the opportunities created by the crisis. What are they, and how do you plan to benefit from them?**

**Daniel Harari:** Our ambition is to rewrite the rules of our industry and bolster our leadership. For more than 20 years, our competitive environment led people to think that there was just one path, namely developing more or less sophisticated, but ever cheaper, products requiring few or no associated services. With the crisis, this “good enough” approach—which was never ours—clearly reaches a dead end. Our strategy is based on firm convictions, innovation and expertise, all combining to offer our customers the best return on their investment. What do our customers need? They need to rethink their business models, reset their own organizations, and return

to profitability. For that, they need innovative systems that cut their material costs and time-to-market—systems that are ever more comprehensive and integrated, enabling them to communicate securely. We will be reinforcing our presence with our customers, better explaining the added value our solutions offer. It is in their interests to invest, even in these difficult times, in order to operate more efficiently and turn the post-crisis period into one of opportunity.

Today, Lectra’s integrated technology is the industry standard. Our offer, which marries technology with services, and especially our pioneering Smart Services, is the most advanced and comprehensive on the market. Unrivalled in terms of scope and performance, it fulfills the needs of our customers, enabling each of them to obtain the best possible results from our solutions and optimize their investment in the long term.

**André Harari:** All these upheavals in our market sectors and geographical regions benefit Lectra: In developed countries, we will see changing business models, adjustment plans, sector consolidation, relocation, and repatriation, while emerging countries will experience rising exports and growth in their domestic markets... The resulting dynamic is further boosted by our unmatched local presence on every continent. Here too, our strategic vision is playing an essential role. For example, since the 1980s, we have had a direct presence in all developed countries as well as in Greater China and Brazil, and we opened our subsidiary in India (where we were previously represented by a distributor) two years ago.

**This crisis has revived the key role of entrepreneurial-shareholdership, one of Lectra’s main strengths within its competitive battlefield.**

**In the litigation against Induyco, the International Arbitration Tribunal awarded Lectra €25.3 million.**

**André Harari:** This was the culmination of a long battle. We acquired Investronica in 2004. We have invested a great deal of energy, along with nearly €10 million in legal and expert fees and procedural costs, to assert our rights in the arbitration that we initiated against Induyco, Investronica's former shareholder, in June 2005. Even though the parties had agreed in the share purchase agreement that all disputes would be finally settled by international arbitration, Induyco—a subsidiary of the powerful Spanish group El Corte Inglés—has refused to execute the decision. Induyco has since obtained a ruling in Spain temporarily suspending calls on the bank guarantees it had granted us, and has challenged the decision in the British courts. As a result, we have not recorded the award in our 2009 financial statements. Lectra considers both court actions to be entirely without merit and intends to mount an aggressive and vigorous defense of its rights and to seek recovery of the amounts due to it under the award.



**Have you glimpsed any signs of improvement in the last few months?**

**Daniel Harari:** There was a clear rebound in activity in the fourth quarter of 2009, with a 22% increase in orders for new software licenses and CAD/CAM equipment, compared to 2008. Revenues, income from operations, and free cash flow exceeded our expectations. Some customers have already resumed investments—several world-leading firms placed significant orders at the end of the year. It is encouraging, but we must remain cautious. The financial situation of most companies has been severely weakened by the crisis, and they are deferring decisions pending confirmation of a rebound and a durable improvement in their activity. And, indeed, we are prepared for a persistently weak economy in 2010. Like last year, we have decided not to formulate any estimates, given the lack of visibility. However, barring a further deterioration in the economy, we expect income from operations and net income to be positive. A recovery should spur on our sales activity and bring a rapid return to profitability. Our business model again demonstrated its robustness in 2009. This is the model that has enabled us to finance investments of €170 million in R&D since 1998, a level which we have sustained in 2009, unlike our competitors. It has also enabled us to finance €80 million in acquisitions, and investments of €60 million in infrastructure—in particular those specifically for our customers as well as our information technology systems—making a total of €310 million.

**Our ambition is to rewrite the rules of our industry and bolster our leadership.**



**What are your objectives for the medium term?**

**André Harari:** We expect our plan to bring about a return to sustainable growth in terms of revenues, net income and free cash flow, starting in 2011. Since its inception, Lectra has become a world leader, generating 90% of its activity outside France. The company has emerged victorious at each decisive step of its development. Thanks to Lectra's innovative capabilities and the energy of its teams, we are convinced that we will, as before, emerge victorious from the present difficult times. Our history is evidence of our resilience. The five core values that underpin our unique corporate culture—entrepreneurship, leadership, innovation, excellence and customer care—are more relevant than ever before. They are crucial to the success of our strategy, and an integral part of our day-to-day business concerns. We therefore have every reason to feel confident that we will strengthen our leadership and return to profitable growth.

**Our business model again demonstrated its robustness in 2009. Since 1998, it has enabled us to finance investments of €170 million in R&D and €80 million in acquisitions.**





Chief Financial Officer,  
Member of the  
Executive Committee

**What lessons do you draw from the fact that Lectra's earnings held up well in 2009?**

**Jérôme Viala:** This was visible in income from operations before non-recurring items: Though admittedly we reported a loss of €2.8 millions, that figure does not reflect the fact that orders for new software licenses and CAD/CAM equipment have more than halved in two crisis years. Aggravating factors were a 15% fall in sales of spare parts and consumables and a 3% decline in recurring contracts in 2009—the first time in the company's history. This was due to many customers reducing or closing down their operations and cutting costs. Another indicator is our highly positive free cash flow, at €9.3 million. Our working capital requirement

was down by €9.6 million. Inventories in particular declined again, to €18.4 million at the end of 2009, compared to €28.6 million in 2008. Finally, we reduced our net financial debt by €8.6 million. These numbers show yet again that our business model works well, with recurring revenues acting as a real cushion in difficult economic periods. They also reflect the effectiveness of our successive plans to cut our fixed overhead costs.

**How do the measures taken set Lectra apart from its competitors?**

**Jérôme Viala:** Although we have significantly cut our fixed overhead costs, we have not sacrificed investment, since that is crucial to our future in the post-crisis period. Unlike our competitors, we have maintained a high level of investment in R&D, at €16.2 million, the equivalent of 10.6% of revenues. As a result, we have the advantage of a unique offer, way ahead of the rest.

**What is Lectra's security margin in 2010?**

**Jérôme Viala:** We have budgeted for a further improvement in our operating ratios, with fixed overhead costs falling again, bringing their reduction to €21.1 million relative to 2007—that is 17%—and a very low breakeven point. Our security ratio at January 1, 2010, was nine percentage points up on its level three years ago. Today, 73% of our fixed overhead costs are covered by the gross profit on our recurring revenues, which are expected to hold steady overall, or fall slightly in the absence of a rebound in activity. We will break even if orders for new systems increase by just 20%. In that case, orders will close just 18% of the gap between their levels in 2009 and in 2007, before the crisis. Finally, receipt of the €25.3 million awarded to the company by the international arbitral tribunal would enable the company to halve its existing net financial debt.



**Having again improved its key operating ratios and unless economic conditions deteriorate further, Lectra should return to profit in 2010 and benefit from a rebound straight away and fully.”**





Chief Human Capital Officer,  
Chief Information Officer,  
Member of the Executive Committee

**How has Lectra adapted its human resources policy to the crisis?**

**Véronique Zoccoletto:**

In the short term, we have sought to reduce or even dispense with temporary jobs, and to keep hiring to a strict minimum. Additional reorganizational moves and measures to optimize our resources proved necessary in 2009 in order to further improve our key operating ratios. We thereby overhauled our organizations in those countries where ratios were structurally weakened and no longer matched the actual state of business.

**Which areas did you continue to invest in, to bolster Lectra's human capital and adapt to the company's new challenges?**

**Véronique Zoccoletto:**

We have singled out five main areas to accelerate the company's transformation, reallocate our resources, and successfully manage change. We have strengthened the front office—our teams in direct contact with our customers—to optimize sales activities and services and put the customer at the center of everyone's priorities, while at the same time reducing the back office. We have bolstered our R&D capacity and expanded our employees' expert knowledge

of our customers' businesses, and directly involved headquarters and subsidiary managers in the formulation of action plans to guarantee the effective execution of our strategy. We have kept each member of our teams motivated by communicating regularly and transparently. Finally, we have focused on aligning their work with the company's new priorities and strategic challenges by setting appropriate goals and monitoring performance.

**Do you have any more specific projects aimed at boosting the organization's performance?**

**Véronique Zoccoletto:**

Our projects seek both to streamline our internal business processes, enabling us to operate more efficiently, and also to implement far-reaching reforms around the upgrading of our information systems. Equally, we are working to develop skills in key domains of our activity—technology, marketing and sales. All of these harbor the vital potential that will ensure we bounce back and boost our competitive advantage when the crisis passes. Finally, we are deploying leading-edge technologies to offer customers ever more innovative solutions, geared to their new needs. In this

way, our customers will reap still greater benefits from our expert understanding of their businesses, acquired through 36 years of experience. They will thus be able to make the most of the advantages of new information and communications technology and tools, especially with the ambitious development of Smart Services, and, of course, our consulting and training offer.

**In this period of economic recession that has made cost-cutting unavoidable, we have remained focused on the future. It is by continually adapting and innovating that Lectra consolidates its position as world Number 1.**

# core values

Lectra's corporate culture is built on five core values shared by all its teams worldwide. Open-minded and dynamic, it emphasizes teamwork that transcends geographic and cultural barriers, and a keen sense of individual responsibility. It has forged a strong identity, attuned to changes in its customers' business challenges, and in its markets and their macroeconomic cycles.

## ENTREPRENEURSHIP

**36 years since its inception, Lectra has preserved its fundamentally entrepreneurial spirit.**

Lectra's culture holds in high esteem the ability to seize opportunities and take calculated risks, make choices, and invest in new projects. This is done within a spirit of teamwork that transcends geographic and cultural barriers, and with a keen sense of personal responsibility and initiative. A commitment to continuously "reinventing" Lectra to create an even leaner, more responsive and more efficient company is a cornerstone of its policy.

## LEADERSHIP

**As the world leader, Lectra has always strived to surpass itself.**

This aspiration is shared by all Lectra teams, guiding relationships with customers and attitudes toward competitors. A leader cannot take its position for granted, it has certain duties—to lead the way, anticipate the needs of its customers, and offer solutions to ensure their business development.

## INNOVATION

**Lectra sees innovation as a comprehensive undertaking and has made it the driving force of its competitiveness.**

Lectra has always had a front-runner mentality. Improvements to today's technologies and developments for the future stem from its capacity to anticipate change. Thanks to their deep knowledge of customers' businesses, Lectra's teams are able to analyze their challenges, identify their needs, support their changes, and provide them with innovative solutions.

## CUSTOMER CARE

**Lectra builds long-term relationships with customers based on trust.**

Lectra realizes that its success depends on its capacity to serve the interests of its customers, and knows that their loyalty is rooted in the quality and responsiveness of its teams. This mutual loyalty is a source of pride for the company. Customer satisfaction is established through the quality and added value of its products and services, its strong personal relationships and total commitment, and the proximity of its worldwide teams to customers. Only partnerships built on these foundations can truly create value.

## EXCELLENCE

**The quest for excellence in every domain is a constant goal, both individually and collectively.**

Lectra's ongoing search for the highest quality and deployment of best practices benefits from the continuous commitment, responsibility and motivation of all team members. These are crucial to bringing each project to a successful conclusion and, ultimately, satisfying all of the company's business partners.

**Ethical conduct and diversity are part of Lectra's DNA.**

Uncompromising ethics in conducting its business activities and the respect of each individual are the essence of Lectra's values and the bedrock of its philosophy. It goes without saying that Lectra emphasizes diversity: Extending well beyond rejecting any form of discrimination between individuals, it has been a core feature of the company ever since its inception. Lectra's teams, working in 35 different countries and representing more than 55 nationalities, of all ages and origins, work side by side every day, drawing supplemental sources of creativity and strength from their differences.

fashion  
automotive  
furniture  
other industries

# markets & **BUSINESSES**

# fashion



In a difficult macroeconomic context and operating in a **market going through a phase of profound change**, to be profitable, fashion companies need more than ever to **combine flexibility with productivity** when developing their collections. In the ready-to-wear sector, facing increasing pressure on costs, these companies have **to shorten their development cycles and time to market**, while carefully **managing stocks**. The accelerated pace of the fast fashion cycle, which aims to renew some collections every four to six weeks, is also driving certain brands back to local procurement. **Creativity** and responsiveness combined with **consistent quality at the right price** are now vital to ensure consumer loyalty. Lectra's offer has been designed and developed to take into account all the **profitability requirements** of fashion companies and the specificities of their business.

## **APPAREL, ACCESSORIES** & footwear



**Genuine performance accelerators for fashion professionals, Lectra's solutions facilitate the management of business processes and collaborative work throughout the product lifecycle.**

For 36 years, Lectra has supported the long-term growth of more than 20,000 customers (brands, manufacturers, retailers, subcontractors, etc.) by constantly working harder to anticipate the needs and challenges of the market. It offers the most advanced and powerful industry-specific software and automated cutting solutions, with in-built best practices. Lectra's consultants offer thorough process evaluation, along with effective project management, solution implementation, and user training, in order to guarantee rapid design of new models and reduction of development and production costs. Through its complete understanding of the different stages of product development and a state-of-the-art technology offer, Lectra enables fashion professionals (designers, pattern makers, product managers, buyers, production teams, etc.) to create, develop, produce and manage their collections, capitalizing on their know-how, design assets, and brand universe to optimize their processes, year after year.



Lectra's design consultants truly understand our business and were therefore able to make recommendations about how we could modify our processes and adopt a new way of working to continue delivering fashionable apparel with great value for the customer. Lectra's textile design solutions for prints, knits and weaves have significantly boosted our productivity. We have saved time on repetitive tasks, and we have accelerated the print development process by 35—40%.

Veronica Park, Manager Print Department,  
**New York & Company**, United States



Diesel



New York & Company



Lectra's excellent fashion design solution is perfectly suited to the needs of our business. The new version has simplified and accelerated the entire design process from initial sketches to technical specifications, making our day-to-day activities much easier and faster.

Fashion designers have to produce profitable and technically feasible collections quickly, while also increasing their creativity. Lectra's **design** solutions bring together all the teams involved—style design, product development, marketing and management—within an intuitive working environment, where all necessary data is easily accessible. Powerful software applications limit the laborious, repetitive administrative tasks required of designers while protecting the integrity of the design throughout the product lifecycle. Trained in these technologies by Lectra's experts, designers can focus on fully using their talent, enabling companies to shorten their design cycle.

Giulio Tonin, Information Systems Director, **Diesel**, Italy





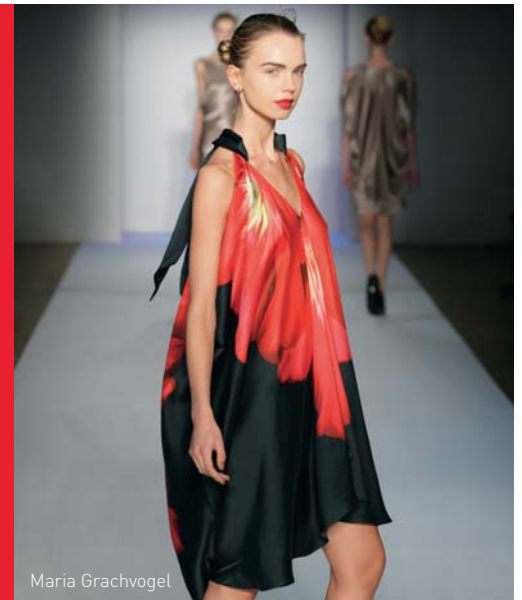
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For me, it is the magic of a garment’s cut that truly reveals a woman’s beauty. That’s why I have always felt it was important for me to be very involved in the development of my styles. Lectra’s pattern-making solution helps me accelerate this process and develop very complex prototypes. As well as opening up my creativity, it really contributes to the quality of my pieces.

]

**Maria Grachvogel**, luxury women’s wear designer, United Kingdom



The frequency with which new collections appear has placed new productivity and garment quality constraints on apparel professionals. At the crossroads of design and production, Lectra’s pattern-making and prototyping software solutions enable pattern designers and makers, along with those responsible for managing collection **development**, to create more models and patterns in less time, and reduce the number of physical samples needed. From ready-to-wear to luxury fashion, these solutions guarantee garment quality and fit and optimize the collection lifecycle, while also capitalizing on the data and know-how companies have acquired. Lectra’s technology incorporates the experience and best practices of the biggest names in fashion, and always benefits from the latest software innovations.

Samuel Eichstaedt, General Manager,  
**Lunender**, Brazil

Lectra has been our technology partner for over 15 years, with expert teams who really understand our industry's challenges. They have always supported our search for ways to lower costs, enhance quality, and accelerate processes. Lectra's intelligent cutting room solutions have allowed us to eliminate material waste and save time, without compromising our quality standards.



Lunender



Lise Charmel

Our strategy for the coming years is to increase the productivity and flexibility of our cutting room while continuing to lower costs. The integration of Lectra's technology into our processes plays a major role as it enables us to reduce fabric consumption in marker planning and significantly improves the organization and efficiency of our operations.

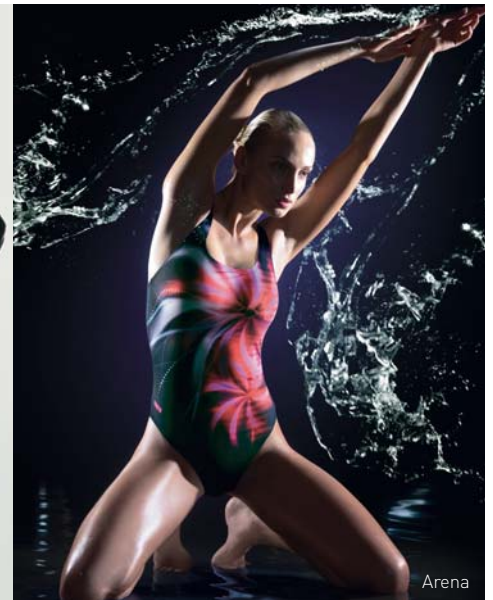
All those responsible for **production**—whether they are manufacturers or subcontractors—are facing the challenge of an increase in the frequency of new collections, a demand for quality, and pressure on costs, all of which are forcing them to adapt their manufacturing processes accordingly. By introducing intelligence into the cutting room for everything from mass production to small runs, Lectra optimizes and streamlines automated marker-making and cutting. Centralized cutting room management and real-time analysis of material consumption enable companies to generate important savings and eliminate the risk of errors when planning orders. At the heart of this system, automatic cutters guarantee unparalleled precision and speed. Equipped with a real-time diagnostic and analysis system, these cutting systems benefit from remote, autonomous support from experts at Lectra's International Call Centers, who are able to determine the best configuration for each cutter.

Balasubramaniyam Jaichand, Managing Director, **Jay Jay Mills**, India



Yuan Xinmin, Assistant to the President,  
Equipment Manager, **Chenfeng**, China

**Our key challenge is to satisfy our customers' demand for high quality at the lowest prices possible, all the while retaining the flexibility to accelerate production at short notice. Lectra provides the best services, and their automated cutting solutions help us maintain excellent quality standards, minimize fabric waste, and achieve the highest throughput rates.**



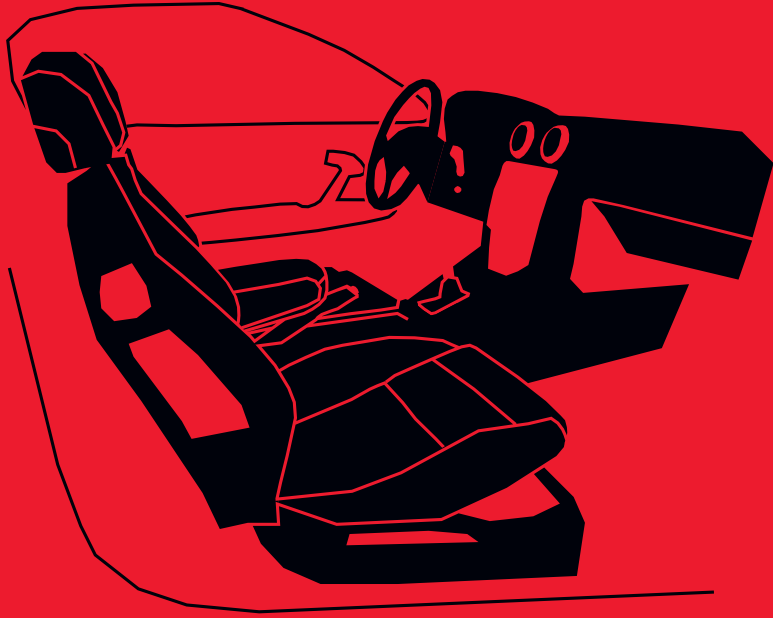
The product lifecycle and the sheer number of models to be designed, industrialized and brought to market make managing collections more complex and meeting financial targets more difficult. To overcome these challenges, Lectra offers the only **PLM** (product lifecycle management) solution on the market devised especially for fashion. It combines business process-specific applications for design, pattern-making, physical and 3D virtual prototyping, and product manufacturing with functions for planning and managing the entire collection lifecycle. This collaborative, modular and scalable solution integrates specific applications for process management and optimization, such as line planning, product specification, strategic sourcing, and workflow management.



**We have been impressed by the service received from Lectra. We have really felt supported in our implementation of their advanced PLM technology. Lectra's fashion experts truly know our sector and understand our challenges. When our processes change and develop, we will be able to capitalize on their experience and knowledge of best practices.**



Vincenzo Gamberale, Global IT Coordinator, **Arena**, Italy



# Auto MOTIVE



The entire automotive market is going through a historic crisis and **a period of profound change**. To attract consumers who are now more concerned with price, safety and the environment than brand prestige, automobile makers are producing **larger numbers of models and variants** in an effort to provide greater customization. To keep their existing mid- and top-of-the-range customers and convince new ones with models at attractive prices, they are putting considerable pressure on their equipment manufacturers. To cope, subcontractors need to obtain the means to offer contractors a high level of **flexibility and quality at ever lower prices**. Lectra's technology offer, specially designed for vehicle seats, interiors and airbags, is a specific response to their new challenges.

## **SEATS, INTERIORS** & airbags



With its laser technology, Lectra offers airbag manufacturers greater productivity and reliability while guaranteeing excellent quality and high-precision cutting.

Lectra and its teams of experts have long worked for auto makers throughout the world and in close partnership with the biggest automotive equipment manufacturers. To maintain their competitive advantage, auto makers have to control costs and manufacturing cycles across the value chain, particularly by reducing the number of useful prototypes produced and by optimizing manufacturing processes. In a climate where any delay is heavily penalized, Lectra's is the most powerful offer for 3D development of seats, 2D flattening of shapes, automated cutting of fabrics and leathers, and airbag cutting by laser. These are enormous advantages over traditional methods.



A global leader in the automotive industry, Johnson Controls provides innovative automotive interiors that help make driving safer and more comfortable. Lectra has been a key partner for 10 years now in the optimization of our design and cutting processes for seats. With more than 100 of their cutting systems worldwide, we can rely on Lectra's high-end technology and their ability to adapt to our business needs.



Willy Van-Looy, Manufacturing and Engineering Director, **Johnson Controls International**, Belgium



Lectra's software solution for the **development** of car seats and interiors allows users to visualize all possible style variants and to eliminate a large number of physical prototypes. It can also be used to evaluate production feasibility and define specifications for sewing and assembly on the frame, all the while guaranteeing finished product quality and optimizing costs. The unique combination of 3D seat design, and the development and 2D flattening of shapes with Lectra's automated cutting systems delivers an integrated solution, unrivaled on today's market. As well as optimizing marker-making and improving precision, Lectra's offer can deliver productivity gains of up to 40% as well as significant material savings.



Kolon Industries is a world leader in fabric and airbag production, with major customers in the automotive market, such as Hyundai Automotive. Since its inception, Kolon Industries has developed a strong partnership with Lectra, implementing cutting systems and advanced software to obtain top production rates and achieve great flexibility in our processes.

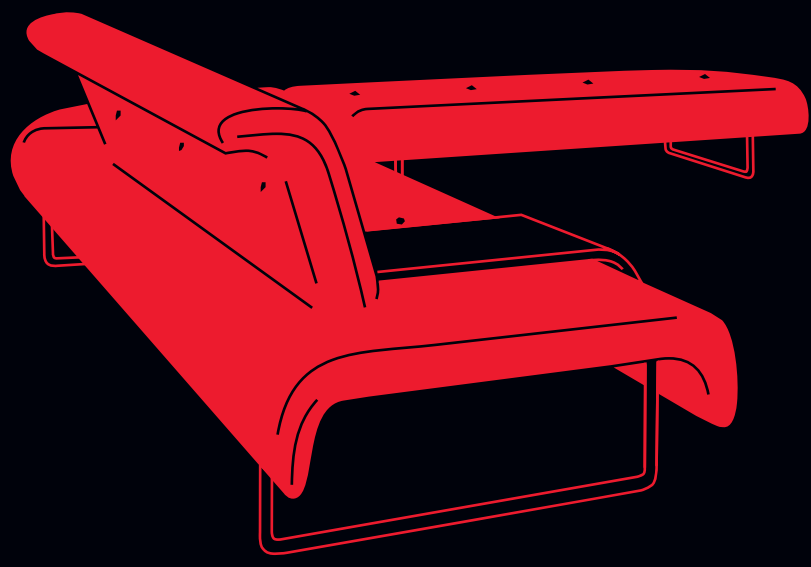


Sung-Gyun, Hong, Airbag Production Manager, **Kolon Industries**, South Korea



Lectra's solutions for the **production** of car seats and interiors include a complete range of automated cutters developed specially to deal with fabrics and the specificities of leather. Laser technology provides the vital precision and reliability required for airbag cutting to optimize the use of a very costly material and guarantee the level of quality necessary for safety equipment. Cutting machines for materials used in the manufacture of seats and interiors can achieve exceptional cutting speeds and quality. For leather, in particular, hide scanning enables users to eliminate flaws and optimize material use. Among other features, these cutters include real-time monitoring and a maintenance program in order to protect the continuity of the production chain and prevent interruptions in throughput. For manufacturers, these technologies deliver greater productivity, flexibility and safety.

# Furniture





Though companies operating in the furniture market had until now been buoyed by the real estate and home decorating boom, they were not spared by the economic crisis and have had to cope with a sudden slump in business. In the wake of the stylistic exuberance of recent years, furniture manufacturers have had to refocus on solid values and return to **items designed to please and to last**. Most companies offer limited runs to satisfy a clientele in search of customized products. At the same time they must constantly **innovate** in terms of **design and comfort**, producing **superior-quality** products to counteract growing competition from countries with low labor costs—in particular from China. Lectra has used its business expertise and technological know-how to come up with a solution that takes into account the specific constraints of the upholstered furniture industry.

## ARMCHAIRS & sofas



**Innovation, design, quality, comfort, customization and adaptability of products... By optimizing processes, Lectra's technology offers solutions tailored to the challenges of the furniture industry.**

In order to adapt to consumer needs, professionals in the sector require access to high-performance technology that meets their demands in terms of creativity, flexibility, quality and productivity. Now more than ever, Lectra's experts are supporting customers in their daily challenges by constantly anticipating the needs of the market. Lectra's product offer covers 3D design, 2D development and pattern flattening, marker-making, and automated cutting for all types of materials—both fabric and leather. Lectra's technology makes all the difference in terms of innovation, performance and responsiveness, guaranteeing shorter time to market, significant material savings, and optimal production capacity, without compromising quality.

Lorenzo del Felice, Operations Manager,  
**Club House Italia**, Italy



Lectra's teams offer the highest expertise and the most relevant professional services to enhance our processes. Their automated cutting room solutions are the most accurate and versatile, and enable us to efficiently manage a wide variety of orders, from single ply to multi-ply cutting and for different fabrics. Moreover, their precision helps us make significant reductions in fabric waste.



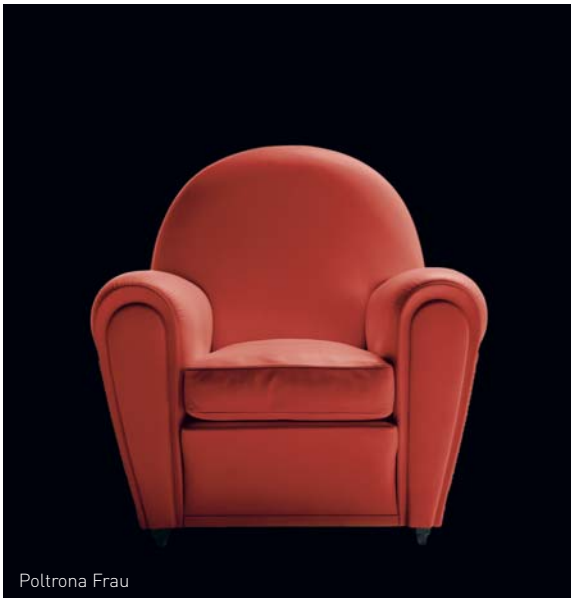
Club House Italia



Lectra's 3D software solution shortens the crucial prototyping stage and cuts associated costs. It enables companies to explore numerous **design** possibilities and variants virtually, starting from a basic model, in order to offer a wider array of choices and to facilitate decision-making, long before production begins. The solution covers every aspect of product development—frames, foams, and covers—and constitutes a complete digital chain that is fully integrated into the process. Lectra provides professionals with the most advanced and powerful pattern design solutions on the market. Starting from digital models, **development** specialists can simulate sewing operations, quickly adapt pattern piece shapes to material properties and padding constraints, and organize and prepare patterns for automated marker-making and cutting—all in record time.

Chip Keaton, Vice President Production,  
**England**, United States

Involvement with Lectra's solutions since the early 90s, I was well aware of the leading edge Lectra has over its competitors in the cutting room. However, the introduction of new systems into our facility has surpassed our expectations. The added productivity and reliability set the new cutters apart from all other cutting solutions on the market. Our productivity has more than doubled.



With its comprehensive range of automated cutting solutions, Lectra at once meets manufacturers' need for flexibility and takes into account constraints arising from production requirements and the use of costly materials. Lectra's automated cutters are the fastest and most powerful on the market. Their capacity to streamline, automate and accelerate the manufacturing process makes them best-in-class solutions in terms of productivity, whether dealing with mass **production** or small runs. Their ability to handle patterned fabric matching and to identify flaws in leather reduces material consumption and ensures the quality of the finished product. This optimization is further strengthened by integrated Smart Services within systems. These diagnose potential malfunctions in real time and ensure rapid intervention, either remotely, by experts in Lectra's International Call Centers, or on site by maintenance teams.



**OTHER**

# industries



Most companies that process **industrial fabrics** and **composite materials** have to design and manufacture a vast range of products at very high levels of **precision**. In a world where there is increasing pressure to cut prices and lead times, they need to improve their flexibility and productivity while **reducing the costs** of using these particularly expensive materials. Whether they are manufacturing filters, wind turbine blades, boat hulls and sails, personal protective equipment, or aeronautical structures, they have specific needs. They therefore require specially designed solutions that meet some of the most stringent **safety and reliability requirements** of any of Lectra's markets.

## **AERONAUTICAL, MARINE,** wind energy...



**In sectors where safety and reliability requirements are extremely strict and the constant progress made in materials used makes frequent adjustments necessary, Lectra offers an array of tried and tested technologies.**

Lectra's experience has enabled it to develop the solid know-how necessary to offer a comprehensive range of integrated technology solutions for the entire production process. From design to precision cutting, including pattern-making and optimized marker-making, Lectra's solutions cater for every need associated with the development of products made using industrial fabrics and composite materials: fiberglass, carbon, Kevlar, vinyl, etc. They provide each sector of these industries with the means to increase its technological lead and ensure the precision and quality of its manufacturing, all the while reducing material consumption, production costs and time to market.



# other industries

Éric Durand, IT and Technical Department Manager, **Daher**, France

Daher operates in state-of-the-art technology sectors and has high quality standards. Two years ago, we set ourselves the objective of optimizing the use of our very expensive composite materials. In addition to Lectra's cutting machines, we chose their automated marker-making solution. Throughout all our sites worldwide, we have improved our productivity and made a material savings of at least 5%.



The pre-preg fabrics used for manufacturing composite aircraft parts are extremely expensive. It was a challenge for our company to optimize usage and to provide quality cut material for production. With the Lectra cutters, we have been able to reduce material consumption and enhance the cutting process, enabling us to improve on efficiency, quality and competitiveness.

The **development** and prototyping processes are essential for these companies. Combining virtual pattern measuring with automated marker-making operations allows for material costs to be calculated very early in the product manufacturing process. Engineers can design several configurations and simulate and animate the finished product realistically. Lectra's 3D/2D CAD solutions enable users to monitor product quality during the design and prototyping processes. For **production**, its automated cutting solutions specially designed for companies using industrial fabrics and composite materials are a powerful response to the needs of manufacturers, particularly for improving flexibility, cutting costs, and ensuring consistent quality as part of a secure, reliable process.

Mohan Misra, General Manager, **Tata Advanced Materials**, India

company history  
products & services  
a transnational company  
key figures  
strategy and business model  
shareholder information

# data

## BOOK

# company history

In an ever-changing world, since its **inception in 1973**, Lectra has worked consistently to be enterprising in its business **development, anticipate change, and innovate** in order to increase its leadership and become Number One worldwide. Unique on today's market, Lectra's offer has expanded and improved over time to address the specific needs of each customer and enable them to overcome their biggest strategic challenges. At every step in its development, Lectra has demonstrated its **resilience**.

## 1976

Lectra sells its first computer-aided design (CAD) systems for apparel pattern-making and grading. It employs fewer than 10 people when its two founders meet André Harari, a pioneer of venture capital in France. He raises the necessary capital to implement the company's business development plan. His investment firm, Compagnie Financière du Scribe, becomes Lectra's second-biggest shareholder. The following year, Lectra gains its first foothold in international markets.

## 1985

Lectra enters the field of computer-aided manufacturing (CAM) with the launch of its first automated fabric cutting system and becomes the world leader in CAD solutions for the apparel industry. Its technology 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. André Harari and Daniel Harari, already minority shareholders through Compagnie Financière du Scribe (which merged with Lectra in 1998), propose a rescue plan. In 1991, they recapitalize the company and take over its management. They implement a recovery plan followed by a strategic redeployment, launching an extensive R&D program, renewing the company's entire product range, accelerating its geographical expansion, and moving into new market sectors (furniture, automobile, etc.). The company's business model is transformed.

## 2000

Lectra becomes Number One worldwide. After 25 years of internal growth, Lectra makes its first targeted acquisitions in 1998.

## 2001-2005

Facing the deteriorated global economic conditions of 2001, Lectra once again takes drastic measures to reestablish solid operating fundamentals. It makes three acquisitions in 2004, including Investronica Sistemas (Number Three worldwide). The end of textile quotas in 2005 boosts the company's evolution in line with its new strategic challenges and mid-term development opportunities.

## 2007

The result of five years of R&D and a total investment of €50 million, Lectra's new technology offer is unveiled at *Lectra World 2007*. Lectra further extends its leadership with the launch of the new generation of *Vector* automated cutting systems, to this day unequalled in terms of performance, and its pioneering Smart Services range. It also reinforces its education partnerships. Lectra carries out a successful public stock buyback tender offer for 20% of its capital stock.

## 2008-2009

The global economy experiences an economic and financial crisis on an unprecedented scale. The company bears the full weight of its impact on customers, and all of Lectra's market sectors and geographic markets are affected. Demonstrating once again its resilience, Lectra takes stringent measures to cut fixed overhead costs while preserving its core strengths, reinforcing its financial fundamentals, and continuing to invest vigorously in R&D. It reinvents itself once more to emerge from the crisis stronger than ever. In 2009, Lectra launches V2R1 versions of its design software offer, *Kaledo*, and *Lectra Fashion PLM*, both devised specifically for the fashion industry.

## 2010

Lectra is ready for the post-crisis "reset economy" and is fully equipped to emerge victorious in the coming years.





**Evaluation and consulting**

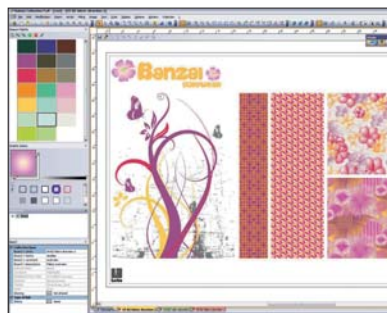
Lectra chooses the technologies that best meet customers' needs and ensures their perfect integration to support its customers in the long term in line with changes in their activities and challenges. Its 180 consultants—business and solutions experts and trainers—deliver professional services to optimize customers' processes. With solid expertise in the design, development and manufacturing processes specific to Lectra's various markets (fashion, automotive, furniture, aeronautical, wind power, etc.), these consultants are able to analyze customers' particular business issues and recommend the Lectra technology solutions that best suit their needs. Combining business experience with product expertise, Lectra's consultants support customers as their processes evolve and help with project implementation through careful change management.



**Specific teams for large accounts**

Lectra has put together worldwide consulting teams specializing in the particular business issues of large international accounts. They support customers in setting up and upgrading Lectra solutions throughout their network of sites. These specialists enable customers to constantly optimize their industrial processes and guarantee the best return on investment.

Capitalizing on **36 years' experience**, Lectra is the only player on the market able to offer all industries using soft materials such a **wide range** of solutions—software and CAD/CAM equipment and services, adapted to the specificities of each sector. Lectra's broad offer covers its customers' entire development and production cycle, helping them to **create products and optimize their processes and their productivity.**

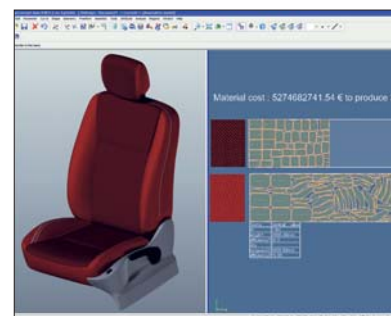


**Kaledo®**

The most innovative and advanced digital design software solution for fashion, *Kaledo* brings together all the teams involved in design, enabling them to collaborate harmoniously on the development of trends and collections. It offers an intuitive, user-friendly working environment for creating highly realistic visual simulations of prints, knits and woven fabrics. *Kaledo* allows designers to propose, test and modify creative ideas, then develop models and work up variants in record time. *Kaledo* significantly reduces the amount of time spent on repetitive tasks and allows for greater creativity and productivity, while respecting a brand's design assets and meeting the challenges of fast fashion.

**DesignConcept**

*DesignConcept* has been created specifically to meet the needs and constraints of industries working on automotive, aeronautical and marine interiors, furniture, industrial fabrics, and composite materials. These software solutions offer users a full range of functions, enabling them to create realistic virtual 3D models, develop templates, and analyze the feasibility of creative ideas while anticipating costs, then automatically 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.



**Romans Cad®**

Specially developed for the footwear and leather goods industries, the *Romans Cad* software suite covers 3D design, 2D pattern-making, model specification, and technical data management. Completely oriented to each activity in the product development process, it unites the market's most advanced technology with the traditional skills of designers and pattern makers. *Romans Cad* serves as a single source of data within a collaborative, secure and unifying environment, and helps significantly reduce collection development times. Through the 3D simulation of virtual models, the solution opens up new creative possibilities, guarantees quality, and improves productivity and competitiveness, all the while reducing numbers and costs of physical prototypes.



**Training**

Lectra's expert trainers deliver user training within specially tailored programs at subsidiary sites and its five International Advanced Technology Centers located around the world. They prepare training modules to suit the user's level of expertise, based on customer feedback, to help them acquire and develop the skills they need to get the most out of Lectra's solutions.

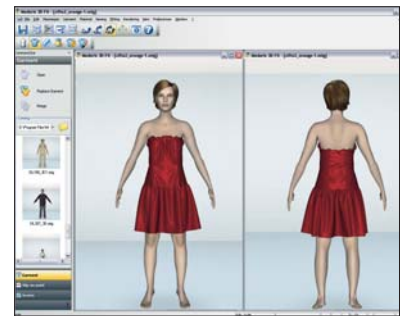


**Software upgrades**

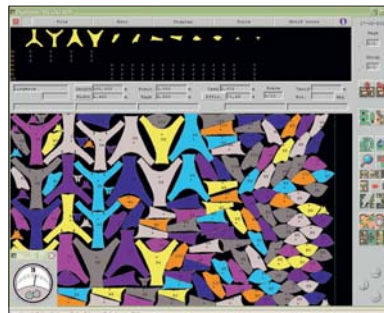
Lectra's customers benefit from the latest software innovations developed by Lectra's R&D engineers through evolution subscription contracts that give companies access to the most recent versions of software. They thus constantly ensure the optimization of their solutions and productivity, and the best possible return on their initial investment.

**Modaris® and PGS**

At the crossroads of design and production, devised to meet the quality requirements of all garment types, Lectra's *Modaris* and *PGS* pattern-making solutions have been the worldwide industry standards for the biggest names in fashion for more than 25 years. They cut the time necessary for pattern design, modification, grading, verification and pre-production of models, reduce the risk of errors, and help ensure a better finish for garments. Integrating industry best practices, the advanced *Modaris ExpertPro* version helps companies respond to a continual increase in the number of collections and product variants to be developed. A veritable performance accelerator, it can enable companies to achieve time savings of between 30% and 50%. Lectra's virtual prototyping solution *Modaris 3D Fit* helps to reduce development costs and times by halving the number of physical prototypes necessary for completing models. It enables users to collaborate closely



to check the fit of a garment taking into account the physical characteristics of the fabric, and then finalize the style.

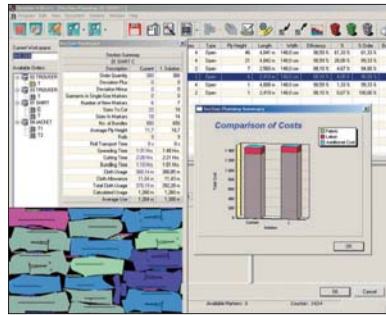


**Diamino® and MGS**

Lectra's advanced technology solutions for automated creation of cut-ready markers, *Diamino* and *MGS*, allow manufacturers to achieve significant material savings and productivity gains. They optimize both marker-making times for all types of pieces, and also material consumption during production, by offering the possibility of testing several marker combinations in order to select the best. These solutions incorporate extremely precise management of fabric constraints and the complexities of products and markets—fashion, footwear, furniture, industrial fabrics and composites. They offer all the advantages of interactive and automated marker-making through their use of the most powerful algorithms to guarantee a high level of productivity.

### Optiplan®

The nerve center of Lectra's intelligent cutting room, *Optiplan* software optimizes and improves the reliability of production processes by linking the equipment and operations involved in marker-making, and automated spreading and cutting. It simulates various production scenarios and identifies the most suitable option, simplifies information sharing, limits errors, and facilitates decision-making. A high-performance solution thanks to its powerful planning algorithms, *Optiplan* helps reduce material consumption, increases



productivity, and gives companies greater flexibility to respond to fluctuations in volumes and the diversity of models to be processed.



### Progress® Brio

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



### Support and Maintenance

Lectra has more than 290 engineers, technicians and specialists on hand to prevent any delays or interruptions in production and to help each customer gain in flexibility and productivity. They can work on customer software and equipment on-site or remotely, in real time, operating out of Lectra's five integrated International Call Centers.

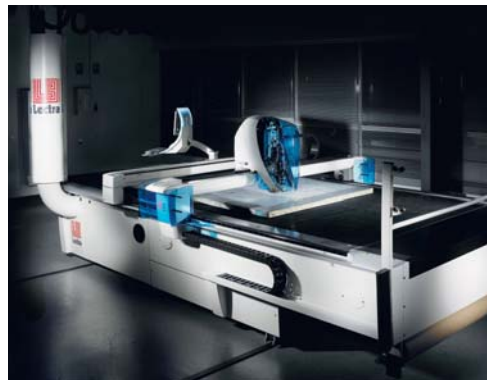
Lectra thus offers high value-added services: user assistance, preventive and reparative maintenance, and the optimization of design, product development and production processes. These services enable customers to secure and maximize their return on investment by ensuring a significant increase in productivity and optimizing the use of equipment.

To this end, Lectra guarantees its intervention times and the optimal availability of spare parts and consumables.

### Vector®

Developed and adapted to suit each industry, the latest generation of *Vector* automated cutters are unparalleled on the market, offering unequalled performance and return on investment. They cater for all production types (from small runs to large volumes), regardless of the complexity or thickness of the material to be cut (denim, lingerie, industrial fabrics, composites, etc.). For each industry, the offer consists of three different ranges:

- *Vector FP, M55, M88*: Adapted to the needs of new users of technology, with operating costs among the lowest of all cutters on the market, these systems deliver excellent cut quality.
- *Vector FX, MH, MH8*, with built-in Smart Services: More productive, due to their unique continuous cutting capability, these cutters never compromise quality,



even with the most difficult materials.

- *Vector MX, MX9*, with built-in Smart Services: Designed for very high-volume production, these systems combine speed, the capacity to process the thickest spreads, and exceptional cut quality for increased flexibility and greater productivity.





**Smart Services: onboard intelligence**

Through 120 sensors connected to their powerful operating software, all of Lectra's automated cutters with built-in Smart Services are permanently connected to and communicate with Lectra's five International Call Centers, in total security. The equipment also benefits from real-time monitoring, on-site and remote assistance, and preventive maintenance to ensure optimal performance and production, without interrupting throughput. Lectra's 90 experts handle 50,000 calls per month and resolve 95% of software-related and 67% of hardware-related issues through remote assistance—achieving a system availability rate of 98%. Information about cutter operation can be used by customers' ERP systems, thereby contributing to the optimization of their production processes. A pioneer in its markets, Lectra enhances its Smart Services offer with new innovations every year.

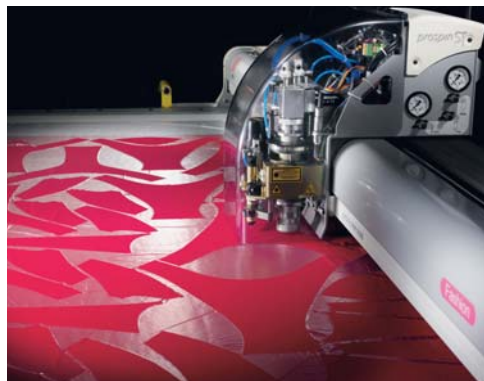


**FocusAirbag®**

Lectra's comprehensive range of laser cutters is a response to the increase in the quantity and types of vehicle airbags produced and is used by all the leading companies in the sector. The *FocusAirbag OPW (One Piece Woven)* solution, equipped with a scanning vision system, checks and automatically adjusts the cutting path according to any material deformation, thereby producing higher-quality cut pieces. *FocusAirbag HP* can cut several airbag plies simultaneously and uses an offloading system ideal for medium-size runs.



*FocusAirbag XHP* is one of the most productive solutions on the market for very large volumes, thanks to its powerful laser and high-performance spreader.



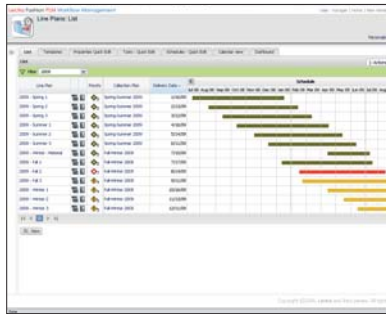
**ProSpin®**

Developed for single-ply cutting with a fixed table, the *ProSpinFashion ST* solution is specifically intended for prototyping and small runs. Highly flexible, it is entirely modular, available in a variety of widths and lengths, and adaptable to many different working environments.

**Leather cutting: MFC and CLS**

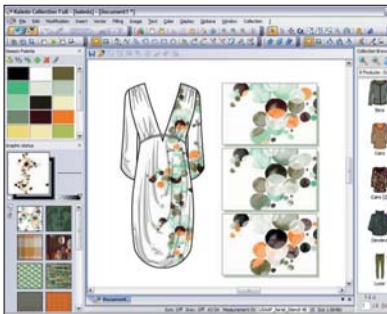
The *MFC* solution for furniture and the *CLS* solution for the automotive industry, both designed for automated leather cutting, fulfill manufacturers' quality and production time requirements. Fast and easy-to-use, the cutters take into consideration the natural constraints of the leather—grain, visible and invisible flaws, thickness—and reconcile them with production requirements. Cutting can be carried out either by automated nesting of CAD-developed pieces on a digital image of the hide, or through manual nesting by projection onto the hide. This process optimization is essential for reducing consumption of a costly material and delivers significant savings.





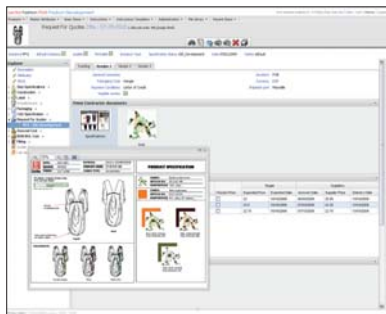
## Lectra Fashion PLM

The only PLM (Product Lifecycle Management) solution on the market designed specifically for fashion, *Lectra Fashion PLM* meets the needs of medium-sized businesses and major international groups (brands, manufacturers, retailers, subcontractors, etc.). It enables companies to cut production costs and times and guarantee the highest quality standards, with the creation of original styles that follow the latest trends and suit the brand's image. Collaborative, modular and scalable, it optimizes processes and facilitates collection management throughout its entire lifecycle, enabling managers to check performance, anticipate decisions, and meet their financial targets.



*Lectra Fashion PLM* brings together all internal and external contributors, wherever they are in the world, around the latest version of the collection or product in development. It covers all the stages necessary to the development of collections by linking role-based applications for the design, pattern-making, physical and 3D prototyping and manufacturing of products, with functions to facilitate the planning and management of collections. In particular, *Lectra Fashion PLM* includes tools for line planning, product specifications, costing, strategic sourcing, and flexible workflow management, all developed specifically for fashion.

The *Easy Start* offer integrates industry best practices, guaranteeing optimal deployment of *Lectra Fashion PLM* throughout the extended enterprise and enabling users to become operational within just a few months. It includes the software program, configuration for pre-defined user roles, integration and implementation tools, and process-oriented services and training.



## Preliminary evaluation

Throughout each project, from the initial idea to launch of production, Lectra provides its customers with specialist consultants in fashion, PLM and the management and implementation of projects of this scale.

Lectra offers a thorough preliminary evaluation of company processes (BPA—Business Process Analysis), which serves as an essential starting point for successful project implementation. This enables its experts to understand the organization and its processes, identify management objectives in terms of product development and collection management, and present precise recommendations for the exact size and configuration of the project.

Ahead of any PLM project, Lectra also offers a strategic evaluation of the expected benefits using its BVA (Business Value Assessment) methodology. Consultants identify the priority processes for *Lectra Fashion PLM* deployment and then express these changes in terms of quality improvements, savings, and return on investment.

# a transnational company

Based in **France**, Lectra has built up a **major worldwide presence** unmatched by any of its competitors. It generates **89%** of its revenues **outside France**, and **93% directly** with customers through its network of **31 subsidiaries**, backed by agents and distributors in certain regions. Experts working from Lectra's five International Call Centers, accessible via the Internet, **respond to calls in real time**, taking control of customers' software and equipment online and providing interactive support.

**55**  
nationalities

**180**  
consultants (instructors,  
business experts,  
solutions experts)

**200**  
maintenance  
engineers and  
technicians

**210**  
R&D engineers

**690**  
marketing, sales  
and services staff

**90**  
Lectra experts  
in 5 International  
Call Centers

**800**  
partner schools and universities  
in the world

## A commitment to education

Lectra recognizes the responsibilities that come with worldwide leadership status and translates them into concrete commitments, one of which is to furthering education. To help prepare students for their future professional lives, Lectra has developed partnerships with more than 800 schools and universities in 30 countries. Partnerships are specially adapted to suit the teaching methods of each institution. As well as providing teachers and students with the latest technologies, Lectra offers opportunities for internships and real-world working experiences and supports end-of-study projects.

## A worldwide presence—close to customers

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

As a **borderless company**, Lectra operates in a multicultural environment. It has a worldwide workforce of 1,400 people of more than **55 nationalities**.

**1,400**  
employees  
worldwide

Europe	73%*
Americas	11%
Asia-Pacific	11%
Rest of world	5%

\* 40% of which are in corporate, R&D, production and logistics

**23,000**  
customers

in more than  
**100**  
countries

**A full-scale technology campus, open to customers**

The heart of Lectra's technology stronghold is its industrial site at Bordeaux—Cestas (France), located in an 11.4-hectare park. Here, Lectra centralizes its Research and Development teams, its global Services Department, and the company's main International Call Center. It is also home to all information infrastructure and systems teams and Lectra Academy—the Group's in-house international training center. Finally, Lectra's International Technology and Conference Center is a real window into Lectra's technology—a space entirely given over to welcoming customers and prospects from all over the world. This genuine technology village of more than 3,000 sq.m incorporates demonstration centers for all Lectra's solutions, training rooms, and a 100-seat auditorium with simultaneous translation facilities.



**31**  
sales and services  
subsidiaries

**5**  
International Call Centers\*

**5**  
International Advanced  
Technology Centers\*\*

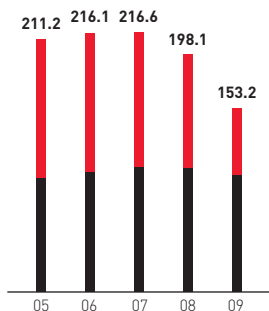
\* Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA), Shanghai (China).

\*\*Bordeaux-Cestas (France), Atlanta (USA), Mexico City (Mexico), Shanghai (China), Istanbul (Turkey).

# key figures

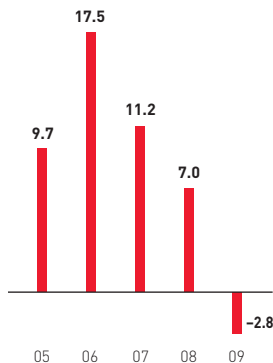
2009 was, like 2008, dominated by the unprecedented scale of the economic and financial crisis. Falling production levels at customer firms, combined with their measures to cut costs and the freezing of investments brought a further **decline in revenues** to €153.2 million (down 23%\*). With a loss limited to €2.8 million, **income from operations** before non-recurring items nevertheless **held up well**. This is proof that Lectra's sale prices were maintained despite competitive pressures, and also demonstrates the effectiveness of the company's vigorous program to cut overhead costs, as well as of its business model, with recurring revenues acting as a cushion. Lectra continued to make significant investments in R&D, totaling €16.2 million. **Free cash flow was highly positive** at €9.3 million, while **net financial debt was reduced** by €8.6 million.

\* At constant exchange rates.



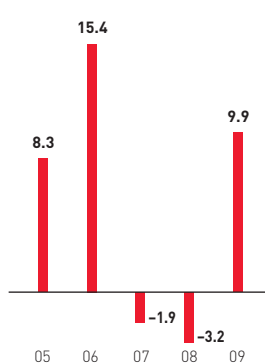
**Revenues**  
(in millions of euros)

- New systems sales
- Recurring revenues



**Income from operations\***  
(in millions of euros)

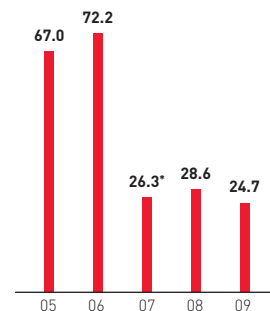
\* Before non-recurring items.



**Free cash flow\***  
(in millions of euros)

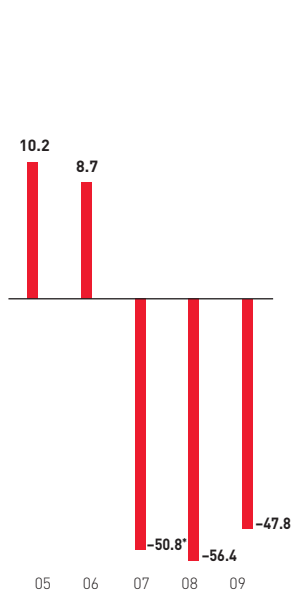
Free cash flow is equal to net cash provided by operating activities, minus cash used in investing activities—excluding cash used for acquisitions of companies (net of cash acquired).

\* Before non-recurring items.



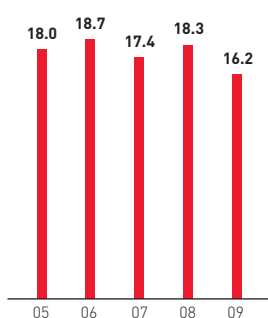
**Shareholder's equity**  
(in millions of euros)

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



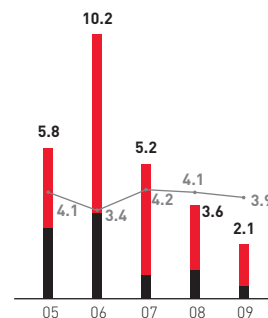
**Net cash (+) / net financial debt (-)**  
(in millions of euros)

\* 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



# 2009 Revenues

## By type of business

Software	31%
CAD/CAM equipment	20%
Services (training, consulting, hardware maintenance, on-line services)	29%
Spare parts and consumables	20%

## By region

Europe	57%
Americas	20%
Asia-Pacific	17%
Other countries	6%

## By market sector\*

Fashion (apparel, accessories, footwear)	63%
Automotive	17%
Furniture	8%
Other industries	12%

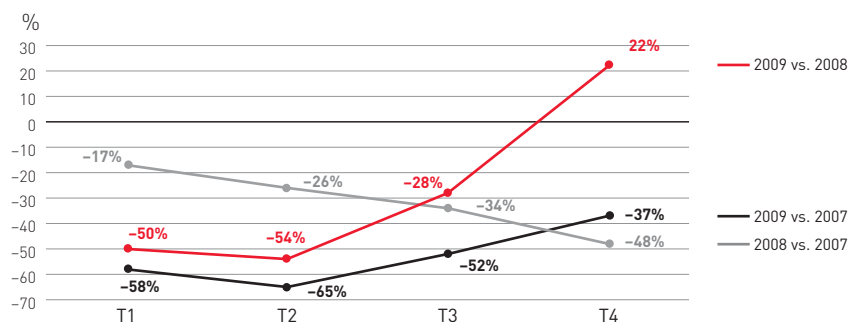
\* Revenues from new systems sales.

## FOCUS

### Impact of the economic crisis on orders for new systems

At constant exchange rates

#### Quarterly change



#### All markets were affected

##### 2009 change vs. 2007

Europe	-62%	Fashion	-55%
Americas	-25%	Automotive	-53%
Asia-Pacific	-62%	Furniture	-58%
Other countries	-56%	Other industries	-35%

The effects of the crisis on orders for new systems began to be felt as early as Q1 2008. The decline gathered momentum in each succeeding quarter until June 2009. The first positive sign after 24 months of crisis came with the 22% rebound in Q4 2009, even though this reflects a 37% decline in sales activity relative to Q4 2007. The annual decline between 2007 and 2009 was 53%.

## Financial Highlights

in millions of euros	2009	2008	2007	2006	2005
Revenues	153.2	198.1	216.6	216.1	211.2
Income from operations before non-recurring items <sup>(1)</sup>	(2.8)	7.0	11.2	17.5	9.7
Income from operations <sup>(1)</sup>	(4.7)	7.0	10.2	17.3	(9.5)
Net income	(3.6)	3.2	5.8	12.1	(12.3)
Free cash flow before non-recurring items <sup>(2)</sup>	9.9	(3.2)	(1.9)	15.4	8.3
Free cash flow <sup>(2)</sup>	9.3	(4.8)	(8.3)	5.7	7.6
Shareholders' equity <sup>(3)(4)</sup>	24.7	28.6	26.3	72.2	67.0
Net cash (+) / net financial debt (-) <sup>(3)(4)</sup>	(47.8)	(56.4)	(50.8)	8.7	10.2
Research & Development <sup>(5)</sup>	16.2	18.3	17.4	18.7	18.0
Capital expenditure	2.1	3.6	5.2	10.2	5.8
Number of employees <sup>(3)</sup>	1,374	1,518	1,551	1,496	1,532

(1) 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 2005-2006 financial statements for purposes of comparison.

(2) In 2009, the company benefited from the advance repayment of €14.1 million, corresponding to the research tax credits, which were recognized in the statement of financial position at December 31, 2008, resulting from the measures announced by the French government, under its economic stimulus plan.

(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 research tax credit and grants for R&D programs deduction.

# strategy and business model

Lectra's development is based on a clear, ambitious strategy and on a robust, sustainable business model. In 2009, Lectra's management embarked upon a **fundamental rethinking** of the company, demonstrating its determination to take Lectra's strategy and business model to the **next level**, tailored to the new challenges ahead. The objective: to **accelerate the company's rebound** once the economic crisis is over; to **build its future** in the "reset economy"; and to **seize the significant opportunities** that will result from profound changes in its competitive landscape and its market sectors and geographical markets.

## Vision

- Lectra is a **pure player**. It provides innovative high value-added technology solutions (software, CAD/CAM equipment and related services) specifically designed for all industries manufacturing products using soft materials—textiles, leather, industrial fabrics and composite materials.
- Lectra addresses major **worldwide market sectors** such as the fashion, automotive and furniture industries, as well as a wide variety of others—aeronautical, marine, wind energy, sporting and leisure goods, and personal protective equipment.
- Lectra is the **world leader** in its field. It is the number one player in each of its main market sectors and geographical markets, and generally at least number two in all others.
- With **solid financial fundamentals**, an effective and proven business model, and a stable entrepreneurial shareholdership, Lectra guarantees unwavering support for its customers in the long term. Each year it makes significant investments in research and development, infrastructure and human capital. For customers, this guarantees long-term, rewarding relationships, based on mutual trust; for the company, it ensures a constant competitive lead.
- Lectra is a **transnational** company, with a global and local approach to business. Two essential values make up the foundations of the company's philosophy: uncompromising ethics in conducting its business activities and the respect of each individual.
- The combination of all these factors gives Lectra a **strategic advantage**, unique among its competitors. This rich mix is key to the company's stability.
- Lectra's primary objective is to **create long-term value** for its customers, which, in turn, creates value for its teams, its industrial partners, and its shareholders.

## Five strategic objectives

- Accentuating Lectra's technological leadership and the high added value of 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 economic crisis is over.
- Boosting profitability by regularly increasing the company's operating margin.
- Generating free cash flow in excess of net income.

## Value proposition

- Lectra is a **relational value player**. It develops long-term relationships with its customers to support their strategy and help overcome their challenges, improving their productivity, flexibility and competitiveness. Lectra offers each of its customers leading-edge, best-in-class technology. Based on extensive expertise in its customers businesses, Lectra's technology is at the heart of its high value-added products and services offer, guaranteeing the best return on investment.
- Lectra is the **only player** in its field able to offer such a wide range of innovative solutions, specially designed to meet the specific needs of each market sector within a globalized economy without geographical barriers.
- From software and CAD/CAM equipment to consulting services, Lectra's extensive offer, specific to each market sector, covers its customers' entire development and production cycle, helping them **create, develop, produce, manage** and **optimize** their product ranges.

- The challenges faced by customers in Lectra's different market sectors are often the same: achieve greater creativity and responsiveness, streamline and improve quality, increase productivity, reduce costs and time to market, facilitate collaborative work and secure data sharing, and protect the brand universe in the long term. It is for this reason that 70% of Lectra's know-how and the technologies supplied is common to all of them. Thus, each sector benefits from important **synergies**.

- In the new, post-crisis economy, more than ever before, Lectra's customers the world over will need to invest in innovative technologies. They are essential to overcoming the **strategic challenges** they face, which have been amplified by the economic crisis. These technologies will enable companies to preserve their know-how, reinforce their competitiveness, and develop their brands. In this context, the contribution of Lectra's business and solutions experts becomes of the utmost importance.

### **Maintaining R&D and production in France**

Lectra made the strategic decision to keep its R&D and production teams in France, thereby capitalizing on its rich human capital and acquired expertise, while protecting its industrial property.

To remain competitive, despite the fall of the dollar and competition from companies manufacturing in low-cost countries, Lectra has put investment and innovation first in order to renew its technology offer. Its latest generation of automated cutters offers unequalled performance levels, with production costs lower than those of its previous range.

### **A proven business model**

#### **A balanced business mix**

Lectra's business model is based on balanced business risks, which are naturally hedged by their spread across:

- **Major market sectors**: fashion, automotive, furniture, and many other industries with decorrelated economic cycles;
- The **entire world**: Lectra does business on all five continents, benefitting from their dissimilar growth patterns;
- **23,000** customers;
- An extensive **products and services** offer.

Through its worldwide presence, Lectra benefits from the major changes in progress, such as relocation and repatriation: A decrease in revenues in one country translates into an increase in another. 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 two revenue components:

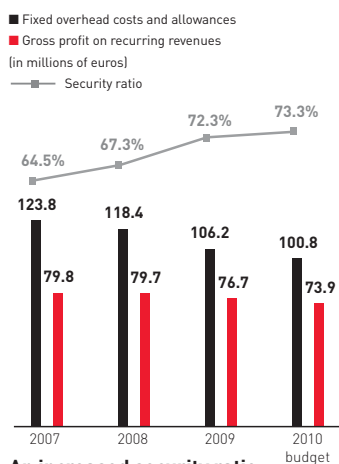
- **Revenues from new systems sales** (sales of new software licenses, CAD/CAM equipment and related services), the company's growth driver in periods of macroeconomic growth;
- **Recurring revenues**, resulting from subscription contracts (software evolution, CAD/CAM equipment maintenance, and online support contracts), together with statistically recurring revenues on the installed base (sales of spare parts and consumables and one-off maintenance interventions). Recurring revenues are key to the company's stability and provide a cushion against hostile economic conditions.

#### **Free cash flow generation**

The free cash flow generated each year **exceeds net income**.

## 2010 action plan

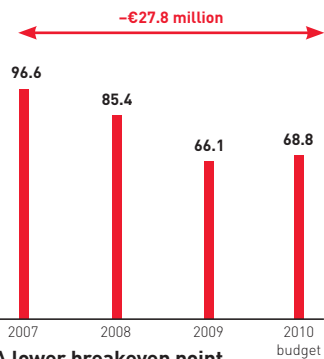
The 2010 plan continues actions to **lower the company's breakeven point**, reduce fixed overhead costs, **preserve gross profit margins**, and **increase the company's security ratio**. The fundamental measures necessary to achieving this have been undertaken and took effect, in some cases, as of January 1, 2010. Barring a further deterioration in the economy, income from operations and net income should be positive, with free cash flow exceeding net income.



### An increased security ratio

Lectra's security ratio has been rising steadily, with an increase of 9 percentage points in three years, exceeding 74%.

■ Revenues from new systems sales required to break even (in millions of euros, at actual exchange rates)



### A lower breakeven point

The breakeven point has fallen by €27.8 million (-29%) in three years, from €96.6 million to €68.8 million.

### Increase the security ratio

The security ratio is a key performance indicator of Lectra's management. It measures the coverage of annual fixed overhead costs and allowances by gross profit on recurring revenues. 95% of revenues from recurring contracts are known from the start of the year. Revenues from subscription contracts grew naturally at a rate of between 5% and 7% per annum in pre-crisis years, while revenues from spare parts and consumables grew at close to 10%. In 2009, recurring revenues were affected by an unusually high cancellation rate of recurring contracts and the decrease of spare parts and consumables revenues. This is a direct result of certain customers reducing or halting production activity and introducing cost-cutting programs. Having increased by nine points in three years, the security ratio should exceed 73% in 2010.

### Lower the breakeven point

Complementing the security ratio, the breakeven point measures the amount of revenues from new systems sales Lectra needs to generate to achieve a net income equal to zero. With a forecast of €101 million in 2010, in the last three years fixed overhead costs will have dropped by €21.1 million (-21%) like-for-like, while protecting the company's vital strengths.

The main uncertainty for 2010 concerns revenues from new systems sales. Given the forecast level of recurring revenues—stable overall, or slightly down should the economy fail to rebound—the company will exceed its breakeven point if orders for new software licenses and CAD/CAM equipment grow by more than 20% relative to 2009. In that case, orders will close just 18% of the gap between their levels in 2009 and in 2007, before the crisis.

### Sensitivity of Lectra's business model to new systems sales

Each €1 million increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.4 million.

### Sensitivity of Lectra's business model to the US dollar

Changes in the euro/dollar parity have a double 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 €1.5 million and of €0.7 million in income from operations\*;
- Competitive: Lectra's main competitor being American, a weak dollar versus the euro penalizes Lectra.

\* On the basis of the average parity of \$1.50/€1 used for the 2010 budget.

## KEY CHALLENGES FOR ALL MARKET SECTORS



### The fashion industry in search of new business models

#### Reducing the importance of promotional offers

A strong brand with quality products to the customer's taste are the keys to success. Value will remain crucial to the decision to purchase.

#### Facing a drop in consumer spending

Companies will have to maintain low levels of stocks, lower their costs, and become more efficient, while strengthening their presence in emerging countries.

#### Developing ethical fashion

Efforts towards sustainable development are multiplying and have an impact on the entire value chain. Design will have a predominant role in helping this market take off.

#### Adapting to the evolution of the luxury market

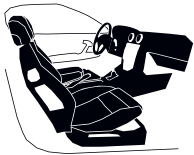
China will be the main growth driver in 2010. Asia's share will overtake those of Europe and America. New players from emerging countries will appear.

#### Making supply chains more flexible and responsive

With speed prevailing over proximity, process optimization and information exchange will be decisive.

#### Gathering together to gain in strength

The crisis should accelerate moves to reorganize, consolidate, and make alliances and business groupings.



### An automotive market undergoing profound changes

#### A slow recovery overall with regional variation after the ending of the scrappage schemes

In 2010, global sales should rebound by 3.6%

and production by 10.7%. China, India and Brazil will be the main growth drivers.

#### The growing importance of Asia

The center of gravity is shifting towards emerging countries where many carmakers are installing their factories, as well as R&D and design teams. China, which has become the largest automotive market worldwide, should see the emergence of new global carmakers.

#### New challenges for suppliers

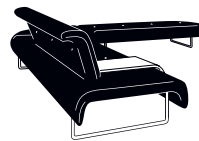
The top-performing suppliers will have to combine flexibility, a global and local presence close to carmakers and consumers, high quality, and proven design and development capabilities.

### A necessary consolidation

The industry suffers from overcapacity. A consolidation might occur among suppliers, while carmakers will prefer alliances.

### Small and mid-range cars, key segments for the future

Criteria for decisions to purchase will favor fuel efficiency and environmental friendliness.



### A return to growth for the furniture market

#### A rebound in 2010

Growth should be moderate in the US (+1%), but more substantial in China (+6%),

India (+6%) and Russia (+3%). Production in China, Poland and Vietnam is increasing rapidly due to investments in new plants.

#### A new paradigm for upholstered furniture manufacturers

In a highly competitive market, with the growing impact of low-cost countries, comfort, innovation, quality, design and environmental friendliness will be the keys to success.

### Growth expected in other industries

#### A shift in the composites market towards Asia

With an average growth of 4% per annum, the composites market should reach \$80-85 billion in 2013. Asia could represent 50% of this by 2015.

#### Recovery in the marine market

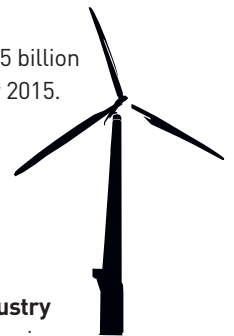
Global sales of recreational boats should reach \$25.8 billion in 2014 (+8%, compared to 2008) with a shift towards larger and more expensive boats.

#### A positive outlook for the aeronautical industry

The order books of large manufacturers remain loaded. Their long-term outlook is still positive: The volume of passenger traffic should double in the next 20 years.

#### The wind energy industry continues to grow worldwide

Strong prospects in the Chinese, African and offshore markets.



Sources: AD Little, Bain & Co, CSIL, CSM, Deloitte & Touche, Grant Thornton, JEC, Just-Style, KSA, La Jaune et la Rouge, Le Journal du Textile, Lucintel, Merrill Lynch, PolsterFashion, PWC Autofacts.

# shareholder information

In euros	2009	2008	2007	2006	2005
Share price – high	3.25	5.80	6.50	6.24	5.94
Share price – low	1.80	2.63	5.15	4.14	3.51
Share closing price <sup>(1)</sup>	2.25	3.25	5.75	5.53	4.54
Shareholders' equity per share <sup>(1)</sup>	0.88	1.00	0.93	2.06	1.90
Net cash (+) / debt (-) per share <sup>(1)</sup>	(1.70)	(2.00)	(1.79)	0.25	0.29
Earnings per share <sup>(2)</sup>					
• Basic	(0.13)	0.11	0.19	0.34	(0.34)
• Diluted	(0.13)	0.11	0.18	0.34	(0.34)
Number of shares <sup>(1)(3)</sup>	28.5	28.5	28.5	35.8	36.4
Market capitalization <sup>(1)(4)</sup>	64.1	92.6	163.7	197.8	165.3
Annual volume traded <sup>(4)(5)</sup>	8.7	17.0	56.5	43.5	51.0
Annual volume traded <sup>(3)(5)</sup>	3.9	5.0	9.5	8.3	11.4

(1) At December 31.

(2) Earnings per share on basic capital are calculated using the weighted average number of shares. Earnings per diluted share are calculated according to the corresponding IFRS rule.

(3) In millions of shares.

(4) In millions of euros.

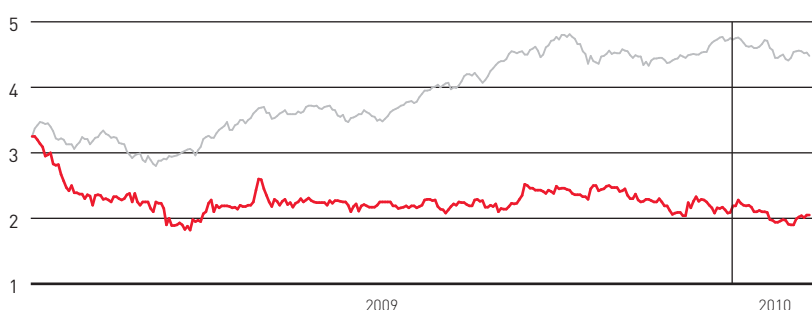
(5) Source Euronext Paris.

## Share price evolution from January 1, 2009 to February 26, 2010

(in euros)

— Lectra (daily closing price)

— CAC Mid&Small 190 Index (base: December 31, 2008)



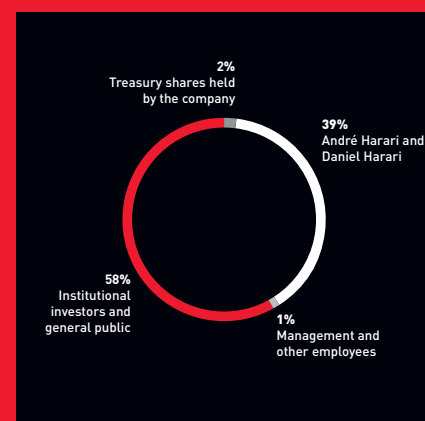
The share price decline of 60% since the onset of the economic crisis occurred in thin trading volumes.

## Dividend

Net income for 2009 is insufficient to pay a dividend in respect of that fiscal year.

Re-affirming 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 its financial condition permits.

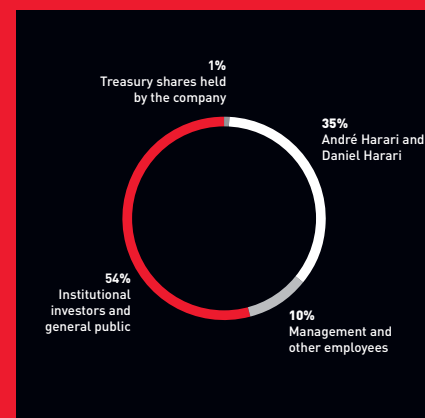
**Capital: 28,495,514 shares** (at February 26, 2010)



## Breakdown of capital

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

**Diluted capital: 31,489,042 shares** (at February 26, 2010)



## Breakdown of diluted capital

Thanks to a motivating stock option program, the management (other than André Harari and Daniel Harari, who hold no stock options) and key employees (175 people) hold 10% of the diluted capital. The Group intends to pursue this selective policy of promoting employee share-ownership. At February 26, 2010, fully-vested stock options totaled 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

09



# 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-sixth fiscal year, ended December 31, 2009.

It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2010 (available in French only) which, in addition to the information provided in this Management Discussion and Analysis, 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 2009

To make the discussion of revenues and earnings as meaningful as possible, detailed comparisons between 2009 and 2008 are based on 2008 exchange rates ("like-for-like") unless stated otherwise.

### A Year Once Again Dominated by the Consequences of the Financial and Economic Crisis

Activity and financial results in 2009 bore the brunt of the unprecedented financial and economic crisis that has gripped the world over the past two years. In its financial report published on February 12, 2009, the Board of Directors stated that 2009 would be a difficult year for companies around the world, and that extreme vigilance was called for in the circumstances. Actual events turned out to be far worse than expected.

Many companies suffered a brutal deterioration in their situation, with revenues tumbling as economic activity decreased sharply. This forced them to cut costs, drastically in many cases, and to freeze all their investment decisions. Many had to close plants, and some went out of business.

The company was severely affected by its customers' difficulties and more generally by global macroeconomic conditions. Sales activity was particularly weak in this depressed and uncertain economy.

### Decline in Orders for New Software Licenses and CAD/CAM Equipment

After falling 31% in 2008, orders for new software licenses and CAD/CAM equipment (€50.1 million) suffered a further identical fall in 2009. Orders for new software licenses dropped 28%, and those for CAD/CAM equipment were down 32%. The decline was 53% relative to 2007.

Orders were down 37% in Europe and 30% in the Asia-Pacific region. In the Americas, orders were down 5% overall. Activity in the rest of the world (Northern and South Africa, Turkey, the Middle East, etc.) declined by 39% overall.

The steepest fall (42%) was registered in the automotive market. Orders fell 26% in the fashion market and 32% in furniture. They fell 34% in other industries which had been particularly robust in 2008, buoyed, in particular, by the wind turbine market. These market sectors represent 18%, 62%, 7%, and 13% of orders for new software licenses and CAD/CAM equipment respectively.

### Decrease in Revenues

Revenues ended the year down 23% at €153.2 million, at actual exchange rates as well as like-for-like relative to 2008. Revenues from new systems sales fell by 41% relative to 2008, while recurring revenues declined by 7%. Revenues from spare parts and consumables fell (-15%) for the first time in the company's history, due to weakened customer demand, while recurring contracts fell by 3% overall.

### Increase in Order Backlog

Most of the increase in the backlog of orders for new software licenses and CAD/CAM systems at December 31, 2009, relative to the start of the year, is a result of orders booked in the fourth quarter. Aggregate orders exceeded revenues by 8%, or €3.6 million.

The order backlog for new software licenses and CAD/CAM equipment at December 31, 2009 (€12.9 million), increased by €3.7 million relative to January 1st. It comprised €7.8 million for shipment in the first quarter of 2010, €3.2 million over the rest of the year, and €1.9 million in 2011.

### Significant Reduction in Overhead Costs

The company began responding to the steep downturn in the economy as early as July 2008, taking steps to curb its spending, slow recruitment and, more generally, tighten its grip on overhead costs. These measures were reinforced on several occasions, particularly in April 2009. These various initiatives combined account for the sharp fall in fixed overheads relative to 2008 and 2007.

In addition, reorganizational measures and programs to optimize the company's resources implemented in November and December will further reduce fixed overheads in 2010.

Through these measures, total overhead costs (€111.1 million) were down €15.4 million compared to 2008. Fixed overheads and allowances (€106.2 million) fell by €13.3 million (11%). These figures exclude €1.9 million in non-recurring charges expensed in Q4 2009.

Despite the economic crisis, the company continued to invest significantly in R&D. In particular, it launched major upgrades to its design offer, *Kaledo V2R1*, and its collection lifecycle management solution, *Lectra Fashion PLM V2R1*, both of which are specific to the fashion industry.

### Income From Operations and Net Income Hold up Well—Free Cash Flow Highly Positive

Although reduced overhead costs helped to absorb the impact of the sharp drop in revenues (–€45 million) on income from operations before non-recurring items, the latter was again negative (–€2.8 million).

Income from operations, after €1.9 million in non-recurring charges, amounted to a negative €4.7 million.

The company registered a net loss of €3.6 million (compared to a net income of €3.2 million in 2008).

Finally, after €0.7 million in non-recurring disbursements, free cash flow was positive at €9.3 million (compared to a negative €4.8 million after €1.6 million in non-recurring disbursements in 2008).

### The International Arbitral Tribunal Awards Lectra €25.3 million

On October 28, 2009, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce (with hearings in London) notified the parties

of the award in the arbitration initiated in June 2005 by Lectra against Induyco, the former shareholder of Investronica Sistemas.

The international arbitral tribunal awarded Lectra €25.3 million in total.

This award has not been recognized in the 2009 financial statements, and the accounting methods applied to the arbitration procedure, as adopted at December 31, 2008, remain unchanged (*see chapter 3 below*).

## 2. ACQUISITIONS AND PARTNERSHIPS

The company made no acquisition in 2009 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.

With an average parity of \$1.39/€1 for the full-year 2009, the US dollar was up 6% compared to 2008. This change and that in other currency parities mechanically increased the various revenue components by around 1% and income from operations by €0.1 million at actual exchange rates compared to like-for-like figures. Consequently the impact of currency variations on the financial statements was immaterial.

### Revenues

Revenues for 2009 totaled €153.2 million, down 23% compared to 2008, at actual exchange rates, as well as like-for-like.

The decline was 25% in Europe, 12% in the Americas, and 30% in the Asia-Pacific region. These three regions accounted for 57% (including 11% for France), 20%, and 17% of total revenues respectively. Revenues from the rest of the world, representing 6% of total revenues, fell by 20%. Revenue trends differ from the trends in orders discussed above mainly because recurring revenues account for a larger share of revenues in developed countries than in emerging countries.

### *Revenues from New Systems Sales*

New software license revenues (€17.6 million) decreased by 40% overall and contributed 11% of total revenues (15% in 2008).

CAD/CAM equipment revenues (€30.2 million) were down 47% and accounted for 20% of total revenues (28% in 2008).

Revenues from training and consulting (€7.7 million) were down 13%.

Overall, revenues from new systems sales (€56.2 million) fell by 41% and represented 37% of total revenues (48% in 2008).

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

Recurring revenues (€97 million) decreased by €7.4 million (–7%) overall. As a result of weak new systems sales, they accounted for 63% of total revenues for 2009, compared to 52% in 2008.

Revenues from recurring contracts—which represented 67% of recurring revenues and 42% of total revenues—were €64.8 million. They were down 3% relative to 2008. However, this decline was limited, despite weak new systems sales and an unusually high cancellation rate, resulting from reduced activity levels, shutdowns and cost-cutting measures by certain customers.

Recurring contracts, which concern approximately two-thirds of Lectra's 23,000 customers, break down as follows:

- Revenues from software evolution contracts (€30 million) were unchanged relative to 2008 and represented 20% of total revenues;

- Revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to Lectra's five International Call Centers decreased by 5% to €34.8 million and represented 23% of total revenues. Meanwhile, revenues from spare parts and consumables (€30.5 million) fell by 15%.

Given the scale of the decrease in revenues from new systems sales, and despite their unusual decline, recurring revenues continued to play their role as a key stabilizing factor in Lectra's business model, acting as a cushion in periods of economic slowdown.

### *Gross Margin*

The overall gross margin worked out to 70.7%. Like-for-like, it came to 70.6%, up 3.8 percentage points relative to 2008 (66.8%).

This positive change confirms that sale prices held up well, despite increased competitive pressure during periods of economic crisis. Margins on each product line are stable or up slightly.

This improvement also stems from the greater share of new software licenses in new systems sales and of recurring revenues in total revenues. Gross margins on recurring revenues on these items tend to be higher than on other revenue categories.

Personnel expenses and other operating expenses incurred in the execution of service contracts are not included in cost of sales, but are recognized in selling, general and administrative expenses.

### *Overhead Costs*

Total overhead costs were €111.1 million, down €15.4 million (–12%) compared to 2008. They break down as follows:

- €106.2 million in fixed overheads costs and allowances, down €13.3 million (–11%) thanks to the stringent cost-cutting measures implemented as early as the third quarter of 2008 and reinforced since April 2009;
- €4.9 million in variable costs (–31%).

R&D costs are fully expensed in the period and included in the above-mentioned fixed overheads. Before deducting the (French) research tax credit and R&D program grants received, R&D costs amounted to €16.2 million and represented 10.6% of revenues (compared to €18.3 million and 9.2% in 2008). Thanks to the company's decision to maintain its significant R&D effort, the corresponding expenditures fell by only 12%. Net R&D costs after deduction of the research tax credit and grants amounted to €8.7 million, versus €10.6 million in 2008.

### Income from Operations and Net Income

Income from operations before non-recurring items was negative at €2.8 million. On a like-for-like basis, the loss was negative at €2.9 million, down €9.9 million relative to the positive income from operations before non-recurring items of €7.0 million in 2008.

The margin on operations before non-recurring items was -1.8%. On a like-for-like basis, it worked out to -1.9% and fell 5.4 percentage points compared to 2008.

Non-recurring expenses, reflecting the reorganizational measures implemented in Q4 2009, amounted to €1.9 million.

After deducting these expenses, the company recognized a loss from operations of €4.7 million. Like-for-like, the figure worked out to a loss of €4.8 million.

Net financial expenses represent a net charge of €3.6 million. A net foreign exchange gain of €2 million was recognized thanks to the U.S. dollar and Japanese yen hedges put in place in February 2009.

After an income tax gain of €2.7 million, net loss was €3.6 million (compared to a net income of €3.2 million in 2008).

Net earnings per share on basic and diluted capital showed a loss of €0.13, compared to a profit of €0.11 per share in 2008.

### Free Cash Flow

Free cash flow before non-recurring items was positive at €9.9 million (compared to a negative €3.2 million in 2008). Free cash flow benefited from the advance repayment in Q1 2009 of €14.1 million, corresponding to the research tax credits for the years 2005 through 2008, which were recognized in the statement of financial position at December 31, 2008. These advance repayments were a result of measures announced by the French government on December 4, 2008, under its economic stimulus plan. On the other hand, €6 million has been recognized but not yet received, corresponding to the research tax credit for 2009. After €0.7 million in non-recurring disbursements, free cash flow was positive at €9.3 million (compared with a negative €4.8 million in 2008, after €1.6 million in non-recurring disbursements). This figure results from €11 million in positive cash flow provided by operating activities (of which a €9.6 million reduction in working

capital requirement) and capital expenditures of €1.7 million. Inventories in particular declined once again to €18.4 million at December 31, 2009, versus €28.6 million at December 31, 2008, with an offsetting decline in accounts payable.

Excluding the impact of research tax credits (the net effect of which has been to reduce the working capital requirement by €8.1 million), free cash flow before non-recurring items was positive at €1.8 million, while the loss before tax and excluding non-recurring items was €4.4 million, a performance worth noting, given the circumstances. The comparison of free cash flow performance to income (loss) before tax is the most meaningful metric, since no actual tax collection is recognized for the period.

### Shareholders' Equity—Net Financial Borrowings and Liquidity

At December 31, 2009, consolidated shareholders' equity amounted to €24.7 million (€28.6 million at December 31, 2008). Retrospective application of IFRS 8 resulted in a €0.5 million goodwill adjustment at December 31, 2008, and an increase of the same amount in shareholders' equity. This figure is calculated after deduction of treasury shares held under the Liquidity Agreement with SG Securities (Société Générale Group), carried at cost, i.e., €1.4 million (€1.5 million at December 31, 2008).

Cash and cash equivalents totaled €9.7 million (€10.2 million at December 31, 2008).

Financial borrowings totaled €57.5 million (€66.5 million at December 31, 2008), of which:

- €48 million corresponds to the 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;
- €7.6 million corresponds to the use of cash credit facilities (€16.9 million at December 31, 2008);
- €1.9 million corresponds to interest-free repayable government advances to finance R&D programs.

Net financial borrowings consequently totaled €47.8 million (€56.4 million at December 31, 2008).

The company has given an undertaking to the banks regarding the medium-term loan of €48 million, to comply with certain financial ratios (covenants) at December 31st

of each year (see chapter 13.3 of the notes to this report). Anticipating that these ratios would probably not be respected at December 31, 2009, as a result of the economic crisis, in December 2009, the company secured an agreement with the lending banks for a waiver of early repayment of the loan, despite breaking these covenants in 2009. None of the clauses and conditions of this loan is modified by this agreement.

Taking into account available cash and cash equivalents and unused confirmed cash credit facilities, total liquidity available to the company at the date of this report amounted to €31.1 million on the basis of the financial statements at December 31, 2009 (see chapter 13.4 of the notes to this report).

### Litigation Pending

#### The International Arbitral Tribunal Awards Lectra €25.3 million

On October 28, 2009, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce (with hearings in London) notified the parties to the award in the arbitration initiated in June 2005 by Lectra against Induyco, the former shareholder of Investronica Sistemas.

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 disputes arising out of or relating to the agreement would be finally settled by international arbitration. Induyco provided Lectra with first demand bank guarantees for a total amount of €17.2 million.

The final phase of the arbitral hearings took place in November 2007.

In its decision of October 28, 2009, the international arbitral tribunal awarded Lectra €21.9 million plus interest:

- award on the merits: €15.1 million (plus interest since June 30, 2005 and post-award interest until payment),
- award as costs: €6.8 million (plus post-award interest from the time of the decision until payment).

Interest awarded by the Tribunal from June 30, 2005 until the date of the decision amounts to €3.4 million, thus bringing the total amount of the award plus interest awarded up till the date of the decision to €25.3 million. Post-award interest earned until December 31, 2009 comes to €0.1 million.

Following notification of the award, Lectra called on €15.1 million in respect of the aforesaid first demand bank guarantees, and requested that Induyco pay the full amount of the award plus post-award interest. Induyco has since obtained an interim order in Spain temporarily suspending operation of the first demand guarantees on the grounds that Lectra must obtain recognition and enforcement of the award in Spain before being able to recover any amounts under the guarantees. Lectra appealed this decision at the beginning of 2010. Induyco also commenced proceedings at the end of 2009 in Spain, challenging Lectra's demand under the demand guarantees, and in England challenging the award. Lectra considers both court actions to be entirely without merit and intends to mount an aggressive and vigorous defense of its rights and to seek recovery of the amounts due to it under the award.

#### Impact of the Award on Lectra's Financial Statements and Cash Flow

In view of, (a) the suspension of the payment of €15.1 million in respect of the bank guarantees and of the non-payment by Induyco of the award and (b) of the new proceedings commenced by Induyco in Spain and the UK, whose effect will be to delay any receipt of payment of the award by Lectra, the company has not recognized in its 2009 financial statements the amount of €25.3 million awarded by the arbitral tribunal, and the accounting methods applied to the arbitration procedure, as adopted at December 31, 2008, remain unchanged.

Under IFRS rules, companies must recognize in their financial statements only amounts for which there is a high degree of certainty of receiving the amount in the near future. As a matter of prudence, in view of uncertainties surrounding the timing of the proceedings in Spain and the UK, and in light of Induyco's stated intention of doing everything in its power to delay execution of the decision, the company considers that the date of effective

payment of the award in the near future—including the €15.1 million call on bank guarantees—could not be predicted with the requisite high degree of certainty. The aggregate amount of legal and expert fees, procedural and other costs incurred by Lectra since the beginning of the procedure and until December 31, 2009 amounts to €10.2 million. Of this amount, €4.5 million were expensed as operating expenses in 2005, 2006 and 2009, and €5.7 million incurred from January 1, 2006 to October 28, 2009 were recognized in current assets in the statement of financial position. The full amount recognized in current assets will be deducted from the arbitral tribunal's award to Lectra once the award has been recorded in the company's accounts.

The arbitral award has had no impact on the 2009 free cash flow.

As all €9.9 million costs incurred by Lectra have already been paid in full at the date of the award, the execution of the arbitral decision will result in a cash inflow equal to the total amount of the award, i.e. €25.3 million (plus interest since the date of the decision).

Legal fees and costs of the new legal proceedings instituted by Induyco in Spain and the UK will be expensed directly in the income statement over the period in which the corresponding proceedings take place.

#### **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 company has reviewed risks liable to have a materially adverse impact on its activity, financial condition, or earnings (or its ability to fulfill its objectives), and considers that there are no significant risks apart from the ones discussed below.

##### **4.1 Economic and Operational 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 turbines, personal protective equipment, etc.

This activity demands continuous creativity and a relentless search for innovation, and the company consequently invests heavily in R&D. 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 and 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 customers. 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 customers' 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 that could result 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 systems, 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, clusters and replication of storage bays technologies all serve to guarantee very rapid deployment of the business continuity plan.

Moreover, the Group subjects its information security processes and procedures to verification. It conducts regular audits to identify potential deficiencies and rectify them appropriately, implementing new technologies as they become available, and building awareness among its staff and providing training for them in the application of and compliance with security procedures.

#### 4.3 Counterparty Risks

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 via a range of customer risk management procedures. In particular, these procedures entail preventively analyzing its customers' solvency and provide for the strict and systematic application of a wide array of measures for dealing with customers in arrears. 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.

Finally, there is no material risk of dependence on any particular customer or group of customers, no individual customer representing more than 5% of consolidated revenues in 2009 as in earlier years, and the 10 largest customers of the company do not represent a significant percentage of revenue, together accounting for less than 10% revenue.

If, in spite of the foregoing, the Group considers that it is exposed to a risk of non-collection of a customer receivable, it recognizes an impairment on the said receivable.



#### 4.4 Macroeconomic Environment Risks

The solutions marketed by the Group sometimes represent a major investment for customers. 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 customer operates. Group customers 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 has led to sharp 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 customers, 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 *Autorité des Marchés Financiers* (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. The Group considers that there are no other governmental, judicial or arbitral proceedings, including all proceedings of which the Group has knowledge, pending or impending or which could threaten it for which no provision has been made in the financial statements and liable, either individually or severally, to have, or having had in the past twelve months material impacts on the financial condition or earnings of the Group, with the exception of the dispute with Induyco still pending (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 Risks

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 R&D 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 27% of the Group's consolidated revenues, 10% of its cost of sales and 18% of its overhead expenses are denominated in US dollars or in currencies strongly linked to the dollar.

The 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 U.S. company. As a result, prices are generally dependent on the US dollar;
- translation impact:
  - the financial statements are consolidated in euros. Consequently, within the income from operations, 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 S.A. 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 U.S. dollar. The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the U.S. dollar (revenues less all expenses denominated in U.S. 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 dollar/euro parity on the Group financial statements before hedging, if any, is discussed in chapter 14 of this report.

The Group's statement of financial position exposure is monitored in real time and it utilizes forward currency contracts to hedge all relevant receivables and debts.

#### Interest-Rate Risks

Given the characteristics of its financial debt and the interest-rate risk hedge put in place to cover part of 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. Consequently, in light of the hedges in place and based on the spread of its borrowings at December 31, 2009, 24% 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 Agreement (see note 10.2 to the consolidated financial statements), and is therefore not subject to market risk.

#### 4.7 Liquidity Risks

Group borrowings at December 31, 2009 totaled €57.5 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.

The company is bound during the period of the loan to respect, at December 31st 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 covenants, are spelled out in note 13.3 to the consolidated financial statements.

At the same time, the loan contract entitles the banks to demand early repayment of the balance of the loan outstanding under a “change of control” clause in the event that one or 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.

Anticipating that these covenants would probably not be respected at December 31, 2009, the company secured an agreement in December 2009 with the lending banks to a waiver of early repayment of the loan despite breaking these covenants in 2009. None of the clauses and conditions of this loan is modified by this agreement.

At the same time, at December 31, 2009 the parent company Lectra SA had access to the following confirmed cash facilities:

- €15 million until July 31, 2010;
- €4 million until June 15, 2011;
- €10 million until June 23, 2011.

Taking into account available cash and cash equivalents of €9.7 million and unused confirmed cash credit facilities, total liquidity available to the company at December 31, 2009, amounted to €31.1 million.

Finally, the French Government has announced that the early repayment of the research tax credit, one of the measures contained in its economic stimulus plan, will be extended for 2010, and that it would apply this measure to the research tax credit recognized by companies in respect of 2009. Lectra will receive a repayment of around €6.2 million in the first quarter of 2010 as a result of this measure.

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 primarily on the competence and expertise of its personnel, the quality of its management, and on its capacity to federate its teams in addressing the Group’s strategic challenges. Given the breadth of its international reach, its size, its many different activities—R&D, manufacturing and logistics, sales of high value added technology solutions, deployment by consultants who are experts in the businesses of its

different market sectors and in related solutions for users, manufacturing and support services, administration and finance, 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, is to limit these risks, doing so in three main ways. These encompass an ambitious and continuous 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 human resources management policy emphasizing a high degree of flexibility and adaptability.

However, given the even tighter budgetary constraints in the current hostile macroeconomic conditions, the means available to create a skills pool in order to ensure the presence of internal replacements for each key position are limited. Departures are generally followed by transitory solutions, a Group manager being entrusted with an interim mission for the time needed to appoint someone from inside the company or to recruit someone from outside.

The quest for efficiency and performance by personnel is an ongoing concern. Measures taken in this regard focus on four main themes, namely: in optimizing business processes and procedures based on upgradable internal information systems on which the Group is regularly investing; permanent efforts to improve personnel competencies; deploying leading edge IT infrastructures permitting direct exchanges between teams and customers wherever they are located in the world, with connections to match these needs; and, lastly, proactive internal communications to share and promote understanding of the Group’s strategy and challenges, to federate employees and improve teamwork.

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 S.A. 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 (France) site, which houses R&D 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 balance sheet positions at December 31, 2009 were comprised of forward sales or purchases of foreign currencies (mainly U.S. dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €12.3 million.

The company had hedged in 2007 its exposure to the interest-rate risk on part of 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, 2009.

These swaps satisfy IFRS criteria for a hedging transaction. Their fair value at December 31, 2009 was a negative €2.2 million, due to the decline in the 3-month Euribor rate relative to the rate prevailing when these swaps were put in place. These swaps are considered effective, and this amount is fully recognized in shareholders' equity.

### Other Off-Balance Sheet Items

#### Commitments Given

The parent company, Lectra S.A., provided a total of €2.3 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, it has given a mortgage promise, up to €10 million, on certain buildings at its Bordeaux-Cestas (France) industrial site, to two of its banks in order to guarantee new credit lines provided by the said banks.

#### Commitments Received

The parent company, Lectra S.A., has received:  
– a €17.2 million security from Induyco in 2006 and 2007, in the form of bank guarantees 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. In light of the arbitral tribunal's ruling of October 28, 2009, Lectra has called in this guarantee in the amount of €15.1 million, which has not been received at the date of publication of this report (see chapter 3 above);  
– within the framework of the agreements relating to the acquisition of Investronica and Lacent in 2004 and Humantec in 2005, representations and warranties from the vendor shareholders concerning certain assets and liabilities in their balance sheets as well as all potential litigation arising in respect of events predating the respective acquisitions. These guarantees have now expired, with the exception of liabilities eligible for indemnification notified to the vendor shareholders prior to their expiration dates or that remain in force beyond the contractual period stipulated in the purchase contract and not yet time-barred at the date of this report;  
– a commitment in 2007 from OSEO Innovation, a French public body, to aid a new R&D program in the form of an interest-free repayable advance. OSEO Innovation's total commitment will amount to €2 million if the company completes this program. Three initial payments for a total of €1.6 million were received in 2007, 2008 and 2009. Assuming the program is completed in 2010, the balance will be received in 2010.

#### Other Commitments

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. APPROPRIATION OF EARNINGS

In 2004, the company initiated a policy of paying dividends to its shareholders while continuing to fund its future growth. It suspended this policy in 2007, as a result of the Public Share Buyback Tender Offer, and then in 2008 in light of the level of the company's earnings and net debt. The net loss for 2009 does not permit payment of a dividend in respect of the year in review.

Re-affirming its confidence in the future, the Board of Directors intends to propose to the shareholders to

resume its dividend payment policy as soon as its financial condition permits.

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, 2009, share capital totaled €27,640,648.58, divided into 28,495,514 shares with a par value of €0.97, unchanged compared to December 31, 2008.

On September 24, 2009, Insinger de Beaufort Asset Management N.V. (Netherlands), acting on behalf of investment funds managed by it, reported that it had reduced its shareholding and voting rights below the 10% statutory reporting thresholds, and held 9.96% of the capital and 9.79% of the voting rights at that date.

On December 16, 2009, Delta Lloyd Asset Management N.V. (Netherlands), a subsidiary of Aviva, reported that it had increased its shareholding and voting rights above the 10% reporting threshold, and held 10.7% of the capital and 10.52% of the voting rights at that date. Delta Lloyd has stated that it had purchased the Lectra shares in the normal course of its asset management activity and does not intend to pursue any specific strategy vis-à-vis Lectra nor to exercise any specific influence over the latter's management in this regard. Delta Lloyd Asset Management N.V. is not acting in concert with any third party and does not intend to take control of Lectra, or to request its appointment to the Board, or that of one or more representatives.

On January 6, 2010, Insinger de Beaufort Asset Management N.V. (Netherlands) reported having reduced its shareholding and voting rights below the 5% statutory reporting thresholds and that it held 4.69% of the capital and 4.61% 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 January 1, 2010.

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 voting rights;
- Société Financière de l'Echiquier (France) and Delta Lloyd Asset Management N.V. (Netherlands), which hold more than 10% (but less than 15%) of the capital and voting rights on behalf of investment funds managed by them.

### Treasury Shares

At December 31, 2009, the company held 1.6% 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 stock market trading sessions preceding the options' grant date.



### *The 2009 Stock Option Plan*

On June 9, 2009, at the recommendation of the Compensation Committee, the Board of Directors granted a total of 52,659 stock options with an exercise price of €4.10 per share to 34 beneficiaries in respect of the actual performance of their 2008 objectives, in keeping with the undertaking given at the time of granting of the 2008 stock option plans. The final number of options and their exercise prices was to be set at their grant date but was in no circumstances to be less than €4.10, the price set for options granted in 2008.

On the same date, the Board of Directors also granted 642,010 options to 76 beneficiaries, at an exercise price of €2.50 per option, in respect of the 2009 plan. Moreover, a maximum of 668,620 options have been earmarked for granting to 47 of these people in respect of fulfillment of their 2009 objectives. The final number and exercise price of these options will be set by the Board of Directors at the time of granting in 2010. The exercise price may in no circumstances be less than €2.50.

Each of these options entitles the holder to one share with a par value of €0.97.

All of the options granted by the Board of Directors in fiscal 2009 concerned Group employees. No options were granted to the executive directors (*mandataires sociaux*) of Lectra SA. These options vest over a period of four years from January 1, 2009, 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).

The options are valid for a period of eight years from the date of granting.

### *Options Outstanding at December 31, 2009*

No option were exercised in 2009. 902,168 options have ceased to be valid, including 304,228 options following the departure of their beneficiaries. In addition, 45,829 options ceased to be valid between January 1, 2010 and the date of publication of this report.

There were 178 employees that were beneficiaries of 2,887,767 stock options outstanding and 17 former employees still hold 105,761 options at December 31, 2009. Altogether, there are 195 beneficiaries of options (233 at December 31, 2008).

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 31,443,213, consisting of:

- capital stock: 28,495,514 shares;
- stock options: 2,947,699 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, 2009, the company's capital (at par value) would increase by a total of €2,859,268, together with a total additional paid-in capital of €11,457,139.

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, 2009.

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, 2009, was €2.25, down 31% compared to December 31, 2008 (€3.25). Since January 1, 2009, the share price has reached a high of €3.25 (January 2) and a low of €1.80 (March 27). The CAC 40 and CAC Mid&Small190 indexes were up 22% and 40% respectively over the same period.

This sharp drop occurred in narrow trading volumes: according to Euronext figures, 3.9 million shares were

traded [–23%], and the volume of capital traded was €8.7 million [–49%], compared to the same period in 2008. Following the steep decline in the company's stock market capitalization, 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 for 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 cancelled in 2001 the double voting rights that were attached to the shares they held.

As a result of the foregoing, only 486,730 shares (representing 1.7% of the capital stock) carried double voting rights at December 31, 2009.

### 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 (French) 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 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. This format has amply demonstrated its relevance since the onset of the global economic crisis.

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 re-elected André Harari to the position of Chairman of the Board of Directors and Daniel Harari to the position of Chief Executive Officer. Their term will expire at the end of the Shareholders' Meeting called to approve the 2011 financial statements. The Board has not named 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 12 years can no longer be deemed independent. Louis Faurre and Hervé Debache have both been directors for more than 12 years now. All of the other criteria of independence, apart from the fact of having been directors for more than 12 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 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 objectives, 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 gained over these years and their deep knowledge of the company, given the long term perspective in which the company invests and operates. The Board considered that a period in excess of 12 years as a director did not impair the independence of their judgment or their authority, but reinforced it, rather. The shareholders concurred with these recommendations and decided to waive the twelve years service criterion.

#### 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 should 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 amount of target-based total compensation for the year. This was unchanged for the years 2005 to 2009, and has been extended for fiscal 2010. The fixed portion of compensation is unchanged since 2003, and for the variable portion of annual target-based compensation since 2005.

Conditional upon the fulfillment of annual targets, variable compensation is 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. The two criteria are consolidated pre-tax profit excluding net financial expense and non-recurring items (which accounts for 67%) and consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after certain restatements (which accounts for 33%). It is equal to zero below a certain threshold, 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 executive directors' performance, the company's medium-term strategy and the general macroeconomic conditions, and, in particular those of the geographic markets and market sectors in which the company operates. 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 fifteen 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 2009, the annual profit target was not fulfilled; the free cash flow target was exceeded. 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 66% of the amount tied to the fulfillment of annual targets (33% in 2008), of which 0% tied to profit (accounting for 67%), and 200% tied to free cash flow (accounting for 33%). Consequently the actual compensation due in respect of 2009 was 80% of the target-based compensation, and 60% in 2008.

*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 actual compensation effectively earned, in respect of each fiscal year.

(in euros)	2009			2008		
	Compensation assuming fulfillment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfillment of annual targets	Compensation assuming fulfillment of annual targets	Actual compensation earned in respect of the fiscal year	% Actual compensation / Compensation assuming fulfillment of annual targets
<b>André Harari, Chairman of the Board of Directors</b>						
Fixed compensation	190,000	190,000	100%	190,000	190,000	100%
Variable compensation	285,000	188,100	66%	285,000	94,909	33%
<b>Total</b>	<b>475,000</b>	<b>378,100</b>	<b>80%</b>	<b>475,000</b>	<b>284,909</b>	<b>60%</b>
<b>Daniel Harari, Chief Executive Officer</b>						
Fixed compensation	190,000	190,000	100%	190,000	190,000	100%
Variable compensation	285,000	188,100	66%	285,000	94,909	33%
<b>Total</b>	<b>475,000</b>	<b>378,100</b>	<b>80%</b>	<b>475,000</b>	<b>284,909</b>	<b>60%</b>

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)	2009		2008	
	Amounts earned in respect of the fiscal year <sup>(1)</sup>	Amounts paid in the year <sup>(1)</sup>	Amounts earned in respect of the fiscal year <sup>(1)</sup>	Amounts paid in the year <sup>(1)</sup>
<b>André Harari, Chairman of the Board of Directors</b>				
Fixed compensation	190,000	190,000	190,000	190,000
Variable compensation	188,100	94,909	94,909	73,676
Directors' fees <sup>(2)</sup>	25,000	25,000	25,000	25,000
Benefits in kind <sup>(3)</sup>	16,476	16,476	24,680	24,680
<b>Total</b>	<b>419,576</b>	<b>326,385</b>	<b>334,589</b>	<b>313,356</b>
<b>Daniel Harari, Chief Executive Officer</b>				
Fixed compensation	190,000	190,000	190,000	190,000
Variable compensation	188,100	94,909	94,909	73,676
Directors' fees <sup>(2)</sup>	25,000	25,000	25,000	25,000
Benefits in kind <sup>(3)</sup>	18,482	18,482	20,366	20,366
<b>Total</b>	<b>421,582</b>	<b>328,391</b>	<b>330,275</b>	<b>309,042</b>

(1) Differences between amounts earned in respect of 2009 and 2008 and the amounts paid in 2009 and 2008 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 2009 shown here are subject to approval by the Shareholders' Meeting of April 30, 2010.

(3) The amounts shown for fringe benefits reflect the value for tax purposes of the use of company cars (€13,511 for André Harari and €12,384 for Daniel Harari in 2009) and payments to life insurance policies for André Harari (€2,965 in 2009 and €11,730 in 2008) and Daniel Harari (€6,098 in 2009 and €6,032 in 2008); the life insurance policy on André Harari expired on April 1, 2009.

These amounts were borne and paid in full by the parent company, Lectra S.A. Directors and officers received no compensation or special benefits from subsidiaries controlled by Lectra S.A. 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, 2009 in respect of 2008 was divided equally among the directors (€25,000, or one quarter of the total, for each director) as previous years.

(in euros)	2009 <sup>(1)</sup>	2008
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
<b>Total</b>	<b>100,000</b>	<b>100,000</b>

(1) Director's fees shown in respect of 2009 are subject to approval by the Shareholders' meeting of April 30, 2010. 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. The only two executive directors, André Harari and Daniel Harari, hold no stock options. No stock options have been granted to them since 2000. Neither of them has been entitled to receive any stock options since 2000, under French legislation, insofar as each of them has held more than 10% of the capital stock since that date.

*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 is also a member of the Board of Directors of Lectra USA Inc., a direct subsidiary of Lectra SA in the United States.

Louis Faurre holds no outside directorship or general management position outside Lectra S.A.

Hervé Debache is a 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 2009 by directors or by Jérôme Viala and Véronique Zocchetto, 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 Zocchetto did not exercise any stock options in 2009.

*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 (now Thomson Reuters), 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.

*Fees Paid to Group Auditors and Companies in Their Network*

The Lectra Group booked, in 2009, a total of €720,000 in fees paid for the audit of the financial statements of all Group companies, including €439,000 to PricewaterhouseCoopers, €226,000 to KPMG and €55,000 to other auditors. The corresponding charge recognized in 2008 was €760,000.

Total fees paid to the Group statutory auditors in 2009 amounted to €792,000, including €519,000 to PricewaterhouseCoopers and €273,000 to KPMG:

	PWC				KPMG			
	Amount		%		Amount		%	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Audit</b>								
– Statutory audits, Certification and examination of individual and consolidated financial statements								
Issuer (Lectra S.A.)	148	150	29%	22%	129	142	47%	74%
Fully Consolidated subsidiaries	291	417	56%	61%	97	51	36%	26%
– Others services directly related to the Auditors' engagement								
Issuer (Lectra S.A.)	–	–	–	–	–	–	–	–
Fully Consolidated subsidiaries	–	–	–	–	–	–	–	–
<b>Sub-total</b>	<b>439</b>	<b>567</b>	<b>85%</b>	<b>83%</b>	<b>226</b>	<b>193</b>	<b>83%</b>	<b>100%</b>
Other services performed by the networks to consolidated entities								
– Legal, tax and social reviews	80	113	15%	17%	47	–	17%	–
<b>Sub-total</b>	<b>80</b>	<b>113</b>	<b>15%</b>	<b>17%</b>	<b>47</b>	<b>–</b>	<b>17%</b>	<b>–</b>
<b>Total</b>	<b>519</b>	<b>680</b>	<b>100%</b>	<b>100%</b>	<b>273</b>	<b>193</b>	<b>100%</b>	<b>100%</b>

#### **Appointment of Statutory Auditors and Alternate Statutory Auditors**

The appointments of PricewaterhouseCoopers Audit and KPMG as Statutory Auditors were renewed by the Shareholders' Meeting of April 30, 2008, for a period of six fiscal years expiring at the end of the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal 2013.

In virtue of the "six-year rotation" principle concerning members of audit firms signing the financial statements, Marc Ghiliotti, signatory for PricewaterhouseCoopers Audit, has been 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 Etienne Boris was appointed alternate Statutory Auditor. 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 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 S.A., 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 concert—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 ambition is to establish and consolidate its position as world leader. Thanks to its proximity to its customers, it forges long-term relationships with them and supports them in their development, through its technology offering and leading edge services addressing their strategic challenges, and also through its global network.

The key to growing its business worldwide lies primarily in the expertise of its personnel, its marketing network, and its international services, both global and local. Its growth depends also on continuous investment in innovation and the new technologies.

The company's strategy of radically transforming itself, embarked on 2005, seeks to adjust to the deep changes taking place in its market, strengthen its competitiveness and world leadership, and concentrate its resources in order to fulfill its development potential. The strategy is aimed in particular at building a still more effective marketing and sales organization; fostering a team of business experts and solutions experts capable of delivering high quality services; bolstering the innovative capabilities of the company's R&D teams; and, lastly, optimizing all of its administrative and financial functions.

In support of this strategy, the Group is pursuing a robust policy of developing its human resources, while continuously

optimizing and improving all of its business processes aimed at boosting efficiency and profitability. The main points of this policy are: recruiting and developing the most competent employees internationally, at headquarters and in our subsidiaries; continuing to invest significantly in skills training and monitoring; asserting greater control over our human resources administration, deploying the necessary programs to streamline its organization, with particular emphasis on in-house information channels.

As a result of the foregoing, and despite the sharp slowdown in activity since the onset of the economic crisis, the Group deployed all of the necessary means, in 2009, to proceed with its efforts to transform the company and better prepare for the post-crisis era.

### Diversity and Ethical Values

Uncompromising ethical rigor in the conduct of its business activities, and respect for the individual, are the foundations of Lectra's philosophy.

Lectra Group's economic headcount at December 31, 2009 was 1,374 worldwide. Its customer relations teams (marketing, sales and services activities) account for 51% of the work force, R&D 15%, production and logistics 12%, and administration and finance, human capital management and information systems 22%.

The Group attaches particular importance to the careers of its employees inside the firm. 98% of employees are on open-ended contracts. Fixed-term contracts apply mainly to persons hired to replace staff on maternity or long-term leave.

As a transnational corporation, Lectra shares its know-how with its customers in more than 100 countries via its own worldwide sales and services network, supplemented by agents or distributors in certain countries.

Lectra operates in a multicultural environment and shares its know-how with its customers the world over. Its work force is spread across 31 subsidiaries, with more than 55 nationalities represented. This diversity is a major source of wealth and indisputably 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*

The expertise of its employees is one of the Group's key strengths.

Hiring people with a wide diversity of profiles and skills development has been a company priority since 2005, the aim being to match the skills and competencies of its teams as closely as possible to the strategy of the Group. 22% of its headcount have joined it in the last 36 months. The creation of Lectra Academy, its worldwide in-house training center, in Bordeaux-Cestas (France), in 2005, was one of a series of major initiatives leading to the formulation and implementation of a far-reaching plan for training. The four key challenges of this program are: to adapt and upgrade professional skills and know-how in the businesses of the company and its customers proactively; to bolster the Group's attractiveness to new job applicants around the world; to transmit the corporate culture in all its entities; to identify, develop and retain talent; and to manage careers effectively.

Employees worldwide enjoy access to a broad array of training programs. The Lectra Academy's team is fully dedicated to this task and works directly with the managers of each department and subsidiary, preparing and implementing training plans geared to the specific needs of the company's different businesses as well as to local circumstances. Group experts and outside instructors organize and run seminars in each of the company's areas of competence.

The Group invested €2.7 million in training in 2009, representing 3.8% of total staff costs (versus €2.9 million and 3.7% of the Group payroll in 2008). About 58% of employees attended at least one training program, and the number of training days amounted to 4,090 (versus 5,200 in 2008). The main reason for the decline was the drop in new hiring in 2009, which automatically reduced attendance at induction seminars.

In addition, the Group has deployed new technical resources aimed at boosting distance learning programs, thereby reaching a broader audience, with more flexible timetables, while keeping a cap on direct and indirect training costs and eliminating the need for travel. Distance learning programs (in particular via WebEx and e-learning) were dedicated to upgrading knowledge of the new functions comprised in the software offering, and to the acquisition of expertise relating to the businesses of Group customers.

### *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 (France) 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*

The Group takes the view that, as a world leader, 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 800 educational institutions based in more than 30 countries.

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 programs and its relations with the educational community since 2007. Its new partnership policy has proved highly successful, 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 29 "Privilege" (the most wide-ranging) partnerships with top schools and universities in France, England, Benelux, 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 provides students opportunities to gain practical experience of new technological innovations and of real world business activities through seminars, in which they benefit from 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.

For the second consecutive year, Lectra invited the representatives of its "Privilege" partners to a congress in Bordeaux-Cestas, providing an occasion for exchanges of views, unanimously appreciated by those attending. Topics covered included technology, the issues facing fashion professionals, and new learning and training methods for students.

## 9. RESEARCH AND DEVELOPMENT

The company invests heavily in R&D each year. Its R&D teams comprise 210 persons, including 189 in France, 15 in Spain, and 6 in Germany. Consisting mainly of trained engineers, they span a wide array of specialties across a broad spectrum from software development and internet services through electronics, mechanical engineering, as well as expert knowledge of the Group's customers' 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 (French) research tax credit and grants relating to specific programs, these expenditures totaled €16.2 million in 2009, or 10.6% of revenues (€18.3 million and 9.2% in 2008). Despite the economic crisis, the company continued to invest significantly in R&D, limiting the fall in corresponding expenditures to 12%. Net R&D expense, after deducting the research tax credit and grants, amounted to €8.7 million (€10.6 million in 2008).

These investments (amounting to more than €170 million over the past ten years) have enabled the company to maintain and even strengthen its technology lead over its competitors. It notably introduced its new technology offering at the beginning of 2007. This comprised the new generation of Vector cutting systems, whose performance remains unmatched to this day. In 2009, it launched two major releases to its software offering, with new releases of *Kaledo V2R1*, its software design offer, and Lectra Fashion *PLM V2R1*, the only fashion collection lifecycle management solution (*Product Lifecycle Management*) incorporating Lectra's application software packages covering every stage and all necessary processes, both of them aimed specifically at the fashion industry.

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

The Shareholders' Meeting of April 30, 2009 renewed the program existing since the Shareholders' Meeting of April 30, 2008, 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. The sole purpose of this program is to maintain a liquid market in the company's shares by means of a Liquidity Contract with an investment services provider, in compliance with the code of conduct of the Association Française des Entreprises d'Investissement (AFEI, French association of investment companies) or any other code of conduct recognized by the Autorité des Marchés Financiers.

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 (in French only) to shareholders on its website and on that of the AMF on March 20, 2009.

### Share Cancellations

The company did not cancel any shares in 2009. The authority to do so expired on April 30, 2009.

### Treasury Shares

The company has not made any transactions within the framework of the mandate given to SG Securities (Paris) (part of the Société Générale Group) to purchase and sell company shares on its own account in accordance with the terms of the program authorized by the Shareholders' Meeting of April 30, 2008, which expired on April 30, 2009.

### Liquidity Agreement

Between January 1 and December 31, 2009, the company purchased 162,407 shares at an average price of €2.33 and sold 78,320 shares at an average price of €2.36, under the Liquidity Agreement administered by SG Securities (Paris), and in compliance with the Charter of Ethics established by the AFEI and approved by the AMF.

The company consequently held 422,546 (or 1.6%) of its own shares at December 31, 2009, with a par value of €0.97, purchased at an average price of €3.25 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, 2010 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, 2011.

The new program's objectives are confined, like last year, 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 the 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, 2010, where appropriate. Shareholders are reminded that, under this program, the company will not be in a position, in any circumstances, 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, 2009. It will have a duration of 18 months from the date of the Annual Meeting of Shareholders, e.g., until October 30, 2011.

In accordance with the General Regulation of the AMF, the company will make this program description available (in French only) to shareholders on its website ([www.lectra.com](http://www.lectra.com)) and on that of the AMF ([www.amf-france.org](http://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, 2009.



## 12. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 30, 2010.

First, second, and third quarter earnings for 2010 will be published on April 29, July 29, and October 28, 2010, respectively, after the close of trading on Euronext. The audited financial results for 2010 will be published on February 10, 2011.

## 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 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 Extraordinary Shareholders' Meeting of April 28, 2006.

## 14. BUSINESS TRENDS AND OUTLOOK

At the time of this report, macroeconomic conditions remain uncertain. The unprecedented scale of the economic and financial crisis has perhaps not yet ceased to influence the situation of national economies and businesses alike, and the ending of some significant measures taken by most governments in their stimulus plans could weaken activity in certain sectors. However, several signs appeared to point to the beginnings of an improvement at the end of 2009, confirming the forecasts of most observers of an upturn in activity and a more or less pronounced return to growth as early as 2010. The rebound in orders in Q4 enabled the company to end

the year on an optimistic note and gives grounds for hope, but it should be borne in mind that orders were still down 37% relative to Q4 2007, the last year before the onset of the crisis. Meanwhile, the global economic upturn could prove fragile.

Like 2009, 2010 could therefore be a difficult one for Lectra, as for many companies around the world, pending confirmation of a lasting improvement in macroeconomic conditions. Visibility remains limited and uncertainty persists; calling for continued great vigilance.

The company's management team used the second half of 2009 for a comprehensive rethink of the company and its future, within the approaching context of a totally "reset economy," as the international business press has called it. If the global economic paradigm has shifted radically, the company has, more than ever, needed to frame its decisions within a medium-term vision since the onset of the crisis, independently of how financial markets may react and of any action geared purely to the short term. Consequently, the imperatives shaping the company's action plans have been to preserve its strategic assets, leverage its strengths, and continue building for the future. The company has accordingly clarified and re-centered its priorities, and all its teams are mobilized to ensure its success.

The overriding objectives of the strategic plan laid down for the coming years remain unchanged from previous plans. These are: to accentuate Lectra's technological leadership and the high added value of its products and services; strengthen its competitive position and its long-term relationships with customers; accelerate organic growth once the crisis is over; increase profitability by regularly augmenting its operating margin; and generate free cash flow exceeding net income (assuming receipt of the tax credit for research recognized in the year).

The two immediate imperatives are to protect the company's financial position in the short term and limit its exposure to risks.

Moreover, receipt of the €25.3 million awarded to the company by the international arbitral tribunal would enable the company to halve its existing debt.

## 2010 Outlook

The figures for 2010 are based on the assumption of an average parity of \$1.50/€1 used for the 2010 budget, and changes are like-for-like compared to the 2009 results translated at the exchange rates used for 2010.

As in 2009, the action plans for 2010 were developed after exploring 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 continuing to generate significant positive free cash flow. The requisite fundamental measures have been implemented, some of them with effect as of January 1, 2010.

The key elements of the 2010 plan are:

- fixed overhead costs of €101 million, down by €4.2 million (–4%) relative to 2009;
- preserving gross margin rates at their 2009 levels (excluding the impact of currency fluctuations and changes in the product mix, a rebound in activity could start by boosting sales of CAD/CAM equipment);
- no change, overall, in recurring revenues (or down slightly if activity remains flat). While recurring contracts are expected to decline by 4-6% (given the exceptionally high level of cancellations in 2009), sales of spare parts and consumables should grow by between 5 and 10%, given the increase in activity and output at customer firms;
- Free cash flow exceeding income before tax.

The main uncertainty for 2010 concerns the level of revenues from new systems sales. Given the order backlog at January 1, expected changes in the product mix in orders for new software licenses and CAD/CAM equipment, and the forecast level of recurring revenues, the company would exceed its breakeven point (i.e., achieve a positive net income) if orders for new software licenses and CAD/CAM equipment grew by more than 20% relative to 2009. In that case, orders would make good 18% of the gap between their levels in 2007, before the crisis, and 2009. The corresponding revenues would amount to €163 million and income from operations to around €3 million.

The company has opted not to formulate estimates for the 2010 outlook, given the lack of visibility.

Macroeconomic conditions in the first half of 2010 are expected to remain impaired and orders for new software licenses and CAD/CAM equipment persistently weak, although it is impossible to estimate the extent of this weakness. First-quarter income from operations is expected to be slightly negative or close to breakeven. In an optimistic scenario, the economy, and hence sales activity, could bounce back in the second half of the year. Overall, unless economic conditions deteriorate further in 2010 compared to 2009, income from operations and net income should be positive.

At the same time, an average rise in the dollar of \$0.05 against the euro, taking the parity from \$1.50/€1 (the parity assumed in the 2010 budget) to \$1.45/€1, would mechanically increase revenues by around €1.5 million and income from operations by around €0.7 million. Conversely, a fall in the dollar of \$0.05 would decrease revenues and income from operations by the same amounts.

On February 2010, the company hedged its exposure to the US dollar for the first quarter (\$1.40/€1) and the second quarter (\$1.35/€1).

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

Once the crisis is over, firms in the different geographical and market sectors served by the company will presumably need to acquire the technologies they require to boost their competitiveness. The crisis has amplified the challenges they face. Lectra customers should also begin to catch up on investments frozen or shelved for the past two years.

The company remains confident in the strength of its business model and its medium-term growth prospects. As reiterated last year, Lectra has consistently demonstrated its resilience during difficult periods in its history. Its prime objective is therefore to emerge strengthened from the current economic crisis.

The Board of Directors  
February 26, 2010

# Schedule of authorizations to increase the capital at the close of fiscal year 2009

Note to chapter 13 of the Management Discussion

Type of issues	Authorization date	Maturity	Term	Maximum Amount	Utilization 2008-2009
Stock Options <sup>(1)</sup>	April 30, 2008	June 30, 2011	38 months	Capital: € 1,455,000	Amount utilized: € 1,106,917
Total authorized non expired and unutilized at December 31, 2009				€ 348,083	

(1) The General Shareholders Meeting of April 30, 2008 authorized the creation of a new stock option plan for a maximum of 1,500,000 options with a par value of €0.97. The maximum amount and amounts utilized at December 31, 2009 are shown with the par value of the shares; 1,141,880 options had been utilized at December 31, 2009, and 358,120 remained at the Board's disposal (see note 10.5 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, February 26, 2010

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.

Moreover, 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.

Lastly, as announced on the occasion of the presentation of the aforementioned recommendations on October 6, 2008, the AFEP and the MEDEF published in November 2009 their first annual report on "The implementation by SBF 120 companies of their Code of Corporate Governance", which indicates the degree of compliance by these companies with the recommendations set forth in the AFEP-MEDEF Code.

The AFEP-MEDEF Code is available for consultation at [www.code-afep-medef.com](http://www.code-afep-medef.com).

The present report describes (i) the conditions in which the Board prepared and organized its proceedings in the fiscal year ended December 31, 2009, (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 is substantively unchanged from the prior year, with the exception of minor modifications, which are indicated as such.

This report was submitted to and discussed by the Audit Committee and approved by the Board of Directors at their meeting of February 26, 2010.

## **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 (French) 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: 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 February 26, 2010, 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 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 objectives, and having particular regard to the difficult macroeconomic conditions prevailing since 2007, in its recommendations to the Shareholders' 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 gained over these years and their deep knowledge of the company, given the long term perspective in which the company invests and operates. The Board considered that a period in excess of twelve years as a director did not impair the independence of their judgment or their authority, but reinforced it, rather. The shareholders concurred with these recommendations and decided to waive the twelve years service criterion.

### 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 2011, 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 2013.

### 1.3 Committees of the Board of Directors

The Board of Directors has created three 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). Concerning the Audit Committee, article L. 823-19 of the French Commercial Code, introduced via the Ordinance of December 8, 2008 rendering the establishment of an Audit Committee mandatory, bars directors holding management positions from membership of the said Committee. This article will only start to apply to the company as of August 31, 2013.

### 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 Committee Chairman is a certified accountant and a graduate of HEC Business School (Paris) 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 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 2009. 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 2009, and on February 11 and 26, 2010, for the review of the fiscal 2009 financial statements, the Committee notably reviewed the goodwill impairment tests, deferred tax assets at December 31, 2009, as well as the accounting methods applied to the award notified on October 28, 2009 in the arbitration procedure initiated by the company before the International Chamber of Commerce in London against Induyco. The Committee also reviewed the company's 2010 budget as well as the revenue and income from operations scenarios serving as the basis for the information communicated to the market. For fiscal 2009 and 2010, it has in particular reviewed the corresponding plan to cut overhead 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, and 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 (French) 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 is 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 €150,000 or \$200,000;

- 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 2009 and also on February 11, 2010. All members of the Committee were present at these meetings, resulting in 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 three times in 2009, in particular to review and discuss the main issues and risks, together with measures undertaken under the 2009 action plan in response to the global economic crisis, and to formulate recommendations. It has been regularly and fully informed of the impact of this situation on the activities of the Group. It also reviewed and discussed the main strategic challenges for the Group, together with main points of the 2010-2012 strategic plan, its different scenarios in light of various assumptions regarding the exit from the crisis and the economic recovery, together with the broad outlines of its corresponding R&D, marketing and human resources plans.

All of the Committee's members attended its meetings, resulting in a 100% effective attendance rate.

The Strategic Committee also met on January 21, 2010 and reviewed the orientation definitive 2010 action plan.

### *Limits to the Decision—Making Powers of the Committees*

Subjects that the Chairman of either of these Committees wishes 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, if any, and recommendations 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 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 twenty trading days after the dividend approved by the Annual Meeting of Shareholders is made payable, or thirty to forty-fourth calendar days after the Annual Shareholders' Meeting if there is no dividend, i.e. around June 10, 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 six times in 2009. All members of the Board were present or represented at all six 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 Chairmen of the Audit Committee and 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 2009 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, reviewing its membership, organization and procedures. This item, never previously discussed formally, was considered by the Board at its meeting on February 11, 2010.

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 this purpose 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 series of procedures has 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 thirty days after the close of each quarter at the latest, and a maximum of forty-five 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 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 R&D divisions;
- the Marketing and Communications divisions;
- the Strategic Accounts and Projects division;
- 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. At December 31, 2009, *Elios* had been deployed in 12 of the 23 Group subsidiaries. It will be fully deployed in all subsidiaries in the course of 2011. 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.

The company has also had a Customer Relationship Management (CRM) system dedicated to marketing and sales in place since 2004.

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.

There is no material risk of dependence on any particular customer or group of customers, no individual customer representing more than 5% of consolidated revenues in 2009 as in earlier years, and the 10 largest customers of the company do not represent a significant percentage of revenue, together accounting for less than 10% of revenue.

- **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 €150,000 or \$200,000, 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. In preparation of the scheduled ending in 2011 of the ETEBAC 5 secure payments transfer protocol used by the company, the company is currently investigating the latest generation protocols to replace it, in particular Ebics and Swift.

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—when their cost relative to their benefits is not prohibitive—or forward contracts are utilized to hedge estimated exposure to fluctuations in billing currencies for future periods.

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 Procedure

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 (statement of financial position, income statement, statement of cash flows, and statements of changes in 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 income statement, statement of financial position 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 the two 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 amount was unchanged for the years 2005 to 2009 and has been renewed for fiscal 2010. 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, namely: consolidated pre-tax profit excluding net financial expense and non-recurring items (which accounts for 67%), and consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after certain restatements (which accounts for 33%). This variable portion is equal to zero below a certain threshold, 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 executive directors' performance, the company's medium-term strategy and the general macroeconomic conditions, and in particular those of the geographic markets and market sectors in which the company operates. 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—namely Jérôme Viala, Chief Financial Officer, and Véronique Zocchetto, Chief Human Capital and Information Officer—together with around fifteen 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.

Executive directors receive their Directors' fees in addition to their fixed and variable compensation described above. Directors' fees approved annually by the General Meeting of Shareholders are distributed in equal proportions among the Directors. In view of the commitment displayed by the members of the Board of Directors, in particular the high rate of attendance at meetings of the Board of Directors and its Committees, the Board has not seen fit to institute a variable portion dependent on attendance in calculating the payment of Directors' fees.

### 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 calendar days before the end of each calendar quarter and expiring two 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 "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 for the first time on the occasion of the meeting of the Board of Directors of July 27, 2007, is 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. This list 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](http://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 articles 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".

André Harari,  
Chairman of the Board of Directors  
February 26, 2010

# Statement of financial position

consolidated

## ASSETS

As at December 31 (in thousands of euros)		2009	2008 restated <sup>(1)</sup>
Goodwill	note 1	36,401	36,563
Other intangible assets	note 2	5,797	5,887
Property, plant and equipment	note 3	12,455	14,420
Non-current financial assets	note 4	1,492	1,656
Deferred income tax	note 6.3	15,573	12,097
<b>Total non-current assets</b>		<b>71,718</b>	<b>70,623</b>
Inventories	note 7	18,448	28,614
Trade accounts receivable	note 8	43,357	45,653
Current income tax receivable	note 9.1	7,773	15,207
Other current assets	note 9.2	10,337	9,340
Cash and cash equivalents		9,749	10,175
<b>Total current assets</b>		<b>89,664</b>	<b>108,989</b>
<b>Total assets</b>		<b>161,382</b>	<b>179,612</b>

## EQUITY AND LIABILITIES

As at December 31 (in thousands of euros)		2009	2008 restated <sup>(1)</sup>
Share capital	note 10	27,641	27,641
Share premium		1,033	1,033
Treasury shares	note 10.2	(1,439)	(1,498)
Currency translation adjustment	note 11	(8,585)	(8,043)
Retained earnings and net income		6,039	9,471
<b>Total equity</b>		<b>24,689</b>	<b>28,604</b>
Retirement benefit obligations	note 12	3,784	3,746
Borrowings, non-current portion	note 13.2	42,060	49,433
<b>Total non-current liabilities</b>		<b>45,844</b>	<b>53,179</b>
Trade and other payables	note 14	39,378	45,788
Deferred revenues	note 15	33,369	32,310
Current income tax liabilities	note 6.1	76	654
Borrowings	note 13.2	15,475	17,096
Provisions for other liabilities and charges	note 16	2,551	1,981
<b>Total current liabilities</b>		<b>90,849</b>	<b>97,829</b>
<b>Total equity and liabilities</b>		<b>161,382</b>	<b>179,612</b>

(1) In accordance with IAS 8, the impacts of the application of IFRS 8 are restated at December 31, 2008 in the consolidated statement of financial position (see section Accounting rules and methods in the notes to the consolidated financial statements). Moreover down-payments from customers are now classified in "other current payables" and down-payments to suppliers in "other current assets" as at December 31, 2008.

The notes on pages 94 through 143 are an integral part of the Consolidated Financial Statements.

# Income statement

consolidated

For year ended December 31 (in thousands of euros)		2009	2008
<b>Revenues</b>	note 18	153,187	198,133
Cost of goods sold	note 19	(44,853)	(65,757)
<b>Gross profit</b>	note 19	108,334	132,376
Research and development	note 20	(8,673)	(10,607)
Selling, general and administrative expenses	note 21	(102,454)	(114,808)
<b>Income (loss) from operations before non-recurring items</b>		(2,793)	6,961
Non-recurring expenses	note 22	(1,880)	-
<b>Income (loss) from operations</b>		(4,673)	6,961
Financial income	note 25	158	424
Financial expense	note 25	(3,755)	(4,128)
Foreign exchange income (loss)	note 26	1,961	(602)
<b>Income (loss) before tax</b>		(6,309)	2,655
Income tax	note 6.1	2,686	583
<b>Net income (loss)</b>		(3,623)	3,238
(in euros)		2009	2008
Earnings per share	note 27		
- basic		(0.13)	0.11
- diluted		(0.13)	0.11
Shares used in calculating earnings per share			
- basic		28,077,080	28,236,981
- diluted		28,077,080	28,236,981

## STATEMENT OF COMPREHENSIVE INCOME

For year ended December 31 (in thousands of euros)		2009	2008
<b>Net income (loss)</b>		(3,623)	3,238
Currency translation adjustment		(542)	676
Effective portion of the change in fair value of interest-rate swaps		30	(1,736)
Tax effect on the comprehensive income items		(10)	579
<b>Comprehensive income (loss)</b>		(4,145)	2,757

The notes on pages 94 through 143 are an integral part of the Consolidated Financial Statements.

# Statement of cash flows

consolidated

For year ended December 31  
(in thousands of euros)

		2009	2008
<b>I - OPERATING ACTIVITIES</b>			
Net income (loss)		(3,623)	3,238
Depreciation and amortization		8,373	8,851
Non-cash operating expenses	note 31	190	26
Loss (profit) on sale of fixed assets		(8)	(5)
Changes in deferred income taxes, net value	note 6.3	(3,510)	(1,956)
Changes in inventories		8,433	(1,542)
Changes in trade accounts receivable		1,216	8,427
Changes in other current assets and liabilities		(75)	(18,263)
<b>Net cash provided by (used in) operating activities</b>	note 32	<b>10,996</b>	<b>(1,224)</b>
<b>II - INVESTING ACTIVITIES</b>			
Purchases of intangible assets	note 2	(1,486)	(1,476)
Purchases of property, plant and equipment	note 3	(847)	(2,202)
Proceeds from sales of intangible assets and property, plant and equipment		404	27
Purchases of financial assets	note 4	(249)	(1,240)
Proceeds from sales of financial assets		440	1,297
<b>Net cash provided by (used in) investing activities</b>		<b>(1,738)</b>	<b>(3,594)</b>
<b>III - FINANCING ACTIVITIES</b>			
Proceeds from issuance of ordinary shares	note 10.1	–	86
Purchases of treasury shares	note 10.2	(377)	(1,187)
Sales of treasury shares	note 10.2	185	163
Proceeds from borrowings	note 34	400	800
Repayments of borrowings	note 35	(125)	(146)
<b>Net cash provided by (used in) financing activities</b>		<b>83</b>	<b>(284)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>9,341</b>	<b>(5,102)</b>
<b>Cash and cash equivalents at the opening</b>		<b>(6,725)</b>	<b>(1,715)</b>
Increase (decrease) in cash and cash equivalents		9,341	(5,102)
Effect of changes in foreign exchange rates		(467)	92
<b>Cash and cash equivalents at the closing</b>	note 36	<b>2,149</b>	<b>(6,725)</b>
Free cash flow before non-recurring items		9,925	(3,234)
Non-recurring items of the free cash flow		(667)	(1,584)
<b>Free cash flow</b>	note 33	<b>9,258</b>	<b>(4,818)</b>
Income tax paid <sup>(1)</sup>		1,389	256
Interest paid		3,152	3,549

(1) This amount does not include repayments of (French) research tax credit

The notes on pages 94 through 143 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			Share premium	Treasury shares	Currency translation adjustment	Consolidated reserves and net income	Equity	
	Number of shares	Par value per share	Total par value						
<b>Balances at January 1, 2008</b>	<b>28,476,899</b>	<b>1.50</b>	<b>42,715</b>	<b>976</b>	<b>(581)</b>	<b>(8,719)</b>	<b>(8,092)</b>	<b>26,299</b>	
Net income							3,238	3,238	
Other comprehensive income (loss)	note 11					676	(1,157)	(481)	
<b>Comprehensive income</b>						<b>676</b>	<b>2,081</b>	<b>2,757</b>	
Fair value of stock options	note 10.5						452	452	
Issuance of ordinary shares	note 10.5	18,615	28	57				85	
Sale (purchase) of treasury shares	note 10.2				(917)			(917)	
Profit (loss) on treasury shares	note 10.2						(73)	(73)	
Reduction in share capital			(0.53)	(15,103)			15,103	-	
<b>Balances at December 31, 2008</b>		<b>28,495,514</b>	<b>0.97</b>	<b>27,641</b>	<b>1,033</b>	<b>(1,498)</b>	<b>(8,043)</b>	<b>9,471</b>	<b>28,604</b>
Net loss							(3,623)	(3,623)	
Other comprehensive income (loss)	note 11					(542)	20	(522)	
<b>Comprehensive loss</b>						<b>(542)</b>	<b>(3,603)</b>	<b>(4,145)</b>	
Fair value of stock options	note 10.5						338	338	
Sale (purchase) of treasury shares	note 10.2				59			59	
Profit (loss) on treasury shares	note 10.2						(167)	(167)	
<b>Balances at December 31, 2009</b>		<b>28,495,514</b>	<b>0.97</b>	<b>27,641</b>	<b>1,033</b>	<b>(1,439)</b>	<b>(8,585)</b>	<b>6,039</b>	<b>24,689</b>

The notes on pages 94 through 143 are an integral part of the Consolidated Financial Statements.

# Notes to the consolidated financial statements

The Lectra Group, hereafter the Group, refers to Lectra S.A., hereafter the company, and its subsidiaries.

The Group's consolidated financial statements were drawn up by the Board of Directors on February 11, 2010 and will be proposed to the General Meeting of Shareholders for approval on April 30, 2010.

## 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 turbines, personal protective equipment, etc.

The company's technology offering is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion industry, Lectra's software applications 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 helps 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 demand for mass-customization; and monitoring and developing their corporate image and brands. The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).

With the exception of 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 nearly 1,400 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of its customers' businesses.

The Group 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 93% of its revenues directly in 2009. Its five International Call Centers, at Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased in its International Advanced Technology & Conference Centers 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 800 employees dedicated to marketing, sales and services. It employs 210 engineers dedicated to R&D, and 166 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, CAD/CAM equipment 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.



## ACCOUNTING RULES AND METHODS

### Current Accounting Standards and Interpretations

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:

[http://ec.europa.eu/internal\\_market/accounting/ias/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/ias/index_en.htm)

The financial statements at December 31, 2009 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2008 financial statements, with the exception of the following items. The Group has applied the following standards adopted by the European Union and applicable to fiscal years since January 1, 2009 and after:

- IAS 1 revised—Presentation of Financial Statements;

The application of the revised IAS 1 standard has led the Group to change the presentation of its financial statements with the introduction of a statement of comprehensive income which comprises all the components of profit or loss, whether they are recognized in the income statement or not. The Group has chosen to present its comprehensive income in two separate statements: the consolidated income statement and the statement of comprehensive income.

- IFRS 8—Operating Segments.

IFRS 8 has been applied for the first time as of January 1, 2009, replacing IAS 14. The application of this standard, which has entailed significant changes in the operating segment information, especially on the choice of the segments presented, is disclosed in note 30 below.

The first-time application of IFRS 8 also led to a modification of the goodwill allocation to the different cash-generating units comprising the Group. Goodwill existing as at January 1, 2008 resulting from the various acquisitions made by the Group between 1998 and 2005, were allocated to the operating segments defined under IFRS 8.

As a result of the retrospective application of IFRS 8, goodwill was increased by €486,000 at December 31, 2008, reflecting currency translation adjustments resulting from the new allocation of goodwill among the different operating segments. An offsetting item in the same amount was added to the currency translation adjustments in equity. In accordance with IAS 8, the financial statements are restated for these impacts at December 31, 2008.

The other standards and interpretations adopted in 2009 had no impact on the Group's financial statements, i.e.:

- IAS 23 Revised—Borrowing Costs;
- IFRS 2 Amendment—Vesting Conditions and Cancellations;
- 2008 Improvements to IFRSs (except the two amendments to IFRS 5);
- IAS 32 and IAS 1 Amendments—Puttable Financial Instruments and Obligations Arising on Liquidation;
- IFRS 1 and IAS 27 Amendments—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- IFRIC 13—Customer Loyalty Programs.

The French 2010 Budget Act, enacted on December 30, 2009, abolished the Business Tax on French tax entities with effect from 2010. This tax was replaced by two new contributions, namely the *Cotisation Foncière des Entreprises* (CFE—tax assessed on the rental value of properties) and the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE—Tax on corporate value added). The Group has taken the view that the aforementioned tax changes amount in fact to replacement of the Business Tax by two new taxes of different natures, namely:

- The CFE, whose amount varies according to the rental value of properties, which may, in certain cases, be capped at a percentage of the value added, is similar to the Business Tax in significant aspects. Like the latter, it will be recognized in operating expenses in 2010;
- The CVAE, which, as analyzed by the Group, satisfies the definition of an income tax as set forth in IAS 12.2—Income taxes based on taxable profit. In analyzing this tax, the Group has referred in particular to the IFRIC interpretations concerning the scope of application of IAS 12—Income taxes. The IFRIC has stated that, to come within the scope of IAS 12, a tax must be calculated on the basis of a net amount of revenues and expenses, and that this net amount may differ from net book income.

The Group has taken the view that the Tax on corporate value added satisfied these criteria insofar as value added constitutes the intermediate level of income that systematically serves as the basis for determining the amount of the Tax on corporate value added under French tax rules.

As prescribed in IAS 12, the decision to treat the CVAE has led to recognition by the Group, as at December 31, 2009, of deferred tax liabilities of €134,000 on assets from which future economic benefits are expected to flow and which are liable for tax in respect of the CVAE although their recovery is not deductible from value added.

The Group has not adopted before they became mandatory, any standards or interpretations whose application is not required for fiscal years starting January 1, 2009.

#### 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 removed from consolidation 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 drawn up 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, 2009, the Group's scope of consolidation comprised Lectra S.A. together with 26 fully-consolidated companies.

Company	City	Country	% of ownership and control		Consolidation method <sup>(1)</sup>	
			2009	2008	2009	2008
<b>Parent company</b>						
Lectra SA	Cestas	France			FC	FC
<b>Subsidiaries</b>						
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.	São 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	FC
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.	Shipleby	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 consolidated - NC: Non-consolidated.

There has been no change in the scope of consolidation in 2009.

The 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. There has been no other change in the scope of consolidation in 2008.

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 linked with the normal operating cycle of the Group, assets held with a view to disposal within the next 12 months after the close of the financial 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 within the next 12 months after the close of the financial year.

### GOODWILL

Goodwill is the difference between purchase price (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 contingent liabilities.

Goodwill recognized in a foreign currency is translated at the year-end exchange rate.

Each goodwill is allocated to a Cash Generating Unit (CGU)

defined as being a sales subsidiary or group of more than one sales subsidiaries, being sufficiently autonomous to generate cash inflows independently.

In the context of the application of IFRS 8 as of January 1, 2008, the Group has changed the allocation of goodwill to the different cash-generating units comprising the Group. In taking into account this reallocation of goodwill and expected future revenue streams, goodwill is tested for possible impairment loss at each balance sheet date.

### OTHER INTANGIBLE ASSETS

Intangible assets are carried at their purchase price less cumulative depreciation and impairment, if any. Depreciation 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 configuration 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. Moreover, the Group considers that there is no residual value on its assets. At each closing date, the useful life of assets is reviewed 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 caption "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: 20–35 years;
- secondary structures and building installations: 15 years;
- fixtures and installations: 5–10 years;
- land arrangements: 5–10 years;
- technical installations, equipment and tools: 4–10 years;
- office equipment and computers: 3–5 years;
- office furniture: 5–10 years.

### FIXED ASSET IMPAIRMENT—IMPAIRMENT TESTS

When events or changes in the market environment, or internal factors, indicate a potential 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, which is defined as the higher of the asset's fair value less costs to sell and value in use determined 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 equipment 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 lower 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", "R&D 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.

Non-current financial assets are tested for impairment annually on the basis of the net asset value of the related companies.

## DEFERRED INCOME TAX

Deferred income tax is accounted for using the liability method on temporary differences arising between the book value and tax value 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 estimated selling price in the normal course of business, less the estimated cost of completion or upgrading of the product and unavoidable selling costs.

Inventory cost does not include interest expense.

A write-down is recorded if net realizable value is lower than the book value.

Write-downs on inventories of spare parts and consumables are calculated by comparing book value and probable net realizable value considering 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 accounted for at their fair value, which generally corresponds to their nominal value. Impairment is recorded on the basis of the risk of non-collectibility of the receivable, 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 13.4) 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 13.3).

The liquidity of Lectra's shares on the stock market is ensured by means of a Liquidity Agreement with SG Securities (Société Générale Group) (see note 10.2). 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 Group's financial situation.

### STOCK OPTIONS

The company has granted stock options to Group employees and managers. All plans are issued at an exercise price equal or greater than the first average stock market price for the 20 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 R&D grants.

The current portion of borrowings and financial debt comprises:

- the portion of bank loans, reimbursable advances and other 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 post employment benefits plans under which, for certain categories of employee, the Group pays defined contributions to an outside insurance company or pension fund. Contributions are paid in exchange for services rendered by employees during the year. 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 post employment benefits payable plans that guarantee contractual additional income for certain categories of employee (in some cases these plans are governed by specific industrywide agreements). For the Group, these plans only 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 contribution for which a liability is estimated.

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 the date of Board of Directors' meeting 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, technicians' travel and labor costs. This provision is recorded at the time the sale generating a contractual obligation of warranty 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 equipments sold, and a share of depreciation of the manufacturing facilities. Cost of goods sold does not include salaries and expenses associated with service revenues, which are included under "Selling, General and Administrative Expenses".

### RESEARCH AND DEVELOPMENT

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 that render the recognition of R&D costs in assets at the moment they occur are not met, and R&D costs are therefore expensed in the year in which they are incurred. The (French) research tax credit (*crédit d'impôt recherche*) is deducted from R&D 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 the income statement 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 R&D expenses in the income statement.

## INCOME FROM OPERATIONS BEFORE NON-RECURRING ITEMS

The Group tracks its operating performance by means of an intermediate balance referred to as income from operations before non-recurring items. This financial metric reflects income from operations less non-recurring gains and plus non-recurring charges.

## 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.

## OPERATING SEGMENTS

Operating segment reporting is based directly on the company's performance tracking and review systems. The operating segments disclosed in note 30 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the company's "chief operating decision maker".

Operating segments refer primarily to the marketing regions in the sense of the regions whose performance is reviewed by the Executive Committee. The regions concerned are: the Americas, Europe, Asia-Pacific, and the Rest of the World, where the company operates chiefly in North Africa, South Africa, Turkey, Israel, and the Middle East. These geographic regions are involved in sales and the provision of services to their clients. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, finance, legal affairs, human resources, information systems, etc. All of these cross-divisional activities are reported as an additional operating segment referred to here as the "Corporate" segment.

Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external clients; all inter-segment billings are excluded from this item. The gross margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include value added supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of (consolidated) gross margin is retained in the income computed for the Corporate segment sufficient to cover its costs, most of which are fixed. Because the Corporate segment's revenues consist solely of amounts billed to the regions and its general overheads are mainly fixed costs, its income from operations therefore depends mainly on the volume of business generated by these regions.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies.

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

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, relates to goodwill impairment (see note 1) and deferred taxation (see note 6.3).

## 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 movements in the statement of financial position, 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 Items from the Statement of Financial Position 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 31st 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 change 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 in euros)	2009	2008
<b>U.S. dollar</b>		
Annual average rate	1.39	1.47
Closing rate	1.44	1.39
<b>Japanese yen (100)</b>		
Annual average rate	1.30	1.52
Closing rate	1.33	1.26
<b>British pound</b>		
Annual average rate	0.89	0.80
Closing rate	0.89	0.95
<b>Chinese Yuan</b>		
Annual average rate	9.52	10.22
Closing rate	9.84	9.50

### 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 16, 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*

The financial statements are consolidated in euros. Consequently, within the income from operations, 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 S.A. 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 43% of revenues (see note 18). 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 a portion of 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 13.4).

#### POST-CLOSING EVENTS

No significant event has occurred.

#### Dividend

The company will declare no dividend in 2010, in respect of the 2009 fiscal year, net loss for the year not allowing payment of one.

No dividend has been paid in 2009.



# Notes to the statement of financial position

consolidated

## NOTE 1 GOODWILL

No acquisition was made in fiscal years 2009 and 2008.

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

In 2009, the Group did not recognize any additional goodwill, and the only material changes concerned currency translation adjustment.

(in thousands of euros)	2009	2008 <sup>(1)</sup>
Book value at January 1	36,563	36,465
Goodwill adjustment	-	(89)
Exchange rate differences	(162)	187
Book value at December 31	36,401	36,563

(1) In accordance with IAS 8, the impacts of the application of IFRS 8 have been restated at December 31, 2008

In application of IFRS 8, Cash Generating Units (CGU) have been redefined as a sales subsidiary or group of more than one sales subsidiaries sharing common resources; these CGUs are sufficiently autonomous to generate cash inflows independently. Consequently, goodwill have been reallocated to the different CGUs. Operating segments as defined in note 30 correspond to groups of these CGUs.

As of December 31, 2009, goodwill were allocated as follows among the different CGUs:

	2009	2008
Italy	16,622	16,622
France	2,981	2,981
Germany	4,982	4,982
Northern Europe	1,712	1,712
Great Britain	1,354	1,263
Spain	860	860
Portugal	220	220
<b>Total Europe</b>	<b>28,731</b>	<b>28,640</b>
North America	5,644	5,842
South Amerca	375	388
<b>Total Americas</b>	<b>6,019</b>	<b>6,231</b>
Japan	424	448
Greater China	534	553
Other Asian Countries	324	324
<b>Total Asia</b>	<b>1,282</b>	<b>1,325</b>
<b>Other countries</b>	<b>368</b>	<b>368</b>
<b>Total</b>	<b>36,401</b>	<b>36,563</b>

Goodwill shown in the statement of financial position was subjected to impairment testing in December 2009. The resulting estimates of the value in use of goodwill components have not been revised on the occasion of the year-end balance sheet closing.

The projections used are based on the 2010-2012 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 long-term growth rate beyond the 2010-2012 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 local economic environments. They range from 7.73% to 8.61% 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 has been computed for each CGU. This varies between 0% and 1% depending on the estimated risk attaching to fulfillment of the 2010-2012 plan;
- The cost of debt is determined on the basis of average market conditions for the fourth quarter of 2009 (3-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 one percentage point rise in the discount rate would not entail any impairment of goodwill;
- A one percentage point decline in the long-term growth rate to infinity (from 2% to 1%) would not lead to an additional impairment of goodwill.

#### Commitments Received

Within the framework of the agreements relating to the acquisition of Investronica and Lacent in 2004 and Humantec in 2005, the company has obtained representations and warranties from the vendor shareholders concerning certain assets and liabilities in the statement of financial position as well as all potential litigation arising in respect of events predating the respective acquisitions. These guarantees have now expired, with the exception of liabilities eligible for compensation notified to the vendor shareholders prior to their expiration dates or that remain in force beyond the contractual period stipulated in the purchase contract and not yet time-barred at the date of this report.

Further, within the framework of the arbitration initiated in June 2005 by Lectra against Induyco, the former shareholder of Investronica, 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 (see note 9.2).

## NOTE 2 OTHER INTANGIBLE ASSETS

(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 purchases	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

(in thousands of euros) 2009	Management information software	Patents and trademarks	Other	Total
Gross value at January 1, 2009	19,857	2,868	5,448	28,173
External purchases	51	78	533	662
Internal developments	411	-	141	552
Write-offs and disposals	-	-	-	-
Transfers	227	-	(227)	-
Exchange rate differences	12	-	(4)	8
Gross value at December 31, 2009	20,558	2,946	5,891	29,395
Amortization at December 31, 2009	(15,885)	(2,566)	(5,147)	(23,598)
Net value at December 31, 2009	4,673	380	744	5,797

#### Changes in amortization:

(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)

(in thousands of euros) 2009	Management information software	Patents and trademarks	Other	Total
Amortization at January 1, 2009	(14,734)	(2,404)	(5,148)	(22,286)
Amortization charges	(1,140)	(162)	-	(1,302)
Amortization write-backs	-	-	-	-
Exchange rate differences	(11)	-	1	(10)
Amortization at December 31, 2009	(15,885)	(2,566)	(5,147)	(23,598)

#### Management Information Software

As part of an ongoing process of upgrading and reinforcing its information systems, in 2008 and 2009 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 Group capitalized €1,136,000 corresponding to the deployment of its upgraded IT system in its subsidiaries; this deployment was accelerated in 2009. 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 €552,000. In 2008, the company capitalized an expense of €648,000 on this project, including €356,000 in respect of internal development expenses.

### NOTE 3 PROPERTY, PLANT AND EQUIPMENT

(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

(in thousands of euros) 2009	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2009	9,478	14,120	23,238	46,836
Additions	-	48	799	847
Write-offs and disposals	-	(327)	(494)	(821)
Transfers	-	343	(343)	-
Exchange rate differences	-	(42)	65	23
Gross value at December 31, 2009	9,478	14,142	23,265	46,885
Accumulated depreciation at December 31, 2009	(6,610)	(8,726)	(19,094)	(34,430)
Net value at December 31, 2009	2,868	5,416	4,171	12,455

#### Changes in depreciation:

(in thousands of euros) 2008	Land and buildings	Fixtures and fittings	Equipment and other	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)

(in thousands of euros) 2009	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2009	(6,546)	(7,929)	(17,941)	(32,416)
Additional depreciation	(64)	(990)	(1,592)	(2,646)
Write-offs and disposals	-	178	480	658
Exchange rate differences	-	15	(41)	(26)
Accumulated depreciation at December 31, 2009	(6,610)	(8,726)	(19,094)	(34,430)

“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<sup>2</sup> (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 €2,438,000 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.

No acquisitions of new equipment were made using finance leases in 2009 or 2008.

Investments relating to safety improvements at the Bordeaux-Cestas site, initially recognized under “Equipment and other”, were transferred to “Fixtures and fittings” when they entered service in 2009.

Other fixed assets purchased in 2009 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) 2008	Loans	Investments 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

(in thousands of euros) 2009	Loans	Investments in subsidiaries	Other non-current financial assets	Total
Gross value at January 1, 2009	–	3,013	1,194	4,207
Additions	–	–	249	249
Disposals	–	–	(439)	(439)
Exchange rate differences	–	(2)	(12)	(14)
Gross value at December 31, 2009	–	3,011	992	4,003
Impairment provision at December 31, 2009	–	(2,440)	(71)	(2,511)
Net value at December 31, 2009	–	571	921	1,492

“Loans” and “Investments in subsidiaries” exclusively concern companies not included in the scope of consolidation.

“Other non-current financial assets” at December 31, 2009 primarily consist of deposits and guarantees.

## NOTE 5 RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2009 or December 31, 2009, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts (in thousands of euros)
Receivables <sup>(1)</sup>	Trade accounts receivable	Lectra Maroc Sarl (Morocco)	790
		Lectra Chile SA (Chile)	331
		Lectra Systemes Inc. (Philippines)	232
		Lectra Israel Ltd (Israël)	186
		Other subsidiaries non consolidated	5
Payables <sup>(1)</sup>	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(170)
		Other subsidiaries non consolidated	(5)
Sales <sup>(2)</sup>	Revenues	Lectra Maroc Sarl (Morocco)	222
		Lectra Chile SA (Chile)	102
		Lectra Israel Ltd (Israël)	66
		Lectra Systemes Inc. (Philippines)	36
Commissions <sup>(2)</sup>	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(74)
		Other subsidiaries non consolidated	1
Personnel invoiced <sup>(2)</sup>	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(332)
		Lectra Maroc Sarl (Morocco)	16
Financial interest <sup>(2)</sup>	Interest income	Lectra Maroc Sarl (Morocco)	9
		Lectra Chile SA (Chile)	5
		Lectra Israel Ltd (Israël)	1

(1) Amounts between brackets represent a liability in the statement of financial position, absence of brackets an asset.

(2) Amounts between brackets represent an expense for the year, absence of brackets an income for the year.

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 Board of Directors are limited to aspects of compensation solely, details of which are provided in notes 23.6 and 23.7.

## NOTE 6 TAXES

### NOTE 6.1 TAX CHARGE

(in thousands of euros)	2009	2008
Current tax income (expense)	(825)	(1,373)
Deferred tax income (expense)	3,511	1,956
<b>Net tax income (expense)</b>	<b>2,686</b>	<b>583</b>

The research tax credit (*crédit d'impôt recherche*), applicable in France, is deducted from R&D expenses (see note 20). It amounts to €6,003,000 in 2009 (€6,453,000 in 2008).

Income tax payable amounts to €76,000 at December 31, 2009 (€654,000 at December 31, 2008).

## NOTE 6.2 EFFECTIVE TAX RATE

(in thousands of euros)	2009	2008
Income (expense) at standard rate of corporate income tax in France <sup>(1)</sup>	2,103	(886)
Impact of unrecognized deferred tax assets	(330)	(461)
Effect of other countries' different tax rates	57	118
Effect of income and expenses with a low or nil/zero tax rate <sup>(2)</sup>	1,082	1,890
Others	(224)	(78)
<b>Net tax income (expense)</b>	<b>2,686</b>	<b>583</b>
<b>Effective tax rate</b>	<b>42.59%</b>	<b>(21.92%)</b>

(1) The standard rate of corporate income tax in France amounts to 33.33% in 2009 as in 2008.

(2) This corresponds primarily to non-tax deductible charges for the year and to the elimination for tax purposes of certain consolidation entries.

## NOTE 6.3 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. In addition, forecasts aimed at determining the timetable for the utilization of tax loss carryforwards take into account the expected impact of the economic crisis on the activities of the subsidiaries concerned in future years.

At December 31, 2009, unrecognized deferred tax assets totaled €10,330,000, compared with €10,042,000 at December 31, 2008. The Spanish and US subsidiaries accounted for the bulk of this figure.

The share of deferred taxes directly recognized in retained earnings for the year works out to a negative €10,000 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
Tax losses 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-down of inventories	1,385	54	-	123	1,562
Financial instruments	164	-	579	-	743
Other timing differences	701	220	-	104	1,025
<b>Total</b>	<b>9,327</b>	<b>1,956</b>	<b>579</b>	<b>235</b>	<b>12,097</b>



(in thousands of euros)	2008	Impact P&L	Impact Equity	Translation adjustments	2009
Tax losses carry-forward	5,879	3,966	-	(37)	9,808
Depreciation/amortization of tangible and intangible assets	2,613	(283)	-	12	2,342
Impairment of accounts receivable	275	201	-	(2)	474
Write-down of inventories	1,562	(381)	-	15	1,196
Financial instruments	743	-	(10)	-	733
Other timing differences	1,025	7	-	(13)	1,019
<b>Total</b>	<b>12,097</b>	<b>3,511</b>	<b>(10)</b>	<b>(25)</b>	<b>15,573</b>

#### NOTE 6.4 SCHEDULE OF ACTIVATED TAX LOSS CARRY-FORWARDS

(in thousands of euros)	Expiration date			Total
	Until 2010	Between 2011 and 2015	Beyond 2015	
Deferred tax assets on tax losses <sup>(1)</sup>	-	681	9,127	9,808

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

#### NOTE 7 INVENTORIES

(in thousands of euros)	2009	2008
Raw materials	18,424	25,416
Finished goods and works-in-progress <sup>(1)</sup>	10,186	13,609
<b>Inventories, gross value</b>	<b>28,610</b>	<b>39,025</b>
Raw materials	(5,251)	(5,313)
Finished goods and works-in-progress <sup>(1)</sup>	(4,911)	(5,098)
<b>Write-downs</b>	<b>(10,162)</b>	<b>(10,411)</b>
Raw materials	13,173	20,103
Finished goods and works-in-progress <sup>(1)</sup>	5,275	8,511
<b>Inventories, net value</b>	<b>18,448</b>	<b>28,614</b>

(1) Including demonstration and second-hand equipment.

€2,063,000 of inventory fully written down was scrapped in the course of 2009 (€2,540,000 in 2008), thereby diminishing the gross value and write-downs by the same amount.

Progress made in the utilization of the new production and inventory management software programs since their deployment on January 1, 2007, and since the deployment of modules of these software programs dedicated to the subsidiaries, resulted in a sharp reduction in Group inventories in 2009.

Inventory write-downs charged for the year amounted to €3,275,000 (€3,652,000 in 2008). Reversals of previous write-downs relating to sales transactions amounted to €1,542,000 (€818,000 in 2008), booked against the charges for the period.

## NOTE 8 TRADE ACCOUNTS RECEIVABLE

(in thousands of euros)	2009	2008
Trade accounts receivable excluding deferred revenues <sup>(1)</sup>	11,583	18,248
Deferred recurring software evolution and services contracts	31,607	30,544
Other deferred equipment and services revenues	1,762	1,766
VAT on deferred recurring contracts and on deferred revenues	3,671	3,971
<b>Trade accounts receivable, gross value</b>	<b>48,623</b>	<b>54,529</b>
<b>Provision for impairment</b>	<b>(5,266)</b>	<b>(8,876)</b>
<b>Trade accounts receivable, net value</b>	<b>43,357</b>	<b>45,653</b>

(1) Advances and down-payments received from customers have been reclassified in other current liabilities, for the amount of €5,656,000 at December 31, 2008

Trade receivables at December 31, 2009 include €33,369,000, excluding value-added and other sales taxes, on recurring contracts, other services and equipment billed in advance for 2010 (compared with €32,310,000, excluding value-added and other sales taxes, at December 31, 2008 in respect of 2009). An identical amount is recorded in "Deferred revenues" (see note 15).

The Group recognizes an impairment charge on trade accounts in light of an individual analysis of accruals. Changes in impairment charges are analyzed below:

	2009	2008
<b>Provisions at January 1</b>	<b>(8,876)</b>	<b>(8,653)</b>
Additional provision	(3,887)	(2,747)
Write-back of provisions no longer required	38	55
Write-back of provisions on receivables paid	1,248	1,288
Write-back of provisions on irrecoverable receivables now cancelled <sup>(1)</sup>	6,216	1,159
Exchange rate differences	(5)	22
<b>Provisions at December 31</b>	<b>(5,266)</b>	<b>(8,876)</b>

(1) The Group conducted a review in 2009 of fully depreciated receivables, as a result of which a total loss of €6,216,000 has been deemed irrecoverable, with no impact on Group net income.

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".

Schedule of gross receivables by maturity:

	2009
Receivables not yet due	38,104
Receivables due, of which due in:	10,519
- less than 1 month	2,845
- 1-3 months	1,446
- more than 3 months	6,228
<b>Total</b>	<b>48,623</b>

## NOTE 9 TAX CREDIT AND OTHER CURRENT ASSETS

### NOTE 9.1 INCOME TAX RECEIVABLES

(in thousands of euros)	2009	2008
Research tax credit	6,207	14,064
Income tax down payment	1,770	1,172
Accounting adjustment to research tax credit	(204)	(29)
<b>Total income tax receivables</b>	<b>7,773</b>	<b>15,207</b>

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 to 2008, for €14,064,000. The renewal in 2010 of this measure for the research tax credit recognized in 2009 is expected to result in the repayment of €6,207,000 in the course of the first quarter of 2010.

### NOTE 9.2 OTHER CURRENT ASSETS

(in thousands of euros)	2009	2008 <sup>(1)</sup>
Other tax receivables	1,156	1,061
Advances to personnel	243	270
Other current assets	8,938	8,009
<b>Other current assets</b>	<b>10,337</b>	<b>9,340</b>

(1) Advances and down-payments paid to suppliers have been reclassified in other current assets, in the amount of €642,000 at December 31, 2008

Other tax receivables at December 31, 2009 comprised the parent company's (French) recoverable value-added tax in the amount of €482,000 (€755,000 at December 31, 2008).

Other current assets notably comprise €5,715,000 (€5,608,000 at December 31, 2008) in legal fees and costs relating to the arbitration described below together with rental expenses, insurance premiums and equipment rental charges.

On October 28, 2009, the Secretariat of the International Court of Arbitration of the International Chamber of Commerce (with hearings in London) notified the parties to the award in the arbitration initiated in June 2005 by Lectra against Induyco, the former shareholder of Investronica Sistemas. In its decision, the international arbitral tribunal awarded Lectra €21.9 million plus interest comprising an award on the merits of €15.1 million and an award as costs of €6.8 million.

Induyco has since obtained an interim order in Spain temporarily suspending operation of the demand guarantees (see note 1), and also commenced proceedings at the end of 2009 in Spain, challenging Lectra's demand under the demand guarantees, and in the U.K. challenging the award.

In view, on the one hand, of the suspension of the payment of €15.1 million in respect of the bank guarantees and of the non-payment by Induyco of the award and, on the other hand, of the new proceedings commenced by Induyco in Spain and the U.K. (the effect of which will be to delay any receipt of payment of the award by Lectra), the company has not recognized the award in its 2009 financial statements, and the accounting methods applied for the arbitration procedure, as adopted at December 31, 2008, remain unchanged.

## NOTE 10 SHARE CAPITAL

At December 31, 2009, 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 10.1 CHANGES IN SHARE CAPITAL AND SHARE PREMIUM

There was no change in the company's share capital in 2009.

In 2008, 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.

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, reduced to €27,640,648.58 consisting of 28,495,514 shares with a par value of €0.97.

Moreover, in January 2008 the share capital was 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 2009 and 2008.

At December 31, 2009, 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 10.1.1 Share Capital

	2009		2008	
	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	28,495,514	27,640,648.58	28,476,899	42,715,348.50
Stock options exercised	-	-	18,615	27,922.50
Capital decrease	-	-	-	(15,102,622.42)
Share capital at December 31	28,495,514	27,640,648.58	28,495,514	27,640,648.58

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

#### note 10.1.2 Share Premium

(in thousands of euros)	2009	2008
Share premium at January 1	1,033	976
Stock options exercised	-	57
Share premium at December 31	1,033	1,033

## NOTE 10.2 TREASURY SHARES

The General Meeting of Shareholders on April 30, 2009 renewed the existing share buyback program and authorized the Board of Directors to buy and sell company shares. The purposes of this program is 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).

This share buyback program was published on March 19, 2009 on the Lectra website ([www.lectra.com](http://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. Overall, at December 31, 2009, the company held 1.6% of its capital within the framework of the Liquidity Agreement (compared with 1.3% at December 31, 2008) for a total of €1,439,000 (compared with €1,498,000 at December 31, 2008) representing an average purchase price of €3.25 per share, which has been deducted from shareholders' equity.

In addition, in 2009 as in 2008, the company has not made any purchase or any sale of shares within the framework of its mandate given to SG Securities (Paris) (part of the Société Générale Group) to purchase or sell company shares on its account in accordance with the terms of the program authorized by the Shareholders' Meetings of April 30, 2007 and 2008. This authorization has expired following the Shareholders' Meeting of April 30, 2009. At December 31, 2009, the company no longer held any shares within this framework.

	2009			2008		
	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)
<b>Treasury shares at January 1</b>						
Liquidity agreement	358,459	(1,498)	4.18	101,297	(581)	5.74
<b>Total at January 1 (historical cost)</b>	<b>358,459</b>	<b>(1,498)</b>	<b>4.18</b>	<b>101,297</b>	<b>(581)</b>	<b>5.74</b>
<b>Liquidity agreement</b>						
Purchases (at purchase price)	162,407	(377)	2.33	302,758	(1,188)	3.93
Sales (at sale price)	(78,320)	185	2.36	(45,596)	163	3.57
<b>Net cash flow</b>	<b>84,087</b>	<b>(192)</b>		<b>257,162</b>	<b>(1,025)</b>	
Gains (losses) on disposals	-	(251)		-	(108)	
<b>Treasury shares at December 31</b>						
Liquidity agreement	442,546	(1,439)	3.25	358,459	(1,498)	4.18
<b>Total at December 31 (historical cost)</b>	<b>442,546</b>	<b>(1,439)</b>	<b>3.25</b>	<b>358,459</b>	<b>(1,498)</b>	<b>4.18</b>

## Summary of Cash Flows

(in thousands of euros)	2009	2008
Treasury shares at January 1 (historical cost)	(1,498)	(581)
Treasury shares at December 31 (historical cost)	(1,439)	(1,498)
Gross changes in the year (historical cost)	59	(917)
- of which losses on disposals	(251)	(108)
<b>Net cash flow of the period <sup>(1)</sup></b>	<b>(192)</b>	<b>(1,025)</b>

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

### NOTE 10.3 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, 2009, 27,566,238 shares qualified for normal voting rights, and only 486,730 (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, 2009, the total number of voting rights attached to the company's shares was 28,982,244. This number is reduced to 28,539,698 due to the fact that no voting rights are attached to treasury shares.

### NOTE 10.4 STATUTORY THRESHOLDS

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

### NOTE 10.5 STOCK OPTION PLANS

At December 31, 2009, 195 beneficiaries (233 at December 31, 2008) held 2,993,528 stock options each exercisable for one share of Lectra S.A., the Group's parent company, with a par value of €0.97. At that date, 178 Lectra's managers and employees (i.e. 13% of Group employees) hold 2,887,767 options; 17 former employees continue to hold 105,761 valid options.

If all stock options were exercised, 2,993,528 ordinary shares would be issued and the capital increased by €2,903,722.16 (plus a total additional paid-in capital of €11,618,139.65). The company's capital would thereby be raised to €30,544,370.74, divided into 31,489,042 shares with a par value of €0.97 each.

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 2009 and 2008 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2009	2008
Exercise price <sup>(1)</sup>	4.10/2.50	6.30/4.10
Share price on the date of allocation	2.24	3.92
Risk-free interest rate	2.65%	4.38%
Dividend payout rate	5.02%	2.87%
Volatility <sup>(2)</sup>	30.00%	30.00%
Duration of options	4 years	4 years
Fair value of one option	0.09/0.30	0.37/0.85

(1) The company made two grants on June 9, 2009, namely: 52,659 options at an exercise price of €4.10 and 642,010 options at an exercise price of €2.50 and 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 10.5.6)

(2) 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 9, 2009 amounts to €170,000.

An expense of €338,000 is recognized in the 2009 financial statements, including €80,000 in respect of the grants made in 2009, and €258,000 in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2009 will impact the years 2010, 2011 and 2012 alone in the estimated amounts of €153,000, €46,000 and €10,000 respectively.

The Group made an employer's contribution based on the fair value of the options granted in 2009. This contribution, amounting to €11,000, is fully expensed in staff costs for 2009.

*note 10.5.1 Stock Options Outstanding: Options Granted, Exercised and Canceled During the Year*

	2009		2008	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
<b>Stock options outstanding at January 1</b>	<b>3,201,027</b>	<b>5.24</b>	<b>3,480,936</b>	<b>6.48</b>
Stock options granted during the year	694,669	2.62	530,048	4.52
Stock options exercised during the year	-		(18,615)	4.59
Stock options expired / cancelled during the year	(902,168)	4.51	(791,342)	10.26
<b>Stock options outstanding at December 31</b>	<b>2,993,528</b>	<b>4.85</b>	<b>3,201,027</b>	<b>5.24</b>
- of which fully vested	2,125,886	5.35	2,482,566	5.22
- for which exercise rights remain to be acquired	867,642	3.64	718,461	5.31

For plans in force at December 31, 2009, the terms relating to the vesting of options are determined on an annual basis over a period of four years since the 1<sup>st</sup> of January of the year they are granted, 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 in 2010 having fulfilled their objectives for 2009 is indicated in note 10.5.6.

*note 10.5.2 Breakdown of Stock Options Outstanding at December 31, 2009, by Category of Beneficiaries*

	2009				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Managing corporate officers and other members of the Executive Committee <sup>(1)</sup>	2	665,045	22%	469,348	195,697
Group management	29	1,253,841	42%	836,307	417,534
Other employees	147	968,881	32%	714,470	254,411
Persons having left the company and still holding exercisable options	17	105,761	4%	105,761	–
<b>Total</b>	<b>195</b>	<b>2,993,528</b>	<b>100%</b>	<b>2,125,886</b>	<b>867,642</b>

(1) The two beneficiaries are Jérôme Viala, Chief Financial Officer, and Véronique Zoccoletto, Chief Human Capital and Information Officer, members of the Executive Committee. André Harari, Chairman of the Board of Directors, and Daniel Harari, Chief Executive Officer do not hold any options.

*note 10.5.3 Breakdown of Stock Options at December 31, 2009, by Expiration Date and Exercise Price*

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
June 4, 2002	June 4, 2010	149,660	5.09
September 10, 2002	September 10, 2010	41,824	4.21
September 10, 2002	September 10, 2010	20,788	5.09
May 27, 2003	May 27, 2011	273,564	4.75
May 28, 2004	May 28, 2012	309,798	6.61
May 23, 2006	May 23, 2014	532,619	5.63
June 8, 2007	June 8, 2015	485,504	6.30
July 27, 2007	July 27, 2015	37,891	6.30
June 11, 2008	June 11, 2016	79,856	6.30
June 11, 2008	June 11, 2016	370,355	4.10
June 9, 2009	June 9, 2017	52,659	4.10
June 9, 2009	June 9, 2017	639,010	2.50
<b>Total</b>		<b>2,993,528</b>	

Among the 105,761 options held by people have left the Group, 83,282 expire in 2010, 17,592 in 2011 and 4,887 in 2012.

*note 10.5.4 Breakdown of Stock Options for Which Exercise Rights Remain to be Acquired After December 31, 2009 by the Beneficiaries*

Year of vesting	Number of stock options
2010	410,623
2011	284,146
2012	172,873
<b>Total</b>	<b>867,642</b>

*note 10.5.5 Stock Option Plans of Executive Directors at December 31, 2009*

No stock options were granted 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.

*note 10.5.6 Stock Options Granted in 2009*

On June 9, 2009, the Board of Directors granted twice stock options under the authority given to it by the Extraordinary General Meeting of April 30, 2008:

- 52,659 stock options to 34 Group employees, each option entitling the beneficiary to one share at an exercise price of €4.10 in respect of performance in 2008;
- 642,010 stock options to 76 Group employees, each option entitling the beneficiary to one share at an exercise price of €2.50.

Moreover, a maximum of 668,620 options have been earmarked for granting in 2010 to 47 of these people in respect of fulfillment of their 2009 objectives. The final number and exercise price of these options will be set by the Board of Directors at the time of granting in 2010. The exercise price may in no circumstances be less than €2.50. However, in light of Group sales activity and results in 2009, only a small percentage of these options would have been granted in 2010. Of the 694,669 stock options granted in 2009, the 10 Group employees other than executive directors receiving the largest number of options in 2009 were granted a total of 347,629 options.

*note 10.5.7 Stock Options Exercised in 2009*

No option was exercised in 2009.

## **NOTE 11 CURRENCY TRANSLATION ADJUSTMENT**

Analysis of changes recorded in 2009 and 2008:

(in thousands of euros)	2009	2008
<b>Cumulative translation adjustment at January 1</b>	<b>(8,043)</b>	<b>(8,719)</b>
Differences on translation of subsidiaries' income statements	13	(456)
Adjustment required to maintain subsidiaries' retained earning at historical exchange rate	(238)	756
Other movements <sup>(1)</sup>	(317)	376
<b>Cumulative translation adjustment at December 31</b>	<b>(8,585)</b>	<b>(8,043)</b>

(1) The other movements notably comprise impacts relating to the application of IFRS 8.

## 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:

2008 (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
<b>2009</b>	<b>France</b>	<b>Italy</b>	<b>Japan</b>	<b>Taiwan</b>	<b>Others</b>	<b>Total</b>
Retirement benefits at January 1, 2009	1,061	1,783	713	–	189	3,746
Charges of the year	336	80	(5)	74	(111)	374
Benefits paid	(17)	(107)	(112)	(74)	–	(310)
Exchange rate differences	–	–	(35)	–	9	(26)
Retirement benefits at December 31, 2009	1,380	1,756	561	–	87	3,784

Breakdown of net annual charge:

2008 (in thousands of euros)	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
<b>2009</b>	<b>France</b>	<b>Italy</b>	<b>Japan</b>	<b>Taiwan</b>	<b>Others</b>	<b>Total</b>
Cost of benefits provided in the year	55	–	53	27	11	146
Adjustment Lectra Turkey <sup>(1)</sup>	–	–	–	–	(122)	(122)
Interest paid	42	89	13	13	–	157
Actuarial gains/losses for the year	239	(9)	(71)	34	–	193
Charge/(income) of the year	336	80	(5)	74	(111)	374

(1) The actuarial calculation of Lectra Turkey's retirement benefit obligations, carried out in 2009, has led to a €122,000 adjustment in the provision.

Main actuarial assumptions used:

	France	Italy	Japan	Taiwan
Discount rate	3.90%	5.00%	2.20%	2.25%
Average rate of salary increase, including inflation	2.70%	0.75%	1.44%	1.50%
Personnel turnover rate <sup>(1)</sup>	2.35% / 9.16%	5.00%	3.49%	8.70%

(1) Calculated via a table based on age group. The personnel turnover rate for France is 2.35% for non-managerial grade personnel, and 9.16% for managerial grade personnel.

## NOTE 13 BORROWINGS

### NOTE 13.1 BREAKDOWN OF BORROWINGS BY CURRENCY

At December 31, 2009, 100% of the company's financial debt was euro-denominated, as at December 31, 2008.

### NOTE 13.2 SCHEDULE OF BORROWINGS BY CATEGORY AND BY MATURITY

At December 31, 2009, the repayment schedule is as follows:

(in thousands of euros)	Short term	Long term		Total
	Less than 1 year	Between 1 and 5 years	More than 5 years	
Bank loan	7,680	40,320	–	48,000
Interest-free repayable advances <sup>(1)</sup>	195	1,740	–	1,935
Cash credit facilities	7,600	–	–	7,600
<b>Total</b>	<b>15,475</b>	<b>42,060</b>	<b>–</b>	<b>57,535</b>

(1) The repayable advances correspond to public grants to finance R&D programs.

In 2007 the company contracted a €48,000,000 medium-term bank loan in order to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007. This 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). Repayments are scheduled to accelerate from 2010 onwards, depending on the increase of free cash provided from operations. Moreover, the contract provides for accelerated repayment of the portion actually collected of the arbitral award against Induyco. The repayment dates listed above are the contractual payment dates, at the latest, in the absence of an acceleration of repayments.

Since January 1<sup>st</sup>, 2009, the loan carried interest at the 3-month Euribor rate plus a margin that was set at 1.85% per year. This margin may be reduced to 0.95% depending on the company's leverage ratio (see note 13.3 below). The company hedged in 2007 its interest-rate risk exposure (see note 13.8) on part of the loan. The total effective fixed rate after including the cost of the hedging instruments and amounts hedged for 2009 is 6.18%. The total effective rate for 2010, calculated on the basis of the 3-month Euribor rate at January 4, 2010, is forecast to be 5.91% (with a margin of 1.85%) representing interest paid of €2,761,000 calculated on €48,000,000 until June 30, 2010 and on €44,160,000 from July 1, 2010 to December 31, 2010.

Further, in 2009 the company booked a €400,000 repayable advance from OSEO Innovation, a French public body. The Group had already received two initial repayable advances of €400,000 in 2007 and €800,000 in 2008 under the same R&D program aid contract (see note 13.6). These have been booked at fair value for €376,000 in 2009, €730,000 in 2008 and €360,000 in 2007. The advances are repayable subject to the success and profitability of the corresponding project after March 31, 2012.

The utilization of cash facilities results from the temporary increase in working capital requirement (falling to €7,600,000 at December 31, 2009 vs €16,900,000 at December 31, 2008).

### NOTE 13.3 COVENANTS

During the period of the €48,000,000 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. A contract clause provides for early repayment of the loan in its entirety in the event of failure to comply with these ratios; in that event the company would recontact its banks in order to come to a satisfactory arrangement

Anticipating that these ratios would probably not be respected at December 31, 2009, in December 2009 the company secured an agreement with the lending banks to a waiver of early repayment of the loan, despite breaking these covenants in 2009. None of the clauses and conditions of this loan is modified by this agreement.

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

	2010	2011	2012
Leverage	< 1.9	< 1.7	< 1.7
Gearing	< 1.2	< 1	< 1

Finally, the company's compliance with these covenants will be calculated yearly on the basis of the annual financial statements.

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 or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the share capital and/or voting rights. Furthermore, the company has undertaken to limit its capital expenditures to €10,000,000 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 13.4 NET FINANCIAL DEBT

(in thousands of euros)	2009	2008
Cash	7,803	7,813
Cash equivalents	1,946	2,362
Total borrowings	(57,535)	(66,529)
<b>Net financial debt</b>	<b>(47,786)</b>	<b>(56,354)</b>

The table below summarizes the Group access to liquidity at December 31, 2009 based on available cash, cash facilities confirmed by its banks, and its borrowings:

(in thousands of euros)	Limits	Utilizations	Available Amounts
Confirmed cash credit facilities			
- Until July 31, 2010	15,000	7,600	7,400
- Until June 15, 2011	4,000	-	4,000
- Until June 23, 2011	10,000	-	10,000
<b>Total</b>	<b>29,000</b>	<b>7,600</b>	<b>21,400</b>
Bank loan	48,000	48,000	-
Non-interest bearing repayable advances	1,935	1,935	-
<b>Total financial debts</b>	<b>78,935</b>	<b>57,535</b>	<b>21,400</b>
<b>Cash and cash equivalents</b>			<b>9,749</b>
<b>Total</b>	<b>78,935</b>	<b>57,535</b>	<b>31,149</b>

In December 2009, the company renewed the cash credit facilities that had expired in 2009. Consequently, at the date of this report, in addition to the €15,000,000 cash credit facilities expiring on July 31, 2010 it had access to €14,000,000 in additional confirmed cash credit facilities expiring on June 15 and 23, 2011. Based on cash and cash equivalent available and credit facilities drawn at December 31, 2009, it has access to a total of €31,149,000 to cover its liquidity needs.

### NOTE 13.5 ANALYSIS OF FINANCIAL BORROWINGS BY TYPE OF INTEREST RATE—SENSITIVITY ANALYSIS

All financial borrowings are in euros.

The analysis of financial borrowings by type of interest rate and sensitivity analysis are the following:

(in thousands of euros)	2009			2008		
	Carrying amount	Annual average	Impact on financial expenses of a 50bp increase	Carrying amount	Annual average	Impact on financial expenses of a 50bp increase
Bank loan <sup>(1)</sup>	48,000	48,000	30	48,000	48,000	15
Interest-free repayable advances	1,935	1,873	–	1,629	1,228	–
Cash credit facilities	7,600	8,911	45	16,900	16,841	84
<b>Total</b>	<b>57,535</b>	<b>58,784</b>	<b>75</b>	<b>66,529</b>	<b>66,069</b>	<b>99</b>

(1) The sensitivity analysis concerns only the portion of the loan for which the interest-rate risk is not hedged by swaps

### NOTE 13.6 COMMITMENTS GIVEN AND RECEIVED

#### Commitments Given

	Payments due by period			Total
	Less than 1 year	Between 1 to 5 years	More than 5 years	
Contractual commitments				
Rental contracts: offices	5,175	12,562	4,601	22,338
Rental contracts: others <sup>(1)</sup>	4,318	2,352	–	6,670
<b>Total rental contracts</b>	<b>9,493</b>	<b>14,914</b>	<b>4,601</b>	<b>29,008</b>
Other guarantees: sureties <sup>(2)</sup>	1,226	43	1,060	2,329

(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 expenses in 2009 amounted to €11,259,000.

Within the framework of the signature of €14,000,000 in new cash facilities expiring at June 15 and 23, 2011, the Group has granted to two of its banks a €10,000,000 mortgage promise on buildings at its Bordeaux-Cestas industrial site.

#### Commitments Received

In addition to the confirmed cash facilities available to the parent company Lectra S.A., details of which are provided in note 13.4 above, the company's German subsidiary, Lectra Deutschland GmbH, has access to a confirmed bank credit facility of €1,000,000 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 R&D program in the form of an interest-free advance. OSEO Innovation's total repayable advance will amount to €2,000,000 if the company completes this program. Three initial payments of totaling €1,600,000 were received between 2007 and 2009. Assuming the program is completed in 2010, the balance would be received in 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 in 2009 or in 2008 given their very high cost owing to the volatility of the financial markets.

Forward transactions entered into by the company to hedge balance sheet currency positions at December 31, 2009 and 2008 are analyzed below:

	2009				2008			
	In foreign currency <sup>(1)</sup> (in thousands)	Fair value in thousands of euros <sup>(2)</sup>	Difference in value	Expiration date	In foreign currency <sup>(1)</sup> (in thousands)	Fair value in thousands of euros <sup>(2)</sup>	Difference in value	Expiration date
USD	14,417	10,027	10	January 22, 2010	15,536	11,004	(160)	January 29, 2009
AUD	(1,554)	(947)	12	January 22, 2010	(1,297)	(632)	7	January 29, 2009
CAD	4,846	3,106	(49)	January 22, 2010	5,184	3,034	(15)	January 29, 2009
CHF	-	-	-		5	5	1	January 29, 2009
DKK	(1,160)	(156)	-	January 22, 2010	(9,052)	(1,214)	1	January 29, 2009
GBP	(889)	(995)	3	January 22, 2010	(501)	(524)	1	January 29, 2009
HKD	4,449	399	-	January 22, 2010	(1,850)	(170)	1	January 29, 2009
HRK	2,000	272	(1)	January 22, 2010	-	-	-	
INR	(7,950)	(117)	1	January 22, 2010	3,928	21	(36)	January 29, 2009
JPY	31,776	236	(1)	January 22, 2010	(487,881)	(3,862)	5	January 29, 2009
PLN	650	154	(2)	January 22, 2010	-	-	-	
SEK	(3,770)	(352)	7	January 22, 2010	(4,259)	(390)	2	January 29, 2009
SGD	(274)	(138)	(1)	January 22, 2010	(550)	(270)	4	January 29, 2009
TWD	35,383	765	(1)	January 22, 2010	28,808	626	40	January 29, 2009
ZAR	276	26	1	January 22, 2010	1,389	101	(4)	January 29, 2009
		12,280	(21)			7,729	(153)	

(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, 2009 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, the People's Republic of China and Turkey (individually representing less than 4% and together less than 10% 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, 2009 and December 31, 2008:

2009																	
In thousands of currencies	USD	AUD	BRL	CAD	CHF	DKK	GBP	HKD	HRK	INR	JPY	PLN	RON	SEK	SGD	TWD	ZAR
Carrying position to be hedged:																	
Trade account																	
receivables	17,094	(1,551)	6,490	4,628	-	(2,496)	(826)	4,400	2,191	-	42,782	654	377	(2,583)	-	26,902	776
Cash	698	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade payables	(3,973)	(21)	(4,806)	5	(20)	1,379	(19)	(137)	(20)	(15,852)	(12,071)	-	-	(2,095)	(328)	12,513	(501)
<b>Total</b>	<b>13,819</b>	<b>(1,572)</b>	<b>1,684</b>	<b>4,633</b>	<b>(20)</b>	<b>(1,117)</b>	<b>(845)</b>	<b>4,263</b>	<b>2,171</b>	<b>(15,852)</b>	<b>30,711</b>	<b>654</b>	<b>377</b>	<b>(4,678)</b>	<b>(328)</b>	<b>39,415</b>	<b>275</b>
Nominal net of hedges	(14,417)	1,554	-	(4,846)	-	1,160	889	(4,449)	(2,000)	7,950	(31,776)	(650)	-	3,770	274	(35,383)	(276)
<b>Net residual position</b>	<b>(598)</b>	<b>(18)</b>	<b>1,684</b>	<b>(213)</b>	<b>(20)</b>	<b>43</b>	<b>44</b>	<b>(186)</b>	<b>171</b>	<b>(7,902)</b>	<b>(1,065)</b>	<b>4</b>	<b>377</b>	<b>(908)</b>	<b>(54)</b>	<b>4,032</b>	<b>(1)</b>
Equivalent value in euros at closing rate																	
	(415)	(11)	671	(141)	(13)	6	50	(17)	23	(118)	(8)	1	89	(89)	(27)	87	-
<b>Analysis of sensitivity to currency fluctuations</b>																	
Closing rate																	
	1.44	1.60	2.51	1.51	1.48	7.44	0.89	11.17	7.30	67.04	133.16	4.10	4.24	10.25	2.02	46.14	10.67
5% currency depreciation relative to closing rate																	
Closing rates parity depreciated by 5%																	
	1.51	1.68	2.64	1.59	1.56	7.81	0.93	11.73	7.67	70.39	139.82	4.31	4.45	10.76	2.12	48.45	11.20
Currency translation impact																	
	20	1	(32)	7	1	-	(2)	1	(1)	6	-	-	(4)	4	1	(4)	-
Impact on stockholders' equity																	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5% currency appreciation relative to closing rate																	
Closing rates parity appreciated by 5%																	
	1.37	1.52	2.39	1.44	1.41	7.07	0.84	10.61	6.94	63.69	126.50	3.90	4.02	9.74	1.92	43.83	10.13
Currency translation impact																	
	(22)	(1)	35	(7)	(1)	-	3	(1)	1	(6)	-	-	5	(5)	(1)	5	-
Impact on stockholders' equity																	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	2008													
In thousands of currencies	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)
<b>Total</b>	<b>11,270</b>	<b>(1,229)</b>	<b>599</b>	<b>5,134</b>	<b>5</b>	<b>(8,259)</b>	<b>(314)</b>	<b>54</b>	<b>(3,778)</b>	<b>(457,601)</b>	<b>(4,144)</b>	<b>(320)</b>	<b>30,533</b>	<b>2,503</b>
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)
<b>Net residual position</b>	<b>(4,266)</b>	<b>68</b>	<b>599</b>	<b>(50)</b>	<b>-</b>	<b>793</b>	<b>187</b>	<b>1,904</b>	<b>(7,707)</b>	<b>30,280</b>	<b>115</b>	<b>230</b>	<b>3,725</b>	<b>1,114</b>
Equivalent value in euros at closing rate	(3,065)	34	185	(29)	-	106	196	177	(113)	240	11	115	81	85
<b>Analysis of sensitivity to currency fluctuations</b>														
Closing rate	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
Currency translation impact	146	(2)	(9)	1	-	(5)	(9)	(8)	5	(11)	(1)	(5)	(4)	(4)
Impact on stockholders' 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
Currency translation impact	(161)	2	10	(2)	-	6	10	9	(6)	13	1	6	4	4
Impact on stockholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-

#### NOTE 13.8 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES—SENSITIVITY ANALYSIS

The company has hedged its interest-rate risk exposure in connection with a portion of the €48 million medium-term bank loan by converting the floating interest rate payable on the loan (3-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.

Since the face value of these swaps remains lower than the face value of the loan, they meet the hedge accounting criteria as defined by IFRS. Their fair value at December 31, 2009 is a negative €2,195,000. The effective portion, corresponding to their full fair value, is entirely recognized in shareholders' equity. No ineffective part has been booked in net financial expenses in 2009.

For a 0.5% (50 basis points) variation in the 3-month Euribor (the interest rate on the underlying borrowing being hedged), the value of the swaps would rise by €212,000 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 TRADE AND OTHER PAYABLES

	2009	2008
Trade payables	14,752	21,594
Social debts	11,872	12,659
Fiscal debts	4,161	3,171
Down-payments from customers <sup>(1)</sup>	5,974	5,656
Other current payables	2,619	2,708
<b>Total</b>	<b>39,378</b>	<b>45,788</b>

(1) Advances and down-payments received from customers have been reclassified in other current liabilities, for the amount of €5,656,000 at December 31, 2008

The significant decline in "Trade payables" stems from the sharp fall in volumes purchased in 2009, and from the application of the Economic Modernization Act in France since January 1, 2009.

Other current liabilities consist primarily in financial instruments used to hedge interest-rate risk on a portion of the €48,000,000 loan adjusted to fair value, i.e. €2,196,000, at December 31, 2009, compared with €2,226,000 at December 31, 2008.

## NOTE 15 DEFERRED REVENUES

(in thousands of euros)	2009	2008
Deferred recurring software evolution and services contracts	31,607	30,544
Other deferred revenues <sup>(1)</sup>	1,762	1,766
<b>Total</b>	<b>33,369</b>	<b>32,310</b>

(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 statement of financial position (see note 8).

## NOTE 16 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(in thousands of euros)	Provisions for litigation	Provisions for warranty	Other provisions	Total
<b>Provisions at January 1, 2009</b>	<b>867</b>	<b>528</b>	<b>586</b>	<b>1,981</b>
Additional provisions	674	251	532	1,457
Used during the year	(373)	(453)	(119)	(945)
Unused amounts reversed	(29)	(13)	(47)	(89)
Exchange rate differences	147	-	-	147
<b>Provisions at December 31, 2009</b>	<b>1,286</b>	<b>313</b>	<b>952</b>	<b>2,551</b>

### Potential Liabilities

The Group has no knowledge, at the date of Board of Directors' meeting, of any potential liability at December 31, 2009.

To the Group's knowledge, there were no proceedings pending at December 31, 2009, other than those for which provision has been made, that could have a material impact on the financial condition of the Group.

### Environmental Risks

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

## NOTE 17 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

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

		Carried at amortized cost	Carried at cost	Carried at fair value through profit or loss	Carried at fair value through with changes recognized in equity	Carrying amount	Fair value
<b>At December 31, 2009</b>	IAS 39 category						
Loans, deposits and guarantees	Loans and receivables		X			-	-
Other non current financial assets	Loans and receivables		X			921	921
Trades account receivables	Loans and receivables		X			43,378	43,378
Other current assets	Loans and receivables		X			10,337	10,337
	Financial assets at fair value						
Derivatives not designated as hedges	through profit and loss			X		(21)	(21)
	Financial assets at fair value with						
Derivatives designated as hedges <sup>(1)</sup>	changes recognized in equity				X	-	-
	Financial assets at fair value						
Cash and cash equivalents	through profit and loss			X		9,749	9,749
<b>Total financial assets</b>						<b>64,364</b>	<b>64,364</b>
	Financial liabilities carried at						
Bank loans	amortized cost	X				48,000	48,000
	Financial liabilities carried at						
Repayable advance OSEO	amortized cost	X				1,935	1,935
	Financial liabilities carried at						
Cash credit facilities	amortized cost	X				7,600	7,600
	Financial liabilities at fair value						
Derivatives not designated as hedges	through profit and loss			X		-	-
	Financial liabilities at fair value with						
Derivatives designated as hedges <sup>(1)</sup>	changes recognized in equity				X	2,196	2,196
	Financial liabilities carried at						
Trade payables and other current liabilities	amortized cost	X				37,182	37,182
<b>Total financial liabilities</b>						<b>96,913</b>	<b>96,913</b>
<b>At December 31, 2008</b>	IAS 39 category						
Loans, deposits and guarantees	Loans and receivables		X			-	-
Other non current financial assets	Loans and receivables		X			1,124	1,124
Trades account receivables <sup>(2)</sup>	Loans and receivables		X			45,806	45,806
Other current assets <sup>(2)</sup>	Loans and receivables		X			9,340	9,340
	Financial assets at fair value						
Derivatives not designated as hedges	through profit and loss			X		(153)	(153)
	Financial assets at fair value with						
Derivatives designated as hedges <sup>(1)</sup>	changes recognized in equity				X	-	-
	Financial assets at fair value						
Cash and cash equivalents	through profit and loss			X		10,175	10,175
<b>Total financial assets</b>						<b>66,292</b>	<b>66,292</b>
	Financial liabilities carried at						
Bank loans	amortized cost	X				48,000	48,000
	Financial liabilities carried at						
Repayable advance OSEO	amortized cost	X				1,629	1,629
	Financial liabilities carried at						
Cash credit facilities	amortized cost	X				16,900	16,900
	Financial liabilities at fair value						
Derivatives not designated as hedges	through profit and loss			X		-	-
	Financial liabilities at fair value with						
Derivatives designated as hedges <sup>(1)</sup>	changes recognized in equity				X	2,226	2,226
	Financial liabilities carried at						
Trade payables and other current liabilities <sup>(2)</sup>	amortized cost	X				43,562	43,562
<b>Total financial liabilities</b>						<b>112,317</b>	<b>112,317</b>

(1) Concerns swaps intended to hedge a portion of the bank borrowing against interest-rate risk. Suppliers and other current liabilities have been restated for this amount at December 31, 2008 and at December 31, 2009.

(2) Advances and down payments received from customers were reclassified in other current liabilities at December 31, 2008.

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 income statement

consolidated

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 2009 and 2008 are also provided at 2008 exchange rates ("like-for-like"), as indicated in the notes concerned.

## NOTE 18 REVENUES

No single customer represents more than 5% of annual revenues and the ten largest clients combined account for less than 10% of revenue.

### NOTE 18.1 REVENUES BY GEOGRAPHIC REGION

(in thousands of euros)	2009			2008		Changes 2009/2008	
	Actual	%	At 2008 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	87,144	57%	87,813	117,393	60%	-26%	-25%
- France	16,140	11%	16,140	20,862	11%	-23%	-23%
Americas	30,971	20%	30,185	34,427	17%	-10%	-12%
Asia-Pacific	25,262	17%	23,839	34,073	17%	-26%	-30%
Other countries	9,810	6%	9,825	12,240	6%	-20%	-20%
<b>Total</b>	<b>153,187</b>	<b>100%</b>	<b>151,662</b>	<b>198,133</b>	<b>100%</b>	<b>-23%</b>	<b>-23%</b>

### NOTE 18.2 REVENUES BY PRODUCT LINE

(in thousands of euros)	2009			2008		Changes 2009/2008	
	Actual	%	At 2008 exchange rates	Actual	%	Actual	Like-for-like
Software, of which:	47,580	31%	47,200	58,566	30%	-19%	-19%
- New licenses	17,586	11%	17,406	28,830	15%	-39%	-40%
- Software evolution contracts	29,994	20%	29,794	29,736	15%	+1%	0%
CAD/CAM equipment	30,241	20%	29,878	56,172	28%	-46%	-47%
Hardware maintenance and on-line services	36,501	24%	36,082	38,072	19%	-4%	-5%
Spare parts and consumables	30,468	20%	30,152	35,636	18%	-15%	-15%
Training and consulting services	7,680	5%	7,635	8,769	4%	-12%	-13%
Miscellaneous	717	0%	715	918	0%	-22%	-22%
<b>Total</b>	<b>153,187</b>	<b>100%</b>	<b>151,662</b>	<b>198,133</b>	<b>100%</b>	<b>-23%</b>	<b>-23%</b>

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

(in thousands of euros)	2009		At 2008 exchange rates	2008		Changes 2009/2008	
	Actual	%		Actual	%	Actual	Like-for-like
Revenues from new systems sales <sup>(1)</sup>	56,224	37%	55,634	94,689	48%	- 41%	- 41%
Recurring revenues <sup>(2)</sup> , of which:	96,963	63%	96,028	103,444	52%	-6%	- 7%
- Recurring contracts	64,834	42%	64,241	65,909	33%	-2%	- 3%
- Other recurring revenues on the installed base	32,129	21%	31,787	37,535	19%	-14%	- 15%
<b>Total</b>	<b>153,187</b>	<b>100%</b>	<b>151,662</b>	<b>198,133</b>	<b>100%</b>	<b>-23%</b>	<b>- 23%</b>

(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)	2009		At 2008 exchange rates	2008		Changes 2009/2008	
	Actual	%		Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	35,252	63%	34,828	57,589	61%	-39%	- 40%
Automotive	9,315	17%	9,219	17,615	19%	-47%	- 48%
Furniture	4,562	8%	4,670	6,936	7%	-34%	- 33%
Other industries	7,095	13%	6,917	12,549	13%	-43%	- 45%
<b>Total</b>	<b>56,224</b>	<b>100%</b>	<b>55,634</b>	<b>94,690</b>	<b>100%</b>	<b>-41%</b>	<b>- 41%</b>

### NOTE 18.5 BREAKDOWN OF REVENUES BY CURRENCY

	2009	2008
Euro	57%	60%
U.S. dollar	21%	22%
Japanese yen	4%	4%
British pound	3%	3%
Chinese yuan	4%	3%
Other currencies <sup>(1)</sup>	11%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(1) No other single currency represents more than 3% of total revenues.

## NOTE 19 COST OF GOODS SOLD AND GROSS PROFIT

(in thousands of euros)	2009	2008
Revenues	153,187	198,133
Cost of goods sold, of which:	(44,853)	(65,757)
Purchases and freight-in costs	(29,731)	(57,587)
Inventory movement, net	(9,962)	(1,327)
Industrial added value	(5,160)	(6,843)
Gross profit	108,334	132,376
(in % of revenues)	70.7%	66.8%

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)	2009	2008
Fixed staff costs	(13,987)	(15,910)
Variable staff costs	(52)	(14)
Other operating expenses	(1,800)	(1,975)
Depreciation expenses	(334)	(413)
Total before research tax credit	(16,173)	(18,312)
(in % of revenues)	10.6%	9.2%
Research tax credit and subsidies	7,500	7,705
Total	(8,673)	(10,607)

## NOTE 21 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

(in thousands of euros)	2009	2008
Fixed staff costs	(61,612)	(67,006)
Variable staff costs	(3,043)	(3,940)
Other operating expenses	(32,668)	(39,140)
Depreciation expenses	(2,932)	(3,046)
Net increase in provisions	(2,199)	(1,676)
Total <sup>(1)</sup>	(102,454)	(114,808)
(in % of revenues)	66.9%	57.9%

(1) "Selling, general and administrative expenses" do not include the expenses comprised in "Industrial added value" (see note 19), which amounted to €5,160,000 in 2009 and €6,843,000 in 2008.

### Fees paid to Group Auditors and Companies in their Network

In 2009, other operating expenses comprise €720,000 in respect of the audit of all Group companies, of which €439,000 for PricewaterhouseCoopers, €226,000 for KPMG and €55,000 for other audit firms. The corresponding amount in 2008 was €760,000.



Fees paid by the company in 2009 to each of the statutory auditors were €792,000, of which €519,000 for PricewaterhouseCoopers and €273,000 for KPMG:

	PWC				KPMG			
	Amount		%		Amount		%	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Audit</b>								
- Statutory audits, certification and examination of individual and consolidated financial statements								
Issuer (Lectra S.A.)	148	150	29%	22%	129	142	47%	74%
Fully-consolidated subsidiaries	291	417	56%	61%	97	51	36%	26%
- Others services directly related to the Auditors' engagement								
Issuer (Lectra S.A.)	-	-	-	-	-	-	-	-
Fully-consolidated subsidiaries	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>439</b>	<b>567</b>	<b>85%</b>	<b>83%</b>	<b>226</b>	<b>193</b>	<b>83%</b>	<b>100%</b>
<b>Other services performed by the networks to consolidated entities</b>								
- Legal, tax and social reviews	80	113	15%	17%	47	-	17%	-
<b>Sub-total</b>	<b>80</b>	<b>113</b>	<b>15%</b>	<b>17%</b>	<b>47</b>	<b>-</b>	<b>17%</b>	<b>-</b>
<b>Total</b>	<b>519</b>	<b>680</b>	<b>100%</b>	<b>100%</b>	<b>273</b>	<b>193</b>	<b>100%</b>	<b>100%</b>

## NOTE 22 NON-RECURRING INCOME AND EXPENSES

In view of the continuing serious economic downturn and structural imbalances in certain subsidiaries, the Group implemented reorganizational measures and steps to optimize its resources end of 2009. These measures were aimed in particular at those subsidiaries that registered substantial losses in 2009 and whose work force was no longer appropriate to the actual and expected level of activity in the corresponding country or region. Total non-recurring charges arising in connection with these measures, consisting of employment contract termination payments for the most part, amounted to €1,880,000 in 2009.

No non-recurring expense was booked in 2008.

## 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)	2009	2008
Research and development	(14,039)	(15,924)
Selling, general and administrative	(64,655)	(70,946)
Manufacturing, logistics and purchasing <sup>(1)</sup>	(3,183)	(4,640)
<b>Total</b>	<b>(81,877)</b>	<b>(91,510)</b>

(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

	2009	2008
Parent company <sup>(1)</sup>	632	668
Subsidiaries <sup>(2)</sup> , of which:	742	850
Europe	378	407
Americas	147	169
Asia acific	149	202
Other countries	68	73
<b>Total</b>	<b>1,374</b>	<b>1,518</b>

(1) In 2009, expatriates are attached to the economic entities for which they work. Data for 2008 have been restated accordingly.

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

### Analysis of Workforce by Function

	2009	2008
Marketing, Sales	226	255
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	469	542
Research and development	209	217
Purchasing, Production, Logistics	166	180
Administration, Finance, Human Resources, Information Systems	303	323
<b>Total</b>	<b>1,374</b>	<b>1,518</b>

### NOTE 23.3 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid.

During 2009, subsidiaries subject to defined-contribution pension plans booked a sum of €3,287,000 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, Belgium, the United Kingdom, Italy and Hong Kong.

### NOTE 23.4 INDIVIDUAL TRAINING RIGHTS (PARENT COMPANY)

No provision is made for employee training entitlements within the framework of individual training rights applicable in France since future training represents a use value in return for the Group.

According to French regulation, the accumulated number of hours corresponding to rights acquired at December 31, 2009 by employees of the parent company is 62,165. Employees have not yet exercised their rights to 61,065 hours of training.

### NOTE 23.5 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLANS

#### Profit-Sharing Plan

A rider to the October 1984 employee profit-sharing plan was signed in October 2000, applicable solely to parent company employees. Under this plan, 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 S.A. stock, at the beneficiary's discretion. In light of the deterioration of the result of its parent company, Lectra S.A., there will be no profit-sharing disbursed in 2010 in respect of 2009, as in 2008.

### 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 2008–2010.

No incentive payment will be disbursed in 2010 in respect of 2009 due to the loss reported by the Group. Incentive payments in respect of 2008 totaled €64,000.

### NOTE 23.6 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 the following two quantitative criteria (to the exclusion of any qualitative criteria) expressed in terms of annual targets:

- consolidated pre-tax profit excluding net financial expenses and non-recurring items (which accounts for 67%);
- and consolidated free cash flow excluding net financial expenses, non-recurring items, income tax and after certain restatements (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 2009 and 2008 was equal to 60% of total compensation for the Chairman of the Board of Directors and Chief Executive Officer and 30% for the Chief Financial Officer and for the Chief Human Capital and Information Officer. Variable compensation may represent a higher percentage if these annual objectives are exceeded.

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 apply to the four members of the Group management and to approximately a dozen managers of the parent company, Lectra S.A. Only the performance-based share of variable compensation varies, being set individually for each executive.

The annual income target was not achieved in 2009, but the free cash flow target was exceeded. Altogether, the percentage achieved for the variable portion of compensation represented 66% of the figure set assuming fulfilment of the annual targets. In 2008, both the annual targets for income and free cash flow were not fulfilled: the percentage achieved for the variable portion of compensation represented 33% of the figure set upon fulfilment of the annual targets.

Aggregate compensation and benefits in kind paid to the Group management team in 2009, excluding directors' fees, amounted to €1,321,000, of which €783,000 in fixed compensation, €490,000 in variable compensation, and €48,000 in benefits in kind.

Aggregate compensation and benefits in kind paid to these same managers in respect of 2008 amounted to €1,086,000 (of which €783,000 in fixed compensation, €247,000 in variable compensation, and €56,000 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 106,607 and 68,229). A charge of €45,000 and €29,000 was recognized in respect of 2009 as a result of the new stock option plan together with prior-year plans concerning these two beneficiaries (€61,000 and €38,000 in respect of 2008). The two executive directors held no stock options at December 31, 2009 (see note 10.5.5).

#### NOTE 23.7 DIRECTORS' FEES

Subject to the approval of the General Meeting of Shareholders on April 30, 2010, €100,000 in directors' fees will be allocated to the four members of the Board with respect to fiscal 2009 (€100,000 in 2008), unchanged compared to 2008 and split equally among the four directors.

Compensation paid to the two non-executive directors in respect of 2009 consists exclusively of directors' fees amounting to €25,000 each.

#### 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)	2009	2008
R&D	(334)	(413)
Selling, general and administrative	(2,932)	(3,046)
Manufacturing, logistics and purchasing <sup>(1)</sup>	(682)	(665)
<b>Total</b>	<b>(3,948)</b>	<b>(4,124)</b>

(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)	2009	2008
Financial income, of which:	158	424
Gains on sales of cash equivalents	10	177
Other interest income	81	149
Reversal of provisions for depreciation of investments and loans	67	98
Financial expense, of which:	(3,755)	(4,128)
Bank charges	(587)	(550)
Other interest expense	(3,142)	(3,561)
Provisions for impairment of investments and loans	(26)	(17)
<b>Total</b>	<b>(3,597)</b>	<b>(3,704)</b>

Interest expense on borrowings in 2009 comprised €3,009,000 (€2,804,000 in 2008) in interest on the medium-term bank loan contracted to finance the public stock buyback tender offer carried out in 2007 and €133,000 (€757,000 in 2008) on drawings on cash facilities (see note 13.2).

## NOTE 26 FOREIGN EXCHANGE INCOME

A foreign exchange gain of €1,961,000 was recognized in 2009, comprising a gain of €1,389,000 against the US dollar and €527,000 against the Japanese Yen. This profit stems primarily from the hedges put in place in February 2009. Indeed, the company hedged 70% of its estimated exposure to the dollar for 2009 through monthly forward-dollar sales at an average parity of \$1.30/€1. At the same date it also hedged 70% of its estimated exposure to the Japanese yen at an average parity of JPY115/€1. In view of the low level of new systems sales activity, the hedges put in place at the beginning of the year currently covered nearly 100% of the company's actual exposure to these two currencies for the year. At December 31, 2009, as at December 31, 2008, 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.

	2009	2008
Number of shares used for basic earnings calculation <sup>(1)</sup>	28,077,080	28,236,981
Number of shares corresponding to stock options (treasury stock method) <sup>(2)</sup>	-	-
Number of shares used for diluted earnings calculation	28,077,080	28,236,981

(1) No option was exercised in the course of 2009 (see note 10.5.7). At December 31, 2009, the company held 442,546 treasury shares (see note 10.2) within the framework of the Liquidity Agreement managed by SG Securities. The average number of treasury shares held in the course of the year 2009 has been deducted from the basis for calculating earnings per share.

(2) In 2009, 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

(in thousands of euros)	2009		2008	Changes 2009/2008	
	Actual	At 2008 exchange rates	Actual	Actual	Like-for-like
<b>Revenues</b>	153,187	151,662	198,133	-23%	- 23%
Cost of goods sold	(44,853)	(44,638)	(65,757)	-32%	- 32%
<b>Gross profit</b>	108,334	107,024	132,376	-18%	- 19%
Research and development	(8,673)	(8,673)	(10,607)	-18%	- 18%
Selling, general and administrative expenses	(102,454)	(101,296)	(114,808)	-11%	- 12%
<b>Income from operations before non-recurring items</b>	(2,793)	(2,945)	6,961	ns	ns
(in % of revenues)	-1.8%	- 1.9%	3.5%	- 5.3 points	-5.4 points
Non-recurring expenses	(1,880)	(1,843)	-	na	na
<b>Income from operations</b>	(4,673)	(4,788)	6,961	ns	ns
(in % of revenues)	-3.1%	- 3.2%	3.5%	- 6.6 points	-6.7 points

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. The overall currency variations between 2008 and 2009 have reduced Group revenue by €1,525,000 and income from operations by €115,000. The US dollar alone (average parity versus the euro \$1.47/€1 in 2008 and \$1.39/€1 in 2009) accounts for a decline of €1,166,000 in revenue and of €277,000 in income from operations. The latter impact of the US dollar on income from operations is greater than the aggregate impact of all currencies.

## NOTE 29 QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

2009: quarter ended	March 31	June 30	Sept. 30	Dec. 31	2009
Revenues	37,591	37,187	35,857	42,553	153,187
Cost of goods sold	(11,058)	(10,646)	(10,017)	(13,132)	(44,853)
Gross Profit	26,533	26,541	25,840	29,421	108,334
Research and development	(2,410)	(2,296)	(1,838)	(2,129)	(8,673)
Selling, general and administrative expenses	(27,332)	(26,520)	(23,934)	(24,668)	(102,454)
Income (loss) from operations before non-recurring items	(3,209)	(2,275)	68	2,624	(2,793)
Non-recurring expenses	-	-	-	(1,880)	(1,880)
Income (loss) from operations	(3,209)	(2,275)	68	744	(4,673)
Net Income (loss)	(3,153)	(1,205)	126	610	(3,623)
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)
Income (loss) from operations	1,605	1,318	2,167	1,871	6,961
Net Income (loss)	649	903	1,238	448	3,238

## NOTE 30 OPERATING SEGMENT INFORMATION

(in thousands of euros) 2009	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	87,144	30,971	25,262	9,810	–	153,187
Income (loss) from operations before non-recurring expenses	2,536	(2,519)	(2,911)	967	(866)	(2,793)
Segment assets	74,379	21,032	11,363	5,526	49,082	161,382
– of which goodwill	28,731	6,020	1,282	368	–	36,401
Net segment assets <sup>(1)</sup>	54,041	13,609	7,742	3,540	49,081	128,013
(in thousands of euros) 2008	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	117,394	34,426	34,073	12,240	–	198,133
Income (loss) from operations before non-recurring expenses	8,177	(3,965)	(2,578)	941	4,386	6,961
Segment assets	74,122	22,308	13,623	6,332	63,227	179,612
– of which goodwill	28,640	6,230	1,325	368	–	36,563
Net segment assets <sup>(1)</sup>	55,619	14,455	9,488	4,516	63,224	147,302

(1) Net segment assets are reported net of deferred revenues.

Segment assets reported for each operating segment correspond to the gross assets of the segment.

Net segment assets correspond to segment assets less deferred revenues. The method of billing and collection for recurring contracts may lead to an increase in accounts receivable, with an offsetting entry in deferred revenues. This method of calculation yields a fairer view of each segment's reported assets.

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

The deterioration in the loss from operations before non-recurring expenses in the Corporate segment is due to the sharp decline in regional segments' revenues during the period, because the share of gross margin on revenue allocated to this operating segment is insufficient to cover its overhead expenses.



# Notes to the cash flow statement

consolidated

## NOTE 31 NON-CASH OPERATING EXPENSES

In 2009, as in 2008, “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 statement of financial position 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 32 CHANGES IN WORKING CAPITAL REQUIREMENT

Working capital requirement decreased by €9,574,000 in 2009, this decline stemming primarily from the €8,433,000 fall in inventories and a €1,216,000 fall in customer accounts receivable. The €75,000 decrease in other current assets and liabilities is mainly explained by the following items:

- €14,064,000 received in respect of 2005-2008 research tax credits
- – €6,003,000 correspond to the 2009 research tax credit (*crédit d'impôt recherche*), accounted for and which did not give rise to a receipt of funds;
- – €6,983,000 correspond to the reduction in payables to suppliers, resulting from the sharp fall in volumes purchased in 2009 and from application of the Economic Modernization Act in France of January 1, 2009;
- – €667,000 correspond to non-recurring disbursements, arising in connection with the Induyco litigation (fees prior to the decision) and in respect of measures to reorganize and optimize Group resources (see note 22);

In 2008, the €11,378,000 increase in the working capital requirement was primarily due to the change in other current assets and liabilities (€18,263,000) and from the €1,542,000 increase in inventories, offset by the €8,427,000 reduction in receivables. Most of the change in other current assets and liabilities was attributable to recognition of €6,020,000 research tax credits not received (net of repayment of the balance of the 2004 research tax credit) and €9,133,000 corresponding primarily to the decline in payables to suppliers.

As in 2008, the volume of trade accounts receivable net of deferred revenues in 2009, fell relative to the previous year (see note 8). This impacted positively on cash provided by operating activities. At December 31, 2009, the net accounts receivable DSO (Days Sales Outstanding) ratio represented 10 days of revenue (inclusive of VAT), compared with 14 days at December 31, 2008.

## NOTE 33 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)	2009	2008
Net cash (used in)/provided by operating activities	10,996	(1,224)
Net cash (used in)/provided by investing activities	(1,738)	(3,594)
<b>Free cash flow</b>	<b>9,258</b>	<b>(4,818)</b>

Net cash provided by operating activities consists of cash flow amounting to €1,422,000 in 2009 (compared with €10,154,000 in 2008) and a €9,574,000 decrease in working capital requirement (this increased by €11,378,000 in 2008). Details of changes in working capital requirement are provided in note 32 above.

Net cash used in investing activities amounted to €1,738,000 in 2009 (versus €3,594,000 in 2008). Not including €667,000 in non-recurring disbursements, free cash flow would have amounted to a positive figure of €9,925,000 for 2009. In 2008, net non-recurring payments amounted to €1,584,000.

#### **NOTE 34 INCREASE IN BORROWINGS**

The increase in non-current borrowings in 2009 as in 2008 was due to the granting of a repayable advance by OSEO Innovation in France amounting to €400,000 and €800,000 respectively (see note 13.2).

The amount of cash facilities drawn at December 31, 2009, considered as borrowings in the statement of financial position (see note 13.2), is included in the computation of cash in the cash flow statement (see note 36).

#### **NOTE 35 REPAYMENT OF BORROWINGS**

Repayment of borrowings in 2009 as in 2008 chiefly concerns public subsidies previously received to finance R&D programs for €125,000 and €146,000 respectively.

#### **NOTE 36 RECONCILIATION OF CASH IN THE CONSOLIDATED CASH FLOW STATEMENT**

At December 31	2009	2008
Cash and cash equivalents (statement of financial position)	9,749	10,175
Cash credit facilities used	(7,600)	(16,900)
<b>Cash and cash equivalents (statement of cash flows)</b>	<b>2,149</b>	<b>(6,725)</b>

# Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2009

*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

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Lectra SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit..

## I. 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, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated 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 at December 31, 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. Without qualifying our opinion, we draw your attention on the paragraph "Current accounting standards and interpretations" set out in the Note "Accounting rules and methods" in the consolidated financial statements regarding the effect of the first-time application, from January 1st, 2009, of the new IFRS standards and interpretations and more specifically on IFRS 8 – Operating segments.

## II. 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:

In the context of our assessment of the accounting rules and methods used by your Company, we have ensured the validity of the changes in accounting principles mentioned before and their corresponding presentation. In accordance with IAS 8, the 2008 comparative information, disclosed in the 2009 consolidated financial statements, has been restated to take into consideration on a retrospective basis, the application of the new IFRS 8 standard – Operating segments.

As a consequence, the comparative information is different from the 2008 financial statements.

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 6.3.

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

### III. SPECIFIC VERIFICATION

As required by law, we have also verified in accordance with professional standards applicable in France the information presented 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, February 26th, 2010

The Statutory Auditors

PricewaterhouseCoopers Audit S.A.

Bruno Tesnière

KPMG S.A.

Anne Jallet-Auguste

Christian Libéros

# Statutory auditors' report prepared in accordance with article L. 225-235 of french commercial code on the report prepared by the chairman of the board of Lectra SA

Year ended December 31, 2009

*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 (Code de commerce), 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, 2009.

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 and risk management 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 and risk management 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 and risk management 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 and risk management 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 and risk management 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, February 26, 2010

The Statutory Auditors

PricewaterhouseCoopers Audit S.A.

KPMG S.A.

Bruno Tesnière

Anne Jallet-Auguste

Christian Libéros

# Biographies of Lectra Directors and Corporate Officers

## **André Harari**

André Harari, 66, 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, 55, 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 U.S. 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, 48, 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, 50, 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, 64, 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, 76, 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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## IATC Mexico

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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 Zocchetto, *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*

#### Americas

Roy Shurling,  
*Director, North America*  
Édouard Macquin,  
*Director, South America*

#### Asia-Pacific

Andreas Kim,  
*Director China*  
Yves Delhaye,  
*Director, ASEAN, Australia,  
South Korea, India*  
Hotsumi Baba,  
*Director, Japan*

#### Europe

Corinne Barbot-Morales,  
*Director, Spain*  
Martina Benkova,  
*Director, Northern Europe*  
Fabio Canali, *Director, Italy*  
Bernard Karmin, *Director, France*  
Mark Lyness, *Director, United Kingdom*  
Alexander Neuss, *Director, Germany  
and Eastern Europe*  
Rodrigo Siza, *Director, Portugal*

## Statutory Auditors

PricewaterhouseCoopers Audit SA  
Represented by Bruno Tesnière

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KPMG SA  
Represented by Anne Jallet-Auguste and Christian Libéros

Domaine de Pelus – 11 rue Archimède  
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## Share Listing

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

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 2009 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 2009; the Board of Directors' report submitted to the Ordinary General Meeting of shareholders of April 30, 2010; the Board of Directors' special report on stock options granted or exercised in 2009; the Board of Directors' report to the Extraordinary General Meeting of shareholders of April 30, 2010; 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, 2010 ; and the resolutions submitted to the Ordinary and Extraordinary General Meetings of April 30, 2010.

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](http://www.lectra.com), or by request from the Investor Relations department.

## 2010 financial calendar

Publication of quarterly and annual financial results

- First quarter 2010 ..... April 29, 2010
- Second quarter 2010 ..... July 29, 2010
- Third quarter 2010 ..... October 28, 2010
- Full year 2010 ..... February 10, 2011

Annual Meeting of Shareholders – Paris ..... April 30, 2010

Analyst Conferences

- Paris ..... October 29, 2010
- Paris ..... February 11, 2011

The financial calendar is updated on [www.lectra.com](http://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).

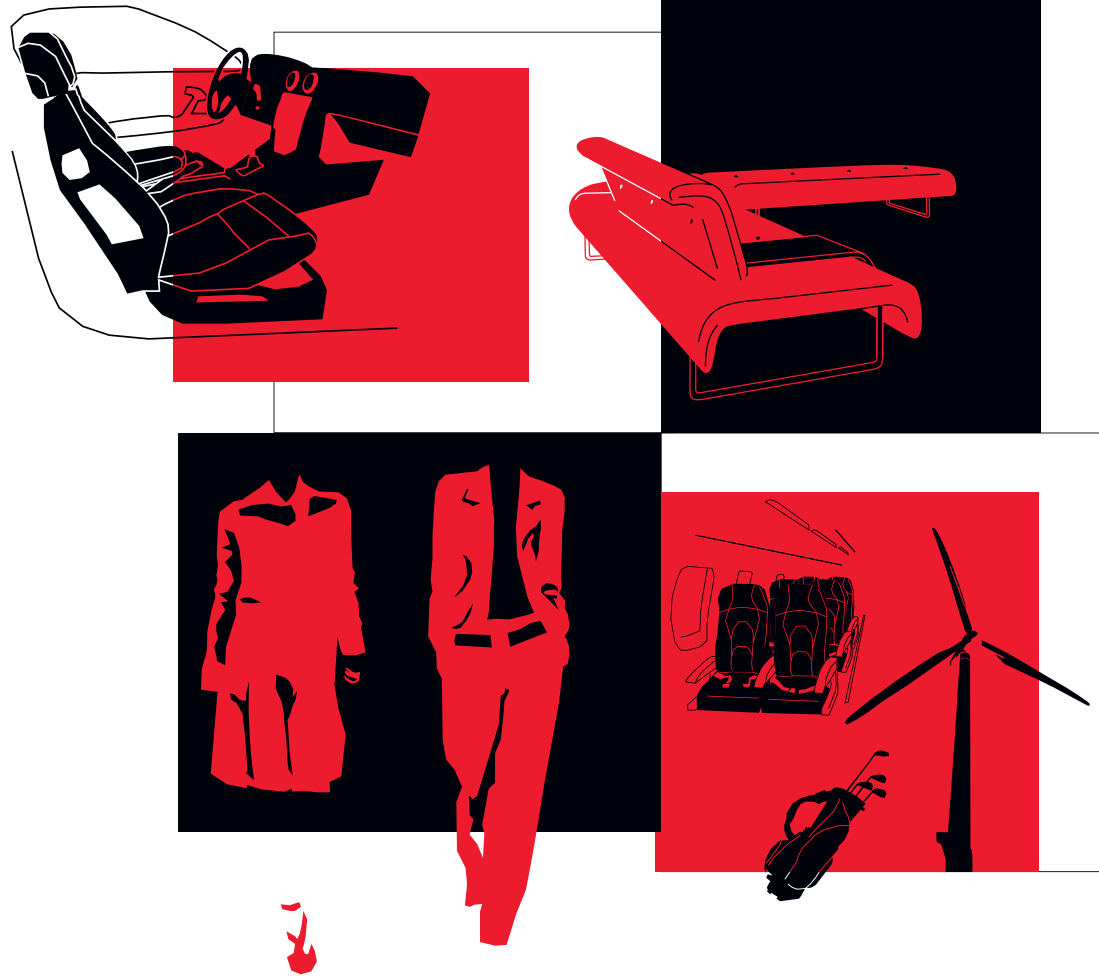
## Investors Relations

email: [investor.relations@lectra.com](mailto:investor.relations@lectra.com)

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