LECTRA

Summary

Statement from Daniel Harari, Chairman and Chief Executive Officer 4

Management Discussion 5

Summary of events and performance in 2019 5

Assessment of 2017-2019 strategic roadmap 6

Consolidated financial statements for 2019 9

Risk factors – Internal control and risk management procedures 10

Off-balance sheet items 22

Research and development 23

Corporate social, environmental and societal responsibility information 23

Appropriation of earnings 23

Share capital – Ownership – Share price performance 23

Share repurchase program 29

Post-closing events 31

Financial calendar 2020 31

Business trends and outlook 31

Additional information on the consolidated financial statements 35

Non-financial Statement 38

Methodology 38

The Lectra Group's business model 41

Information on social performance 42

Information on societal commitments 51

Information on environmental commitments 54

Report by one of the Statutory Auditors, appointed as independent third party, on the consolidated non-financial statement 58

Report on Corporate Governance 62

Directors and managing bodies 62

Compensation and benefits of the directors 87

Prohibition on trading in shares applicable to certain group managers 98

Related-party agreements and agreements entered into in the ordinary course of business 99

Financial authorizations and delegations 99

Attendance at shareholders' meetings 100

Publication of information concerning potentially material items in the event of a public tender offer 101

Consolidated Financial Statements 102

Statement of financial position 102

Income statement 103

Statement of cash flows 104

Statement of changes in equity 105

Notes to the consolidated financial statements 106

Statutory Auditors' report on the consolidated financial statements 162

People responsible for the Annual Financial Report and auditing the financial statements 166

Certification by the people responsible for the Annual Financial Report 166

People responsible for auditing the financial statements 166

On course for Industry 4.0

STATEMENT FROM DANIEL HARARI, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

A business model that once again demonstrates its strength

In a context of uncertainty and apprehension relating to the trade war between the United States on the one hand and Mexico, China and Europe on the other, the entire year was marked by a wait-and-see attitude by many companies, which, in July, led us to lower our revenues and earnings expectations for 2019.
Nevertheless, with only a slight decline in operating income and a record 14.6% operating margin, our 2019 results demonstrate the strength of our business model, which is attributable primarily to recurring revenues and the gross profit margin they generate.
Our business model also allows us to manage Lectra with a negative working capital requirement, resulting in record free cash flow in 2019, which exceeded net income.

A successful first step in the implementation of our Lectra 4.0 strategy

True to our long-term strategic focus, we launched our new strategy Lectra 4.0 in February 2017, with the aim of positioning Lectra as a key Industry 4.0 player between now and 2030.
This was accompanied by the first roadmap, for 2017-2019, which has now been successfully completed. In particular, we launched our initial Industry 4.0 offers with the successful start of the transition of software sales towards the SaaS model, while also launching new versions of our flagship offers.
We also completed the acquisition of Kubix Lab and Retviews, two high-potential start-ups with innovative technologies that we will be able to capitalize on in the coming years.
Finally, we achieved record recurring revenues and further strengthened our balance sheet, with shareholders' equity of 183 million euros and a net cash position of 120 million euros at December 31, 2019, which will enable us to move forward with our acquisition strategy.

A new strategic roadmap for 2020-2022

We will continue to implement our Lectra 4.0 strategy over the next three years to strengthen our global leadership and capture the full potential of our new offers for Industry 4.0, while ensuring sustainable, profitable business growth.
We have set ourselves four strategic priorities: (i) accelerate organic growth, (ii) strengthen customer relations, (iii) extend the offers for Industry 4.0, and (iv) develop new areas for growth.
To achieve this, we will pursue our sustained investment in R&D and strengthen our sales and services teams, using the growth in gross margin generated by recurring revenues to finance our development.
We are entering this new period with solid operating fundamentals and a particularly robust balance sheet, combined with an enhanced offer that is now available worldwide, enabling our customers to implement the principles of Industry 4.0.

An unpredictable 2020, marked by the COVID-19 crisis

Unfortunately, the year 2020 is shaping up to be unpredictable, given the COVID-19 epidemic which, beyond the periods of containment and shutdown of part of the economy, will have a significant impact on the Group's activities, and on its customers' activities, with different situations depending on the country.
The consequences of this unprecedented type of crisis on the Group's financial statements nevertheless remain difficult to assess at this time.
Bolstered by the strength of our business model and a new roadmap fully geared to the demands of Industry 4.0, despite this particularly difficult context we are confident in our growth prospects for the medium term.
I hope that you will find this report of interest and trust it provides the information you require.

Management Discussion and analysis of financial condition and results of operations

Dear Shareholders,

This Management Discussion and analysis reports on the operations and financial results of the company Lectra (the "Company") and of the group Lectra ("Lectra" or the "Group").
It is separate from the report of the Board of Directors to the Shareholders' Meeting of April 30, 2020, which in addition discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA. This document is available, in French only, on the Company's website (www.lectra.com).
Detailed comparisons between 2018 and 2019 are based on 2018 exchange rates ("like-for-like"), unless stated otherwise.

1 SUMMARY OF EVENTS AND PERFORMANCE IN 2019

Acquisition of the company Retviews

On July 15, 2019, Lectra entered into an agreement to acquire 100% of the capital and voting rights of the Belgian company Retviews, with 70% acquired immediately for 8 million euros and the remainder in three installments in July 2020, 2021 and 2022, for the amounts of about 0.9 times, 0.7 times and 0.5 times of the respective years' revenues.
Founded in 2017, Retviews has developed an innovative technological offer that enables fashion brands to analyze real-time market data and make the best decisions to optimize their collections, and increase their sales and margins, thanks to artificial intelligence algorithms.
Retviews has been consolidated in Lectra's accounts since July 15, 2019. The impact on H2 2019 revenues was 0.5 million euros, the impact on income from operations was 0.1 million euros.

Positive impact of currency changes

With an average exchange rate of $1.12/€1, the US dollar was up 6% in 2019 compared to the same period in 2018, while the yuan strengthened by 1% against the euro.
Currency changes thus mechanically increased revenues by 5 million euros (+2%) and income from operations by 3 million euros (+8%) at actual exchange rates compared to like-for-like figures.

Challenging macroeconomic and geopolitical environment

In a context of uncertainty and apprehension, the entire year was marked by a very strong "wait-and-see" attitude by many companies, particularly in the fashion and automotive markets. This adverse climate is primarily the consequence of the trade wars between the United States, on the one hand, and Mexico, China and Europe, on the other, as well as the slowdown in the automotive sector, particularly in China.

Orders for new systems on the decline

Overall, orders for new systems amounted to 111.9 million euros, down 10% (-8% at actual exchange rates) compared to 2018: new CAD/CAM and PLM software licenses, and training and consulting increased by 6% and 1%, respectively; equipment and accompanying software decreased by 14%. Orders for subscriptions, in particular for new offers in SaaS mode, accounted for 24% of the total amount of CAD/CAM and PLM software orders; this is already a very significant level, which confirms the positive reception of these new offers. Their total annual value totaled 1.9 million euros (0.9 million euros in 2018).
Geographically, the situation is highly contrasted: orders for new systems increased by 1% in Asia-Pacific (despite a decrease of 13% in China) but decreased by 5% in Europe and 39% in the Americas. They increased by 10% in the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East).
Orders for new systems were down 6% in the fashion market and 24% in the automotive market, but they were up 18% in the furniture market. In the other industries, they decreased by 18%. These market sectors respectively accounted for 53%, 29%, 14% and 4% of the total amount of orders.

Income from operations in line with revised objectives

At the start of the year, the Group had set objectives of achieving revenue growth of 3% to 7% in 2019, like-for-like, with growth in income from operations before non-recurring items down 4% in the low assumption and up 4% in the high assumption.
In light of the shortfall in orders for new systems in

the first half of the year and limited visibility regarding those orders in the second half, the Group reported on July 29 that it now anticipated a decline of 1% to 5% in revenues and 4% to 14% in income from operations before non-recurring items, like-for-like.
Revenues were 280 million euros, down 3% relative to 2018 (-1% at actual exchange rates).
Income from operations totaled 40.9 million euros and the operating margin 14.6%, down 2.4 million euros (-6%) and 0.4 percentage point, respectively. At actual exchange rates, income from operations rose by 2% and the operating margin by 0.4 percentage point.
These results are in line with the Group's expectations as set out on July 29.
Net income totaled 29.3 million euros, up 0.6 million euros (+2%) at actual exchange rates.

Greater impact of sales of software on a subscription basis

As expected, both the volume and the percentage of sales of software sold on a subscription basis (SaaS) increased in 2019.
The change to the SaaS model, which is at the heart of Lectra's strategy (see chapters 2 and 13), will contribute to the long-term development of the Company's activities and strengthen its recurring revenues, while meeting customers' expectations.
In the short-term, however, it has a negative impact on revenues and income from operations, as revenues from software subscriptions are recorded progressively over several years.
If the SaaS sales in 2019 had been made in the form of perpetual licenses with their associated maintenance contracts, revenues and income from operations would have been higher by 2.8 million euros and 2.9 million euros, respectively. Therefore, at actual exchange rates, revenues would have been stable, income from operations would have increased by 9%, and the operating margin would have totaled 15.5%.

Very strong growth in free cash flow

Free cash flow amounted to 36.2 million euros, compared to 21.6 million euros in 2018. This substantial increase is attributable to tight control over working capital requirement, which decreased by 10.6 million euros in 2019, following an increase of 3.7 million euros in 2018.

A business model that once again proves its strength

With income from operations only slightly lower, and a record 14.6% operating margin despite the decline in new system orders and the impact of the growing percentage of software sold on a subscription basis, the 2019 results demonstrate the strength of Lectra's business model —which is attributable primarily to recurring revenues and the gross profit margin it generates. The security ratio, one of the key indicators tracked by the Group, which measures the percentage of annual fixed overhead costs covered by gross profit on recurring revenues, exceeded 90%, the highest level ever in 2019.
The remarkable free cash flow performance (36.2 million euros) also confirms the business model's ability to generate significant free cash flow, which generally exceeds net income, due to the structurally negative working capital requirement.

A particularly robust balance sheet

At December 31, 2019, consolidated shareholders' equity amounted to 183 million euros (170.4 million euros at December 31, 2018).
The Group is debt-free. Cash and cash equivalents, as well as net cash position, totaled 120.6 million euros (102.2 million euros at December 31, 2018), after the dividend payment of 12.8 million euros declared in respect of fiscal year 2018 and the disbursement of 8 million euros for the acquisition of Retviews. This record level will allow the Group to self-finance its internal and external development.

2 ASSESSMENT OF 2017-2019 STRATEGIC ROADMAP

Continuing its focus on the long-term, in February 2017 the Group launched its new Lectra 4.0 strategy with the objective to make Lectra an indispensable player in Industry 4.0.
This new strategy was embodied in the roadmap for 2017-2019, the first decisive stage in Lectra's evolution over the next ten years, which will further reinforce Lectra's global leadership, ensure sustainable growth, and preserve its profitability.

Strategic objectives accomplished overall

The five strategic objectives for 2017-2019 that Lectra established in February 2017 guided the Company's actions throughout the three-year period:

- to accelerate revenue growth, both organic and through targeted acquisitions;
- to accentuate Lectra's technological leadership and leverage new technologies to further enhance the value of its products and services offer;
- to strengthen Lectra's competitive position and long-term relationships with customers;
- to progressively transform most of its revenues from new software licenses into recurring subscriptions by establishing a SaaS business model;
- to maintain the Group's profitability and generate a high level of free cash flow in order to self-finance internal and external development, other than potential acquisitions whose scale might require additional financing.

In its 2017 Annual Financial Report, released February 12, 2018, to which the reader is referred, Lectra adjusted its fourth objective as follows: to progressively launch new software offers in SaaS mode.

Despite a macroeconomic and geopolitical environment that was more challenging than expected, progress was made on all five objectives over the past three years.

In particular, Lectra has:

- achieved a record level of recurring revenues close to 170 million euros;
- considerably widened its technological lead and successfully integrated into its offers the key new technologies for Industry 4.0 – cloud computing, the Internet of Things, big data and artificial intelligence;
- proceeded with the acquisition of two high-tech startups – Kubix Lab in January 2018 and Retviews in July 2019 – to reinforce its value proposition and extend the range of its offers;
- strengthened its Executive Committee and reorganized its subsidiaries into four main regions;
- launched its first SaaS offers, which account for an ever-increasing share of software orders each quarter;
- increased its profitability;
- reinforced its balance sheet.

Heterogeneous impact of growth accelerators

At the start of 2017, the Group identified five accelerators to boost its growth:

- China: as the country upgrades its manufacturing plant and expands its domestic market, supported by the Chinese government's strategic 'Made in China 2025' initiative;
- leather: this is increasingly used in the automotive and furniture industries. Almost all materials are still cut by hand, but cutting processes need to be automated;
- airbags: due to the growing number being fitted to each vehicle, and to the potential to renew installed bases of older-generation automated cutters;
- personalization of consumer products: the entire value chain needs to be fully automated and interconnected, requiring hefty investments in cutting-edge technology;
- finally, the digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

These growth accelerators made varied contributions to business growth over the past three years:

- after substantial growth in 2017, orders for new systems in China began to slow in the fourth quarter of 2018 – primarily as a consequence of the trade war with the United States and the sharp slowdown in the Chinese automotive market – and fell short of ambitions;
- leather cutting solution sales showed strong growth in the furniture industry but remained low in the automotive sector due to the challenging economic situation in this market;
- airbag cutter sales accelerated;
- solutions to enable companies to personalize products for consumers (Fashion On Demand by Lectra and Furniture On Demand by Lectra) were launched in pilot countries starting in April 2018, and gradually rolled out worldwide in 2019; the initial results are promising, with these solutions currently being used by over 30 companies;
- finally, there was strong growth in sales of collaborative solutions to facilitate management of collections and products in the fashion industry; Kubix Link, a solution stemming from the acquisition of Kubix Lab, which was available only

in Italy in 2018 before being gradually rolled out in Europe and the Americas in 2019, is currently used by close to 50 customers.

Major technological advances

The Group had announced its intent to pursue its policy of sustained investments in innovation and to increase R&D spending in order to introduce new offers for Industry 4.0, constituting new product lines or complementing existing software and cutters, while continuing to enrich its flagship offers.
In total, Lectra invested 90 million euros in R&D over three years, representing 10.7% of revenues; which was fully expensed in the period.
Throughout the roadmap period, Lectra expanded its R&D teams (by 36%, from 270 on December 31, 2016 to 368 on December 31, 2019), strengthened its expertise in the key technologies for Industry 4.0, and transformed its methods for the design and development of solutions, to make them more agile and more responsive to Industry 4.0.
After being launched in selected pilot countries in 2018, Lectra's first innovative offers empowering customers to implement the principles of Industry 4.0 were rolled out worldwide in 2019. These offers should make an increasingly important contribution to the Group's growth in the medium term.
At the same time, Lectra launched new versions or line extensions for its flagship offers, including:

- new models of FocusQuantum cutters for airbags, in late 2017;
- a new range of Vector fabric cutters for the footwear industry in 2017 and new models for the automotive industry in 2019;
- a new generation of Versalis leather cutting solutions in 2019;
- a new version of Modaris, the flagship CAD software, in 2019.

Lectra also reinforced its innovation capacity with the October 2018 opening of its Innovation Lab, a space for collaborative creation and experimentation bringing together customers, startups, research centers and in-house talents dedicated to the research and design of disruptive solutions.

Successful initial evolution towards SaaS mode

In order to provide its customers with more flexibility, Lectra announced its intent to put in place during the roadmap period a business model for SaaS on a subscription or pay-as-you-go basis.
At the start of 2018, Lectra decided (i) to sell new software only in SaaS mode; (ii) to give customers the choice, for existing CAD and PLM software, between the current model (sale of perpetual licenses together with their associated maintenance contracts) and the SaaS mode; and (iii) to continue to sell embedded software for cutting equipment in the form of perpetual licenses.
As the Group had expected, most software sales during the roadmap period were in the form of perpetual licenses. Orders in SaaS mode, which had been negligible in 2017, accounted for 13% of CAD/CAM and PLM software orders in 2018 and 24% in 2019.
The ramp-up of software sold in SaaS mode will continue throughout the next strategic roadmap period and will have a positive impact for the Group in the medium term, providing an opportunity to further increase recurring revenues.

Financial structure stronger than ever before

Although business activity was severely impacted by a difficult macroeconomic and geopolitical environment, and financial results were below the objectives set by the Group in February 2017, the business model demonstrated its strength and virtue. The increase in recurring revenues – in line with the Group's expectations – and in gross profit margins, combined with good control over fixed overhead costs, made it possible to offset the lower than expected revenues from software licenses, equipment and non-recurring services. The security ratio remained well above the 80% objective throughout the period and exceeded 90% in 2019.
The Group's financial structure has never been stronger. Cumulative free cash flow for the period came to 91 million euros (compared to 64.4 million euros in 2014-2016); the Company is debt free; cash and cash equivalents, as well as the net cash position at December 31, 2019, were 44.9 million euros higher than at December 31, 2016,

after total dividend payments of 35.8 million euros between 2017 and 2019 in respect of fiscal years 2016 to 2018, and after payment of 15.2 million euros for the acquisitions of Kubix Lab and Retviews; shareholders' equity rose by nearly 40% in the three-year period.

The first stage in Lectra's evolution successfully completed

Numerous reports published by experts and discussions with customers over the three years have demonstrated the relevance of Lectra's strategy and the excellent fit between the 2017-2019 roadmap and the demands of Industry 4.0.

Except for the delay in achieving growth in orders and revenue from software licenses, equipment and non-recurring services in 2018 and 2019, as businesses adopted a "wait-and-see" approach in all its markets, Lectra executed its 2017-2019 roadmap in line with its expectations.

With a solid, proven business model, these results give Lectra the confidence to pursue its Lectra 4.0 strategy and capitalize on firm foundations for its next roadmap.

3 CONSOLIDATED FINANCIAL STATEMENTS FOR 2019

Revenues

Revenues totaled 280 million euros, down 3% like-for-like and 1% at actual exchange rates.

They increased by 2% in Europe, decreased by 1% in Asia-Pacific and 15% in the Americas, and increased by 16% in the rest of the world. These regions respectively accounted for 41% (including 6% for France), 27%, 24% and 8% of total revenues.

Revenues from software licenses, equipment and non-recurring services

Revenues from software licenses, equipment and non-recurring services (110.2 million euros) decreased by 12% (-10% at actual exchange rates). They accounted for 39% of total revenues (43% in 2018) and include mainly:

- CAD/CAM and PLM software licenses (13.5 million euros), which decreased by 4% and accounted for 5% of total revenues (5% in 2018);
- equipment and accompanying software (82.1 million euros), which decreased by 14% and accounted for 29% of total revenues (33% in 2018);
- training and consulting revenues (12.2 million euros), which decreased by 5% and accounted for 4% of total revenues (4% in 2018).

At December 31, 2019, the order backlog for software licenses, equipment, and training and consulting amounted to 19.8 million euros:

- the portion related to CAD/CAM and PLM software licenses (1.3 million euros) does not include software sold on a subscription basis, and therefore cannot be compared to the figures for prior periods;
- the portion related to equipment and accompanying software, plus training and consulting (18.5 million euros), decreased by 2 million euros like-for-like and by 1.8 million euros at actual exchange rates compared to December 31, 2018.

Revenues from recurring contracts, consumables and parts

Recurring revenues (169.8 million euros) increased by 4% (+6% at actual exchange rates). They accounted for 61% of total revenues (57% in 2018).

Revenues from recurring contracts—which represented 35% of total revenues—amounted to 97.9 million euros, a 5% increase:

- CAD/CAM and PLM software subscription contracts came to 1.6 million euros (0.5 million euros in 2018);
- CAD/CAM and PLM software maintenance contracts (38.5 million euros), up 1%, represented 14% of revenues;
- equipment and accompanying software maintenance contracts (57.9 million euros), up 6%, represented 21% of revenues.

In parallel, revenues from consumables and parts (71.9 million euros) increased by 3% and represented 26% of total revenues (24% in 2018).

Gross profit

Gross profit amounted to 205.2 million euros, down 2.8 million euros like-for-like, but up 1.7 million euros at actual exchange rates, compared to 2018.

The overall gross profit margin was 73.3%, up 1 percentage point relative to 2018 (+1.3 percentage points at actual exchange rates), mainly due to the evolution of the product mix.
Personnel expenses and other operating expenses incurred in the execution of service contracts or in training and consulting are not included in the cost of goods sold but are accounted for in overhead costs.

Overhead costs

Total overhead costs were 164.3 million euros, stable compared to 2018. The breakdown is as follows:
- 148.3 million euros in fixed overhead costs (+1%);
- 16 million euros in variable costs (-11%).

At actual exchange rates, total overhead costs increased by 1%.
Research and development costs (31.8 million euros), which are fully expensed in the period and included in fixed overhead costs, represented 11.4% of revenues (30.8 million euros and 10.9% of revenues in 2018).
After deducting the research tax credit applicable in France, and grants received, net research and development costs amounted to 22 million euros (21.5 million euros in 2018).

Income from operations and net income

Income from operations totaled 40.9 million euros, a decrease of 2.4 million euros (-6%) like-for-like, but an increase of 0.6 million euros (+2%) at actual exchange rates compared to 2018.
The operating margin was 14.6%, down 0.4 percentage point like-for-like, but up 0.4 percentage point at actual exchange rates.
Financial income and expenses represented a net charge of 0.1 million euros. Foreign exchange gains and losses generated a net loss of 0.7 million euros.
After an income tax expense of 10.8 million euros, net income amounted to 29.3 million euros, up 0.6 million euros (+2%) at actual exchange rates.
Net earnings per share came to €0.92 on basic capital and €0.90 on diluted capital (respectively €0.91 and €0.89 for 2018).

Free cash flow

Free cash flow totaled 36.2 million euros, up 14.6 million euros compared with 2018, at actual exchange rates.
It results from a combination of 49 million euros in cash flows provided by operating activities (including a decrease in working capital requirement of 10,6 million euros) and capital expenditures of 6.6 million euros. The cash provided by operating activities also comprises an increase in other operating non-current assets of 5.2 million euros (corresponding to the portion of the 2019 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA). Finally, in order to ensure comparability of published free cash flows, the repayment of 6.2 million euros in lease liabilities (according to IFRS 16: see notes 2.1 and 41 to the consolidated financial statements) was taken into account.

Shareholders' equity

At December 31, 2019, consolidated shareholders' equity amounted to 183 million euros (170.4 million euros at December 31, 2018).
The Group is debt-free. Cash and cash equivalents, as well as net cash position, totaled 120.6 million euros (102.2 million euros at December 31, 2018).
The working capital requirement was a negative 20.7 million euros. It comprised the current portion (2.6 million euros) of the 17.4 million euros receivable on the French tax administration (*Trésor public*), corresponding to the research tax credits recognized since fiscal year 2016. The portion to be repaid in over one year is carried on the balance sheet under other non-current assets (see note 10 to the consolidated financial statements). When these tax credits cannot be deducted from the year's corporate income tax, they are reimbursed to the Company by the French tax administration in the fourth year following the year they are booked.

4 RISK FACTORS - INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

This chapter describes the main risks facing the Group with regards to the specific characteristics of its business, its structure, its organization, its strategy and its business model. It further describes how the Group manages and prevents these risks, depending on their nature.
The Finance Division ensures that the risk management and internal control procedures enable the control of

risks within the Group while optimizing its operating performance and respecting its strategy, values and ethical standards. It regularly reviews these procedures in order to identify areas for progress within the framework of its continuous improvement program and regularly reviews its reporting and harmonization of the information system processes.

4.1 Risk factors

For internal control and risk management to be effective, the Group needs to be able to identify and assess the risks to which it is subject. The identification of risks is overseen by the Finance Division and the Legal Affairs Department, with input from all Group operating and corporate departments.
These risks are identified by means of a continuous process, taking into account the changes in the Group's environment together with the organizational changes rendered necessary by the evolving nature of its markets.
A comprehensive mapping and risk assessment was carried out in 2018 with methodological support from a specialized consultant. This chapter takes into account the conclusions of the assessment and the updates carried out in 2019.
The Audit Committee has reviewed the principal risks liable to have a significant adverse impact on the Lectra's human capital, assets, environment, goals, together with its activity, financial condition, financial results, ability to achieve its goals, or reputation.
The risk factors are divided into two main categories: risks relating to the environment in which the Group operates, and operational risks relating to its activity.
Other risks not identified at the date of this report or whose occurrence is not considered likely to have a material adverse effect on the Group, may exist or could occur.

Risks related to the environment in which the Group operates

Risks related to the macroeconomic and geopolitical environment

The solutions marketed by Lectra represent a substantial financial cost for its customers. Decisions depend in part on the macroeconomic environment and on the state of the sectors of activity in which the customers operate. Customers could scale back or defer their investment decisions when global economic growth slows, when a particular sector suffers a downturn or when there is a crisis. The Group is consequently exposed to the global economic cycles.
The economic development of the countries where Lectra operates is mixed, and for some of them their political, economic and monetary situation either has deteriorated or is at risk of doing so. The constant shift between good and bad news, a lack of visibility, and companies' growing concerns will weigh even more heavily on their investment decisions—and hence on Group revenues and earnings—than the deteriorating macroeconomic conditions.
To take one example, the year 2019 was marked once again by the impact of the trade war between the United States and many other countries and regions of the world, notably Mexico, China and Europe. This adverse climate resulted in a very strong "wait-and-see" attitude by many companies, particularly in the fashion and automotive markets.
Brexit-related risk is not of material importance to the Group, the United Kingdom having accounted for less than 3% of consolidated revenues over the past three fiscal years.
The key factor protecting the Group against changes in the environment in which the Group operates is its business model, and in particular:

- a distribution of business activity over market sectors and geographic markets with cycles that are different from each other, and the very large number of customers throughout the world;
- a balanced mix between revenues from software licenses, equipment and non-recurring services, the Company's growth driver, and recurring revenues (maintenance contracts, SaaS contracts, consumables and parts), which provide a cushion in periods of difficult economic conditions.

The gross profit generated by recurring revenues alone covers almost 90% of annual fixed overhead costs (this ratio was 90.5% in 2019).
The far-reaching changes being brought about by globalization, such as relocation and repatriation of production, are resulting in revenue loss in one country and gains in another country, albeit with a possible time lag.

Thanks to its strong presence in the major emerging countries, which are forecast to generate major share of total global growth in the coming years, the Group is well placed to turn this into a vehicle for dynamic growth.

Health Risks: COVID-19

The risk related to the COVID-19 crisis, which began in December 2019 in China, is currently the main risk for the Group, even if it is difficult to qualify and quantify its impact as of the publication date of this Report.
A pandemic of this magnitude has led to restrictive measures to limit the spread of the virus, including containment measures for populations, and the closure of businesses and factories; this could lead to a significant global economic slowdown, with negative effects on many business sectors, including those of the Group's customers.
Beyond these broad macroeconomic consequences, this risk could impact the Group at various levels:

- a decrease in revenues from software licenses, equipment and non-recurring services due to the decline in its customers' activity in countries affected by COVID-19, and the resulting decisions to reduce or freeze their investments;
- a decrease in recurring revenues, particularly for consumables and parts, due to lower production by its customers in countries affected by COVID-19, and the risk of default by some customers;
- a reduction in the Group's production capacity, as some of its suppliers are located in countries affected by the COVID-19 epidemic, notably France, Italy and Spain;
- greater difficulty in collecting receivables, as the solvency of some of the Group's customers may be affected by the impact of the crisis on their earnings and cash flow.

The extent of these impacts will depend on the duration and depth of the crisis, and on the ability of governments in the countries concerned to implement measures (particularly financial measures) to protect the most severely affected companies and employees.

Market risks

Because of its international presence, foreign exchange risk is the main market risk that weighs upon the Group.

Foreign exchange risks

The Group is exposed to financial risks resulting from variations in certain currencies against the euro, a substantial proportion of its revenues being denominated in these other currencies than the euro. The impact of these fluctuations on the Group's activity and financial statements is especially significant since the site where assembly and testing of the equipment it produces and markets takes place, is located in France, and since most of its subcontractors are located in the Eurozone.
The Group is especially sensitive to variations in the euro/US dollar exchange rate, as well as in the euro/other currencies, in particular the Chinese yuan owing to its progressive decorrelation from the dollar, as well as to the growing volume of activity in China, and the major role it now plays in the Group's competitiveness with regards to certain of its Chinese or international competitors whose products are manufactured in China.
In 2019, 43% of the Group's consolidated revenues, 82% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 31%, 12%, and 11% for the US dollar, and 8% (a portion of revenues generated in China being invoiced in US dollars or in other currencies), 3% and 6% for the Chinese yuan. Other currencies each represented less than 3% of revenues, of the cost of sales and of overhead costs.
Currency fluctuations impact the Group in four ways:

- an impact on competitive position: Lectra is present in international markets. It manufactures its equipment in France, whereas many of its competitors manufacture their equipment in China. As a result, their production costs are primarily in yuan, while those of the Group are in euros;
- an impact on markets: the fashion customers prefer to relocate production abroad, and major currency fluctuations—especially between the yuan, the dollar and the euro—encourage them to adjust their sources of supply. On the other hand, automotive customers generally sell in the same currencies as the countries or regions in which they produce, so fluctuations in those currencies would have little impact on them;
- an impact on the income statement: as accounts are consolidated in euros, revenues, gross profit,

and income from operations of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros;
- an impact on the balance sheet: accounts receivable by the Company from its subsidiaries and customers for direct sales are recorded in original currencies. The risk relates to the variation between exchange rates at billing date and those at collection date. The impact is recognized in "Foreign exchange income (loss)" in the income statement.

Nearly all foreign-currency positions in the Company's statement of financial position are hedged by forward sales and purchases of currencies.
Sensitivity to US dollar fluctuations and other currencies is shown in note 36 to the consolidated financial statements.

Liquidity risks

At December 31, 2019, the Company was debt free; had no loans or credit lines; and cash and cash equivalents (120.6 million euros) represented a substantial and sufficient liquidity reserve. Therefore, the risk that the Group may have to contend with a short-term cash shortage is close to zero.

Interest-rate risks

The Group no longer has any financial debt and therefore has no interest-rate risk exposure.

Counterparty risks

The Group's exposure to counterparty risks is very low. They arise from its cash holdings and contracts entered into within the framework of its policy on foreign exchange risk hedging.
The Group's cash surpluses consist exclusively of interest-bearing sight accounts held with blue-chip banks. The foreign exchange risk-hedging contracts are negotiated exclusively in France with Lectra's three banks. The corresponding asset values are monitored regularly.

Risks related to the stock market

The Company holds no interests in listed companies other than its own shares held under a Liquidity Agreement (see note 16.2 to the consolidated financial statements), or more generally under the new share repurchase program submitted for approval by the Shareholders' Meeting of April 30, 2020 (see chapter 10). At December 31, 2019, the Company held 0.1% of its own shares in treasury, solely in the framework of the Liquidity Agreement. Accordingly, it is not subject to stock market risk.

Risks related to the effects of climate change

Given its activity, and because of the concentration of its industrial operations at its Bordeaux-Cestas site, the Group does not consider the risks related to the effects of climate change to be material. However, it cannot exclude that, in some parts of the world, extreme climate events could have an impact on its customers, their activity and their investment decisions. This risk is minimized, however, by the location of Lectra's activity across the entire world.

Legal and regulatory risks

Lectra markets its products in more than 100 countries through a network of 34 sales and services subsidiaries, supplemented by agents and distributors in countries where the Group 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 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 revenues and results of the Group.
From a tax point of view, there are many intra-group flows that have made it necessary to apply a fully documented transfer pricing policy that is compliant with French, local, and international guidelines (in particular the OECD Transfer Pricing Guidelines).
Research and development (R&D) activity qualifies for the French research tax credit (*Crédit d'Impôt Recherche*), which in 2019 represented 9.2 million euros, or 29% of the total corresponding expense, 22% of income from operations, and 31% of net income.
The French research tax credit allows for the accounting of eligible personnel expenses, to which a flat rate percentage is applied to cover indirect

expenses. The December 28, 2019 Budget Act n°2019-1479 for 2020 (*Loi de finances pour 2020*) has brought about some changes to the research tax credit, in particular by reducing the flat rate applied to eligible personnel expenses. Any significant reduction or abrogation of this tax credit in the coming year would have a material impact on the Group's income.
In addition, in the normal course of its business, the Group may be involved in various disputes and lawsuits. The Group considers that there are no governmental, judicial, or arbitral proceedings, including all proceedings of which the Group has knowledge, pending or which could threaten it, for which no provision has been made in the financial statements and liable, either individually or severally, to have material impacts on the financial condition or earnings of the Group.
Finally, the Company is listed on Euronext Paris and is subject to stock market regulations, particularly those of the *Autorité des Marchés Financiers* ("**AMF**"), the French Financial Markets Authority.

Risks related to the Group's business

Risks related to the product offering and innovation

Lectra develops and manufactures technological solutions—based on software, CAD/CAM equipment, data and services—that use new and constantly evolving technologies.
To maintain its technological lead, Lectra must constantly demonstrate creativity and innovation. Particularly in the area of software, the Group faces competition from a growing number of companies specialized in a specific field, which sometimes makes them appear more attractive to customers. As in other sectors, there is a risk of a disruptive technology or business model unsettling its position in its markets.
Furthermore, despite their innovative nature, some new products developed by the Group could fail to align with its customers' expectations or their capacity to integrate those products into their organization and their processes.
To reduce such risks, the Group devotes very considerable amounts to product development and innovation. R&D expenses accounted for 11.4% of revenues in 2019, before deduction of the research tax credit applicable in France, and grants linked to certain R&D programs. In addition, Lectra actively monitors technological developments in order to identify at the earliest possible stage new technologies capable of enhancing or enriching its offering or technologies developed by third parties that it could acquire. Finally, Lectra collaborates with industry-leading customers in developing new products, in order to propose technological solutions that are best suited to meeting the needs of most companies in each of the market segments it addresses.
As a corollary of this policy, the Group must ensure both that its innovations are not copied and that its products do not infringe third parties' intellectual property. Moreover, it needs to protect itself against software piracy, which could curb its growth in certain countries. A team within the Legal Affairs Department, dedicated to the protection of intellectual property takes both offensive and defensive measures with regard to patents and software. This team seeks to identify any and all illicit use of its patents pirated copies of its software and takes the necessary legal action to protect Lectra's intangible assets.

Risks related to a software offering running on a cloud infrastructure

In 2018 and 2019, the Group launched new software sold in SaaS (Software-as-a-Service) mode that runs on a cloud infrastructure. The Group is therefore exposed to the risks inherent in all types of activity in the cloud, particularly breach of security, loss of data integrity, or unavailability of services. These risks can have a negative impact on the Group's revenues, financial performance, and reputation.
Starting with software design and development, the specific issues inherent in cloud technology, such as security, performance, and guarantee of service, are addressed through a secure-by-design approach and by the use of appropriate tools and processes for monitoring and security.
All necessary means are put in place to comply with local laws and regulations, notably regarding the Group's customers' data. The Group has appointed an information system security officer (ISSO) and a data protection manager who ensures compliance with data protection laws and the General Data Protection Regulation (GDPR). Furthermore, in order to measure risks and reduce them whenever required, periodical

campaigns to test for intrusion and data isolation are conducted across the entire scope covered by the SaaS offers.
Furthermore, the Group outsources its cloud infrastructure to providers with the highest level of certification for security and cyber protection, and has its cloud infrastructure audited on a regular basis by specialized organizations.

Production risks

Maintaining R&D and production in France enables Lectra to meet three challenges, namely: to compete with the low-cost products of its competitors manufacturing in China; to boost its competitiveness; and to boost its margins.
A substantial portion of the manufacturing of the equipment the Company markets is subcontracted, with the Group providing only the research, development, final assembly, and testing of the equipment that it produces and sells. A technical, logistic, or financial failure on the part of an important supplier could result in delays or defects in equipment shipped by Lectra to its customers, compromise the image of the Group and adversely affect its activity and its results.
To reduce this risk to a minimum, each subcontractor undergoes technological, industrial, and financial scrutiny of their situation and performance, and the Company applies the principle of dual-sourcing for all parts and strategic components prior to selection. The assessment is updated at regular intervals, the frequency depending on the criticality of the supplier's component.
The Group may face global shortages of certain components or parts used in the manufacture or maintenance of its products. This risk of a supply-chain breakdown could affect its capacity to fulfill customers' orders. This is reviewed continuously, and buffer inventories are maintained of the parts and components concerned, depending on the likely risk of shortage.
There is little risk of the Group being unable to respond to rapid growth in sales of CAD/CAM equipment and shipments of consumables and parts because of the manufacturing plant's organization and operational flexibility.

Information systems security risks

The different means of communication in place (including an international private network, remote access and collaborative solutions, and videoconferencing) enable all employees to exchange and share information in a totally secure environment, regardless of location and mode of connection.
The Group is exposed to various risks in connection with its information systems and the use made of them, which is essential to the Group's operations.
In order to reduce these risks and fight against cybercrime it relies on its information systems security officer and its data protection manager, and implements an information system security policy (ISSP) that sets out the applicable standards and rules.
The Group has put in place a business continuity plan (BCP) incorporating resources designed to guarantee a coherent and rapid restoration of critical applications and data that it supports in the event of an incident. Foremost among these means is the replication in real time of data and systems in two remote data centers guaranteeing business continuity in the event of a shutdown of one of the two centers. Each center has its own technical protection systems (with access control, backup generator, surge protector, redundant climate control, and a permanently monitored fire control system on constant alert), together with a double Internet connection and a private network with all the Group's subsidiaries. This plan has been subjected to regular tests under actual conditions.
Moreover, the Group verifies annually, through different internal and external audits, its information security processes and procedures; and tests for intrusions.
Finally, the Group fosters awareness among its staff and trains them in the application of and compliance with security procedures. Access to IT resources is centralized in a single Directory, under the exclusive control of a dedicated team guaranteeing the separation of roles in the execution of sensitive transactions.

Risks related to data security

To address the growing importance of ensuring the security of customers' data, combined with regulatory developments regarding personal data, the Group has established a department dedicated to data management and data security.

The Group has addressed the issue of loss of data starting with the design stage of new cloud-based offers by implementation of regularly tested, encrypted backups by a cloud technology supplier (Microsoft) offering the highest level of security certification and protection, which enables the Group to limit its exposure to risks as much as possible. Measures have been taken to ensure compliance with the General Data Protection Regulation (GDPR), enabling the Group to achieve a good level of protection and compliance, both for data processed by the Group for its internal purposes and for data arising from business with its customers which, in the framework of business-to-business (B2B) relationships, involve more limited exposure to personal data protection issues.

Customer dependency risks

Each year, revenues from software licenses, equipment and non-recurring services, which accounted for 39% of total revenues in 2019, are generated by a very large number of customers (around 1,250 in 2019) and comprise both sales to new customers and extensions or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for 35% of 2019 total revenues, are generated by around 5,900 customers. Finally, sales of consumables and parts, which accounted for 26% of 2019 total revenues, are generated on a large proportion of the installed base of nearly 7,400 cutters.

There is thus no material risk of dependence on one or several customers, as no individual customer represented more than 4% of consolidated revenues over the last three-years, the 10 largest customers represented less than 19% of revenues combined, and the top 20 customers less than 25%.

Human resources risks

Lectra's performance depends primarily on the competence and expertise of its personnel, the quality of its management and its capacity to unite its teams in executing its strategy. Any departure within the management team, like any departure of certain experts can affect its operations and financial results. The Group is also exposed to the risk of not finding the skills required to implement its strategy and achieve its objectives within the timeframe it has set. The risks associated with these challenges are amplified when the profiles sought are rare or when, in certain countries and regions, the job market is not favorable to employers or if Lectra is not attractive enough.

The mission of the human resources staff is to limit these risks through six main policies: to recruit new talents who will contribute to achieving the strategic roadmap; to attract and retain suitably qualified key personnel to ensure the competitiveness, growth and profitability of the Company; to motivate the Group's teams by applying principles of fair compensation based on the recognition of merit and performance; to sustain the development of skills; to organize and encourage the transfer of experience thanks to an ambitious and continuous training policy; to emphasize the high degree of agility and adaptability of the Group's organization to changes in its markets and technologies by continuously reshaping its organization.

At the same time, Lectra places great importance on compliance with existing labor regulations wherever it operates. Its active policy of transparency in the disclosure of information and in managing its labor relations is one means allowing the Group to create a positive social climate, enabling the Company to underpin its development and deal constructively with economic uncertainty and the requirements to successfully reach its objectives.

The Group's activities generate risks of accidents or illnesses related to the working environment, which could affect the health or the physical integrity of its personnel. To reduce these risks, they are identified and assessed, and targeted action plans are developed to ensure that all Group activities are carried out safely, in particular in R&D and manufacturing activities as well as maintenance interventions. In France, this process is overseen by a safety committee and implemented by a safety engineer, with the active involvement of management, and focuses on accident prevention campaigns and training.

The Company has also undertaken a program for the prevention of psychosocial risks. Thanks to its accident prevention policy, the Company has achieved a very good record, with accident frequency and severity rates respectively seven and five times below national indicators in France.

Credit risks

The Group is exposed to credit risks in the event of customer insolvency or default. This risk can negatively impact its profit.

The Group has kept the scale of losses in connection with this risk at a historically low level, representing less than 1% of annual revenues, thanks to the terms of payment it applies, with in particular down payments required at the time of the order and upon shipment, and annual or quarterly payment in advance for recurring contracts. The Group pays close attention to the security of payment for the systems and services delivered to its customers.

Furthermore, the Group's dependence on one or more customers with the potential to significantly impact Group profit in the event of default is limited (see paragraph "Customer dependency risks" above).

Insurance and risk cover

The Finance Division and Legal Affairs Department oversee the insurance programs for the Group and formulate the Group policy with respect to the evaluation of its risks and their coverage; and coordinates the administration of insurance contracts with respect to legal liability, property damage, and damages and losses incurred during transportation. They reassess this policy each year and renegotiate or adjust its programs so that they take into account the evolution of the activity and the risks related to the evolution of the Group.

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.

The Group works through international brokers whose network has the capacity to assist it in all its activities and throughout its different geographies. A global insurance program entered into by the Company supplemented by local programs, provides for complete and effective coverage. Insurance programs are written with reputable insurers of sufficient size and capacity to provide adequate cover and administer claims in all countries.

At regular intervals, when programs come due for renewal, the Group invites competing companies to submit bids in order to secure the best possible terms and conditions.

The guarantees provided by these programs are reviewed annually by the Company's Legal Affairs Department and 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 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 euros per claim and per year.

Given the use made of the equipment commercialized by it, the Group is also exposed to the risk of injury to its customers' employees while operating certain items of equipment supplied by it. It therefore takes all appropriate steps to ensure that these meet the strictest personnel safety standards. 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.

The property damage program provides for payment of claims for material damage to buildings or physical assets in accordance with the declared amount for 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, particularly regarding the Bordeaux-Cestas (France) site, which houses research and development and production activities as well as critical services for the Group as a whole.

The program 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. It is backed up by risk prevention measures at this site, comprising an annual risk-reduction plan based on the findings of the Group insurers' experts.

4.2 Internal control and risk management procedures

Group internal control and risk management 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 the players involved in the internal control system by virtue of their knowledge and understanding of its aims and rules. This system provides reasonable assurance of achieving the objectives described in this chapter.

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. corporate, customs, labor and tax laws, etc.).
In 2018, Lectra finalized the implementation of an anticorruption compliance program as required under French Law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy (the Sapin II Act).
This program is described in the Non-financial Statement, appended to this report.

Oversight of proper application of Executive Committee 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 Lectra 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 the Executive Committee. These procedures were adapted in 2019 following the inauguration of a new enlarged Executive Committee.

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 Group's short and medium-term financial goals. Internal control procedures contribute to the safeguarding of Group tangible and intangible assets (such as intellectual and industrial property, Company brands, customer relationships and corporate image, computer data), as well as Group human capital, all of which play a key role in its property, business activity and growth dynamism.

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 Group's operations and financial condition.

Risk management

For each identified risk, a member of the Executive Committee is responsible for the treatment, prevention or management of that risk. For this purpose, he or she validates a plan of action and ensures it is duly implemented.
The risk management procedures aim in particular at:

- creating and preserving the value, assets and reputation of Lectra;
- ensuring secure decision-making processes and achieving the Company's goals;
- aligning Lectra's actions with its core values;
- involving employees in the management of risks associated with their activity and responsibilities through shared evaluation of the main risk factors.

The cost of implementing the system's performance target for covered risks versus residual risks is adjusted to match the Group's resources, size and the complexity of its organization. While this system provides reasonable assurance of fulfilment 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 Group companies operate, could impair its effectiveness.

Components of internal control

Organization, decision-making process, information systems and procedures

Organization and decision-making process

The Board of Directors is responsible for setting the strategy and direction of the Group's operations, and for overseeing their implementation.
The Audit Committee discusses the internal control system 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 Chairman and Chief Executive Officer is responsible for overseeing the proper functioning of the Company's managing bodies. He is invested with the fullest powers to act on behalf of the Company in all circumstances and represents the Company in its dealings with third parties.
The Executive Committee implements the strategy and policies defined by the Board of Directors. Its members have each been delegated broad powers and are critical to the effectiveness of the internal control system. All important decisions relating to the operations of a region are made by a specific committee. These committees, chaired by the Chairman and Chief Executive Officer, the Executive Vice President or by one of the Executive Committee members, meet regularly (usually quarterly), with the region leader and his management teams attending. The latter submit to the committees 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 the region leaders and of the directors of the various corporate divisions are laid down by the Chairman and Chief Executive Officer or the Executive Vice President, depending on the case. These powers and their limits are communicated in writing to the region leaders and directors concerned, who are then required to account for their utilization of the powers conferred on them, in monthly or quarterly reports on their activities to the Chairman and Chief Executive Officer, Executive Vice President or another member 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.

Information systems

Information systems play a structurally critical role in the Group's system of internal control, and act as a key performance-tracking instrument thanks to integrated inter-company financial information, to ensure homogeneity and communicability between the Group's different IT systems, and their continuous adaptation to developments in business processes and modes of operation, together with tighter controls.
Information systems are regularly adapted to the expanded requirements of the Group in terms of the quality, relevance, timeliness and comprehensiveness of information. These systems are contributing to the implementation of harmonized Groupwide management procedures and rules while boosting the effectiveness of controls.

Procedures

A large number of procedures specify the manner in which the different processes are to be performed, together with the roles of the different persons concerned, and 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 & Guidelines" clearly set out rules, delegations of powers, and circuits, together with the controls performed at the various stages in the sales process to verify the authenticity and content of

orders, shipment and billing thereof, as well as periodic reviews of ongoing business activity by the Executive Committee.

- **Credit management**

  Credit management procedures are designed to limit the risks of non-recovery and shorten account collection delays. These procedures include a preventive analysis of its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears. These means of recovery are coordinated by the Credit Management Department in conjunction with the Legal Affairs Department. Moreover, sales of new systems to countries subject to high economic or political risks are for the most part guaranteed by irrevocable letters of credit confirmed by one of Lectra's banks or by bank guarantees.

  Historically, bad debts and customer defaults have been rare.

- **Purchasing**

  The 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 information system now in place reinforces the process of control over the proper application of rules.

- **Personnel**

  Under the procedures in place all forecast or actual personnel changes are approved by the Human Resources Division. All recruitments and dismissals must receive the division's prior authorization. Compensation is reviewed annually and submitted to the Human Resources Director for approval. Finally, for all personnel whose total annual compensation exceeds 200,000 euros or its equivalent in foreign currencies, the Executive Committee submits the current compensation formula, benefits in kind, as well as any change in this formula, to the Compensation Committee for prior approval.

- **Treasury**

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

  The Group has implemented secure means of payment. Bank reconciliation procedures are systematic and comprehensive. They entail verification of all entries in the Group's bank accounts made by the banks, together with reconciliation between treasury balances and the cash and bank accounts within the financial statements.

  Bank signature authorizations for each Group entity are governed by written procedures laid down by the Group Finance Division 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.

- **Currency risk**

  Currency risk is borne by the Company. The Group seeks to protect its foreign-currency denominated receivables and debts as well as future cash flows, under reasonable economic conditions. Hedging decisions take into account currency risks and trends having a material impact on its financial condition and competitive situation. The Group's statement of financial position exposure is monitored in real time; it utilizes forward currency contracts to hedge all relevant receivables and debts.

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 Legal Affairs Department 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. Controls are conducted by means of IT applications, procedures subject to systematic manual control, via ex-post audits, or via a 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 generally includes legal affairs, plays a major role in the organization and conduct of internal controls. The 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 Executive Committee and 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 Capital Department 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.
A dedicated intellectual and industrial property team functions as part of the Legal Affairs Department. It acts preventively to protect innovations and avert all risks of infringement of the Company's intellectual property rights and, more broadly, all risks associated with innovation and the protection of its intellectual and industrial property.
Currency risk is managed centrally by the Group Treasurer. Group exposure is reviewed regularly.

Continuous oversight of the internal control system and improvement of procedures

Incidents observed in the course of controls or in the findings of ex-post audits of compliance with internal control rules and procedures serve both to ensure the latter's proper functioning, and continuous improvement.
Given the nature of its business, the Group is compelled 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 "Group internal control and risk management system" 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, during all organizational changes.
Oversight of internal controls is underpinned by a continuous improvement process. Work continued on the themes laid down last year and will be pursued in 2020:

- updating the Group's risk mapping and risk prevention plan;
- updating and/or formalizing accounting and financial procedures, procedures relating to human resources management and internal control rules;
- updating and improving reporting tools;
- general improvements in IT systems and resources, stricter management of access rights and controls on data integrity in information systems.

4.3 Preparation and processing 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, mainly reporting, budget procedures, and procedures for the preparation and verification of the consolidated financial statements. Their purpose is to ensure the quality of accounting and financial information communicated to the Executive Committee,

management teams, the Audit Committee, the Board of Directors, and to the shareholders and the financial markets.
The Finance Division regularly identifies risks liable to impair the compilation, the processing and the quality of accounting and financial information. It communicates continuously with the Group's Finance Divisions to ensure that these risks are managed. This analysis and centralized risk management process are additional to the procedures described below to reduce the risks of error in the accounting and financial information published by the Company.

Reporting and budget procedures

Lectra produces comprehensive and detailed financial reporting covering all aspects of the activities of each division of the Company and of 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 Group Finance Division management control teams. This detailed, comprehensive process includes 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 requirement, together with indicators specific to each activity and the structure of operations. This system permits rapid identification of any deviation in actual or forecast results, and thereby minimizes the risk of error in the financial information produced.

Financial statements preparation and verification procedures

Monthly financial results

The actual results of each Group entity are verified and analyzed monthly, 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 financial information properly prepared.

Quarterly consolidation

Group financial statements (statement of financial position, income statement, statement of cash flows, and statement 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 information communicated by each of the consolidated companies and of the consolidation process itself.
All Group subsidiaries employ a single standard consolidation reporting package for the purposes of this consolidation process. Actual results are compared with forecasts received previously in the monthly reporting procedure. 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 Chairman and Chief Executive Officer, the Executive Vice President and the Chief Financial Officer, in the course of preparing the work of the Board of Directors, and then submitted to the Audit Committee, before being reviewed and approved by the Board of Directors, and published by the Company.

5 OFF-BALANCE SHEET ITEMS

Off-balance sheet commitments relating to the Group financing

The Company provided a total of 1.9 million euros at December 31, 2019 (3.5 million euros at December 31, 2018) 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.225-35 al. 4 of the French Commercial Code.
Exchange risk hedging instruments of balance sheet positions at December 31, 2019 were comprised of forward sales or purchases of foreign currencies (mainly US dollars, pounds sterling and Canadian dollars) for a net total equivalent value (sales minus purchases) of negative 1.8 million euros (+0.6 million euros at December 31, 2018).

Off-balance sheet commitments relating to operating activities

The only off-balance sheet commitments relating to operating activities concern normal security contracts, catering services, reception desk contracts, office equipment rentals, as well as Group management software subscription contracts, which may be cancelled in accordance with contract terms. These commitments are discussed in the notes to the consolidated financial statements.

The Group's off-balance sheet commitments relating to operating activities at December 31, 2019 were valued using the same methodology as in previous years.

Since January 1, 2019 the Group has applied IFRS 16 to its consolidated financial statements. A significant portion of off-balance sheet commitments at December 31, 2018 have been restated on January 1, 2019 according to the new standard and appear in the Group's consolidated statement of financial position since January 1, 2019. The notes to the consolidated financial statements describe the impacts of applying this standard for the Group.

6 RESEARCH AND DEVELOPMENT

The Group has continued to invest significantly in research and development (R&D).

At December 31, 2019, the R&D headcount was 368 persons (350 at December 31, 2018), including 336 in France, 12 in Spain, 8 in Italy, 7 in Romania and 5 in Belgium. 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 Group also has recourse to specialized subcontractors, accounting for a small proportion of its total R&D spending.

In addition, the Group is investing in advanced research and studies, drawing on areas of excellence across an array of laboratories, universities, schools, competitiveness clusters and technology centers. Partnership contracts with various actors are now in progress, accelerating and reinforcing the Company's innovative capabilities.

All R&D expenditures are fully expensed in the year and booked in fixed overhead costs. Before deduction of the (French) research tax credit and the portion of the competitiveness and employment tax credit applicable in France, these expenditures totaled 31.8 million euros in 2019, or 11.4% of revenues (30.8 million euros and 10.9% in 2018). Net R&D expense, after deducting the subsidies and tax credits, amounted to 22 million euros (21.5 million euros in 2018).

These substantial investments (224 million euros in the aggregate over the past ten years, reflecting a technology asset valued at zero in the statement of financial position) have enabled the Group to maintain and even strengthen its technology lead over its competitors.

7 CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSIBILITY INFORMATION (NON-FINANCIAL STATEMENT)

The Non-financial Statement prepared in accordance with article L.225-102-1 of the French Commercial Code is appended to the Management Discussion and appears on pages 38 to 57 of the Annual Financial Report.

8 APPROPRIATION OF EARNINGS

The Board of Directors has decided to propose to the shareholders during their meeting on April 30, 2020 to maintain the dividend to 0.40 euros per share in respect of fiscal year 2019. The gross dividend represents a payout ratio of 44% of 2019 consolidated net income and a yield of 1.8% based on the December 31, 2019 closing share price.

Subject to approval by the Shareholders' Meeting of April 30, 2020, the dividend will be made payable on May 8, 2020.

9 SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At December 31, 2019, the share capital totaled €32,099,100, divided into 32,099,100 shares with a par value of €1.00.

Share capital increased by €252,343 (with a total share premium of €1,959,113) due to the creation of 252,343 shares since January 1, 2019, resulting from the exercise of stock options.

Main shareholders

No crossing of statutory thresholds was reported to the Company since January 1, 2019.
At the date of publication of this report, and to the Company's knowledge:

- Daniel Harari holds 17% of the capital and voting rights;
- Kabouter Management LLC (United States) acting on behalf of investment funds that it manages, holds more than 10% (but less than 15%) of the capital and the voting rights;
- Allianz SE (Germany) through French companies it controls, and Kempen Oranje Participaties (The Netherlands) each hold more than 5% (but less than 10%) of the capital and the voting rights.

No other shareholder has reported holding more than 5% of the share capital and voting rights.

Treasury shares

At December 31, 2019, the Company held 0.1% of its own shares in treasury, solely within the framework of the Liquidity Agreement contracted with Exane BNP Paribas.

Granting of stock options - potential capital stock

The Shareholders' Meeting of April 27, 2018 authorized the creation of a stock option plan for a maximum of 2 million options for the same number of shares with a par value of 1 euro, in accordance with the conditions described in the report of the Board of Directors to the said meeting and in its fourteenth resolution.
The exercise price may not be less than the average opening price of Lectra shares listed for the 20 stock market trading sessions preceding the options' grant date. The authority to grant options under this plan will expire on June 27, 2021.
No subsidiary of the Company has opened a stock option or stock purchase plan.

2019 stock option plan

The Board of Directors' meeting of June 12, 2019 granted, in respect of the 2019 stock option plan, a maximum of 364,662 options to 241 beneficiaries, at an exercise price of 22.50 euros per share, as follows:

- a maximum number of 237,697 options to 63 beneficiaries, in respect of the fulfilment of their annual performance targets set for 2019;
- 126,965 options to 179 beneficiaries, of which 88,827 options to 157 beneficiaries of a stock option plan unrelated to their performance in 2019 and 38,138 options to the 42 winners of the 2018 Lectra Worldwide Championship and 2019 Lectra Awards (20 winners of the 2018 Lectra Worldwide Championship or 2019 Lectra Awards being beneficiaries of other options also granted in 2019).

All of the options granted concerned Group employees. The only company officer (*dirigeant mandataire social*), Daniel Harari, has held no stock options since 2000.
The definitive number of options at December 31, 2019 is then calculated with reference to the percentage fulfilment of targets set for each beneficiary for 2019. It also takes account of departures between the date of grant and the end of the year.
At the date of this report, the calculations of performance in 2019, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 52,893 options have thus been cancelled, out of the 237,697 options initially granted.
Moreover, 10,786 options have ceased to be valid mainly due to the departure of eleven beneficiaries in 2019.
As a result, the total number of options at December 31, 2019 initially granted (364,662 options to 241 beneficiaries) has been reduced to 300,983 and the number of beneficiaries to 226. The options representing the difference between those initially granted and those actually granted as a result of actual performance by the beneficiaries, and options corresponding to departures, are available to be used again by the Board of Directors.

The options are valid for a period of eight years from the date of granting. The right to exercise the options vests at the end of the period ended December 31, 2022 (the beneficiary being required to retain links with the Company or with one of its affiliates in the form of an employment contract or as a company officer at this date). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid. By way of exception, the right to exercise options shall be maintained in the event of the death of the beneficiary, or retirement at the statutory pensionable age in the beneficiary's country. Provided the death or retirement occurs between January 1 of the year following the grant and the end of the four-year vesting period (that is, for Plans 15d, 15e, and 15f, between January 1, 2020 and December 31, 2022) the right to exercise options shall be maintained in full for options whose exercise is contingent only on continued presence; for options whose exercise is also contingent on actual performance, it shall apply to the definitive number of options calculated with reference to the beneficiary's actual performance at December 31 of the year of the grant (that is, December 31, 2019, for the 2019 Plan).

Options outstanding at December 31, 2019

252,343 options granted under the different stock option plans outstanding at December 31, 2018 were exercised during fiscal year 2019 and 110,844 options have ceased to be valid due to the departure of their beneficiaries or the fact that they have not been exercised.

In total, of the 302 persons holding options at December 31, 2019, 300 employees hold 1,601,879 options, and 2 former employees still hold 13,804 options (respective figures at December 31, 2018 were: 343, 301, and 42).

Each stock option gives the beneficiary the right to acquire one new share with a par value of 1 euro, at the exercise price decided by the Board of Directors on the date of granting. 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, 2019, the Company's capital (at par value) would increase by a total of 1,615,683 euros, associated with a total additional paid-in capital of 27,207,053 euros.

At December 31, 2019, 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 33,714,783, consisting of:

- capital stock: 32,099,100 shares;
- stock options: 1,615,683 shares.

Note 16.5 to the consolidated financial statements contains full details of the vesting conditions, exercise prices, and exercise dates and conditions of all outstanding stock options at December 31, 2019.

The Board of Directors' special report, as mandated under article L. 225-184 of the French Commercial Code, is available (in French only) on the Company website (www.lectra.com).

Summary of stock option plans

The following is the historical table of stock options granted:

Plans	2012	2013	2014	2015	2016	2017	2018	2019
Date of the Shareholders' Meeting[1]	27/04/2012	27/04/2012	30/04/2014	30/04/2014	30/04/2014	30/04/2014	27/04/2018	27/04/2018
Date of Board of Directors meeting	04/09/2012	13/06/2013	16/06/2014	12/06/2015	09/06/2016	08/06/2017	12/06/2018	12/06/2019
Total number of shares available for subscription	976,119	836,000	687,656	581,420	608,665	399,794	370,591	364,662
Daniel Harari, Chairman and Chief Executive Officer	0	0	0	0	0	0	0	0
Starting date for the exercise of options	05/09/2016	14/06/2017	17/06/2018	13/06/2019	10/06/2020	09/06/2021	13/06/2022	13/06/2023
Expiry date	04/09/2020	13/06/2021	16/06/2022	12/06/2023	09/06/2024	09/06/2025	12/06/2026	12/06/2027
Subscription price (in euros)	6.25	6.25	8.50	13.75	14.50	28.25	22.25	22.50
Methods of exercise (when the plan comprises several tranches)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number of shares subscribed on 31/12/2019	341,440	201,356	177,204	62,416	0	0	0	0
Cumulative number of subscription options cancelled or lapsed	487,315	549,473	406,245	384,600	302,850	155,719	76,927	63,679
Subscription options remaining in force at the end of the fiscal year	147,364	85,171	104,207	134,404	305,815	244,075	293,664	300,983

(1) Date of the Shareholders' Meeting that authorized the creation of the stock option plan, used by the Board of Directors when granting stock options each year.

Absence of bonus shares

The Company has never submitted a plan to grant bonus shares for approval to the shareholders' meeting. Consequently, 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, 2019, was €22.35, up 22.9% compared to December 31, 2018 (€18.18). It reached a low of €16.42 on September 25 and a high of €24.00 on March 13.
Over the same period, the CAC 40 and CAC Mid & Small indexes increased by 26% and 19%, respectively.
Lectra is mainly part of the following Euronext and EnterNext indexes: CAC All Shares, CAC All Tradable, CAC Mid & Small, CAC Technology, EnterNext PEA-PME 150, and EnterNext Tech 40.
14 million shares were traded on Euronext and other trading platforms in 2019 (44% of the number of shares making up the share capital on December 31, 2019), which is 18% below the same period of 2018. Euronext accounted for 36% of shares traded in 2019, compared with 31% a year before.
In its press releases dated March 27, 2018, and January 8, 2019, the Company confirmed its eligibility for the "PEA-PME" scheme designed to promote investment in small and mid-cap companies. As a consequence, Lectra shares may be held in PEA-PME savings accounts, which benefit from the same tax advantages as the traditional "PEA" equity savings plan.

Transactions in shares by directors and similar persons

In accordance with article 223-26 of the General Regulation of the AMF, the following is the summary statement of transactions in Lectra shares carried out by company officers, directors, senior corporate staff, or similar persons, during the 2019 fiscal year, as reported to the AMF and to the Company (when the total amount of transactions carried out by the person in question exceeds the threshold of €20,000):

	Date	Nature of the transaction	Number of shares	Price (in euros)	Value (in euros)
Olivier du Chesnay					
Chief Financial Officer	November 14, 2019	Exercise of stock options	2,448	13.75	33,660
	November 14, 2019	Sale of shares	2,448	22.58	55,279
Edouard Macquin					
President, Americas	February 25, 2019	Exercise of stock options	16,592	8.50	141,032
	February 25, 2019	Sale of shares	16,592	21.01	348,530
Jérôme Viala					
Executive Vice President	February 15, 2019	Sale of shares	4,588	20.73	95,098
	February 18, 2019	Sale of shares	1,922	20.71	39,805
	February 19, 2019	Sale of shares	1	20.71	21
	February 20, 2019	Sale of shares	3,489	20.75	72,386
	February 22, 2019	Sale of shares	5,000	21.00	105,014
	February 25, 2019	Exercise of stock options	13,088	6.25	81,800
	March 14, 2019	Exercise of stock options	3,474	8.50	29,529
	March 14, 2019	Sale of shares	3,474	23.54	81,786
	March 15, 2019	Exercise of stock options	1,827	8.50	15,530
	March 15, 2019	Sale of shares	1,827	23.22	42,415
	November 4, 2019	Exercise of stock options	5,000	8.50	42,500
	November 4, 2019	Sale of shares	10,000	21.85	218,476
Véronique Zoccoletto					
Chief Transformation Officer	February 15, 2019	Exercise of stock options	8,500	6.25	53,125
	February 15, 2019	Sale of shares	8,500	20.70	175,913
	February 18, 2019	Exercise of stock options	3,976	6.25	24,850
	February 18, 2019	Sale of shares	3,976	20.56	81,765
	November 19, 2019	Sale of shares	11,787	22.12	260,694
	November 20, 2019	Sale of shares	3,213	22.00	70,686
	November 26, 2019	Sale of shares	24,600	21.99	540,976

Compliance with the Transparency Directive and the General Regulation ("MAR") – regulated disclosure

The Company complies with the financial disclosure obligations of companies listed on Euronext Paris, 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 as supplemented by (i) AMF position-recommendation 2016-05 "Guide to periodic disclosures by listed companies", and (ii) position-recommendation 2016-08 "Guide to ongoing disclosure and management of inside information", both of which became applicable on October 26, 2016. 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. The Company uses the services of Nasdaq Solutions International Limited, a professional information provider approved by the AMF that satisfies the criteria laid down in the General Regulation, to publish and file information with the AMF. At the same time, regulated information is published on the Company's website.

10 SHARE REPURCHASE PROGRAM

10.1 Current share repurchase program

The Ordinary Shareholders' Meeting of April 30, 2019 granted authority to the Company to trade in its own shares for a period of twelve (12) months from the date of the said meeting, for the following purpose:

- to maintain a liquid market in the Company's shares, via an authorized investment services provider acting within the framework of a Liquidity Agreement in compliance with the *Association française des entreprises d'investissement's* (AFEI) Charter of Ethics, or any other Charter of Ethics recognized by the AMF;
- to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions, in keeping with applicable regulations;
- to grant shares, notably to present and future officers or employees of the Company and/or the Group, or to some of them, and in particular within the framework of articles L. 225-179 et seq. and L. 225-197-1 et seq. of the French Commercial Code;
- to deliver Company shares on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the Company's shares.

The purchase, sale or transfer of such shares may be carried out subject to the conditions provided by the AMF, by any and all means, notably on the market or over the counter, including by block trades or by the use of derivative financial instruments, at such times as may be decided by the Board of Directors or any person acting on the authority of the Board of Directors. However, from the time of filing of an outside public tender offer for Company shares, and until expiration of the offer period, the Board of Directors is barred from implementing its share repurchase program; nor may the Company continue its execution without prior authorization by the Shareholders' Meeting.

The purchase price of the shares shall not exceed 32 euros per share. The gross maximum amount to be used in the stock repurchase program shall be €50 million. Both these amounts are exclusive of transaction-related costs.

This authorization may be used for a number of shares representing up to 10% of the share capital of the Company on the day of the Shareholders' Meeting held on April 30, 2019; this may be adjusted, if required, to take account of subsequent operations affecting the share capital, it being specified that when the Company's shares are purchased under a liquidity agreement, the number of shares counted for the purpose of the above-mentioned 10% threshold shall correspond to the number of these shares purchased, less the number of shares sold under the liquidity agreement during the period of the authorization.

However, the number of shares purchased by the Company for the purpose of holding and subsequently delivering them as payment or in exchange for shares in an external growth operation shall not exceed 5% of the share capital. At no time whatsoever shall the Company's purchases lead to the Company holding over 10% of the shares comprising the share capital.

10.2 Transactions by the Company on its own shares in 2019

Liquidity Agreement

In order to promote a liquid market for the shares and stabilize the Lectra share price, the Company contracted with Exane BNP Paribas, in May 2012, to act as liquidity provider under a Liquidity Agreement, signed in accordance with regulations and market practices recognized by the AMF.
Shareholders are reminded that on December 27, 2018, Lectra and Exane BNP Paribas entered into a new liquidity agreement that took effect on January 2, 2019. This new liquidity agreement was made following regulatory changes regarding liquidity agreements and further to AMF decision 2018-01 of July 2, 2018, and replaced the previous agreement entered into on May 11, 2012.
Under this Liquidity Agreement, in fiscal year 2019, the Company purchased 282,042 shares and sold 281,272 shares at an average price of €20.56 and €20.69 respectively.
Consequently, at December 31, 2019, the Company held 31,549 Lectra shares (or 0.1% of share capital), at a par value of 1 euro, with an average purchase price of €22.13, entirely under the Liquidity Agreement, together with 377 thousand euros in cash and cash equivalents.

Share repurchases outside of the Liquidity Agreement

The Company did not repurchase any shares outside of the Liquidity Agreement between January 1, 2019 and the date of this report.

Share cancellations

The Company did not cancel any shares between January 1, 2019 and the date of this report.

10.3 Description of the share repurchase program submitted to the Shareholders' Meeting for approval

The Board of Directors has proposed to the Shareholders' Meeting of April 30, 2020 to renew the authorization granted to the Board of Directors to purchase or arrange for the purchase of the Company's shares pursuant to article L. 225-209 et seq of the French Commercial Code, for a period of eighteen (18) months from the date of the said meeting with the aim:

- to maintain a liquid market in the Company's shares, via an authorized investment services provider acting within the framework of a Liquidity Agreement in compliance with regulations and market practices recognized by the AMF;
- to retain or use all or part of the repurchased shares as a means of payment or exchange or otherwise within the framework of external growth transactions, in keeping with applicable regulations;
- to grant shares, notably to present and future officers or employees of the Company and/or the Lectra Group, or to some of them, and in particular within the framework of articles L. 225-179 et seq. and L. 225-197-1 et seq. of the French Commercial Code;
- to deliver Company shares on the occasion of the exercise of rights attached to securities entailing an entitlement by whatever means to the Company's shares;
- to cancel some or all of the shares thus purchased to reduce the share capital subject to the conditions provided for by law; and
- to implement any market practice as may be allowed by the AMF, and more generally, to carry out any transactions that comply with the regulations in force at the time.

The purchase, sale or transfer of such shares may be carried out subject to the conditions provided by the AMF, by any and all means, notably on the market or over the counter, including by block trades or by the use of derivative financial instruments, at such times as may be decided by the Board of Directors or any person acting on the authority of the Board of Directors.

The purchase price of the shares shall not exceed 32 euros (exclusive of acquisition-related costs). This authorization may be used for a number of shares representing up to 10% of the share capital of the Company on the day of the Shareholders' Meeting held on April 30, 2020, in other words, by way of illustration, 3,209,910 shares on the basis of the share capital on December 31, 2019, allowing for subtraction of 31,549 shares held in treasury, for a maximum amount of €50 million, it being specified that when the Company's shares are purchased under a liquidity agreement, the number of shares counted for the purpose of the above-mentioned 10% threshold shall correspond to the number of these shares purchased, less the number of shares sold under the liquidity agreement during the period of the authorization. However, the number of shares purchased by the Company for the purpose of holding and subsequently delivering them as payment or in exchange for shares in an external growth operation shall not exceed 5% of the share capital. At no time whatsoever shall the Company's purchases lead to the Company holding over 10% of the shares comprising the share capital. The authority granted to the Board of Directors is to be given for a period of 18 months, replacing and superseding the authority previously granted by the tenth resolution of the Ordinary Shareholders' Meeting of April 30, 2019.

It is specified that from the time of filing of an outside public tender offer for Company shares, and until expiration of the offer period, the Board of Directors is barred from implementing its share repurchase program; nor may the Company continue its execution without prior authorization by the Shareholders' Meeting.

11 SIGNIFICANT POST-CLOSING EVENTS

On the financial statements closing date, February 25, we indicated that the year was fraught with unpredictability, in light of persisting uncertainty regarding geopolitical factors, the slowdown in the automotive sector, and the COVID-19 epidemic, whose impact on the business of the Group and its customers was difficult to assess at the time.

The Company decided not to formulate any quantified outlook for the fiscal year, until such time as visibility improved.

As of the publication date of this Report, the health crisis has spread to reach pandemic proportions. Even following the periods of containment and shutdown of part of the economy, this crisis will have a significant impact on the Group's activities, and on its customers' activities, with different situations depending on the country. With a proven business model, including a very high proportion of recurring revenues, a particularly robust balance sheet, and net cash of 120 million euros at December 31, 2019, the Company is well equipped to deal with a temporary or more lasting economic slowdown.

The consequences of this unprecedented type of crisis on the Group's outlook and financial statements nevertheless remain difficult to measure at this time.

12 FINANCIAL CALENDAR 2020

The Annual Combined Shareholders' Meeting will take place on April 30, 2020.

First, second, and third quarter earnings for 2020 will be published on April 29, July 27, and October 28, respectively, after the close of trading on Euronext Paris. Full-year earnings for 2020 will be published on February 10, 2021.

13 BUSINESS TRENDS AND OUTLOOK

A long-term vision

Markets are undergoing profound changes

Throughout the world, Lectra customers are faced with changes in consumer behavior, as buyers reveal new expectations in terms of experience and personalization, and demand ever greater transparency, authenticity and ethical commitment from all actors in the value chain.

To remain competitive, fashion brands and manufacturers have to call themselves into question. They must rethink and merge the in-store and digital experience, bring new and continuously more creative models to market quicker, and demonstrate their eco-responsibility – while also reducing inventories, markdowns, and unsold stock.

In addition, automotive suppliers, under pressure from carmakers and faced with difficult market conditions, must also reinvent themselves to maintain their margins, while laying the groundwork for car interiors of the future.
Finally, furniture industry players are forced to adapt without delay to the demands of younger generations yearning for configurable and personalized furniture, changing lifestyles, and the challenges of digital technology.

Industry 4.0 is transforming industrial processes

Industry 4.0 calls for a new approach to organizing production plants based on communication across a configuration of increasingly flexible players and production tools, while optimizing the use of available resources.
To exploit the full potential of the fourth industrial revolution, companies must first digitize every process in the value chain, from creation to point of sale, and set up modular, intelligent and communicating production lines. Subsequently, automation and continuous optimization of all processes will be possible thanks to Industry 4.0 technologies including cloud computing, big data, artificial intelligence and the Internet of Things.
Ultimately, Industry 4.0 will significantly benefit consumers by facilitating the transition from mass production to agile production – or even personalized production – at no additional cost or time.

A strategy to meet the challenges of Industry 4.0

Launched in 2017, the Lectra 4.0 strategy, which aims to position the Group as a key Industry 4.0 player in its market sectors between now and 2030, is built on four pillars:

- premium positioning, based on high value-added solutions and services with strong business-line expertise;
- focus on three strategic market sectors – fashion, automotive, and furniture – with a specific approach for each in terms of offers, organization and processes;
- integration of customers into the heart of the Group's activities, with a commitment from its teams to do everything in their power to enable customers to make optimal use of its solutions;
- the gradual market launch of new 4.0 services that will combine data analysis, Lectra's expertise and artificial intelligence, to enable customers to continuously improve their operations.

Lectra already has the fundamentals necessary to help its customers enter this new industrial age: thirteen years' experience in the Industrial Internet of Things (IoT), strong business-line expertise in its customers' markets, and total mastery of know-how regarding machines, software, data and services. Furthermore, the Group can count on a prestigious customer base, a global presence with its network of 34 subsidiaries, technological leadership that has grown tremendously since the launch of its first offers for Industry 4.0, and a virtuous business model that enables the Group to self-finance its growth.

A new strategic roadmap for 2020-2022

Acceleration towards Industry 4.0

Lectra will continue to implement its strategy over the next three years.
As anticipated back in 2017 when it announced the Lectra 4.0 strategy, the objective of the Group through its 2020-2022 strategic roadmap is to capture the full potential of its new offers for Industry 4.0, while delivering sustainable, profitable business growth.
To achieve this objective, the Group has set four strategic priorities.
First, accelerate organic growth. Lectra will reinforce simultaneously its prospecting actions in order to increase its market shares, and its sales actions aimed at introducing new product lines to existing customers in order to generate higher revenues per customer.
In addition, the Group will encourage customers to migrate to its higher value-added offers and will deploy programs to accelerate the replacement of older generations of equipment, whether made by Lectra or by competitors.
The Group will also strive to seize every opportunity in its markets. These opportunities include:

- The transformation of the Chinese ecosystem, which is facing deep structural changes driving local companies to become more agile and more creative, to modernize their tools, and to manage increasingly diverse production flows between China and other Asian countries;

- Automation of leather cutting in the automotive and furniture sectors, which essentially always use dies and other manual cutting tools;
- The rise in airbag production because of the increasing number in each vehicle and stricter safety regulations in many countries.

Second, strengthen customer relations. The Group will review its activities with a focus on how its solutions are actually used, in order to anticipate customers' expectations and personalize their interactions with Lectra.

In particular, the Group will progressively deploy Customer Success teams country by country. The teams will seek to optimize customers' performance through the use of Lectra solutions, with the aim of creating a virtuous circle of greater perceived added value, therefore enhanced loyalty, and as a result higher recurring revenues for the Group.

This approach will lead Lectra to adjust the mission of its sales and service teams and make greater use of digital technology in interactions with customers.

Third, extend the offers for Industry 4.0. These offers, whether in new product lines or as additions to existing software and equipment, present strong growth potential for Lectra. They enable customers to implement the principles of Industry 4.0 and address changes in consumer demand, including the desire for personalized products.

Lectra will therefore pursue its policy of investing in research and development, devoting 11% to 12% of its revenues over the 2020-2022 period to R&D, with the aim of strengthening its expertise in the areas of data and artificial intelligence. These investments will enhance the value of existing offers and lead to the introduction of new offers for Industry 4.0.

Fourth, develop new areas for growth. Continuing on from the previous roadmap, the Group plans to intensify its targeted acquisitions.

Lectra privileges two types of targets. The first are strategic targets – mainly start-ups – that bring to market offers that could complete Lectra's current range of products, or that develop technological "bricks" capable of being incorporated into its portfolio. The second are tactical targets that operate in the same industry as Lectra and would enable the Group to increase its market shares.

At the same time, Lectra will promote open innovation and strengthen the resources allocated to its Innovation Lab located in the technological campus in Bordeaux-Cestas, while increasing partnerships with different industry players.

Sustainable, profitable growth

To ensure sustainable growth in an uncertain macroeconomic and geopolitical environment, the Group's ambition is to increase recurring revenues by 20% in three years. Recurring revenues should then account for over 60% of the Group's total revenues in 2022, with the following objectives:

- revenues from software sold in SaaS mode to exceed 13 million euros;
- 4% annual growth in revenues from CAD/CAM and PLM software maintenance contracts, and equipment and accompanying software maintenance contracts;
- 5% annual growth in revenues from consumables and parts.

The Group will use the growth in margin generated by recurring revenues to finance its development, particularly through strong investment in R&D, and reinforcement of its sales and services teams. The security ratio will therefore be maintained at 90% – the 2019 level – during the 2020-2022 period, with continuing strict controls over the increase in fixed overhead costs.

The Group has set itself the objective of maintaining its dividend payment policy with dividends that over the roadmap period should represent a payout ratio of 40% to 50% of net income (excluding non-recurring items).

Lectra will use its available cash to finance future targeted acquisitions. In the case of major acquisitions or opportunities available under the right conditions, the Group could take on debt equivalent to half its shareholders' equity.

Roadmap progress report

Each year, Lectra will present a progress report on the 2020-2022 roadmap.

2020 outlook

Lectra entered 2020 with a particularly robust balance sheet and operating fundamentals, and an enhanced offer of products and services, now available worldwide, enabling its customers to implement the principles of Industry 4.0.

Impact of the sale of software on a subscription basis

The Group has decided to sell its new software exclusively in SaaS mode and the volume of software sold on a subscription basis should continue to increase in 2020.

This change in sales model will have a positive impact on the Company's revenues and income from operations in the medium term. However, it will have a negative impact on the Group's results for 2020, reducing revenues and operating margin by 1 to 2 percentage points, compared to the levels that would be booked if 2020 SaaS sales were in the form of perpetual licenses along with their associated maintenance contracts.

An uncertain macroeconomic and geopolitical environment, recently aggravated by the coronavirus epidemic

The year ahead is still fraught with unpredictability in light of persisting uncertainty regarding geopolitical factors and the slowdown in the automotive sector, which could continue to weigh on businesses' investment decisions.

The coronavirus epidemic, whose impact on the business of the Group and its customers is difficult to assess at this time, is an additional major source of uncertainty.

Therefore, until visibility improves, the Company has decided, at this stage, not to formulate estimates for the year.

The Company remains confident in its medium-term growth prospects

The new products launched in 2018 and 2019 and those that will be released in subsequent years should make an ever-increasing contribution to this growth. Bolstered by the strength of its business model and a new roadmap fully geared to the demands of Industry 4.0, the Group remains confident in its growth prospects for the medium term.

The Board of Directors
February 25, 2020

14 ADDITIONAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders for new systems by type of business

	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
CAD/CAM and PLM software licenses, of which :	16,896	15%	16,720	15,808	13%	+7%	+6%
- Perpetual licenses	12,794	11%	12,666	13,788	11%	-7%	-8%
- Licenses in SaaS mode [1]	4,102	4%	4,055	2,020	2%	+103%	+101%
Equipment and accompanying software	80,157	72%	78,451	91,429	75%	-12%	-14%
Training and consulting services	12,410	11%	12,244	12,160	10%	+2%	+1%
Miscellaneous	2,434	2%	2,413	2,325	2%	+5%	+4%
Total	**111,897**	**100%**	**109,828**	**121,721**	**100%**	**-8%**	**-10%**
€ / $ average parity	*1.12*		*1.18*	*1.18*			

(1) This amount corresponds to subscription software sales, by multiplying the annual value of the corresponding contracts by 2.2. This coefficient enables calculation of the amount an order would represent, had it been sold as a perpetual license.

Orders for new systems by region

	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Europe	43,231	38%	43,246	45,434	37%	-5%	-5%
Americas	17,955	16%	17,220	28,324	24%	-37%	-39%
Asia-Pacific	40,870	37%	39,474	38,976	32%	+5%	+1%
Other countries	9,841	9%	9,888	8,987	7%	+10%	+10%
Total	**111,897**	**100%**	**109,828**	**121,721**	**100%**	**-8%**	**-10%**
€ / $ average parity	*1.12*		*1.18*	*1.18*			

Orders for new systems by market sector

	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Fashion	58,756	53%	57,422	60,626	50%	-3%	-6%
Automotive	32,971	29%	32,563	42,727	35%	-23%	-24%
Furniture	15,754	14%	15,516	13,135	11%	+20%	+18%
Other industries	4,415	4%	4,327	5,232	4%	-16%	-18%
Total	**111,897**	**100%**	**109,828**	**121,721**	**100%**	**-8%**	**-10%**
€ / $ average parity	*1.12*		*1.18*	*1.18*			

BREAKDOWN OF REVENUES – LIKE-FOR-LIKE

Revenues by region	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	113,452	41%	113,493	111,559	39%	+2%	+2%
- France	17,223	6%	17,229	16,538	6%	+4%	+4%
Americas	67,503	24%	64,614	76,146	27%	-11%	-15%
Asia-Pacific	76,426	27%	74,242	75,334	27%	+1%	-1%
Other countries	22,642	8%	22,706	19,519	7%	+16%	+16%
Total	**280,023**	**100%**	**275,055**	**282,558**	**100%**	**-1%**	**-3%**
€ / $ average parity	*1.12*		*1.18*	*1.18*			

Revenues by type of business	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Revenues from software licenses, equipment and non recurring services, of which:	110,239	39%	108,277	122,721	43%	-10%	-12%
- CAD/CAM and PLM software licenses	13,493	5%	13,348	13,902	5%	-3%	-4%
- Equipment and accompanying software	82,077	29%	80,450	93,840	33%	-13%	-14%
- Training and consulting services	12,236	4%	12,066	12,654	4%	-3%	-5%
- Miscellaneous	2,434	1%	2,413	2,325	1%	+5%	+4%
Recurring revenues, of which:	169,784	61%	166,777	159,837	57%	+6%	+4%
- CAD/CAM and PLM subscription contracts	1,562	ns	1,551	470	ns	+232%	+230%
- CAD/CAM and PLM software licenses maintenance contracts	38,485	14%	38,091	37,577	13%	+2%	+1%
- Equipment and accompanying software maintenance contracts	57,854	21%	56,647	53,347	20%	+8%	+6%
- Consumables and parts	71,883	26%	70,489	68,443	24%	+5%	+3%
Total	**280,023**	**100%**	**275,055**	**282,558**	**100%**	**-1%**	**-3%**
€ / $ average parity	*1.12*		*1.18*	*1.18*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

	Twelve months ended December 31				
	2019 [1]		2018	Changes 2019/2018	
(in thousands of euros)	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
Revenues	280,023	275,055	282,558	-1%	-3%
Cost of goods sold	(74,808)	(74,294)	(79,014)	-5%	-6%
Gross profit	205,214	200,761	203,544	+1%	-1%
(in % of revenues)	73.3%	73.0%	72.0%	+1.3 points	+1.0 point
Research and development	(22,019)	(22,019)	(21,497)	+2%	+2%
Selling, general and administrative expenses	(142,306)	(140,865)	(141,798)	+0%	-1%
Income from operations	40,889	37,878	40,249	+2%	-6%
(in % of revenues)	14.6%	13.8%	14.2%	+0.4 points	-0.4 points
Income before tax	40,075	37,064	38,917	+3%	-5%
Income tax	(10,751)	na	(10,177)	+6%	na
Net income	29,324	na	28,740	+2%	na
of which, Group share	**29,305**	**na**	**28,740**	**+2%**	**na**
of which, Non-controlling interests	19	na	-	na	na
€ / $ average parity	*1.12*	*1.18*	*1.18*		

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 to the consolidated financial statements describes the impact of the new standard on the Group's financial statements.

Non-financial Statement

This Non-financial Statement is prepared in compliance with article L.225-102-1 of the French Commercial Code; it aims to explain how Lectra incorporates Corporate Social Responsibility (CSR) in its strategy and business. It describes, in particular:

- the methodology used for non-financial reporting;
- Lectra's business model;
- the principal social, societal and environmental risks and issues faced by the company Lectra (the "Company") and its 34 subsidiaries (together referred to as "**Lectra**" or the "**Group**"), together with the policies implemented to address them and the results achieved as evidenced by key performance indicators.

This Non-financial Statement is an integral part of the Board of Directors' Management Discussion.

1 METHODOLOGY

1.1 Scope

Social and societal risks have been identified for the entire scope of the Group, unless otherwise specified. For environmental risks, on grounds of negligibility or irrelevance, and due to the difficulty of collecting data, particularly for numerous small foreign subsidiaries subject to different regulatory requirements, it was decided for 2019, as for previous years, to focus on a scope composed of the Company and its five principal subsidiaries (forming the Non-financial Statement scope, or "**NFS scope**"):

- Lectra Deutschland GmbH (Germany);
- Lectra Systems (Shanghai) Co. Ltd (China);
- Lectra Systemas Española SAU (Spain);
- Lectra USA Inc. (United States);
- Lectra Italia SpA (Italy).

These six companies accounted for 71% of the Group's consolidated revenues and 76% of its headcount in 2019. Information for each of these companies was collected directly from the Managing Director of the subsidiary and, when applicable, from the head of human resources in the subsidiary. Whenever the information presented concerns only these six companies, the term "NFS scope" is mentioned.

All environmental risks have been identified for the NFS scope, with the exception of waste, which has been analyzed only for the production site, that is, the Bordeaux-Cestas site in France. Other information relates only to the Company and is identified as such. As a reminder, all the subsidiaries of the Company are unlisted foreign companies.

1.2 Reporting period

Data are for the fiscal year ended December 31, 2019 and are compared to data for prior years to enable an analysis of changes over time.

1.3 Sources and methods for collecting non-financial data

To collect and consolidate the data included in the Non-financial Statement, the Group has mobilized substantial resources, involving among others the Human Resources, Legal Affairs, Strategy, Finance, Industrial Operations and General Administration departments, to gather the data required to provide as comprehensive and coherent a view as possible of the information required and the actions undertaken.

The process for the collection, consolidation, processing and analysis of environmental information is organized as follows:

- reporting protocols are sent to the subsidiaries and departments whose data are relevant for preparing the Non-financial Statement;
- an independent third-party auditing company analyzes and audits the environmental data; and
- the independent third-party auditing company audits the consolidated data on-site.

1.4 Exclusions

This Non-financial Statement, in compliance with the last paragraph of article R. 225-105, I of the French Commercial Code, sets out only the relevant information regarding Lectra's activity, identified risks, and policies implemented. Whenever the Group does not have a risk prevention policy for a specified risk, it must provide an explanation.

The Group has examined the environmental issues relating to Order 2017-1180 of July 19, 2017 and Act 2018-938 of October 30, 2018 (on balanced trade relations in the agricultural and food sector and healthy, sustainable and accessible food for all). It has concluded that the issues relating to the war against food insecurity; respect for animal welfare; responsible, equitable and sustainable food; and the war against food waste, are not likely to characterize a risk for the Group, in view of its activity.

1.5 Methods of auditing

KPMG, which has been accredited by the Cofrac (*Comité français d'accréditation*), was appointed by the Company as the independent third party to audit this information for fiscal year 2019.
This Non-financial Statement was examined by the Audit Committee at its meeting on February 25, 2020, prior to the Board of Directors meeting on February 25, 2020, which adopted its content.

1.6 Rating

Eager to continue integrating CSR into its strategy, each year Lectra participates in a survey conducted by the rating agency Gaïa Rating in order to gather environmental, social and governance (ESG) information. The review of the Group's practices in 2019 showed that the Group was ahead of its peers:

- Lectra ranked 22nd out of 70 companies in the category of companies with revenues of €150 to €500 million; and
- 76th out of 230 in the global ranking of listed SMEs and mid-tier companies.

1.7 Principal risks, issues and actions implemented in the area of corporate social, environmental and societal responsibility

The eight principal risks and issues identified by the Group, together with the actions implemented and the indicators for monitoring, are set out in the summary table below.
The Group considers that tax evasion mentioned in article L.225-102-1 of the French Commercial Code does not constitute a significant risk. This is because a transfer pricing policy has been implemented to ensure remuneration of the activities in each of the countries where the Group operates. The allocation of profit is therefore managed in consideration of the risks and functions performed by the subsidiaries, with the Company being considered as the Group's entrepreneurial entity. This policy is consistent with French and international recommendations, and OECD recommendations in particular.

Type of risk/issue	Issues identified	Actions implemented	Key indicators	Section
Employment risks and issues	*Management of key resources and skills*	– Creation of Lectra Academy, the in-house training center – Introduction of Lectra Together seminar for all employees – Establishment of a Sales Enablement team to strengthen the focused training system – Implementation of an annual employee performance assessment interview	– Percentage of employees having taken at least one training course during the year – Average number of training hours per employee having taken at least one training course	3.4.1.
	Lectra's attractiveness and capacity to retain talents	– Support for employees throughout their career – Improvement in working conditions (renovation work, notably at Bordeaux-Cestas) – Priority to internal promotions	– Average time to recruit – Percentage of departures at the initiative of employees with permanent contracts	3.4.2.
Environmental risks and issues	*Effectiveness of general policy to control environmental impact*	– Development of environmental policy – Development of an Environmental Management System – Implementation of a reporting system	– Number of indicators tracked in Environmental Management System	5.1.
	Control of direct and indirect energy consumption, and reduction of CO2 emissions	– Design of more compact and efficient equipment – Deployment of thermal insulation and very low energy lighting solutions	– Consumption by CAD/CAM equipment – Internal energy consumption (electricity and gas)	5.3.
	Prevention of direct and indirect production of waste	– Improvement in equipment to optimize raw material usage – Deployment of reusable packaging – Implementation of waste sorting	– Material yield by CAD/CAM equipment – Direct production of waste	5.2.

Societal risks and issues	*Ethics and the fight against corruption*	– Implementation of a Code of Conduct – Implementation of a whistleblowing procedure – Development of an internal communication system	– Existence of a Code of Conduct, a whistleblowing procedure and an internal communication plan – Number of employees having taken a training course on business ethics	4.1.
	Fair practices	– Internal control and quality assurance procedures – Strict selection of suppliers	– Number of alerts reported through the whistleblowing system	4.2.
	Responsible purchasing policy	– In relations with suppliers and subcontractors, taking into account their social and environmental responsibility – Taking social and environmental issues into account in purchasing policy	– Geographical locations of suppliers and subcontractors	4.3.

2 THE LECTRA GROUP'S BUSINESS MODEL

2.1 Presentation of the Group, its resources and activities

Lectra has been listed on the Euronext Paris market since 1987; it has 34 subsidiaries worldwide and close to 1,800 employees, representing over 50 nationalities. The Group markets its solutions in over 100 countries. Today, Lectra is a world leader in its market sectors, offering technological solutions combining software, hardware, data and services in three strategic markets: fashion, automotive and furniture. The Group is at the forefront of digital industry, shaping premium technologies that facilitate the digital transformation and access to Industry 4.0.
Lectra empowers customers to achieve their strategic goals, including improving creativity, reducing time-to-market, lowering production costs, increasing product quality, and meeting the challenges of globalization. Lectra is also addressing issues inherent in the shift to Industry 4.0, such as secure data exchanges, making the factory more agile, and expanding customization.

2.2 Business model and revenues

In 2019, Lectra reported revenues of 280 million euros, 41% in Europe, 27% in Asia-Pacific, 24% in the Americas and 8% in the rest of the world. Fashion accounted for 53% of revenues, automotive 29%, furniture 14% and other industries 4%.
Recurring revenues account for 60% of the Group's total revenues and cover more than 90% of fixed overhead costs, including R&D investments, which are fully expensed in the year.
Lectra is debt-free with an extremely robust financial structure. At December 31, 2019, the net cash position amounted to 120 million euros and shareholders' equity stood at 183 million euros. The Company has sufficient cash to finance future targeted acquisitions, and in the event of a major acquisition a debt equivalent to half its shareholders' equity could be envisaged.
The Group operates with negative working capital requirement of 20.7 million euros. Free cash flow came to 36.2 million euros in 2019, and 91 million euros for the 2017 to 2019 period, exceeding net income in 2019 and 2017-2019, respectively.

In 2018, Lectra decided to market all its new software in SaaS mode. In 2019, sales of software in SaaS mode accounted for 24% of software sales, a percentage that should increase in coming years.
Lectra designs and manufactures its products in France. The research and development teams are primarily based in Bordeaux-Cestas, with other teams in Belgium, Spain, Italy and Romania.
Lectra's production facility in Bordeaux-Cestas is already applying the principles of Industry 4.0. The Group is backed by a network of qualified subcontractors with which it co-develops the components of its equipment.

2.3 Long-term strategy, a source of value creation

In February 2017, Lectra launched its Lectra 4.0 strategy, which aims to position Lectra as an indispensable player in Industry 4.0 in its market sectors between now and 2030.
Industry 4.0 presents an unprecedented opportunity for Lectra. It imposes a new organization of production facilities based on intercommunication between all participants and production tools, and digitalization of all processes in the value chain. Industry 4.0 is based on four key technologies that Lectra has mastered for years: cloud technology, big data, artificial intelligence, and the Internet of Things.
With over 11% of revenues invested in R&D in 2019 (and 90 million euros over the 2017-2019 period), Lectra is continuing its policy of innovation to further strengthen its technological leadership and its value proposition.
Lectra focuses on being very close to customers, thanks to its presence in nearly 100 countries, service teams with over 540 experts, and 5 international call centers.

Lectra's strategy is divided into three-year strategic roadmaps. The first strategic roadmap for the Lectra 4.0 strategy has just been successfully completed. The Group is now embarking on its second strategic roadmap (2020-2022), with the objective of capturing the full potential of its new offers for Industry 4.0, while ensuring sustainable, profitable business growth. The Group will achieve this by using the additional margin generated by recurring revenues over the period to finance its development, with priority given to innovation, to reinforcing sales teams, and to expanding customer services.

2.4 Values that reflect a strong culture

Lectra's values — Caring, Committed, Insightful and Visionary — reflect its strong corporate culture and ambition. They are embodied in the Group's strategy, including in corporate social, environmental and societal responsibility.

3 INFORMATION ON SOCIAL PERFORMANCE

3.1 Key figures

3.1.1 Headcount

The Group's active headcount[1] at December 31, 2019 was 1,793 employees (1,711 at December 31, 2018).
The Group's total headcount was 1,818 employees (registered workforce). Unless otherwise specified, the information and analyses that follow in this statement refer to the active headcount.
96% of employees in the Group are on permanent contracts. Fixed-term contracts relate mainly to substitutes for maternity leave or leave of absence.

(1) Number of employees on permanent contracts and fixed-term contracts, not counting employees who are on long-term leave or who are not working during their notice period.

3.1.2 Distribution of employees by gender, age and geographic region

At December 31, 2019, women represented 35% of the Group's headcount.

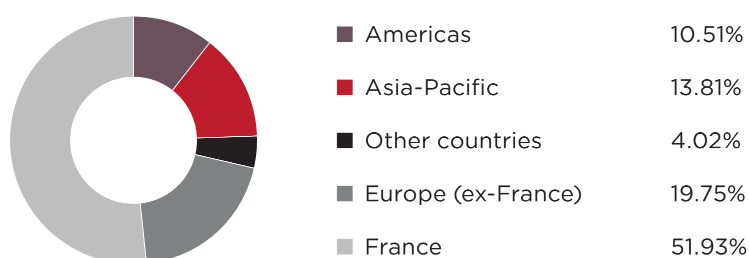
Gender	At December 31, 2019 *(% of total headcount)*	At December 31, 2018 *(% of total headcount)*	At December 31, 2017 *(% of total headcount)*
Male	65%	64%	65%
Female	35%	36%	35%

The distribution of employees by age group is as follows:

Age group	At December 31, 2019 *(% of total headcount)*	At December 31, 2018 *(% of total headcount)*	At December 31, 2017 *(% of total headcount)*
Age 29 or younger	11%	11%	11%
Age 30-39	29%	29%	29%
Age 40-49	29%	30%	30%
Age 50-59	27%	27%	27%
Over 60	4%	3%	3%

Finally, the distribution of employees by geographic region is as follows:

Distribution of employees by geographic region



3.1.3 Recruitments and departures

Employees who joined during the year are as follows:

(number)	2019	2018	2017
Recruitments (total)	318	265	311
— *of which: permanent contracts*	265	222	257
— *of which: fixed-term contracts*	53	43	54

148 employees (47% of the Group total) were recruited in France in 2019.

63 employees (including 13 on fixed-term contracts) were recruited in Europe, 56 in Asia-Pacific (none on fixed-term contracts), 45 in the Americas (including 10 on fixed-term contracts), and 6 employees (including 1 on a fixed-term contract) in the rest of the world.
Women accounted for 38% of recruitments in 2019.

Recruitments by age were as follows:

Age group	At December 31, 2019 (% of total headcount)	At December 31, 2018 (% of total headcount)	At December 31, 2017 (% of total headcount)
Age 29 or younger	31%	32%	32%
Age 30-39	43%	38%	44%
Age 40-49	19%	20%	18%
Age 50-59	5%	9%	6%
Over 60	2%	1%	0%

This balance promotes synergies between generations.
Wherever possible, internal promotion is encouraged, with appropriate support, in order to increase employees' know-how and maintain their employability.

In 2019, 241 employees left the Group, compared with 235 in 2018:

Reason for leaving	December 31, 2019	December 31, 2018	December 31, 2017
Termination of employment contract at Lectra's initiative	**43** *(including 7 during probationary period)*	60 *(including 14 during probationary period)*	34 *(including 5 during probationary period)*
End of fixed-term contract	**26**	29	26
Termination of employment contract by mutual agreement	**30** *(including 12 French employees by amicable agreement)*	15 *(including 9 French employees by amicable agreement)*	20 *(including 10 French employees by amicable agreement)*
Resignation	**128** *(including 4 during probationary period)*	120 *(including 10 during probationary period)*	106 *(none during probationary period)*
Retirement	**14**	10	6
Death not arising from work-related accident or occupational disease	**0**	1	2
Total	**241** *(including 118 in France)*	**235** *(including 94 in France)*	**194** *(including 84 in France)*

All departures at the employer's initiative were individual dismissals.

3.1.4 Compensation

The Group payroll amounted to 116.8 million euros in 2019, a 1.74% increase compared to 2018.
Consistent with its strategy, ethics and values, Lectra has put in place a fair compensation policy that seeks primarily to reward merit and performance.
The annual salary review policy takes into account the level of inflation in the country, the situation in the labor market, and compliance with the laws and regulations in force in each country, together with individual and/or collective performance.
For certain employees, the annual compensation comprises a fixed component and a variable component. In this case, the objectives and the rules for calculation of the variable component are set at the start of each year and are directly aligned with the strategy and objectives of the Group, the local priorities, and the nature of the missions assigned to each employee. In addition to compensation there may be benefits in kind connected with the employee's occupation, such as the use of a car.
Lectra also has a long-standing policy of selective employee participation in its capital through the granting of stock options as decided by the Board of Directors following the recommendations of the Compensation Committee.

3.2 Working conditions, health and safety

3.2.1 Organization of work time and absenteeism

As a general rule, Lectra favors an organization of work time appropriate to each type of activity. This organization complies with the laws and regulations in force in each country concerned, and is regularly audited and brought up to date, with assistance from local law firms, to keep up with changes in legislation.
Full-time employment contracts are the general rule; employees with permanent contracts working part-time represent only 4% of the total workforce.
In the majority of cases, part-time work is offered at the request of employees.
No employee has an employment contract specifying night work. However, certain exceptional situations (e.g. an urgent project) may require night or weekend work or may require certain teams to be on call.
In such cases, and in compliance with local regulations, these exceptions are subject to the prior approval of the Human Resources Division.
In addition, since 2013, the Group has been tracking an absenteeism indicator calculated for the NFS scope. It has held steady, at 3.6% of the workforce concerned in 2018 (compared with 3.2% in 2018).

3.2.2 Health and safety

Health and safety in the workplace

Lectra places great emphasis on strict compliance with local health and safety laws and regulations in each of its subsidiaries. Regular audits are conducted to guarantee its workers a safe and healthy working environment, and local policy is adjusted accordingly when necessary.

Frequency and severity of accidents at work, occupational diseases

These indicators are relevant to the industrial activity at the Bordeaux-Cestas site, insofar as they could reveal recurring problems (frequency rate) and more or less serious problems (severity rate) in the safety systems put in place to protect the physical integrity of personnel. However, they are less relevant for the subsidiaries as a whole, which have commercial and service activities.
Moreover, the accident indicators, with a frequency rate and severity rate of 3.06 accidents per million hours worked and 0.29 days of temporary disability per thousand hours worked, are respectively 7 and 5 times lower than the average indicators for French companies, as published on the Ameli website (www.risquesprofessionnels.ameli.fr).
No severe workplace accident occurred in 2019 and no occupational disease was reported in 2019, for the NFS scope.

Collective agreements in the field of workplace health and safety

Employees of the Company are covered by a 2014 agreement for supplementary health and disability insurance as amended in 2016.

An agreement covering workplace health and safety is in effect in Italy.
There are no agreements on workplace health and safety in the other companies within the NFS scope.

3.2.3 Employee relations

Organization of labor relations

The Company complies with its obligations by managing its collective employee relations through employee representative bodies, which underwent profound changes in 2019.
Until October 2019, the representative bodies dedicated to labor relations were the following: a works council (*comité d'entreprise*), three members of which represented the council at Board of Directors meetings; two bodies of elected employee delegates (*délégués du personnel*); a Health, Safety and Working Conditions Committee (CHSCT); and two trade union representatives (*délégués syndicaux*).
Following employee elections in October, these representative bodies were replaced by a Social and Economic Committee (the "CSE") which combines the responsibilities previously fulfilled by the works council, the employee delegates, and the CHSCT.
The CSE consists of 34 members (17 permanent members and 17 alternate members) plus 2 trade union representatives elected for a term of four years, in accordance with current legislation in France.
In 2019, there were 5 meetings of the CSE (including 3 extraordinary meetings), 17 meetings of the works council (including 8 extraordinary meetings), 18 meetings of the employee delegates bodies, 8 meetings of the CHSCT (including 5 extraordinary meetings), and 20 negotiating meetings with the trade union representatives.
In 2019, the Company disbursed 0.7 million euros to the works council, that is, 0.20% of total payroll for the works council's operating expenses and 1.10% of payroll for its social activities.
Moreover, within each subsidiary, the organization of labor relations complies with local legal obligations and regulations, which are not comparable from one country to another.

- the German subsidiary has a works council, renewed in 2018 for four years, which includes five representatives; it meets at least four times a year, and must be consulted in the event of major organizational changes and dismissals.
- the Italian subsidiary has an employee representative, with whom a meeting is held every quarter, and who must also be consulted in the event of a dismissal.
- the Spanish subsidiary has a works council elected for five years that includes four employee representatives. It must be consulted on any decision relating to the organization of work and informed of the main decisions taken with regard to an employee (dismissal, transfer, geographical mobility). The subsidiary's management presents its results to the works council every year.
- the other subsidiaries within the NFS Scope (in the United States and China) do not have an employee representative body.

Finally, in general, Lectra is committed to ensuring that labor relations are organized in each country to address as closely as possible the concerns of its employees.

Report on collective agreements

30 collective agreements currently in effect have been identified within the NFS scope. They concern employees in France (24 agreements), Italy (4), Germany (1) and Spain (1), that is, over 83% of the employees concerned. They do not apply to the rest of the Group's employees.
The principal agreements that took effect in 2019 concern the Company, including agreements on work time and salary increases, in the framework of the mandatory annual negotiations, as well as agreements relating to setting up the Social and Economic Committee, electronic voting, an amendment to the 2017-2019 profit-sharing agreement (*intéressement*), and the introduction of an on-call working hours system for the cloud operations team.
No supplementary agreements were entered into in 2019 in Italy, Germany or Spain.

Impacts of collective agreements on Company performance

Labor negotiations within the Company have resulted in other agreements, some of which relate to the organization of working hours and allow greater responsiveness to operational demands, thereby increasing the effectiveness of the organization:

- two agreements in force, entered into in 2007 and 2012 respectively, extend the hours covered by production-related services; and
- during 2019, 6 negotiation meetings with the trade unions led to an agreement establishing a permanent on-call duty system for employees on the team responsible for maintaining operations on our cloud-hosted offers.

Beyond the desire to achieve an internal consensus, the salary agreements aim to reconcile maintaining employee loyalty and containing personnel expenses. Other types of agreements contribute to the Company's performance. This is notably the case for the profit-sharing agreement, which is the result of a deliberate choice by the Company many years ago, in addition to the profit-sharing plan (participation), which is a legal obligation. The conditions set out in this agreement are identical to those used to calculate the variable portion of the compensation of the Group's management team. The agreement thus aligns all employees to achieve the Company's objectives and contributes to their awareness of the Group's strategy.

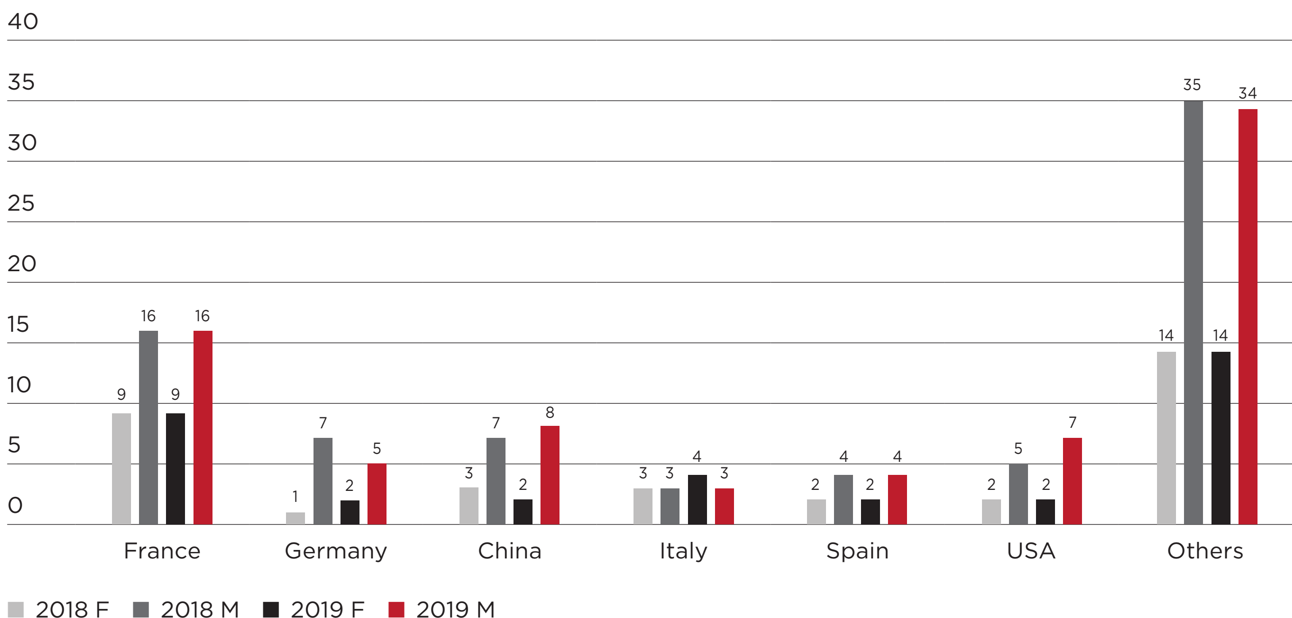
3.3 Human rights

3.3.1 Equal treatment between women and men

Lectra is committed to full equal treatment in hiring and career management, and focuses exclusively on the skills, experience and performance of candidates or employees in hiring and promotion decisions.

The management teams that fall under the scope of the Non-financial Statement are distributed as follows:

Gender balance of management teams



The Company has an annual plan to promote gender equality in the workplace based on clear, precise, operational criteria; the plan sets out the improvement objectives for the coming year, the actions required to achieve them, and their cost.
Additional negotiations with the Company's trade union representatives on gender equality were initiated in the fourth quarter of 2019.
The overall analysis of the gender pay gap at Group level would not be relevant, because of the pay disparities in the various countries where the Group operates. Nevertheless, it is observed that the average compensation (fixed plus target-based variable) is 11.9% lower for women than for men; this is much smaller than the average gap observed in companies in general. It should be noted that average seniority for women employees (10.5 years) is 2.1 years less than for male employees.
An analysis of the 100 highest compensation packages in the Group, excluding the company officer (*dirigeant mandataire social*), indicates that average compensation is 2% higher for women than for men, while the average seniority of the women among these 100 is 4 years lower.
Finally, in compliance with the French Act of September 5, 2018 (on "freedom to choose one's future career"), which aims in particular to eliminate the pay gap between women and men in France, Lectra's overall score on the gender equality index was 94/100 (reference year 2018), placing it among the most highly rated companies in this respect.

3.3.2 Anti-discrimination policy

Lectra values diversity at every level and rejects all forms of discrimination between people, notably on grounds of gender, age, disability, ethnic origin, social origin, or nationality. This principle ensures fair treatment in terms of equal career opportunities and equal pay.
Lectra's teams operate in 41 countries and represent more than 50 nationalities.

3.3.3 Promoting and compliance with the fundamental conventions of the International Labour Organization (ILO)

Consistent with its ethics, core values and Code of Conduct, the Group strives to apply all the fundamental conventions of the ILO, together with the applicable regulations in each country, and it demands that employees strictly comply with its internal procedures and with these regulations. It takes particular care to ensure that all employees apply clear and transparent management principles in the conduct of its business. Similarly, it urges its subcontractors and suppliers to uphold the principles of eliminating illegal, forced or child labor, and to enforce compliance with applicable legal provisions in regard to the minimum wage, health and safety.
The Group has never been convicted of corruption, non-respect for freedom of association or the right to collective bargaining. Nor has it ever been convicted of using illegal, forced or compulsory child labor, or of discriminatory hiring practices. The Group is not aware of any violation by its subcontractors of the fundamental conventions of the ILO.

3.4 Social risks related to Lectra's business model

As part of the risk mapping carried out in 2018 with PricewaterhouseCoopers, Lectra had identified two moderate social risks at Group level:
- the management of key competencies and resources that will enable the Group to sustain its strengths in order to be in the best position to address issues related to the implementation of its strategy;
- the ability to attract and retain talent contributing to the objective of retaining the best skills and competencies in order to implement its strategy.

These two major issues have led to strong actions within the Group, which are detailed below.

3.4.1 Management of key skills and resources

Description of risk

The Group's success depends to a large extent on its management team and its employees' expertise in the technical areas related to the development of its offer and support for customers. The departure of members

of the management team or experts would therefore have repercussions on the business and results. Developing talents and skills is therefore a priority for Lectra.

Description of actions implemented

Training and integration

Skills development is a priority of the Group, the aim being to match the skills and competencies of its teams as closely as possible to the strategy.
Lectra invests heavily in training for its employees, whose expertise is one of the Group's key strengths. Lectra's policy is to promote the career paths of top-performing employees and to support all teams in developing their knowledge and know-how.
The creation in 2005 of Lectra Academy, the Group's worldwide in-house training center in Bordeaux-Cestas (France) was a major initiative, that enabled the Company to put in place a far-reaching permanent program. The three main challenges of this program are: to adapt and upgrade business-related professional skills and know-how, to bolster the Group's attractiveness to new job applicants around the world, and to transmit Lectra's strong corporate culture to all its entities.
In 2018, a Sales Enablement team was established to strengthen the existing system by providing targeted high-level training for employees active in sales, marketing, and consulting.
Employees worldwide enjoy access to a broad array of training programs, at Bordeaux-Cestas, in the subsidiaries, or by e-learning.
The teams in charge of training work directly with the managers of each department or subsidiary and draw up plans suited to the specific needs of Lectra's business areas and local conditions. Seminars are organized and led by Group experts or external trainers in each area of expertise.
Lectra Academy organizes an induction seminar, "Lectra Together", for all new recruits on arrival in the Group. The seminar lasts between two and five days, depending on the profiles concerned, and managers provide follow-up coaching when participants return from training.
Lectra also continues to provide technical training for its other teams—R&D especially—in new technologies and methodologies, in Lectra's offer, and in its customers' businesses.
In France, the Company establishes an annual skills development plan, in compliance with current regulations, that includes all training actions.
In 2019, the Group invested close to 3.9 million euros in training (close to 3.5 million euros to 2018), representing 3.4% of the Group's payroll (3% in 2018).
In total, nearly 41,346 hours of Lectra Academy and Sales Enablement training were provided to 1,496 employees, representing 82% of the total headcount (89% in 2018), combined with more than 4,500 hours of training related to local activities.
All Group employees on permanent contracts benefit from an annual performance assessment interview with their manager, which provides for analysis of the past year's performance and an exchange of views on training needs.

Indicators tracked

Percentage of employees having taken at least one training course during the year(1)

The management of skills necessarily involves offering Group employees access to professional training. The Group has therefore decided to track the percentage of its registered workforce having taken at least one Lectra Academy or Sales Enablement training course during the year.

	2019	2018	2017
Registered workforce on December 31	**1,818**	1,741	1,711
Number of employees having taken at least one training course	**1,496**	1,543	1,095
*Number of employees having taken a training course in business ethics**	**477**	1,140	N/A
Percentage of employees having taken at least one training course	**82%**	89%	64%

** This is a distance learning module launched in November 2018 focusing on France's anti-corruption law (the "Sapin II" Act).*

(1) The contracts taken into account in the calculation of people trained and training hours are permanent contracts, fixed-term contracts, apprenticeship contracts and professionalization contracts. This excludes internship agreements, temporary agency assignments, and contracts with service providers. When a training course is scheduled over two fiscal years, it is counted in full for the fiscal year in which the training ends.

The percentage of employees who received training in 2019 remains high, in line with the level achieved in 2018. This is largely due to the impact of training in professional ethics, which began in 2018 and extended into early 2019, resulting in a particularly high rate in 2019.
The training in professional ethics was taken by all Group teams between November 27, 2018 and February 25, 2019. A total of 1,617 employees on permanent contracts took the course remotely. This training is updated every year to train new arrivals on the anti-corruption issues covered in France by the Sapin II Act, and to provide a refresher for employees who had received training previously.

Average number of training hours by employees having taken at least one training course

In addition to the above indicator, the Group has decided to measure the average number of hours of training per employee provided by Lectra Academy and Sales Enablement.

	2019	2018	2017
Number of employees having taken at least one training course	**1,496**	1,543	1,095
Number of hours of training	**41,346**	37,691	39,598
Average number of hours of training per person	**27.6**	24.4	36.2

The number of training hours was 10% higher than in 2018, primarily due to:
- creation of training courses on new technologies, particularly cloud computing;
- deployment of the Kubix Link offer (after the acquisition of the company) for the implementation teams;
- training during working hours based on the personal training account (CPF) scheme, particularly for English-language courses.

The increase in the average number of training hours per person is explained mainly by courses in foreign languages, which have a higher than average number of course hours.

3.4.2 Lectra's attractiveness and ability to retain talents

Description of risk

The Group's performance is essentially based on the skills and expertise of its employees, the quality of its management team, and its ability to unite teams around its strategic roadmap.
The recruitment of diversified profiles and the Group's ability to retain key competencies is a major challenge and consequently a priority area for action in Lectra's social policy.
Difficulties in recruiting talent, particularly for new business lines, and a tight job market in certain regions, mainly the Aquitaine basin, constitute a major risk and could have repercussions on the Group's business and results, particularly in view of its development objectives.
Given this situation, Lectra has established working conditions and an environment conducive to retaining talent.

Description of actions implemented

Lectra offers a highly motivating work environment in a multicultural context, with customers in over 100 countries and teams comprising over 50 nationalities. It has always strived to create optimal working conditions to provide a quality professional environment for employees and enable them to be successful in their work.
New employees follow an induction program, including a Lectra Together welcome seminar, during which Lectra's strategy, organization, markets and products are explained.
Following induction, each employee is supported throughout his or her career with training to maintain his or her level of skills and expertise.
Lectra places great importance on recognizing individual and collective performance, and its salary policy takes each individual's results into account.
Whenever possible, internal promotion is preferred to external recruitment. Lectra also aligns its most deserving employees with the group's future performance through stock option plans implemented each year.

Having a good social dialogue with employee representatives enables management to listen to the concerns of the teams and to negotiate agreements on employment issues in a constructive manner.
Events throughout the year, whether global or local, also provide opportunities for discussions between peers and with management
Employees can also express their views in other ways, for example via the survey carried out in France on the quality of life at work, the results of which are shared with all Company employees, along with suggestions for improvement.
The working environment is important for Lectra. In particular, over the past three years the Company has undertaken major renovation and modernization work at its Bordeaux-Cestas premises to provide a pleasant environment suitable for a more flexible work organization.
Lectra has also strengthened its presence on social media and industry-specific networks. The Group's employees are often asked, with no obligation, to participate in interviews or videos on Lectra's business lines, and are invited to share job offers published on the Internet with their personal network.

Indicators tracked

Average recruitment time

There is a strong link between Lectra's attractiveness and its ability to quickly find candidates to fill vacancies. Starting in 2018, it was therefore decided to track the average time between the start of the recruitment process and acceptance by the selected candidate. This indicator, expressed in number of weeks, is tracked for external recruitments for positions with permanent contracts throughout the Group.

	2019	2018	2017
Average number of weeks between the start of a recruitment process for a permanent employee and signing of acceptance by the future employee	**12**	16	N/A*

** This indicator was introduced in 2018.*

Percentage of voluntary departures by employees with permanent contracts

An indicator tracking the number of departures at the initiative of employees with permanent contracts (by resignation or voluntary termination during the probationary period) as a percentage of the total workforce on December 31 has been put in place to measure Lectra's ability to retain employees in an increasingly tight labor market.

	2019	2018	2017
Registered workforce on December 31	**1,818**	1,741	1,711
Number of resignations or voluntary terminations by employees during probationary period	**128**	119	106
Percentage of departures at employees' initiative	**7.0%**	6.8%	6.2%

Despite tension on the labor market, the Group notes stability in the rate of departures at the initiative of employees, in all regions.
This has prompted the Group to remain highly focused on its capacity to retain its talent and the resources put in place for employee retention.

4 INFORMATION ON SOCIETAL COMMITMENTS

Lectra has long placed ethics and respect for values such as integrity, probity and transparency at the heart of its business conduct. Well before the developments incorporated in French law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy (the "Sapin II" Act), Lectra had undertaken measures to promote and reinforce ethical practices.
The Group has identified three societal issues involving business or reputational risks in connection with its activity:

- ethics and the fight against corruption;
- fair practices; and
- responsible purchasing policy.

4.1 Ethics and anti-corruption measures

4.1.1 Description of risk

Conducting business with integrity and applying a zero-tolerance policy against corruption are core values at Lectra.
The Group is aware of the trust that customers have placed in it for decades and the extremely negative impact that an ethical breach could have on its image. Recognizing that some of its activities take place in countries identified by Transparency International, the non-governmental organization, as being at risk, the Group places great importance on ethical behavior in the conduct of its business in those countries and ensures that each employee is aware of these issues. Given these circumstances, in 2018 the Group launched an anti-corruption compliance program which is the first stage in a comprehensive initiative that aims to cover societal issues more broadly and to incorporate them in its strategy and its day-to-day operations.

4.1.2 Description of actions implemented

Lectra's commitment to business ethics is evidenced, for instance, in its anti-corruption program, which is built on three pillars:

- the Code of Conduct;
- the whistleblowing program; and
- the commitment to training in business ethics.

This system was developed on the basis of a risk mapping exercise performed by an outside consultant, which made it possible to identify the principal risks and areas for improvement.

Code of Conduct

The Code of Conduct, introduced by Daniel Harari, Chairman and Chief Executive Officer, formally sets out the Group's policy in the area of fighting corruption and influence peddling. It forbids Lectra's employees: (i) to use the Group's funds or assets for bribes, kickbacks, or other similar payments that are likely to benefit third parties; and (ii) to exchange gifts or invitations in order to encourage or influence the decision of a customer, partner, supplier or Group employee.

The Code of Conduct includes information on the implementation of the program, as well as examples of possible cases; it serves as a reference for all employees in the Group to guide their behavior and interactions in their activities. It also sets out the whistleblowing procedure and how it operates.

Whistleblowing program

The whistleblowing program meets the requirement that companies must enable all employees to report illegal conduct. It exceeds the scope of fighting corruption and influence peddling by including the following elements:

- any behavior or situation contrary to the provisions of the Code of Conduct;
- any crime or other offense;
- any serious and apparent violation of an international commitment duly ratified or approved by France; a unilateral action undertaken by an international organization on the basis of such a commitment; or laws and regulations; and
- any threat or serious danger to the public interest.

The Company has appointed Deloitte to manage the whistleblower reporting platform. Each employee having personal knowledge of reportable information will be able to make a report confidentially or anonymously, depending on his or her country of origin.
A committee comprising the Chairman and Chief Executive Officer, the Executive Vice President, the Compliance Officer and, depending on the nature of the alert, the member of senior management responsible for the area covered by the report, examines each alert, initiates any investigation and decides on the action to be taken, including sanctions up to and including dismissal or legal proceedings, where necessary.
In 2019, no whistleblowing alerts were made.

Commitment to training in business ethics

To ensure the effective deployment of this program, Lectra has put in place the following resources:

- a dedicated page on the Group's intranet containing all the documents, including the Code of Conduct, the whistleblowing procedure and practical information enabling each employee to access the content of the system at any time; and

- a compulsory e-learning module, with a test to ensure proper understanding of the system, with the following main educational objectives:
  - to understand what corruption and influence peddling mean;
  - to understand the penalties for corruption, and an employee's obligations;
  - to understand how to express concerns or report risky situations;
  - to recognize and avoid the risk of corruption and understand how to react to the risks of corruption.

The number of employees who have undergone training in business ethics is indicated in section 3.4.1 above.

For sales teams, Lectra has had in place for many years a strict governance, supervision and control procedure for negotiating and executing contracts, and has adapted its contractual clauses to reinforce ethical considerations. In addition to the actions already undertaken, the Group has initiated an audit of its sales practices and those of its agents, with the help of an outside company.

Finally, the Group has implemented strict internal control rules for accounting and financial matters.

4.2 Fair practices

4.2.1 Description of risk

Lectra wishes to behave as a responsible economic player towards its customers to earn its position as a trusted partner. Ensuring the safety of the users of its solutions and services is a priority; any lack of transparency on these issues could be extremely damaging to the Group's image.

4.2.2 Description of actions implemented to promote users' health and safety

The R&D and industrial operations teams take European and international directives and standards, and particularly UL standards for the North American market, into account from the design stage for CAD/CAM equipment, with a constant concern for reducing the risks associated with their use, reducing their noise emissions, and improving their ergonomics.

Particular attention is paid to assembly, installation and operating instructions for CAD/CAM equipment, including during training sessions for Lectra technicians and customers in order to master the operating procedures for the equipment and focus on safety rules.

Internal control procedures and quality control forms are archived and made available to the Group's technical departments to guarantee the conformity of equipment installed at customer sites

4.2.3 Description of the actions to promote fundamental rights

The Group applies and promotes the recommendations of the fundamental conventions of the ILO on freedom of association and recognition of the right to collective bargaining, the elimination of discrimination in employment and occupation (with respect to recruitment, career development and the termination of business relations), the abolition of forced or compulsory labor, and the effective abolition of child labor.

The Group seeks to uphold the fundamental principles of human rights in everything it does, but it does not take part in the work of national or international institutions specifically involved in their defense.

Some strategic choices, including the strict selection of suppliers, are part of the Group's commitment to base its activities on ethical practices, with respect for human rights and the prohibition of child labor.

4.3 Responsible purchasing policy

4.3.1 Description of risk

Use of subcontractors and outside suppliers plays an essential role in the Group's business. This can lead to a risk affecting the sustainability of the Group's activity or its reputation, and therefore requires the formalization and deployment of robust purchasing processes to secure business relations and to ensure that all parties respect the highest level of probity and ethics at all stages of the value chain.

In addition, Lectra wishes to behave as a responsible economic player with regard to its environment and wishes to encourage its suppliers and subcontractors

to improve their practices in terms of respect for the environment and for human rights.

4.3.2 Actions implemented

Lectra has a long-standing responsible purchasing policy which includes:
- promotion of local subcontracting;
- streamlining of logistics in favor of consolidation, short channels, and minimizing packaging materials;
- a responsible purchasing charter between Lectra, its suppliers and subcontractors; and
- contracts setting out its social and environmental requirements.

The long-standing responsible purchasing policy is enriched each year; it explicitly includes social and environmental requirements in specifications and calls for tender, and in selection criteria for proposals from suppliers and subcontractors.
The Group's purchasing processes are designed to strike a fair balance between competitiveness, quality of supplies purchases, and sustainability of its subcontractors and suppliers. The Group encourages its subcontractors and suppliers to implement policies contributing to the conservation of natural resources, and to the reduction and elimination of their waste by means of solutions that respect the environment.
Finally, Lectra subcontracts the production of sub-assemblies, but assembles and tests them itself at the Bordeaux-Cestas industrial facilities.
The Group's activities rely on partnerships with an international network of close to a thousand suppliers and subcontractors, of which 29% are based in Nouvelle Aquitaine, 53% in the rest of France, 13% in the European Union and the remaining 5% mainly in Asia or in the Americas.

5 INFORMATION ON ENVIRONMENTAL COMMITMENTS

The Group's business has little negative impact on the environment. Nevertheless, for several years Lectra has implemented a program for monitoring and making progress in limiting its environmental footprint.
The Group has identified three environmental issues involving business or reputational risks in connection with its activity:
- effectiveness of its general policy to control environmental impact;
- prevention of direct and indirect production of waste; and
- control over direct and indirect energy consumption, and reduction of CO2 emissions.

Lectra has committed major resources to strengthening its general policy to protect the environment.

5.1 Effectiveness of the general policy to control environmental impact

5.1.1 Description of risk

Stakeholders associated with Lectra's activities, notably its customers, shareholders, suppliers and employees, attach growing importance to issues relating to sustainable development. More specifically, customers and investors are attentive to the Group's environmental performance and practices and express this by submitting questionnaires or independent assessments to Lectra. Environmental performance is thus becoming a decisive criterion for the Group in its business relations.
Furthermore, environmental performance could have an impact on the image perceived by investors and their willingness to invest in Lectra.

5.1.2 Description of actions implemented

In 2012, Lectra identified a number of environmental performance indicators that have been published, including in its CSR report. Since 2019, the approach to environmental issues has been framed by an Environmental Management System (EMS).
The priority areas in the EMS are:
- eco-design of computer assisted design and manufacturing (CAD/CAM) equipment developed by Lectra, and particularly, their performance, to allow Lectra's customers to make savings in terms of textile and energy;

- eco-responsibility of the logistics and production chain;
- eco-responsibility of the Group's infrastructures, particularly regarding energy consumption, management of waste, and biodiversity;
- information for and accountability by employees regarding the specificities of environmental issues;
- assessment of economic impacts and potential investment requirements relating to environmental initiatives;
- consideration of customers' environmental requirements and promotion of Lectra's added value in this area; and
- eco-responsibility of IT tools and solutions.

The EMS is implemented through a methodology defined on the basis of the requirements of the ISO 14001 standard. It is headed by a committee of experts that initiates and oversees the action plans. Performance is measured using indicators and audits, the results of which are reported to the Company's Executive Committee. Finally, a committee of ambassadors promotes best practices and the actions put in place to all Lectra employees; it also collects and processes suggestions and ideas for improvement from personnel throughout the Group.

5.1.3 Indicators tracked

EMS effectiveness is assessed using performance indicators for each of the issues identified.
Three indicators were introduced in 2019, for waste produced in relation to production volumes, energy consumption per square meter, and energy consumption per employee at the Bordeaux-Cestas site.

	2019	2020 objective
Number of EMS indicators	**3**	8

5.2 Prevention of direct and indirect production of waste

5.2.1 Description of risk

Lectra is fully conscious of the environmental issues relating to pollution generated by the textile industry, the world's second leading producer of airborne emissions after petroleum, and which consumes 4% of the planet's water resources.
Lectra's customers favor solutions that provide the best material yields for fabric and hides, thus enhancing productivity while reducing waste. This criterion is increasingly important as growing numbers of companies in Lectra's three strategic market sectors — the fashion, automotive and furniture industries — analyze the entire life cycle of their products, including textile and leather consumption.
Furthermore, beyond the regulatory requirements the Group must meet, the criterion regarding the production of waste at the Bordeaux-Cestas production site is included in many questionnaires Lectra receives not only from customers but also from investment funds, and could involve a reputational risk with an impact on its business.

5.2.2 Description of actions implemented

Lectra contributes to reducing waste produced by its customers by developing increasingly efficient equipment. Optimizing the use of materials, and textiles in particular, has long been a key part of Lectra's offer and is a definite competitive advantage. More specifically, the algorithms in the nesting and marker-making software that determine the position of pieces to be cut from the spread are continually improving fabric yields, reducing to a maximum the required length for nesting. Increasingly precise blade guiding systems enable highly precise cutting with zero buffer between parts, thus reducing scrap and decreasing the length of fabric required. For leather, optical systems analyze the quality of hides to limit the number of pieces scrapped due to visual defects.

Lectra also improves its equipment to reduce the need for consumables. For instance, the Virga cutting machine cuts fabric directly, eliminating the need for plastic or paper. In addition, its cutting blades have a lifetime several times longer than blades used by the previous generation of equipment.
As a general principle, Lectra cutting equipment is designed for low electricity consumption.
Fashion On Demand by Lectra and Furniture On Demand by Lectra, the new offers introduced on the market in 2018, allow customers to implement new forms of on-demand production. Rather than producing clothing in advance, individual items are personalized or made to measure after being bought by the final customer, thus reducing the risk of unsold goods and therefore waste.
Furthermore, Lectra has implemented a three-year plan (2018-2020) to significantly reduce its own output of waste and to recycle waste produced in the course of business.
Several initiatives have been undertaken at the Bordeaux-Cestas site:

- reduction in packaging for equipment and parts delivered to customers;
- collaboration with suppliers to optimize packaging for purchased components, by working on their characteristics and reusability;
- putting in place a partnering agreement with a specialized company to manage the selective collection of waste, including recycling for wood, metals, paper and cardboard, plastic and glass, as well as appropriate processing of special waste.

At present, for the Bordeaux-Cestas scope of reporting, 100% of waste is sorted.

5.2.3 Indicators tracked

Material yield by CAD/CAM equipment

There are no international standards defining an operating cycle for flexible material cutting equipment that would allow the definition of standardized material yield. Nonetheless, by optimizing the cutting area, the marker-making software and the cutting machines developed by Lectra reduce the volume of unused material.

Finally, Lectra is working in-house to develop such an indicator to permit measurement of the performance gains of its equipment.

Direct waste produced

The following table summarizes direct waste produced on the Bordeaux-Cestas industrial site:

Type of waste (tonnes)	**2019**	2018	2017
Wood	**168**	232	222
Metals	**46**	69	77
Paper, cardboard	**41**	65	96
Plastics	**13**	17	16
Non-hazardous industrial waste	**93**	123	127
Municipal waste	**16**	33	44
Special waste	**5**	6	8
Glass	**0**	1	1

The results measured for 2019 show a reduction of waste produced by over 22%, compared to 2018.

5.3 Control over direct and indirect energy consumption, and reduction of CO2 emissions

5.3.1 Description of risk

Energy consumption by CAD/CAM equipment is subject to greater scrutiny and higher expectations by the Group's customers. Requests for proposals often include an environmental performance criterion that may carry a significant weighting. In addition, most production sites of Lectra customers are located in countries where access to energy is challenging and energy costs are high; they too are expressing ever higher expectations in terms of energy efficiency.
In the course of business, Lectra generates direct CO2 emissions (through direct combustion, and mobile sources with internal combustion engines) and indirect CO2 emissions (relating to electricity). The Group is located in a large number of countries; transportation remains the principal source of greenhouse gas emissions.
In addition, the Group's activity requires energy consumption for the premises occupied by employees, and for software development and equipment production activities.

5.3.2 Description of actions implemented

The Group invests in the energy efficiency of its infrastructures. On the Bordeaux-Cestas industrial site, which it owns, Lectra has implemented a five-year plan (2016-2020) to renovate all 32,000 square meters of the site's buildings, to bring them up to the highest standards in the areas of thermal insulation, building management system-controlled HVAC, and very low energy lighting solutions. Each planned renovation or extension on the site is subject to demanding environmental performance objectives.
The installation of videoconferencing rooms on Group sites also contributes to reducing travel and the environmental footprint.
Furthermore, the development and extension of remote trouble-shooting solutions leads to a significant reduction in the number of on-site interventions at customers' facilities.
For commuting between home and work, Lectra has adopted a flexible working hours system for employees, allowing them to avoid rush hours and traffic jams that cause significant CO_2 emissions, and facilitating car-pooling for work. The corporate car policy has also evolved to expand use of hybrid and electric company cars and service vehicles. Finally, the Bordeaux-Cestas site is equipped with electric charging stations for employees who arrive with electric vehicles, as well as bicycle stands with solar lighting.
To improve consumption by its customers, Lectra aims to design equipment that is increasingly compact and increasingly efficient. This is illustrated by the FocusQuantum range of laser cutters launched in 2016 that offers from 80% to 150% greater productivity than the previous generation, while occupying only half the floor space. Productivity gains imply improved energy efficiency. What's more, the Group has been optimizing the inherent efficiency of the principal electrical components of CAD/CAM equipment: since 2017, all electric motors installed on these systems are of the IE3 premium efficiency class, providing an additional gain of roughly three percent in energy efficiency over the previous generation.

5.3.3 Indicators tracked

Consumption by CAD/CAM equipment

There are no international standards defining an operating cycle for textile cutting equipment that would allow the definition of standardized energy consumption per square meter of fabric.
Nevertheless, Lectra is working in-house to develop such an indicator to permit measurement of the performance gains of its equipment.

In-house consumption and emissions

Energy (GWh)	**2019**	2018	2017
Electricity	**6**	6.3	6.2
Gas	**0.42**	0.5	0.4
CO_2 emissions	**0.21**	-	-

Energy consumption fell by 5% from 2018 to 2019, despite the increase in both headcount and building floor area.

Report by one of the Statutory Auditors, appointed as independent third party, on the consolidated non-financial statement

For the year ended December 31, 2019

This is a free English translation of the Statutory Auditor's report issued in French 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 standards applicable in France.

To the Annual General Meeting,

In our capacity as Statutory Auditor of your company (hereinafter the "entity") appointed as independent third party, and accredited by the French Accreditation Committee (Comité Français d'Accréditation or COFRAC) under number 3-1049[1], we hereby report to you on the consolidated non-financial statement for the year ended 31 December 2019 (hereinafter the "Statement"), included in the Group Management Report pursuant to the requirements of articles L.225-102-1, R. 225-105 and R.225-105-1 of the French Commercial Code (*Code de commerce*).

RESPONSIBILITY OF THE ENTITY

The Management Board is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.
The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and available upon request at the entity's head office.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by the requirements of article L.822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with applicable legal and regulatory requirements, the ethical requirements and French professional guidance.

RESPONSIBILITY OF THE STATUTORY AUDITOR APPOINTED AS INDEPENDENT THIRD PARTY

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the requirements of article R.225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R.225-105 I, 3° and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on the entity's compliance with other applicable legal and regulatory requirements, in particular anti-corruption and tax avoidance legislation, nor on the compliance of products and services with the applicable regulations.

NATURE AND SCOPE OF OUR WORK

The work described below was performed in accordance with the provisions of Article A.225-1 et seq. of the French Commercial Code, as well as with the professional guidance of the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes* or CNCC) applicable to such engagements and with ISAE 3000[2]:

- we obtained an understanding of all the consolidated entities' activities, and the description of the principal risks associated;
- we assessed the suitability of the criteria of the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L.225-102-1 III as well as information regarding compliance with human rights and anti-corruption and tax avoidance legislation;

- we verified that the Statement provides the information required under article R. 225-105 II of the French Commercial Code, where relevant with respect to the principal risks, and includes, where applicable, an explanation for the absence of the information required under article L.225-102-1 III, paragraph 2 of the French Commercial Code;
- we verified that the Statement presents the business model and a description of principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships, their products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators associated to the principal risks;
- we referred to documentary sources and conducted interviews to:
  - assess the process used to identify and confirm the principal risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented;
  - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in Appendix. Concerning certain risks (fair practices, ethics and anti-corruption, responsible purchasing) our work was carried out on the consolidating entity, for the other risks, our work was carried out on the consolidating entity and on a selection of entities[3].
- we verified that the Statement covers the scope of consolidation, i.e. all the consolidated entities in accordance with article L.233-16 of the French Commercial Code within the limitations set out in the Statement;
- we obtained an understanding of internal control and risk management procedures the entity has put in place and assessed the data collection process to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important presented in Appendix, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data;
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities[3] and covers between 53% and 100% of the consolidated data selected for these tests;
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgment, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

MEANS AND RESOURCES

Our work was carried out by a team of five people between November 2019 and February 2020 and took a total of three weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted a dozen of interviews with the people responsible for preparing the Statement, representing, in particular, the Finance, Legal, Human Resources, Environment and Purchasing Departments.

(1) Accreditation scope available at www.cofrac.fr.

(2) ISAE 3000: international standard on assurance engagements other than audits or reviews of historical financial information.

(3) Lectra SA: Cestas site; Lectra USA Inc.

CONCLUSION

Based on the procedures performed, nothing has come to our attention that causes us to believe that the non-financial statement is not presented in accordance with the applicable regulatory requirements and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines, in all material respects.

Paris-La Défense, on 25 February, 2020

KPMG SA

Fanny Houlliot	Jean-Pierre Raud
Partner	*Partner*
Sustainability Services	

APPENDIX

Qualitative information (actions and results) considered most important
Arrangements for improving the working environment
Code of conduct, whistle-blowing procedure and communication plan put in place in the area of good business conduct and the fight against corruption
General environmental impact control policy, actions and related reporting indicators
Internal control procedures and quality management
Responsible purchasing policy

Key performance indicators and other quantitative results considered most important
Workforce as of December 31, 2019
Average number of weeks between the opening of a recruitment under a permanent contract and the signing of the offer of employment by the future employee
Departures, including number of resignations and breaks in the probationary period by the employee
Number of employees who have received ethics training as part of the compliance program
Proportion of the workforce having received at least one training course during the year
Number of training hours centralised by Lectra Academy
Energy consumption (electricity and gas)
Waste generation by type
Geographical distribution of suppliers and subcontractors

Report on Corporate Governance

Dear Shareholders,

This Report on Corporate Governance (the "**Report**"), prepared in accordance with articles L. 225-37 et seq. of the French Commercial Code and appended to the Management Discussion, reports mainly on:

- compliance by Lectra SA (the "**Company**") with the corporate governance code to which it refers;
- the composition of the Board of Directors and the diversity policy in place;
- the manner in which the Board of Directors' proceedings are prepared and organized;
- the compensation policy applicable to the Chairman and Chief Executive Officer and to the Company's Directors, as well as the compensation paid or granted in respect of fiscal year ended December 31, 2019;
- restrictions placed on the powers of the Chairman and Chief Executive Officer;
- related-parties agreements and commitments, as well as the monitoring of current operations concluded under normal conditions;
- financial authorizations and delegations conferred upon the Board of Directors by the Shareholders' Meeting;
- the conditions for shareholder participation in Shareholders' Meetings; and
- items that may have an impact in the event of a public tender offer.

This Report was prepared in coordination with, for the relevant sections, the Lead Director, the Independent Directors, the Legal Affairs Department, the Finance Division, and more generally, whenever required, with those concerned by the information contained herein, for the sake of accuracy and completeness.

After examination by the Audit Committee and by the Compensation Committee of the sections falling under their respective areas of responsibility, this Report was approved by the Board of Directors at their meeting of February 25, 2020 and given to the Company's Statutory Auditors.

The Company aims to apply best practices in corporate governance. In this respect, the Company refers to the Corporate Governance Code of Listed Companies published by the *Association Française des Entreprises Privées* (**AFEP**) and the *Mouvement des Entreprises de France* (**MEDEF**), the most recent version of which was published January 30, 2020 (hereinafter referred to as the "**AFEP-MEDEF Code**"), and available for consultation on the AFEP and MEDEF websites.

The Company is committed to implementing the recommendations of the AFEP-MEDEF Code or, should any of them be deemed inappropriate with respect to its organization and its specific circumstances, to explain the reasons for not complying with them, in keeping with the "comply or explain" rule set out in article L. 225-37-4, 8° of the French Commercial Code.

The Internal Rules and Procedures of the Board of Directors and its committees (the "**Internal Rules and Procedures**") were updated on February 26, 2019, in order to reflect the successive revisions of the AFEP-MEDEF Code. These Internal Rules and Procedures can be consulted in full on the Company website (www.lectra.com), in French and English.

As a reminder, at the Shareholders' Meeting of April 30, 2019, the Company proceeded to appoint one fourth of its Directors in order to favor smoothly staggered terms of office and comply with the requirements of article 14.2 of the AFEP-MEDEF Code.

1 DIRECTORS AND MANAGING BODIES

1.1 Governance: combination of the roles of Chairman and Chief Executive Officer

The Board of Directors, at its meeting on July 27, 2017, decided to combine the roles of Chairman and of Chief Executive Officer, which have been fulfilled since that date by Daniel Harari. This form of governance appears to be the most appropriate in light of the organization and size of the Company, the experience of the Chairman and Chief Executive Officer, and his role in the implementation of the strategic roadmap.

In accordance with the recommendations of article 3.2 of the AFEP-MEDEF Code, the mission of monitoring and managing possible conflicts of interest in connection with the Chairman and Chief Executive Officer is conferred upon Bernard Jourdan, the Independent Director, who was reappointed as Lead Director by the Board of Directors at its meeting on June 12, 2019. The powers of the Lead Director are described in greater detail in paragraph 1.4.5 of this Report.

The Chairman and Chief Executive Officer exercises his powers within the limits of the corporate purpose and subject to the powers explicitly attributed by law to the Shareholders' Meeting and to the Board of Directors.
The Board of Directors may place limits on the powers of the Chairman and Chief Executive Officer; however, such limitations are not enforceable against third parties. These limits are set out in paragraph 1.4.1 of this Report and in article 1.2 of the Internal Rules and Procedures.

1.2 Missions of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer, elected by the Board of Directors, has the following duties and responsibilities:
- he organizes and directs the work of the Board of Directors, reports to the Shareholders' Meeting, and oversees the proper functioning of the Company's managing bodies;
- he acts as guardian of good corporate governance of the Company, of abidance by the Board of Directors and its members for the rules of conduct, together with the demands of good faith and transparency in the Company's financial and corporate publications;
- he oversees the proper functioning of the Company's managing bodies and especially the committees of the Board of Directors;
- he chairs and runs the Strategic Committee;
- he represents the Board of Directors and, unless otherwise decided by the latter, has sole authority to act and speak in its name; and
- he oversees the general management of the Company. In this capacity, he is invested with full powers to act in the Company's name in all circumstances and represent it in its dealings with third parties, and he assumes all operational and executive responsibilities; and all teams in the Lectra group ("**Lectra**" or the "**Group**") report to him.

1.3 Executive Committee

The Chairman and Chief Executive Officer chairs the Executive Committee and decides its composition. He ensures abidance by and promotes the Group's core values and ethical standards in the conduct of its business. He may be assisted by one or more deputy chief executive officers (*Directeurs généraux délégués*).
Since January 1, 2019, the Executive Committee has 11 members:
- Daniel Harari, Chairman and Chief Executive Officer, Chairman of the Executive Committee;
- Jérôme Viala, Executive Vice President, Vice Chairman of the Executive Committee;
- Maximilien Abadie, Chief Strategy Officer;
- Fabio Canali, President, Southern Europe and North Africa;
- Olivier du Chesnay, Chief Financial Officer;
- Céline Choussy, Chief Marketing and Communications Officer;
- Javier Garcia, President, Asia-Pacific;
- Laurence Jacquot, Chief Customer Success Officer;
- Édouard Macquin, President, Americas;
- Holger Max-Lang, President, Northern and Eastern Europe, Middle East; and
- Véronique Zoccoletto, Chief Transformation Officer.

Each member is further invested with specific missions pertaining to execution of the strategic roadmap.
The biographies of the Executive Committee members are available on the Company's website (www.lectra.com) in the "Corporate Governance" section.

Diversity policy of managing bodies

The Board of Directors sets the directions to follow in order to ensure the best possible balance within the managing bodies, in an attempt to achieve a complementary combination of profiles in terms of nationality, gender and experience that is representative of the environment in which the Group operates. It oversees the execution of a policy of diversity and non-discrimination, notably in terms of gender balance in leadership positions.

For nearly thirty years, Lectra has implemented a diversity policy within the Group, which comprises over fifty nationalities and balanced representation between men and women within the Group's business lines, management teams and Executive Committee.

1.4 Board of Directors

1.4.1 Roles and powers of the Board of Directors

The Board of Directors is responsible for setting out the strategic orientations of the Company's business in keeping with its corporate purpose, taking social and environmental issues into consideration, and for overseeing their execution. It examines and decides on important operations, possibly after review by the Strategic Committee.

Subject to powers expressly invested in the Shareholders' Meeting and within the limits of the corporate purpose, the Board of Directors may consider all issues pertaining to the proper functioning of the Company and decides on all matters concerning it.

The Board of Directors conducts an analysis of the major financial operations, economic matters or questions relating to human capital, and determines the strategic orientations of the Group. It appoints the company officers (*dirigeants mandataires sociaux*) entrusted with the management of the Company and chooses the form of organization (separation of the positions of chairman and of chief executive officer, or combination of these offices), and oversees their management. As defined in the preamble and article 3.2 of the AFEP-MEDEF Code, the company officers consist of (i) the chairman of the board of directors (non-executive officer) and the chief executive officer in the case of a separation of the roles or (ii) the chairman and chief executive officer in the case of a combination of the roles.

Under the Internal Rules and Procedures, the following items require prior approval by the Board of Directors:

- all significant transactions external to the Group's stated strategy or liable to have a significant impact on its financial results, balance sheet structure, or risk profile;
- all creations of subsidiaries, all acquisitions of companies or activities, together with all disposals of a subsidiary, activity or item of Group intellectual property; and
- all financial or stock market transactions having an immediate or future impact on the share capital, together with all borrowings exceeding €5 million.

The Board of Directors decides on the principles and criteria for compensation of the company officers, which will be submitted for approval by the Shareholders' Meeting. This mission is conducted with support from, but is not delegated to, the Compensation Committee.

The Board of Directors formulates the Company's policy on financial disclosure and ensures the quality of the information provided to shareholders and to the financial markets.

The Board of Directors is informed of all important events affecting the life of the Company and performs such controls and verifications as it deems appropriate.

Members of the Board of Directors are informed about market developments, the competitive environment and the most important issues facing the Company, including in the field of corporate social and environmental responsibility.

The Board of Directors ensures that shareholders and investors receive relevant balanced and instructive information about the strategy, development model, considerations regarding non-financial issues that are of significance to the corporation, and its long-term outlook.

1.4.2 Membership of the Board of Directors

On the date of this Report, the Board of Directors has five members:

- Daniel Harari, Chairman and Chief Executive Officer;
- Bernard Jourdan (Independent Director and Lead Director);
- Anne Binder (Independent Director);
- Ross McInnes (Independent Director); and
- Nathalie Rossiensky (Independent Director).

The Board of Directors includes no director representing employee shareholders and no director representing the employees, as the Company does not exceed any of the thresholds prescribed by articles L.225-23 and L.225-27-1 of the French Commercial Code[1].

(1) Under articles L. 225-23 and L. 225-27-1 of the French Commercial Code and article 8 of the AFEP-MEDEF Code, in the event that (i) the share ownership by the employees of the company and by employees of affiliated companies within the meaning of article L. 225-180 of the French Commercial Code exceeds the threshold of 3% of the share capital of the company, and/or in the event that (ii) the company employs at least 1,000 permanent employees in France or at least 5,000 worldwide, counting direct and indirect subsidiaries, for at least two consecutive fiscal years, then the board of directors must include (i) one or more directors representing employee shareholders and elected from among them, and/or (ii) directors representing the employees.

Board of Directors and Board of Directors' committees overview

	Personal information				Experience	Position on the Board of Directors				Participation in Board of Directors' committees		
	Age	Gender	Nationality	Number of shares	Number of directorships in listed companies	Independence	Initial date of appointment	Term of office expires	Length of service on Board of Directors (years)	Audit Committee	Compensation Committee	Strategic Committee
Daniel Harari Chairman and Chief Executive Officer	65	M	FR	5,507,560	0	No	1991	AGM 2020	29			President
Bernard Jourdan Independent Director	75	M	FR	1,503	0	Yes	21/12/2011	AGM 2023	8	President	President	Member
Anne Binder Independent Director	69	F	FR	1,500	0	Yes	27/10/2011	AGM 2023	8	Member	Member	Member
Ross McInnes Independent Director	65	M	FR-AUS	500	3	Yes	01/01/2018	AGM 2020	2	Member	Member	Member
Nathalie Rossiensky Independent Director	50	F	FR	1,500	0	Yes	29/04/2016	AGM 2020	4	Member	Member	Member

■ *President* ■ *Member*

The members of the Board of Directors of Lectra

Age 65

Nationality: French

Director since: 1991

Term of office began: April 26, 2016

Term of office ends: at end of the shareholders' meeting called to approve the financial statements for the fiscal year ended December 31, 2019 (1)

Number Lectra shares held: 5,507,560

DANIEL HARARI

Chairman and Chief Executive Officer
Chairman of the Strategic Committee

Biography – Experience and expertise

Daniel Harari is a graduate of École Polytechnique and holds an MBA from HEC in Paris. He began his career as Vice President of Société d'Études et de Gestion Financière Meeschaert, an asset management company (Paris, 1980-1983). He was then Chairman and Chief Executive Officer of La Solution Informatique (Paris, 1984-1990), a PC distribution and services company, and of Interleaf France (1986-1989), a subsidiary of the US software publisher, both of which he founded.

In 1986, Daniel Harari became Chief Executive Officer of Compagnie Financière du Scribe (Paris), a venture capital firm specialized in technology companies, where he was, together with his brother André Harari, the main shareholder until its merger with Lectra on April 30, 1998.

After the takeover of Lectra by Compagnie Financière du Scribe at the end of 1990, Daniel Harari became Chairman and Chief Executive Officer of Lectra and served in that capacity from 1991 to 2002. Following the separation of the role of Chairman from that of Chief Executive Officer in May 2002, Daniel Harari became Chief Executive Officer.

Since the decision by the Board of Directors on July 27, 2017, to again combine the roles, Daniel Harari has again served as Chairman and Chief Executive Officer of Lectra.

Other current positions and directorships

None

Directorships expired in the past five years, within Lectra Group

- Chairman of the Board of Directors, Lectra Sistemas Española SAU (Spain);
- Chairman of the Board of Directors, Lectra Italia SpA (Italy);
- President, Lectra Systems (Shanghai) Co. Ltd. (China); and
- Director, Lectra USA Inc. (United States).

(1) At the Combined Shareholders' Meeting of April 30, 2020, it will be proposed that the shareholders re-elect Daniel Harari as Director.

Age 75

Nationality: French

Director since:
December 21, 2011

Term of office began:
April 30, 2019

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for fiscal year ended December 31, 2022

Number Lectra shares held: 1,503

BERNARD JOURDAN

Independent Director and Lead Director
Chairman of the Audit Committee and the Compensation Committee
Member of the Strategic Committee

Biography – Experience and expertise

Bernard Jourdan holds a Master of Science in Management from the Sloan School of Management, Massachusetts Institute of Technology (USA), is a graduate of École Centrale de Paris (Engineering), and obtained an MS (DECS) in accounting from the University of Paris, and a BA in economics from the University of Paris-Assas. His career began as a consultant with Arthur Andersen Paris, followed by positions as associate manager at First National Bank of Chicago, and project manager at the Institut de Développement Industriel (Paris).

From 1978 to 1990, he held various positions at Compagnie Générale des Eaux (currently Veolia Environment) group, a world leader in water treatment, environmental services, and energy services; he was, in particular, a member of the Board of Directors, Executive Vice President and Chief Executive Officer of subsidiaries of the group in France from 1987 to 1990, and Chief Operating Officer of the US division from 1981 to 1987.

From 1990 to 1995, he was Executive Vice President of Schindler France, and then, from 1995 to 2005, he was a member of the Board of Directors and Executive Vice President of the SPIE Group, in charge of strategy and development.

Bernard Jourdan was named Lead Director of Lectra for the first time in 2017.
He was reconfirmed in this role on June 12, 2019.

Other current positions and directorships

None

Directorships expired in the past five years, outside Lectra Group

None

Age 69

Nationality: French

Director since:
October 27, 2011

Term of office began:
April 30, 2019

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for fiscal year ended December 31, 2022

Number Lectra shares held: 1,500

ANNE BINDER

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Biography – Experience and expertise

Anne Binder is a graduate of the Institut d'Études Politiques of Paris. She also holds a BA from the Paris faculty of law and a Master in Business Administration from INSEAD (France). She began her career as a consultant with Boston Consulting Group (Paris) and then as associate manager at Lazard Frères Bank.

She was then an associate manager for Générale Occidentale (bank and industrial holding company) from 1978 to 1982, and from 1983 to 1990, participated in the creation and was General Manager of the Pallas group (bank and investment, Paris).

From 1990 to 1993, she was the Chief Executive Officer of the holding company Euris (Paris) and Deputy Chief Executive Officer of investment fund Euris (investments in industrial companies). From 1993 to 1996, she was the Executive Manager in charge of the development in France of international financial services group GE Capital and Director of its French subsidiary.

Anne Binder is currently a consultant in financial strategy and an independent Director for publicly traded and non-publicly traded companies.

Other current positions and directorships

- Chairperson and co-founder, FinTouch;
- President of the Supervisory Board, IAAF (INSEAD).

Directorships expired in the past five years, outside Lectra Group

- Director, French National Chamber of Financial; and Investment Advisors (CNCIF);
- Director, Osmozis*;
- Director, Oceasoft*;
- Senior Advisor, Tikehau Investment Management.

**listed company*

Age 65

Nationality: French and Australian

Director since: January 1, 2018

Term of office began: January 1, 2018(1)

Term of office ends: at end of the shareholders' meeting called to approve the financial statements for fiscal year ended December 31, 2019

Number Lectra shares held: 500(2)

ROSS McINNES

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Biography – Experience and expertise

Ross McInnes studied Politics, Philosophy and Economics at St John's College, University of Oxford.

He started his career in 1977 with Kleinwort Benson, first working in London and then Rio de Janeiro. In 1980, he joined Continental Bank (now Bank of America), holding several positions in the corporate finance arm, first in Chicago and then in Paris.

In 1989, Ross McInnes joined Eridania Béghin-Say, where he was appointed Chief Financial Officer in 1991, and then a member of the Board of Directors in 1999.

The following year, he joined Thomson-CSF (now Thales) as Executive Vice President and Chief Financial Officer, assisting in the group's transformation through 2005. He then moved to PPR (now Kering) as Executive Vice President for Finance and Strategy. He was appointed to the Supervisory Board of Générale de Santé in 2006, serving as acting Chairman of the Management Board from March to June 2007. He also served as Vice Chairman of Macquarie Capital Europe, specializing in infrastructure investments.

Ross McInnes joined Safran in March 2009, and became Executive Vice President, Economic and Financial Affairs in June. From July 2009 to April 2011, he was a member of the Executive Board, and then from April 2011 to April 2015 he was Deputy Chief Executive Officer. On April 23, 2015, Ross McInnes was named Chairman of the Board of Safran.

In February 2015, the French Ministry of Foreign Affairs appointed Ross McInnes as Special Representative for Economic Relations with Australia, within the scope of France's economic diplomacy policy.

From November 2016 to November 2019, he was a member of the High Committee for Corporate Governance.

In February 2017, he joined SICOM, the general partner of Vivescia Industries, as a "qualified person".

In October 2017, the French Prime Minister appointed Ross McInnes Co-Chairman of the "Action Publique 2022" committee charged with proposing public policy reforms; this assignment has now been completed.

Since 2018, Ross McInnes is Trustee and Director of the International Accounting Standards Board (IASB).

In October 2018, the French Prime Minister entrusted him with the mission of promoting France to companies in the non-financial sector, established in the United Kingdom, who are considering their future outside the European Union.

Ross McInnes is also a Director, Chairman of the Nomination and Governance Committee, and a member of the Audit, Risk and Conformity Committee of Eutelsat, and Director, Chairman of the Ethics, Environment and Sustainable Development Committee, a member of the Strategy, Investments and Technology Committee, and a member of the Audit Committee of Engie.

ROSS McINNES

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Other current positions and directorships	Directorships expired in the past five years, outside Lectra Group
– Chairman of the Board of Directors, Safran;* – Director, Chairman of the Nomination and Governance Committee, and member of the Audit, Risk and Conformity Committee, Eutelsat Communications;* – Director, Chairman of the Ethics, Environment and Sustainable Development Committee, member of the Strategy, Investments and Technology Committee, and member of the Audit Committee, Engie;* – Special Representative for Economic Relations with Australia; – "Qualified person" at SICOM, the general partner of Vivescia Industries; and – Trustee and Director of the IFRS Foundation.	– Deputy Chief Executive Officer, Safran (April 2015); – Director and Chairman of the Audit Committee, Faurecia* (May 2017); – Director, Safran USA, Inc. (June 2015); – Permanent representative of Etablissements Vallaroche on the Board of Directors of Soreval (Luxembourg) (May 2015); and – Non-Executive Director and Chairman of the Audit Committee, IMI Plc* (UK) (October 2017); – Director, Financière du Planier (June 2015).

**listed company*

(1) As a reminder, Ross McInnes was appointed Director in place of André Harari, who resigned on July 27, 2017, for the remainder of his term of office.

(2) Ross McInnes acquired 500 Lectra shares in May 2018, after taking office.

NATHALIE ROSSIENSKY

Independent Director

Member of the Audit Committee, the Compensation Committee and the Strategic Committee

Age 50

Nationality: French

Director since:
April 29, 2016

Term of office began:
April 29, 2016

Term of office ends:
at end of the shareholders' meeting called to approve the financial statements for fiscal year ended December 31, 2019[1]

Number Lectra shares held: 1,500

Biography – Experience and expertise

Nathalie Rossiensky graduated from University Paris-Dauphine (Master of Applied Mathematics and D.E.A. of Financial Economics), and holds a Ph.D. in Finance from London Business School.

She started her career in 2000 with JP Morgan Private Bank in Paris, before joining the Investment Management Division of Goldman Sachs International, first in London in 2005, and then in Paris, where she served through 2013 as Executive Director in charge of asset allocation and investment in all asset classes for family offices and family-owned corporates.

From 1998 to 2000, Nathalie Rossiensky was Assistant Professor of Finance at the Fuqua School of Business, Duke University (USA); her research focused on asset management, financial intermediation and game theory. She has spoken at conferences including at Stanford University, NYU Stern School of Business (USA), and INSEAD (France).

Nathalie Rossiensky is currently Executive Vice President at Lombard Odier Europe, based in Paris.

Other current positions and directorships

- Executive Vice President, Lombard Odier (Europe) SA, French branch; and
- Director, Selectys (SICAV).

Directorships expired in the past five years, outside Lectra Group

- Director, Bayard Invest (SICAV); and
- Director, Bienvenues Invest (SICAV).

(1) At the Combined Shareholders' Meeting of April 30, 2020, it will be proposed that the shareholders re-elect Nathalie Rossiensky as Director.

Diversity in the Board of Directors

The Board of Directors examines annually the desirable balance in its membership, notably regarding gender balance, the diversity of competencies, the independence of its members and, in light of the various challenges facing Lectra, its geographical situation and the Company's shareholder base.

The following table summarizes the objectives, the implementation of the diversity policy as it applies to the members of the Board of Directors, and the resulting situation.

Criterion	Objective	Implementation and resulting situation
Gender balance on the board of directors	When the board of directors is composed of up to eight members, the difference between the number of directors of each gender must not exceed two. (Article L.225-18-1 of the French Commercial Code)	3 men and 2 women.
Diversity of competencies, and complementary profiles	Complementary profiles in terms of areas of expertise.	Competencies represented [strategy, management, industry, finance, acquisitions, governance].
International profiles	Profiles with international experience and/or foreign profiles in light of Lectra's geographical reach.	All the Directors have vast international experience. Ross McInnes has dual French and Australian nationality.
Directors' independence	At least half the members of the board of directors should be independent. (Article 9.3 of the AFEP-MEDEF Code)	80% of the Directors are independent.
Age of directors	At least half of the members of the board of directors must be under 70 years of age. (Article 11 of the Company's by-laws)	4 out of the 5 Directors are under 70 years of age.

Criteria defining Directors' independence

In general, a director is deemed to be independent when there is no relationship of any kind whatsoever with the company, its group or its management liable to compromise the director's freedom of judgment.

To comply with the rules of corporate governance as set out in article 9.3 of the AFEP-MEDEF Code, in widely-held corporations without controlling shareholders, independent directors must make up at least 50% of the membership of the board of directors.

The Company's use of the term "independent director" is consistent with the recommendations of the AFEP-MEDEF Code, which stipulates that independence must be discussed by the Compensation Committee, acting as the Nomination Committee, and determined by the Board of Directors when appointing a director, as well as annually for all directors.

During the meeting of the Compensation Committee on February 25, 2020, attended by the Chairman and Chief Executive Officer, the status of independent director was discussed and confirmed for each member. Anne Binder, Bernard Jourdan, Ross McInnes and Nathalie Rossiensky satisfy all the criteria for independence set out in the AFEP-MEDEF Code (in particular, there is no business relationship or particular bond of interest of any sort whatsoever between these Directors and the Company). The Board of Directors, at its meeting on February 25, 2020, decided upon the qualifications of independent director proposed by the Compensation Committee.

Daniel Harari has been the company officer since 1991. He also holds 17% of the capital and voting rights of the Company. As such, he is not deemed to be independent.
The following table sets out the status of each Director with regard to the criteria for independence set out in article 9.5 of the AFEP-MEDEF Code:

Criteria for independence	**Daniel Harari**	**Bernard Jourdan**	**Anne Binder**	**Ross McInnes**	**Nathalie Rossiensky**
Criterion 1: Employee or company officer within the previous 5 years	Yes	No	No	No	No
Criterion 2: Cross-directorships	No	No	No	No	No
Criterion 3: Significant business relationships	No	No	No	No	No
Criterion 4: Family ties to a company officer	No	No	No	No	No
Criterion 5: Auditor within the previous 5 years	No	No	No	No	No
Criterion 6: Period of office exceeding 12 years	Yes	No	No	No	No
Criterion 7: Status of non-executive officer *(receives variable compensation or any compensation linked to the performance of the company or group)*	No	No	No	No	No
Criterion 8: Status of the major shareholder *(holds over 10% of the capital or voting rights in the company)*	Yes	No	No	No	No

Representation of women on the Board of Directors

In accordance with article L.225-18-1 of the French Commercial Code (enacted by Law 2011-103 of January 27, 2011, on the balance between women and men on boards of directors and supervisory boards and professional equality), in companies having a board of directors composed of up to eight members, the difference between the number of directors of each gender must not exceed two.
On the date of this Report, the Board of Directors of Lectra is composed of five members, three men and two women.

Age limit for Directors and for the Chairman of the Board of Directors

Under article 11 of the Company by-laws, the proportion of directors aged over 70 is restricted to one-half of the total number of directors in office. If the threshold of one half of the directors is exceeded, the last director to reach the age of 70 shall automatically be deemed to have resigned, his or her appointment expiring at the end of the next annual ordinary shareholders' meeting, in order to ensure the continuity of terms of office and of the board of directors' work in the course of a given fiscal year.
Under article 13 of the Company's by-laws, the age limit for the position of chairman of the board of directors is 76.
On the date of this Report, four out of five Directors are less than 70 years old.

Duration of Directors' appointments

As a reminder, in accordance with the recommendations of article 14.1 of the AFEP-MEDEF Code, the term of office of the members of the Board of Directors is set at four years since the Shareholders' Meeting of April 27, 2012.
In order to favor the smooth replacement of the Directors and to comply with the recommendations of article 14.2 of the AFEP-MEDEF Code, a staggering of terms of office has been gradually put in place since 2019.
Therefore, in 2019, Anne Binder and Bernard Jourdan agreed to tender their resignations and to then seek re-election as Directors of the Company.
The Shareholders' Meeting of April 30, 2019 decided to re-elect them to new four-year terms to expire at the end of the Shareholders' Meeting in 2023. As the terms of office of Daniel Harari, Ross McInnes and Nathalie Rossiensky expire in 2020, the Shareholders' Meeting of April 30, 2020 will vote on the renewal of the terms of Daniel Harari and Nathalie Rossiensky for a period of four years to expire at the end of the Shareholders' Meeting in 2024. At the 2021 and 2022 Shareholders' Meetings, the Board of Directors will propose to the shareholders to vote the appointment of a director for a four-year term, following that director's resignation submitted to facilitate the staggering of directors' terms of office.

Directors' and Chairman and Chief Executive Officer's shareholdings

Article 20 of the AFEP-MEDEF Code on ethical rules for directors recommends that each director should be a shareholder in a personal capacity and should hold a minimum number of shares that is significant in relation to the directors' compensation. If the director does not own these shares at the time of joining the board of directors, he or she should use a portion of his or her compensation to purchase shares. The director is required to notify the company of his or her compliance, this information being provided in the Report on Corporate Governance.
Article 1.12 of the Internal Rules and Procedures provides that all Directors must own at least 1,500 of the Company's shares. Directors who do not hold these shares at the time of joining the Board of Directors are required to invest the equivalent of 25% of his or her annual directors' compensation (i.e. approximately half of the net amount received by them after deduction of social security contributions and personal income tax) until they have acquired the requisite number of shares. Such investment must be made within twelve months following payment of such directors' compensation.
As of today, Daniel Harari, Bernard Jourdan, Anne Binder and Nathalie Rossiensky each hold at least 1,500 Lectra shares. Ross McInnes acquired 500 Lectra shares in May 2018, after taking office.

Training of Directors

Non-Executive Independent Directors receive training on the specific characteristics and operational issues of the Company, including but not limited to businesses, sectors of activity, products and services, as well as its organization and operating mode, in order to gain a thorough understanding thereof. Meetings with the Company's principal senior executives, and a visit of the Group's technology campus, situated in Bordeaux-Cestas were organized accordingly in 2019 for all the Directors.

Outside directorships held by company officers

Article 19.2 of the AFEP-MEDEF Code recommends that an executive officer does not hold more than two other directorships in listed corporations, including foreign corporations, outside of his or her group. He or she must also seek the opinion of the board of directors before accepting a new directorship in a listed corporation.

Article 1.9 of the Company's Internal Rules and Procedures goes beyond the recommendations of the AFEP-MEDEF Code and prohibits company officers from holding directorships in any French or foreign company, listed or unlisted, outside the Group.

In compliance with this rule, Daniel Harari holds no other directorship outside the Group.

1.4.3 Organization and operation of the Board of Directors

Internal Rules and Procedures of the Board of Directors and Board of Directors' committees

Articles 2.2 and 15.3 of the AFEP-MEDEF Code recommend the establishment of internal rules to govern the procedures of the board of directors and its committees.

The Internal Rules and Procedures specify:

- the operating rules and responsibilities of the Board of Directors and its committees;
- the duties of Directors and the ethical rules, notably regarding the prevention of conflicts of interest, holding of shares in the Company, loyalty, diligence and confidentiality;
- transactions that require prior approval by the Board of Directors, including but not limited to commitments and guarantees given by the Company, significant transactions outside the stated strategy of the Company (the case has never arisen), and all external growth operations; and
- the procedures for informing the Board of Directors regarding the Company's financial situation and cash position.

The Board of Directors regularly reviews its Internal Rules and Procedures, notably to ensure compliance with any new legal and regulatory provisions and new recommendations of the AFEP-MEDEF Code.

The Internal Rules and Procedures were updated on February 26, 2019 and are available on the Company's website (www.lectra.com).

Prevention of conflicts of interest

The Board of Directors has also long had in place a procedure for managing conflicts of interest, if any. This procedure is formalized in the Internal Rules and Procedures.

Pursuant to article 1.6 of the Internal Rules and Procedures, the Board of Directors has tasked the Lead Director with monitoring and managing possible conflicts of interest in connection with the company officers.

Furthermore, each Director (i) must ensure at all times that their personal situation avoids all conflicts of interest with the Company or any of its subsidiaries, (ii) has a duty spontaneously to inform the Board of Directors of any situation or risk of conflict of interest, real or potential, and (iii) must abstain from taking part in the corresponding discussions, votes or deliberations.

Furthermore, and without prejudice to the formalities pertaining to authorizations and control prescribed by law and the Company by-laws, Directors are required to notify the Chairman and Chief Executive Officer without delay of any related-party transaction into which the Group may enter and in which they have a direct or indirect interest, regardless of its nature.

The Chairman and Chief Executive Officer notifies the Board of Directors of any conflicts of interest or potential conflicts he may have identified concerning the company officers and the other Directors.

The Chairman and Chief Executive Officer abstains from participating in the votes on motions regarding his compensation.

In the event of a conflict of interest, including a potential conflict of interest, the Board of Directors must decide on this question and, if necessary, call upon the Director concerned to rectify his/her position.

Timetable, meetings and activity of the Board of Directors

In accordance with the recommendation of the *Autorité des Marchés Financiers* ("**AMF**") set out in its guide to periodic information by listed companies (Position-recommendation DOC-2016-05), the Company's financial calendar setting out the dates for the publication of quarterly, bi-annual and annual financial results, those of the shareholders' meeting and the two annual analysts' meetings is drawn up prior to the close of the current year for the following year. The calendar is published in the Annual Financial Report on the Company's website and communicated to Euronext Paris before the start of the fiscal year.
The timetable of meetings of the committees, board of directors and annual shareholders' meetings for fiscal years ended December 31, 2019 and December 31, 2020 was finalized by the Board of Directors at its meetings on July 27, 2017 and October 30, 2019, respectively.
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 forty-five to sixty days prior to the Shareholders' Meeting in order to review the documents and decisions to be presented, and approximately twenty trading days after the dividend approved by the Shareholders' Meeting of April 30, 2020 is made payable for the granting of the annual stock option plan.
The Statutory Auditors are invited to, and systematically attend, these meetings with the exception of the meeting to decide on the annual stock options plan.
In addition, the Board of Directors 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 Secretary of the Board of Directors is systematically invited to attend and takes part in all Board of Directors meetings, except when prevented from doing so. His duties include, in coordination with and under the supervision of the Chairman and Chief Executive Officer, drafting the minutes of the Board of Directors' meetings and assisting the Directors regarding material and regulatory issues, particularly the payment of Directors' compensation, and filings on any securities transactions by directors.
The Board of Directors met seven times in 2019, with an effective attendance rate of 97%.

Attendance of members of the Board of Directors

In accordance with article 11.1 of the AFEP-MEDEF Code, the following table reports on the individual attendance of each Director at meetings of the Board of Directors and its committees during fiscal year ended December 31, 2019:

	Board of Directors		Audit Committee		Compensation Committee		Strategic Committee	
	Number of meetings[1]	%	Number of meetings	%	Number of meetings	%	Number of meetings	%
Daniel Harari Chairman and Chief Executive Officer	7/7	100%	Not a member		Not a member		4/4	100%
Bernard Jourdan Lead Independent Director	7/7	100%	6/6	100%	3/3	100%	4/4	100%
Anne Binder Independent Director	7/7	100%	6/6	100%	3/3	100%	4/4	100%
Ross McInnes Independent Director	6/7	86%	6/6	100%	3/3	100%	4/4	100%
Nathalie Rossiensky Independent Director	7/7	100%	6/6	100%	3/3	100%	4/4	100%
Average attendance rate		**97%**		**100%**		**100%**		**100%**

(1) Meetings of the Independent Directors in the absence of the Chairman and Chief Executive Officer are not counted when calculating the attendance rate or the compensation paid to the Directors. It is specified that all of the Independent Directors attended both meetings that took place in 2019 (held September 20 and December 12, 2019).

Organization of Board of Directors proceedings - communication of information to Directors

The agenda is set by the Chairman and Chief Executive Officer after consulting, when appropriate, with the Lead Director, who chairs the Audit Committee and the Compensation Committee.

The specialized committees prepare the work of the Board of Directors and assist it in the examination of technical matters. 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 observations, if any, and recommendations to the full session of the Board of Directors. The Board of Directors is thus kept fully informed, facilitating its decisions.

Three to six days before each Board of Directors meeting, a set of documents is systematically addressed to each Director, to the employees' Social and Economic Committee (formerly Works Council) representatives, to the Secretary of the Board of Directors and to the Statutory Auditors for the four meetings called to review the financial statements and for the meeting to prepare for the annual shareholders' meeting. Details of each item on the agenda are provided in a written document prepared by either the Chairman and Chief Executive Officer, the Executive Vice President, the Chief Financial Officer, as required, or are presented during the meeting itself.

As in previous years, in 2019 all documents to be communicated to the Directors were made available to them in compliance with regulations. Furthermore, the Chairman and Chief Executive Officer regularly asks the 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.

Periodic meetings of the Independent Directors in the absence of the Chairman and Chief Executive Officer

Article 11.3 of the AFEP-MEDEF Code recommends that the independent directors meet periodically in the absence of the executive officers.

The Independent Directors adopt this recommendation, stating the subjects they wish to discuss in the absence of the company officer on the occasion of their annual evaluation of the Board of Directors.

In 2019, the Independent Directors met twice on September 20, 2019 and December 12, 2019 at which time an oral report was made to the Chairman and Chief Executive Officer. In addition to the formal assessment of the work of the Board of Directors, the Independent Directors discussed a number of governance issues, took stock of the annual review of the Chairman and Chief Executive Officer's performance, and discussed his succession plan.

Attendance of the Directors at Shareholders' Meetings

Article 20 of the AFEP-MEDEF Code recommends that directors attend not only all meetings of the board of directors and of the committees to which they belong, but also attend shareholders' meetings.

All the Directors attended the Ordinary Shareholders' Meeting of April 30, 2019, as they did for the Shareholders' Meetings of previous years.

Evaluation of the Board of Directors

Article 10 of the AFEP-MEDEF Code recommends that once a year the board of directors should devote an item on its agenda to a discussion of its membership, organization and functioning. The board of directors is also required to verify that important questions are thoroughly prepared and discussed, and to assess the effective contribution of each director to its work in light of their expertise and involvement in the discussions.

This point is discussed at the February Board of Directors meeting which reviews the financial statements for fiscal year ended December 31 of the previous year.

Article 10.3 of the AFEP-MEDEF Code also recommends a formal evaluation exercise every three years at least, assisted by an outside consultant should the need arise, and that the shareholders be informed annually of the performance of these evaluations.

In accordance with these recommendations, the formal evaluation of the Board of Directors is carried out once every three years by the Lead Director on the basis of an internal questionnaire. The Independent Directors meet annually, in the absence of the Chief Executive Officer, the sole executive company officer of Lectra, to take note of changes relative to the previous evaluation.

The Independent Directors met on September 20, 2019 and December 12, 2019 to review the annual evaluation of the Board of Directors, presenting their conclusions to the Chairman and Chief Executive Officer, then to the full meeting of the Board of Directors on February 25, 2020. They declined to call upon an outside consultant.

In this meeting, the Independent Directors reiterated their opinions of earlier years regarding the highly satisfactory functioning of the Board of Directors, the particularly high standard of governance within the Company, and the transparent relations with the Chairman and Chief Executive Officer founded on trust. They again emphasized the high level of demands that the Chairman and Chief Executive Officer and the Directors put upon themselves, notably with regard to the preparation and proceedings of Board of Directors and committee meetings, the quality, relevance and comprehensive nature of the information communicated to them with sufficient time to allow them to carry out the necessary analyses.

The Independent Directors also expressed their appreciation for the quality of the discussions with the Group's management and Statutory Auditors, notably regarding meetings focused on subjects they wished to explore.

The Independent Directors further stressed the frequency of the meetings of the Board of Directors, and of the Strategic, Compensation and Audit Committees, together with duration and productivity of the committee meetings and the good division of labor between them, allowing key issues to be discussed in greater depth, devoting the necessary

time to them. The involvement, regular attendance and effective contribution of each of their members are a major asset.
The Independent Directors reiterated their invitation to the Chairman and Chief Executive Officer to attend the meetings of the Audit and Compensation Committees as a guest, particularly when it is considered appropriate to hear from the Chairman and Chief Executive Officer. The Chairman and Chief Executive Officer indicated however that he wished to fully comply with the recommendations of the AFEP-MEDEF Code and would attend only if expressly invited by the chairs of the Audit and Compensation Committees to certain meetings in this context.
Finally, they stated that they saw no major area in need of improvement at present. Areas that are the subject of continuous improvement were listed and discussed with the Chairman and Chief Executive Officer. Regular follow-up will be carried out to ensure that the Company continues to be a benchmark in corporate governance.

1.4.4 Committees of the Board of Directors

The Board of Directors has created three specialized committees: the Audit Committee, the Compensation Committee, and the Strategic Committee.
Given the limited number of Directors, the functions of the nomination committee are performed by the Compensation Committee (in which case the Chairman and Chief Executive Officer may take part in the discussions, as provided in article 18.2, paragraph 2 of the AFEP-MEDEF Code).
The members of the committees are appointed by the Board of Directors for an indefinite period and may be revoked by the Board of Directors deciding by a majority of its members, on a recommendation by the Chairman and Chief Executive Officer. The current composition of the committees has not changed since January 1, 2018.
In accordance with the recommendations of the AFEP-MEDEF Code, the responsibilities and operating rules of each committee are set out in the Internal Rules and Procedures.
Between meetings of the committees, their members may communicate as necessary by email, in particular with the Chairman and Chief Executive Officer, in order to obtain further information on certain questions.

Audit Committee

Membership

The Audit Committee consists of four Independent Directors: Bernard Jourdan (Chairman), Anne Binder, Ross McInnes and Nathalie Rossiensky.
Article 16.1 of the AFEP-MEDEF Code requires the members of the audit committee to be competent in financial or accounting matters. Each member of the Audit Committee satisfies this condition, in view of their academic qualifications and professional career, as described in their biographies printed above. In addition, in accordance with the recommendations of article 13.2 of the AFEP-MEDEF Code, the members of this committee are provided, at the time of their appointment, with information relating to the Company's specific accounting, financial and operational features.
Bernard Jourdan has held management positions in various international industrial groups, including SPIE and Schindler, where he has developed a thorough understanding of corporations, accounting and finance.
Anne Binder has developed her expertise in finance, particularly in the area of acquisitions, in positions she has occupied in international finance, including with Lazard Frères and GE Capital.
Ross McInnes has considerable strategic and operational financial experience, having served in senior financial and administrative positions with organizations such as Thales (formerly Thomson-CSF), Kering (formerly PPR), and Safran, where he now serves as Chairman of the Board of Directors.
Nathalie Rossiensky has acquired expertise in the area of finance and financial markets with investment banks such as Goldman Sachs and Lombard Odier.

Mission

As prescribed by law and as recommended by article 16.2 of the AFEP-MEDEF Code, the mission of the Audit Committee is to:

- review the assumptions used in closing the consolidated and statutory, quarterly, half-year and annual financial statements, the annual budget prepared by the Executive Committee, and the

revenue and financial results scenarios for the fiscal year and their quarterly review, before review by the Board of Directors;

- review the financial statements, and in particular ensure the relevance and continuity of the Company's accounting methods used to prepare the consolidated and statutory financial statements; oversee the process for the preparation of financial disclosure and the effectiveness of internal control and risk management procedures; and, prior to meetings of the Board of Directors, review press releases and quarterly and annual financial announcements. The Audit Committee scrutinizes important transactions liable to give rise to conflicts of interest. It reviews significant risks and off-balance sheet liabilities, assesses the importance of malfunctions or shortcomings brought to its attention, and informs the Board of Directors thereof where appropriate. It also reviews the scope of consolidation and, where appropriate, examines reasons for the exclusion of companies;
- oversee the rules governing the independence and objectivity of the Statutory Auditors, manage the procedure for their selection when their current appointment expires, and make its recommendation to the Board of Directors. Each year the Statutory Auditors supply information to the Audit Committee on the services provided directly related to their statutory audit engagement, together with fees paid by Group companies to members of their network in respect of services not directly related to this mission;
- examine, in relation to the Group's strategy, the Group's commitment and policies in the areas of ethics and corporate social, environmental and societal responsibility, the implementation of such policies, and their results. In this respect, it checks for the existence of systems to identify and manage the principal risks relating to these issues, and for compliance with legal and regulatory requirements (including monitoring the application of French Law 2016-1691 of December 9, 2016 on transparency, the fight against corruption, and modernization of the economy, the "Sapin II Act", and Order 2017-1180 of July 19, 2017 and its enabling decree 2017-1265 of August 9, 2017 on the introduction of a non-financial statement).

  It examines the information provided annually in the Management Discussion in the form, for the first time in respect to fiscal year ended December 31, 2018, of a non-financial statement, appended to the *Rapport de Gestion of the Board of Directors* (available, in French only, on the Company's website, lectra.com) for non-financial information as required by law, particularly article L. 225-102-1 of the French Commercial Code;
- examine all financial notices and press releases published by the Company; and
- make recommendations and express all opinions to the Board of Directors.

In addition, the Audit Committee regularly reviews the recommendations and reports of the AMF regarding corporate governance, the recommendations of the AFEP-MEDEF Code, and any related laws and regulations.

More generally, the Audit Committee may consider all questions brought to its attention and pertaining to the areas mentioned above. The Audit Committee Chairman reports on the committee's proceedings and recommendations to the Board of Directors at its meetings called to review the quarterly and annual financial statements.

Meetings and activities

The Audit Committee meets at least four times a year, prior to the meetings of the Board of Directors 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 continuously oversees the preparation of the Company's parent-company and consolidated accounts, internal audits and financial reporting practices, together with the quality and fairness of the Company's financial report. The Chief Financial Officer assists the Audit Committee in the performance of its duties, and the Audit Committee periodically reviews with him areas of potential risk to which it needs to be alerted or requiring closer attention. The Audit Committee also works with the Chief Financial Officer in reviewing and approving guidelines for the work program on management control and internal control for the year in progress.

The review of the financial statements is accompanied by a presentation by the Chief Financial Officer

of the Company's financial results, accounting methods chosen, exposure to risks, including social, environmental and societal risks, as well as significant off-balance sheet commitments. The review of the half-year and annual accounts is also accompanied by a presentation by the Statutory Auditors drawing attention to the key features of financial results and the accounting choices made, together with an account of their auditing work and observations, if any.
The Audit Committee Chairman systematically asks the Statutory Auditors if they intend to qualify their reports.
Article 16.3, paragraph 1 of the AFEP-MEDEF Code recommends that sufficient time be allowed for transmission of the accounts and their review. The Audit Committee systematically meets in the morning on the day of the Board of Directors meeting, prior to the Board of Directors meeting, in order to shorten the time between the closing of consolidated and statutory financial statements and market disclosure. However, members of the Audit Committee and those of the Board of Directors are given sufficient time for consideration, the relevant documents being communicated to them three to six days before their meetings.
The Audit Committee has held six meetings in 2019, with an effective attendance rate of 100%.
In 2019, the Audit Committee reviewed the financial statements for fiscal year ended December 31, 2018. It also reviewed the goodwill impairment tests and deferred tax assets at December 31, 2019, together with the impacts on the financial statements of the December 28, 2018 Budget Act 2018-1317 (*loi de finances*) for 2019.
The Audit Committee also reviewed risk prevention measures in keeping with applicable regulations (notably monitoring of the implementation of Law 2016-1691 of December 9, 2016, the "Sapin II Act") and examined the non-financial statement included in the Management Discussion of the Board of Directors to the annual Shareholders' Meeting of April 30, 2019 pursuant to Order 2017-1180 of July 19, 2017 and its decree 2017-1265 of August 9, 2017, and the conditions under which the independent third-party body conducted its assignment.

On February 12, 2019 the Audit Committee reviewed the budget, as well as the revenue and financial results scenarios for fiscal year ending December 31, 2019, and the progress report on the strategic roadmap for 2017-2019, together with macroeconomic assumptions serving as the basis for the information communicated to the financial markets.
The Audit Committee has not identified any operations liable to give rise to a conflict of interest.
In 2019, the Audit Committee did not see fit to call upon outside experts.

Statutory Auditors

The Audit Committee reviews and discusses with the Statutory Auditors the scope of their engagement and their fees. 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 accounts for the fiscal year ended, and confirming the independence of their firms in accordance with the French Code of Professional Conduct and the August 1, 2003 (French) Financial Security Act.
On January 15, 2019, the Audit Committee devoted a working meeting with the Statutory Auditors and the finance team to the presentation of their overall audit approach and a review of controls on information systems revenue recognition applications.
The Audit Committee annually reviews with the Statutory Auditors the risks to their independence. Given the size of the Group, it is not deemed necessary to envisage precautionary measures in order to attenuate these risks. The amount of the fees paid by the Company and its subsidiaries, and their share of total revenues of the audit firms and their networks, are not material and therefore not such as to impair the independence of the Statutory Auditors.
The Audit Committee assures itself each year that the mission of the Statutory Auditors is exclusive of all other services unrelated to their legally mandated audit, and in particular exclusive of all legal, tax, IT, etc. consulting work performed either directly or indirectly for the benefit of the Company or its subsidiaries. However, additional work or work directly complementing the audit of the financial statements is performed at the Audit Committee's recommendation; the corresponding fees are immaterial.

In this respect, on October 30, 2017 the Audit Committee approved a charter setting forth the authority of the Chairman and Chief Executive Officer, the Executive Vice President and Chief Financial Officer regarding contracting for the provision of services with the Statutory Auditors and their networks.

Compensation Committee

Membership

The Compensation Committee consists of four Independent Directors: Bernard Jourdan (Chairman), Anne Binder, Ross McInnes and Nathalie Rossiensky. Article 18.1 of the AFEP-MEDEF Code states that it is advised that an employee director be a member of this committee. However, inasmuch as the Company is not covered by the obligation to appoint directors who represent employees or employee shareholders, for the reasons stated above, this recommendation does not apply to it.

Mission

The mission of the Compensation Committee is broader than that laid down in the recommendations of article 18.2 of the AFEP-MEDEF Code; it is to:

- review, prior to meetings of the Board of Directors called to vote on these questions, 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 the company officers, and make recommendations. At year-end closing, the Compensation Committee validates the actual amount corresponding to variable compensation earned during the fiscal year ended;
- review the principles, criteria and the amount of fixed and variable compensation, and check whether or not annual targets governing calculation of the variable portion, together with additional benefits paid to other members of the Executive Committee, are met;
- review the fixed and variable compensation of all Group managers whose total annual compensation exceeds €200,000 or its equivalent in foreign currencies;
- prepare the draft resolutions regarding compensation for company officers to be submitted to the shareholders' meeting for approval;
- review, prior to the meeting of the Board of Directors voting on these questions, the details, rules and granting of the annual stock options plan, and make its recommendations;
- review the Company policy on equal opportunities and equal pay, and make recommendations to the Board of Directors prior to annual discussion, as prescribed in Law 2011-103 of January 27, 2011, on the balance between women and men on boards of directors and supervisory boards and professional equality, and Law 2014-873 of August 4, 2014, to promote real equality between women and men;
- take cognizance annually of the Group's human resources performance report, of its policies and of the corresponding plan for the current fiscal year; and
- prepare a succession plan for the company officer.

In this capacity, the Compensation Committee makes recommendations and expresses all opinions to the Board of Directors and examines all questions brought to its attention and pertaining to these areas.

Meetings and activities

The Compensation Committee organizes its work as it sees fit. It meets as often as the interests of the Company demand and at least once before each meeting of the Board of Directors whenever the agenda provides for the setting of compensation and additional benefits for the company officers, or for the granting of stock options, and reports on its recommendations to the Board of Directors.
The Compensation Committee met three times in 2019 with an effective attendance rate of 100%. The Chairman and Chief Executive Officer was invited to attend all of these meetings.
The Compensation Committee met on February 12 and February 26, 2019 to validate the definitive amount of the variable compensation of the Chairman and Chief Executive Officer for fiscal year ended December 31, 2018, and to review the principles and the rules governing variable compensation of the Chairman and Chief Executive Officer for fiscal year ending December 31, 2019, based on the targets for 2019. The Chairman of the Compensation Committee submitted the committee's recommendation to the

Board of Directors at its meetings on February 12, 2019 and February 26, 2019.
Article 18.3 of the AFEP-MEDEF Code recommends that, when reporting on the proceedings of the compensation committee to the board of directors, the board of directors should deliberate on issues relating to the compensation of the company officers in the absence of the latter. The Board of Directors has seen fit to comply with this recommendation and the Compensation Committee, which comprises all of the Independent Directors, meets in the absence of the Chairman and Chief Executive Officer for the purpose of discussing his compensation.
In 2019, the Compensation Committee also carried out its annual review of the compensation and additional benefits of the other members of the Executive Committee, as well as the compensation of the senior Group managers. In addition, it reviewed the Company's policy on equal opportunities and equal pay, prior to the meeting of the Board of Directors, and made its recommendations. The Compensation Committee reviewed in detail all corresponding documents prepared by the Human Resources Department and communicated its recommendations to the Board of Directors.

Strategic Committee

The Strategic Committee consists of five Directors: Daniel Harari (Chairman), Anne Binder, Bernard Jourdan, Ross McInnes and Nathalie Rossiensky.

Mission

The prime mission of the Strategic Committee is to review the consistency of the Company's strategic plan, the key challenges and risks to which it is exposed, its internal and external growth drivers, and the optimization of its development in the medium term. The Strategic Committee organizes its work as it sees fit. It meets as often as the interests of the Company demand and at least once a year. It notably reviews and discusses the major strategic directions and development themes proposed by the Chairman and Chief Executive Officer, in order to prepare the Group for the global economic challenges and key risks to which it is exposed, and to reinforce its business model and its operating and financial ratios. It is regularly kept informed of their execution.
Within this framework, it studies and formulates recommendations on the strategic plan, on the broad aims of annual action plans, on external growth operations, and, finally, on financial or stock market transactions having a significant immediate or future impact on the share capital and more generally on equity of the shareholders.
The Strategic Committee reports on its proceedings to the Board of Directors at least once a year and whenever it wishes to make recommendations to the Board of Directors.

Meetings and activities

The Strategic Committee met four times in 2019, with an effective attendance rate of 100%. It devoted an entire day and a half to visiting the Bordeaux-Cestas technology campus.
In view of the importance of the subjects covered, the Executive Vice President and the Strategy Director were invited to attend, as were the other members of the Executive Committee, depending on the subjects examined.
The Strategic Committee in particular reviewed progress in the execution of the 2017-2019 strategic roadmap which it had validated at the start of 2017, reviewed the broad outlines of the research and development action plan, marketing plan and human resources plan, and the corresponding revenue and financial results scenarios, and formulated recommendations. The Strategic Committee has been regularly informed of the impact on the Group's activities of developments in the macroeconomic and competitive environment. It also reviewed various options for external growth.
Furthermore, at its meeting on June 11, 2019, the Strategic Committee analyzed the acquisition of the company Retviews.
The Strategic Committee also examined on several occasions the plans for the 2020-2022 roadmap and the 2020-2022 business plan; and contributed to their development.

1.4.5 Lead Director

Article 3.3 of the AFEP-MEDEF Code provides that, when the board of directors decides to confer special tasks upon a director, and in particular a lead director, those tasks and the resources and prerogatives to which he or she has access must be described in the internal rules and procedures of the board of directors. It is recommended that the lead director be independent.

At its meeting on February 9, 2017, the Board of Directors named Bernard Jourdan, an Independent Director also serving as Chairman of the Audit and Compensation Committees, to be Lead Director. This position did not exist previously.

Following the resignation of Bernard Jourdan from his position as Director at the meeting of the Board of Directors on April 29, 2019, and his election as Director, for a four-year term, by the Ordinary Shareholders' Meeting of April 30, 2019, the Board of Directors, at its meeting on June 12, 2019, decided to reappoint Bernard Jourdan to be Lead Director.

Article 1.7 of the Internal Rules and Procedures specifies that the Lead Director is entrusted with certain specific tasks:

- to perform the role of leader of the Independent Directors;
- to organize at his/her discretion, and at least once a year, and to set the agenda and chair meetings of the Independent Directors in the absence of the Chairman and Chief Executive Officer, in order to evaluate his performance and his succession plan, and to report to the Chairman and Chief Executive Officer and to the Board of Directors in full session, as appropriate;
- to direct the annual evaluation of the Board of Directors by the Independent Directors;
- to monitor and manage possible conflicts of interest in connection with the company officers;
- to propose to the Chairman and Chief Executive Officer, if necessary, items for placing on the agenda of meetings of the Board of Directors; and
- in the event the Chairman and Chief Executive Officer should be unable to do so, to convene and to chair meetings of the Board of Directors.

Except within the framework of exceptional missions entrusted to him/her and as explicitly provided for, the Lead Director has no authority to communicate with the shareholders in the name of the Board of Directors.

The Lead Director is assisted by the Secretary of the Board of Directors, who is appointed by the Board of Directors from among the members of the Company's management team, for the performance of administrative tasks arising from his/her role and receives no compensation in respect of this role.

The Lead Director reports to the Board of Directors on his/her duties at least once a year.

Lead Director's 2019 Activity Report

During fiscal year ended December 31, 2018, the Lead Director attended all meetings of the Board of Directors, and all meetings of the Audit Committee, the Compensation Committee and the Strategic Committee.

He was able to fully carry out, to his satisfaction, his missions during fiscal year ended December 31, 2019, as he stated at the meeting of the Board of Directors on February 25, 2020, when he reported on his activity.

He chaired two meetings of Independent Directors, September 20, 2019 and December 12, 2019, in the absence of the Chairman and Chief Executive Officer. The objective of these meetings was to carry out the periodic assessment of the operation of the Board of Directors, following the assessment carried out in 2018. The agenda for these meetings also included the assessment of the performance of the Chairman and Chief Executive Officer, the review of his compensation components and his succession plan, as he reported at the meeting of the Board of Directors on February 25, 2020.

The Lead Director had no knowledge of any potential conflicts of interest affecting the Chairman and Chief Executive Officer.

1.4.6 Chairman and Chief Executive Officer's succession plan

Article 17.2.2 of the AFEP-MEDEF Code requires the nomination committee (or an ad hoc committee) to draw up a succession plan for the company officers, and states that this is one of the committee's most important tasks. The chairman and chief executive Officer is involved in the committee's work during the

conduct of this task. In its 2016 report, the French High Committee for Corporate Governance further stressed that it is of the utmost importance that companies plan not only for the untimely departure or demise of the principal company officer, but also for "foreseeable" departures, in particular due to age limitations, and should inform shareholders that this planning has been undertaken, with no obligation to publish the results of the planning.
The Company's Independent Directors began considering this question in 2012 with a view to the long term or in anticipation of unforeseeable events and have discussed it several times since then. Special attention was paid to the issue at the November 24, 2016 meeting of the Strategic Committee, then at the meeting of the Independent Directors on December 8, 2016.
The Independent Directors had then examined the succession plan for André Harari and Daniel Harari, were they to leave. The Company had prepared for the succession of André Harari, which occurred during the Board of Directors' meeting of July 27, 2017.
Daniel Harari has confirmed his intention to continue in his position for at least two further four-year terms at the end of his current term, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2027.
The Company has the requisite array of competencies to cope with a temporary absence of Daniel Harari, thanks in particular to the organization and smooth functioning of the Executive Committee and the Board of Directors.
In the event of an untimely departure or demise, all of the Board of Directors members are sufficiently familiar with the workings of Lectra to be able to identify, in the shortest possible time, suitable solutions to enable Lectra to continue its development.

1.5 Application of the AFEP-MEDEF Code

The table below lists the deviations by the Company from the recommendations of the AFEP-MEDEF Code and explains the reasons therefor, in accordance with the "comply or explain" rule provided in article L.225-37-4, 8° of the French Commercial Code.
In fiscal year 2019, the Company complied with practically all the recommendations of the AFEP-MEDEF Code. However, the Company has not yet implemented the provisions of article 25.1.1 regarding the inclusion of criteria relating to social and environmental responsibility to determine the compensation of the company officers.

Divergence from a recommendation of the AFEP-MEDEF Code	**Lectra's practice and explanation**
Article 25.1.1 - Criteria relating to social and environmental responsibility to determine the compensation of the company officers.	The Board of Directors specifies that the Company is committed to social and environmental responsibility as demonstrated in its Non-financial Statement, but recognizes however that no quantifiable criterion to measure progress achieved would be consistent with Lectra's activities.

2 COMPENSATION AND BENEFITS OF THE DIRECTORS

The recommendations of the AFEP-MEDEF Code relating to the compensation of company officers aim to:

- spell out principles for setting the compensation of company officers of listed companies;
- prohibit the simultaneous holding of a position as company officer 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 company officers 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 company officers; the latter must also purchase shares at market price additional to any performance-related shares granted to them; and
- make compensation policies more transparent by means of a standardized disclosure format.

The Company declared that it had already been in spontaneous compliance with these recommendations for many years. In particular, the Chairman and Chief Executive Officer holds no employment contract in conjunction with his corporate office; his compensation includes no indemnity relating to the commencement or termination of his function, nor any supplementary retirement plan, stock options, or bonus shares.

2.1 Compensation of the company officers

In its amended version of January 30, 2020, the AFEP-MEDEF Code stipulates that the task of determining compensation of the company officers is the responsibility of the board of directors that appoints them and is based on proposals submitted by the compensation committee. The board of directors must give reasons for its decisions in this regard.

In this respect, article 25.1.1 of the AFEP-MEDEF Code states that the compensation of executive company officers must be "competitive, adapted to the company's strategy and context and must aim, in particular, to improve its performance and competitiveness over the medium and long term, notably by incorporating one or more criteria related to social and environmental responsibility". The compensation must make it possible to attract, retain and motivate high-quality officers.
Article 25.3.2 of the AFEP-MEDEF Code states in particular that "The maximum amount of annual variable compensation must be defined as a percentage of the fixed compensation and must be of a magnitude that is proportionate in the light of this fixed portion". Furthermore, article 26.2 of the AFEP-MEDEF Code indicates that "without jeopardizing the confidentiality that may be linked to certain elements in the determination of the variable portion of the compensation, this presentation must indicate the breakdown of the qualitative or quantifiable criteria on the basis of which this variable portion is determined, their relative importance, the manner in which these criteria have been applied during the financial year and whether the individual targets have been attained".
In accordance with the recommendations of articles 21.1 to 21.4 of the AFEP-MEDEF Code, directors' compensation constitutes a total amount voted by the shareholders' meeting and apportioned according to rules determined by the board of directors that take into account the directors' attendance at meetings of the board of directors and its committees.
This has been the Board of Directors' practice at all times, specifying, on the basis of results for the fiscal year ended, how these criteria have been applied.

2.1.1 Policy governing the compensation of the company officers

The principles and rules for determining the compensation and benefits of company officers are subject to prior review and recommendation by the Compensation Committee to the Board of Directors. The Compensation Committee notably reviews total compensation and the precise rules for determining

the variable portion and the specific annual performance targets that serve to calculate it. All of these components are then discussed and decided upon by the Board of Directors and are then subject to the approval of the Shareholders' Meeting.
All elements of the company officers' potential or actual compensation are published on the Company's website after the meeting of the Board of Directors held to approve them, as recommended in article 26.1 of the AFEP-MEDEF Code.

Policy governing the compensation of the Chairman and Chief Executive Officer

The compensation policy for the Chairman and Chief Executive Officer, as determined by the Board of Directors during its meeting on February 25, 2020 in respect of fiscal year 2020 is in line, in terms of principles and structure, with the policy of previous fiscal years, and in particular, with the policy approved by the Shareholders Meeting of April 30, 2019. It takes into account the extent of the duties assigned to him.
The specific duties of the Chairman and Chief Executive Officer are spelled out in chapter 1.4 of the Internal Rules and Procedures.
The annual compensation of the Chairman and Chief Executive Officer comprises a fixed portion and an annual variable portion in his capacity as Chief Executive Officer. It does not include any multiyear variable compensation, any exceptional compensation, any form of bonuses, stock options, performance-based shares or other long-term component of compensation, or any indemnity relating to the take-up or termination of his function, nor any supplementary retirement plan.
This policy is clear; consistent with the long-term strategy, objectives and challenges of the Group; and directly linked to its performance. It reflects his experience, competencies and responsibilities. It has proved its worth both in tough years and in years of record profits.

The Chairman and Chief Executive Officer, in his capacity as Chairman of the Board of Directors and Director, also receives compensation allocated to the Directors detailed below.
The compensation of the Chairman and Chief Executive Officer is paid in its entirety by the Company. He receives no compensation or particular benefit from companies controlled by Lectra within the meaning of article L. 233-16 of the French Commercial Code. Lectra is not controlled by any company.
Each year the Board of Directors starts by determining the amount of target-based total compensation for the year for the Chairman and Chief Executive Officer.
The only benefit accorded concerns the value of the use of a company car; the amount is set out for each fiscal year in the Board of Directors' Report on Corporate Governance.
The Chairman and Chief Executive Officer has never combined his positions as company officer with an employment contract, is not entitled to any component of compensation, indemnity or benefit owed or liable to be owed to him in virtue of a termination or change of his functions, or under an additional pension benefits plan or any additional defined benefit pension plan, stock options or bonus shares.
In accordance with the AFEP-MEDEF Code, the table below lists the existence or otherwise of an employment contract, supplementary pension scheme, indemnifications or benefits due or likely to become due as a result of termination or change of position, and indemnifications relating to a non-competition clause.

Employment contract / Directorship

Daniel Harari, Chairman and Chief Executive Officer

Beginning date of each term of office:

- Chief Executive Officer (Board of Directors meeting of 1991)[1]
- Director (Ordinary Shareholders' Meeting of April 29, 2016)
- Chairman of the Board of Directors (Board of Directors meeting of July 27, 2017)

End date of term of office as Director[2]: Combined Shareholders' Meeting of April 30, 2020

Contract of employment	No
Supplementary pension scheme	No
Indemnifications or benefits due or likely to become due as a result of termination or change of position	No
Indemnifications relating to a non-competition clause	No

(1) It is specified that from 1991 to 2002, Daniel Harari served as Chairman and Chief Executive Officer of Lectra.

(2) At the Shareholders' Meeting of April 30, 2020, it will be proposed that the shareholders re-elect Daniel Harari for a further four-year term of office as Director.

Criteria used to determine the compensation of the Chairman and Chief Executive Officer for fiscal year ending December 31, 2020

Fixed compensation

In accordance with the above-mentioned principales and on a recommendation by the Compensation Committee on February 11, 2020, the Board of Directors, at its meeting on February 25, 2020, decided to maintain the total annual target-based compensation of the Chairman and Chief Executive Officer to €780,000 for the year 2020, that is €390,000 in respect of fixed compensation and €390,000 in respect of variable compensation.

Variable compensation

The variable compensation is calculated on the basis of clear and complementary quantifiable criteria (to the exclusion of any qualitative criteria) expressed in terms of precisely-determined annual targets, reflecting the Company's strategy of profitable sales activity and earnings growth. In accordance with article 25.3.2 of the AFEP-MEDEF Code, these quantifiable criteria are simple, relevant, suited to the Company's strategy; and they account for the largest share of this compensation.

Annual targets are set by the Board of Directors based on the recommendations of the Compensation Committee. The Compensation Committee is responsible for ensuring that the rules for setting the variable portion of compensation each year are consistent and in line with the evaluation of company officers' performance, with progress made in implementing the Group's medium-term strategy, 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 Compensation Committee verifies the annual application of these rules and the final amount of variable compensation, on the basis of the audited financial statements.

On a recommendation by the Compensation Committee, at its meeting on February 25, 2020, the Board of Directors decided the same day to revise for the 2020-2022 period the performance criteria reflecting the Company's strategy of profitable sales activity and earnings growth used to determine the variable compensation of the Chairman and Chief Executive Officer, reducing the number to three criteria and increasing the weighting for growth of

recurring contracts in light of the 2020-2022 strategic roadmap's objectives:

(i) a criterion measuring the contributive value of growth in sales activity (accounting for 40%);

(ii) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%);

(iii) growth in recurring contracts (accounting for 30%)[1].

All the other calculation rules remain identical to those for 2017-2019.

These criteria and targets apply also to the members of the Executive Committee, excluding the region leaders who are not company officers; the only differences being the weighting given to each criterion and the relative share of their target-based variable compensation, which is specifically geared to each of them and adapted to their duties and targets; their variable compensation thus ranges from 15% to 35% of total target-based compensation depending on the member of the Executive Committee. These criteria also apply to certain managers reporting to them, with the same specific features.

Policy governing and criteria used to determine the compensation of the Directors

Following the recommendations in article 21.1 of the AFEP-MEDEF Code, at its meeting on February 11, 2016 the Board of Directors decided to:

- adopt a procedure for the allocation of the total compensation decided by the Shareholders' Meeting, with a predominantly variable share, to have due regard for the effective attendance of Directors at meetings of the Board of Directors and committees;
- apportion an additional amount to Directors who are not company officers for membership of the Board of Directors' specialized committees; and
- apportion an additional amount to the Chairmen of the Audit Committee and the Compensation Committee (the Chairman of the Strategic Committee will receive no additional compensation in respect of this chairmanship).

The variable portion actually apportioned to each Director is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

Given the rules established by the Board of Directors on February 11, 2016 for the apportionment of compensation, the Shareholders' Meeting on April 27, 2018 increased the maximum total amount of compensation from €230,000 to €239,000 for fiscal year ended December 31, 2018 and future years, until decided otherwise by the Shareholders' Meeting.

The apportionment of the total amount of compensation remains unchanged since fiscal year ended December 31, 2016:

- €40,000 to each Director for their attendance at meetings of the Board of Directors;
- €9,000 for attendance by each Independent Director at each of the Board of Directors' three committees;
- €1,500 for the Chairmen of the Audit Committee and the Compensation Committee.

The variable portion actually apportioned to each Director (62.5% of each amount) is based on an attendance percentage equal to the number of meetings effectively attended by the Director divided by the number of meetings held.

(1) The calculation rules are described on page 86 of the 2018 Financial Report and reiterated in chapter 2.1.3 of this Report.

2.1.2 Items mentioned under article L.225-37-3, I of the French Commercial Code

Table on the compensation received by company officers

Company officers	Compensation(2) in respect of 2019 (in euros)			Compensation(2) in respect of 2018 (in euros)		
	Fixed portion	Variable portion	**Total amount**	Fixed portion	Variable portion	**Total amount**
Daniel Harari						
Chief Executive Officer(1)	15,000	25,000	**40,000**	15,000	25,000	40,000
Anne Binder						
Independent Director	18,375	30,625	**49,000**	18,375	30,625	49,000
Bernard Jourdan						
Lead Director	21,375	30,625	**52,000**	21,375	30,625	52,000
Ross McInnes						
Independent Director	18,375	27,054	**45,429**	18,375	30,625	49,000
Nathalie Rossiensky						
Independent Director	18,375	30,625	**49,000**	18,375	30,625	49,000
Total	91,500	143,929	**235,429**	91,500	147,500	239,000

(1) This is the compensation received by Daniel Harari in his capacity as Chairman of the Board of Directors. Compensation paid or granted in his capacity as Chief Executive Officer is set out in chapter 2.1.3 of this Report.

(2) It is specified that non-executive officers received no compensation other than compensation in their capacity as Directors of the Company. The detail of the compensation paid or granted to Daniel Harari, the only executive officer (mandataire social exécutif), is set out chapter 2.1.3 of this Report.

Equity ratio between the level of compensation of the Chairman and Chief Executive Officer and the average and median compensation of the Company's employees

Pursuant to article L.225-37-3 of the French Commercial Code as amended by Law 2019-486 of May 22, 2019 (the "PACTE Law"), the equity ratio between the level of compensation of the Chairman and Chief Executive Officer and the average and median compensation of the Company's employees, over the past five fiscal years, is set out in the tables below.

The Company applies the method of calculation for pay equity ratios recommended by the AFEP in its guidelines for compensation ratios, published January 28, 2020. The ratios are calculated on the basis of the total compensation paid or granted to company officers and to employees during each fiscal year in question.

It is specified that this information is subject to change as a result of any subsequent official rulings or clarifications intended for companies.

	Fiscal year 2019		Fiscal year 2018		Fiscal year 2017		Fiscal year 2016		Fiscal year 2015	
	Average ratio	*Median ratio*	*Average ratio*	*Median ratio*	*Average ratio*	*Median ratio*	*Average ratio*	*Median ratio*	*Average ratio*	*Median ratio*
Chairman and Chief Executive Officer(1)	14	17	17	22	N/A	N/A	N/A	N/A	N/A	N/A
Chief Executive Officer	N/A	N/A	N/A	N/A	12	15	10	13	12	14
Chairman of the Board of Directors	N/A	N/A	N/A	N/A	9	12	10	13	12	14

(1) Daniel Harari has served as Chairman and Chief Executive Officer since the meeting of July 27, 2017, when the Board of Directors decided to recombine the roles of Chairman and Chief Executive Officer. From May 3, 2002 to July 27, 2017, Daniel Harari served as the Company's Chief Executive Officer and André Harari served as Chairman of the Board of Directors.

Yearly evolution of compensation of the Chairman and Chief Executive Officer, Company performance, average and median compensation of employees, and pay equity ratios

		2019	2018	2017	2016	2015
Compensation of the company officers (in euros)	*Chairman and Chief Executive Officer[1]*	726,582	929,720	N/A	N/A	N/A
	Chief Executive Officer	N/A	N/A	616,642	514,617	587,729
	Chairman of the Board of Directors	N/A	N/A	499,779	515,123	584,838
Average compensation of employees, full-time equivalent (in euros)		52,631	53,665	52,909	50,771	50,245
Median compensation of employees, full-time equivalent (in euros)		42,642	42,770	40,580	40,514	41,081
Average ratio	*Chairman and Chief Executive Officer[1]*	14	17	N/A	N/A	N/A
	Chief Executive Officer	N/A	N/A	12	10	12
	Chairman of the Board of Directors	N/A	N/A	9	10	12
Median ratio	*Chairman and Chief Executive Officer[1]*	17	22	N/A	N/A	N/A
	Chief Executive Officer	N/A	N/A	15	13	14
	Chairman of the Board of Directors	N/A	N/A	12	13	14
Company performance[2]		72%	111%	86%	62%	88%

(1) Daniel Harari has served as Chairman and Chief Executive Officer since the meeting of July 27, 2017, when the Board of Directors decided to recombine the roles of Chairman and Chief Executive Officer. From May 3, 2002 to July 27, 2017, Daniel Harari served as the Company's Chief Executive Officer and André Harari served as Chairman of the Board of Directors. Accordingly, for fiscal year 2017, his total target-based compensation was seven months' fixed and variable compensation in his capacity as Chief Executive Officer and five months' fixed and variable compensation in his capacity as Chairman and Chief Executive Officer.

(2) This percentage corresponds to the performance coefficient that determines the variable portion of company officers' compensation. It is specified that the presentation of information on the Company's performance is subject to change to comply with any subsequent clarifications provided, including guidelines by the European Commission, or official positions issued for companies.

2.1.3 Components of compensation paid or granted to Chairman and Chief Executive Officer in respect of fiscal year 2019

At the Ordinary Shareholders' Meeting of April 30, 2019, the shareholders were invited to vote on the principles and criteria used to determine, apportion and award the fixed and variable components of the total compensation and advantages of all kinds granted to the Chairman and Chief Executive Officer in respect of fiscal year ended December 31, 2019, as adopted by the Board of Directors at its meetings on February 9, 2017 and July 27, 2017 and confirmed by the Board of Directors at its meeting on February 26, 2019. The resolution on the policy governing the compensation of the Chairman and Chief Executive Officer was approved by a 99.97% vote.

The elements of compensation and benefits paid or granted to the Chairman and Chief Executive Officer in 2019, and set out below, are consistent with the policy approved by the Shareholders' Meeting.

As a reminder, the Board of Directors' meeting of July 27, 2017, decided to set the total annual target-based compensation of the Chairman and Chief Executive Officer to €780,000 for the remainder of

2018 and for the years 2018 and 2019, that is €390,000 in respect of fixed compensation and €390,000 in respect of variable compensation.

Compensation received by the Chairman and Chief Executive Officer for fiscal year ended December 31, 2019

Daniel Harari, as Chairman and Chief Executive Officer:

- received fixed compensation in the amount of €390,000; and
- was granted by the Board of Directors at its meeting on February 11, 2020 variable compensation in the amount of €240,172, subject to approval by the Combined Shareholders' Meeting of April 30, 2020.

Therefore, the actual total compensation in respect of fiscal year ended December 31, 2019, subject to approval by the Combined Shareholders' Meeting of April 30, 2020 would come to €630,172, that is 81% of the total target-based compensation (86% in 2018).

The valuation for tax purposes of the use of a company car, the only benefit in kind granted to Daniel Harari, came to €12,201 for fiscal year ended December 31, 2019.

In addition, the Board of Directors, at its meeting on February 11, 2020, decided to allocate to Daniel Harari an amount of €40,000 in his capacity as Director in respect of fiscal year ended December 31, 2019.

Application of performance-related criteria of annual variable compensation for the Chairman and Chief Executive Officer for fiscal year ended December 31, 2019

As a reminder, the Board of Directors, at its meetings on February 9, 2017, July 27, 2017 and February 26, 2019, maintained for 2017, and through 2019, the four performance criteria reflecting the Company's strategy of profitable sales activity and earnings growth used to determine the variable compensation of the Chairman and Chief Executive Officer as well as their relative weighting, as set in previous years:

- a criterion measuring the contributive value of growth in sales activity (accounting for 50%);
- consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%);
- consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and
- growth in recurring contracts (accounting for 10%).

For each of these four criteria, the corresponding variable compensation is equal to zero below certain thresholds; if annual targets are met, it is 100%; and it is capped at 200% if annual targets are exceeded. Between these thresholds, it is calculated on a linear basis. The results are then weighted for each criterion. Only the annual targets and corresponding thresholds are revised each year on the basis of Group targets for the fiscal year.

Consequently, variable compensation is equal to zero if none of these thresholds is met, and is capped at 200% of target-based variable compensation if the annual targets are exceeded on all criteria and result in the ceiling of 200% for each of them.

The fixed component and the variable component each account for 50% of the Chairman and Chief Executive Officer's target-based total compensation. Actual total compensation may therefore vary depending on performance, ranging from 50% to 150% of the target-based total compensation. Consequently, variable compensation can range from zero to 200% of the fixed compensation.

The Board of Directors, at its meeting on February 11, 2020, determined that in 2019, the percentage obtained for each of the four criteria is as follows:

- 47% for the contributive value of growth in sales activity (60% in 2018);
- 38% for consolidated income before tax (86% in 2018);
- 200% for consolidated free cash flow (22% in 2018); and
- 67% for growth in recurring contracts (143% in 2018).

In total, the percentage obtained for the variable portion of Daniel Harari's compensation represented 62% of the amount set for achieving the annual objectives (72% in 2018).

Synthesis of the Chairman and Chief Executive Officer's compensation in respect of 2019

Following the recommendations in article 26 of the AFEP-MEDEF Code, 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 fiscal year ended December 31, 2019:

Table summarizing the fixed and variable annual compensation of the Chairman and Chief Executive Officer

	2019			2018		
(in euros)	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
Daniel Harari, Chairman and Chief Executive Officer						
Fixed compensation	390,000	390,000	100%	390,000	390,000	100%
Variable compensation	390,000	240,172	62%	390,000	282,420	72%
Total	780,000	630,172	81%	780,000	672,420	86%

The table below shows fixed and variable compensation (gross amounts before deduction of social security contributions), benefits in kind, and compensation in his capacity as Director due in respect of fiscal year ended December 31, 2019 and amounts actually paid in the year.

Table summarizing the compensation of the Chairman and Chief Executive Officer

	2019		2018	
(in euros)	Amounts earned in respect of the fiscal year	Amounts paid in the year	Amounts earned in respect of the fiscal year	Amounts paid in the year
Daniel Harari, Chairman and Chief Executive Officer				
Fixed compensation(1)	390,000	390,000	390,000	449,737
Variable compensation(2)	240,172	282,420	282,420	426,073
Extraordinary compensation	N/A	N/A	N/A	N/A
Compensation in his capacity as Director	40,000	40,000	40,000	40,000
Benefits in kind(3)	12,201	12,201	11,971	11,971
Total	682,373	724,621	724,391	927,781

(1) As a reminder, following the reuniting of the roles of Chairman of the Board of Directors and Chief Executive Officer and the appointment of Daniel Harari as Chairman and Chief Executive Officer on July 27, 2017, the Board of Directors decided to set the total compensation of the Chairman and Chief Executive Officer at €780,000, subject to achieving the annual objectives (the fixed portion accounting for 50% of that total, that is, €390,000), for the period from July 27 to December 31, 2017, and then for years 2018 and 2019. The difference between the amount of fixed compensation due (€390,000) and the amount paid (€449,737) corresponds to the fixed compensation in respect of the period from July 27, 2017 to December 31, 2017, which was paid in 2018 after approval by the Ordinary Shareholders' Meeting of April 27, 2018.

(2) The variable compensation in respect of fiscal year 2018 was paid in 2019; the variable compensation in respect of fiscal year 2019 will be paid in 2020, subject to approval by the Combined Shareholders' Meeting of April 30, 2020. The difference between the percentage of variable compensation granted in respect of fiscal year 2018 (72%), which was paid in 2019, and the percentage in respect of fiscal year 2019 (62%) explains the difference between the amounts of variable compensation due in respect of fiscal year 2019 and paid in 2019.

(3) The amounts reported as benefits in kind correspond to the value of the use of a company car.

Summary table of the elements of compensation paid or granted to Daniel Harari, Chairman and Chief Executive Officer of Lectra, in respect of fiscal year 2019, submitted for approval by the shareholders

Components of compensation	Amount	Comments
Annual fixed compensation	€390,000	The Board of Directors, at its meeting on July 27, 2017, decided, on a proposal by the Compensation Committee, to set at €390,000 the gross fixed annual compensation of Daniel Harari, in his capacity as Chairman and Chief Executive Officer, for the remainder of fiscal year 2017 from the date of the decision, and for fiscal years 2018 and 2019. Daniel Harari therefore received gross compensation of €390,000 in respect of the period from January 1, 2019 to December 31, 2019.
Variable annual compensation	€240,172	The Board of Directors, at its meeting on July 27, 2017, decided, on a proposal by the Compensation Committee, to set at €390,000 - subject to achieving objectives - the variable annual compensation of Daniel Harari, in his capacity as Chairman and Chief Executive Officer, for the remainder of fiscal year 2017 from the date of the decision, and for fiscal years 2018 and 2019. The Board of Directors, at its meetings on February 9, 2017, July 27, 2017 and February 26, 2019, approved, for 2017 through 2019, the four performance criteria used to determine the variable compensation of Daniel Harari, as well as their relative weighting: (i) a criterion measuring the contributive value of growth in sales activity (accounting for 50%); (ii) consolidated income before tax, excluding net financial expense and non-recurring items (accounting for 30%); (iii) consolidated free cash flow excluding net financial expense, non-recurring items, income tax, and after restatement of certain items (accounting for 10%); and (iv) growth in recurring contracts (10%). At its meeting on February 11, 2020, the Board of Directors, on a proposal by the Compensation Committee, determined the degree to which the above performance criteria had been achieved: (i) 47% for the contributive value of growth in sales activity; (ii) 38% for consolidated income before tax; (iii) 200% for consolidated free cash flow; and (iv) 67% for growth in recurring contracts. In total, the percentage obtained for the variable portion of Daniel Harari's compensation represented 62% of the total amount set for achieving the annual performance objectives, and his variable compensation in respect of fiscal year 2019 was therefore €240,172.
Multiyear variable compensation	N/A	Daniel Harari receives no multiyear variable compensation.
Exceptional compensation	N/A	Daniel Harari receives no exceptional compensation.
Stock options, performance-related shares or other long-term benefits	N/A	Daniel Harari receives no stock options, performance-related shares or other long-term benefits.
Compensation in his capacity as Director	€40,000	In keeping with the rules for allocation of Directors' compensation, as determined at its meeting on February 11, 2016, the Board of Directors, at its meeting on February 11, 2020, decided to allocate to Daniel Harari the amount of €40,000 in his capacity as Director in respect of fiscal year ended December 31, 2019.

Components of compensation	Amount	Comments
Value of benefits in kind	€12,201	The only benefit in kind corresponds to the tax value of the use of the company car, which amounted to €12,201 for fiscal year ended December 31, 2019.
Termination payment	N/A	No termination payment is planned for Daniel Harari.
Indemnifications relating to a non-competition clause	N/A	There is no commitment to provide Daniel Harari with indemnification relating to a non-competition clause.
Collective benefit schemes	N/A	Daniel Harari does not benefit from any collective benefit scheme.
Supplementary pension scheme	N/A	Daniel Harari does not benefit from any supplementary pension scheme.

2.2 Ex-ante and ex-post shareholders' approvals of the Chairman and Chief Executive Officer's compensation

Following the publication of Ordinance 2019-1934 of November 27, 2019, articles L.225-37-2 and L.225-100 of the French Commercial Code require, respectively:

(i) a binding annual ex-ante vote by the shareholders' meeting on the principles and criteria used to determine, apportion and award the fixed, variable and exceptional components making up the total compensation and benefits of all kinds granted to the company officers for the fiscal year to come; as well as

(ii) two binding annual ex-post votes: (a) the first on information regarding compensation of company officers in respect of the year ended, as set out in the Report on Corporate Governance, as prescribed by article L.225-37-3.I of the French Commercial Code and (b) the second on the fixed, variable and exceptional components of the compensation of the Chairman and Chief Executive Officer and benefits of all kinds paid or granted in respect of the year ended.

These provisions concern the following in their capacity as company officers of Lectra: the Chairman and Chief Executive Officer, Daniel Harari; and the Directors of the Company, Bernard Jourdan, Anne Binder, Ross McInnes and Nathalie Rossiensky.

In the event of failure of the ex-ante vote, the principles and criteria previously approved by the Shareholders' Meeting will continue to apply. In the absence of previously approved principles and criteria, compensation is determined according to the compensation granted in respect of the prior fiscal year or, in the absence of compensation granted in respect of the prior fiscal year, in compliance with existing practices within the Company.

In the event of failure of the ex-post vote on the information set out in the Report on Corporate Governance relating to the compensation of company officers as prescribed by article L.225-37-3 of the French Commercial Code, the Board of Directors must submit a revised compensation policy to the following shareholders' meeting. Payment of directors' compensation would be suspended until the vote by such following shareholders' meeting. In the event of a negative vote on the revised proposed compensation policy, the compensation could not be paid.

In the event of failure of the ex-post vote on the compensation paid or granted to the Chairman and Chief Executive Officer, the variable or exceptional component cannot be paid to him.

Pursuant to articles L.225-37-2, L.225-37-3 and L.225-100 of the French Commercial Code:

- the compensation policy relating to the principles and criteria to determine, apportion and award the fixed, variable and exceptional components of compensation for the year ending

December 31, 2020, to Daniel Harari in his capacity as Chairman and Chief Executive Officer, and to Bernard Jourdan, Anne Binder, Ross McInnes and Nathalie Rossiensky in their capacity as Directors, must be the subject of an ex-ante vote at the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2019.

- the information referred to in article L. 225-37-3.-I relating to the total compensation and benefits of all kinds, with a distinction between the fixed, variable and exceptional components, paid or granted in respect of their position as company officers during the year ended December 31, 2019, and mentioning notably the proportion of fixed and variable compensation and the commitments undertaken by the Company due to commencement or termination of their position as company officers, including retirement benefit obligations, must be the subject of an ex-ante vote by the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2019.
- the amount of fixed compensation paid and the amount of variable compensation granted in respect of the fiscal year ended December 31, 2019, to Daniel Harari in his capacity as Chairman and Chief Executive Officer, and in accordance with the principles and criteria for compensation approved by the Ordinary Shareholders' Meeting of April 30, 2019, must be the subject of an ex-post vote by the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2019.

The ex-ante vote on the policy governing the compensation of the company officers in respect of fiscal year 2020, the ex-post vote on the information mentioned in the Report on Corporate Governance in compliance with article L. 225-37-3, and the ex-post vote regarding the amount of fixed compensation paid and the amount of variable compensation granted in fiscal year ended December 31, 2019, are the subject, respectively, of the ninth, fifth and sixth resolutions of the Combined Shareholders' Meeting of April 30, 2020, which are printed below.

"Ninth resolution: approval of the policy governing the compensation of the company officers in respect of fiscal year 2020, in compliance with article L.225-37-2 of the French Commercial Code
The Shareholders' Meeting, voting on the quorum and majority conditions for ordinary shareholders' meetings, and having reviewed the Report on Corporate Governance prepared in compliance with the provisions of article L. 225-37-2 of the French Commercial Code, approves the policy governing the compensation of the company officers, including that of the Directors, proposed in respect of fiscal year 2020, as described in chapter 2.1.1 of the Report on Corporate Governance."

"Fifth resolution: approval of the information relating to the compensation of the company officers in respect of fiscal year ending December 31, 2019, in compliance with article L.225-37-3, I of the French Commercial Code
The Shareholders' Meeting, voting on the quorum and majority conditions for ordinary shareholders' meetings, and having reviewed the Report on Corporate Governance prepared in compliance with the provisions of article L. 225-100 of the French Commercial Code, approves the information mentioned in article L. 225-37-3, I of the French Commercial Code relating to the compensation of the company officers in respect of fiscal year 2019, as described in chapters 2.1.2 and 2.1.3 of the Report on Corporate Governance."

"Sixth resolution: approval of the fixed and variable components making up the total compensation and benefits of all kinds paid or granted in respect of fiscal year ended December 31, 2019 to Daniel Harari, Chairman and Chief Executive Officer
The Shareholders' Meeting, voting on the quorum and majority conditions for ordinary shareholders' meetings, and having reviewed the Report of the Board of Directors prepared in compliance with the provisions of article L. 225-100 of the French Commercial Code, approves the fixed and variable components making up the total compensation and benefits of all kinds paid or granted in respect of fiscal year ended December 31, 2019 to Daniel Harari in his capacity as Chairman and Chief Executive Officer of the Company, as described in chapter 2.1.3 of the Report on Corporate Governance."

3 PROHIBITION ON TRADING IN SHARES APPLICABLE TO CERTAIN GROUP MANAGERS

The Board of Directors decided on October 30, 2019, in keeping with the rules on corporate governance, to prohibit all persons identified by the Company as permanent or occasional insiders, which includes the members of the corporate management and the senior management teams of the Group, from buying or selling the Company's shares (including through the exercise of stock options) 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 Group. These restrictions are consequently stricter than the obligation to abstain during the closed periods provided for in regulations and Regulation (EU) n° 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (the "**Market Abuse Regulation**"), along with the AMF Guide n°2016-08 on ongoing information and obligations regarding inside information dated October 26, 2016. The exercise of stock options during a closed period is prohibited, even if the beneficiary were to hold any resulting shares until the expiration of the period. However, as permitted under article 19.12 of the Market Abuse Regulation, the Company may authorize a person discharging managerial responsibility to undertake such transactions:

- on a case-by-case basis due to the existence of exceptional circumstances, such as severe financial difficulty, which require the immediate sale of shares; or
- due to the characteristics of the trading involved for transactions made under, or related to, an employee share or saving scheme, qualification or entitlement of shares, or transactions where the beneficial interest in the relevant security does not change.

In compliance with article 18 of the Market Abuse Regulation, the Board of Directors:

- draws up, in an electronic format, a list of all persons who have access to inside information;
- promptly updates the insider list (including the date and time of the update) in the following circumstances:
  - where there is a change in the reason for including a person already on the insider list;
  - where there is a new person who has access to inside information and needs, therefore, to be added to the insider list; and
  - where a person ceases to have access to inside information.
- provides this insider list by electronic means to the AMF as soon as possible at the latter's request;
- retains the insider list and previous versions of it for a period of at least five years after it is drawn up or updated;
- takes all reasonable steps to ensure that any person included in the insider list acknowledges in writing the legal and regulatory duties entailed and is aware of the sanctions applicable to insider dealing and unlawful disclosure of inside information.

The Board of Directors has further decided that, in addition to each of its members, the members of the Executive Committee "discharge managerial responsibilities" within the meaning of the Market Abuse Regulation, have "the power to make management decisions regarding the Company's development and strategy" and "regular access to inside information", within the meaning of article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*), 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.

Alexandra Boisson, the Company's General Counsel, has been named Compliance Officer for all matters pertaining to the General Regulation of the AMF concerning the drawing up of lists of insiders. Her duties include adapting the guidelines published by *Association Nationale des Sociétés par Actions* (National Association of Joint-Stock Companies, ANSA) and drawing up the guide to procedures specific to Lectra, drawing up and maintaining up-to-date lists of permanent and occasional insiders, and notifying them individually in writing, accompanied by a memorandum spelling out the procedures specific to Lectra.

The list of permanent insiders is reviewed at least once a year by the Board of Directors.

4 RELATED-PARTY AGREEMENTS AND AGREEMENTS ENTERED INTO IN THE ORDINARY COURSE OF BUSINESS

No related-party agreements were entered into during fiscal year ended December 31, 2019.
Pursuant to article L.225-39 of the French Commercial Code, the Board of Directors at its meeting on February 25, 2020 reviewed the ordinary agreements entered into under normal terms and conditions that were implemented or continued in effect in fiscal year 2019. After having assessed the terms and conditions of each of these agreements, the Board of Directors noted that (i) to date, there are no ordinary agreements other than those entered into between the Company and its fully consolidated subsidiaries, and (ii) all existing agreements between the Company and its subsidiaries are made in the ordinary course of business in relation to the corporate purpose of the companies concerned, and are entered into under normal terms and conditions.
A written charter is currently being prepared to set out the regulations applicable to related-party and ordinary agreements and to formalize the procedure for their implementation and annual review at Lectra. It will be presented to the Board of Directors for approval in the first half of 2020.

5 FINANCIAL AUTHORIZATIONS AND DELEGATIONS

All financial authorizations and delegations in effect granted by the Shareholders' Meeting of April 27, 2018, to the Board of Directors of Lectra, and utilizations thereof at December 31, 2019, are reported in the summary table below.

Summary table of financial authorizations and delegations in effect and their utilization

Nature of authority	Date of Shareholders' Meeting (resolution number)	Term (expiry date)	Maximum amount	Utilization
Authority to grant stock options[1]	Shareholders' Meeting of April 27, 2018 (resolution no. 14)	38 months (June 26, 2021)	Maximum number of options: 2,000,000 Authorized amount of capital increase: €2,000,000	Number utilized at 31/12/2019: **594,647** Options remaining at 31/12/2019: **1,405,353**
Authority to cancel treasury shares as per article L.225-209 of the French Commercial Code	Shareholders' Meeting of April 27, 2018 (resolution no. 17)	24 months (April 26, 2020)	Up to 10% of the share capital, per 24-month period	N/A

(1) The Shareholders' Meeting of April 27, 2018, authorized the issuance of up to 2,000,000 shares with a par value of €1. The maximum amount and the amounts utilized at December 31, 2019 are indicated in par value of shares.

6 ATTENDANCE AT SHAREHOLDERS' MEETINGS

6.1 Conditions for participation 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 second working day preceding the day set for the said meeting;
- for holders of bearer shares (*actionnaires au porteur*): receipt by the shareholders' 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 second working day preceding the day set for the said meeting, delivered and transmitted to Société Générale by the financial intermediary (bank, financial institution or brokerage) that holds their account.

Shareholders not attending this meeting in person may vote by correspondence, or may vote by proxy by submitting their proxy voting form to the chairman of the meeting, to their spouse or partner, or to another shareholder or any other person of their choice, in accordance with the law and regulations, and, in particular, those laid down in article L. 225-106 of the French Commercial Code.

Shareholders are free to dispose of their shares in whole or in part until the time of the meeting. However, if the settlement of the disposal takes place before zero hour, Paris time, on the second 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 settlement of the disposal takes place after zero hour, Paris time, on the second working day preceding the day set for the said meeting, the disposal 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 date of the meeting.

Correspondence and proxy voting forms together with all documents and information relating to the meetings are available on the Company's website (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.

All correspondence or proxy voting forms sent by mail must be received by Société Générale no later than the day preceding the shareholders' meeting.

Written questions for submission to the meeting may be addressed to the Company at its headquarters: 16-18, rue Chalgrin, 75016 Paris, France, or by electronic mail at the following e-mail address: investor.relations@lectra.com on the fourth working day preceding the day set for the meeting at the latest, and must be accompanied by proof of registration as a shareholder.

Shareholders holding a fraction of the capital defined in articles L. 225-105 paragraph 2 and R. 225-71 paragraph 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.

As required in article R. 225-79 (last paragraph) of the French Commercial Code, notification of designation and revocation of a proxy may also be communicated electronically, by sending an electronically signed e-mail, employing a secure procedure for identification of the shareholder guaranteeing that the notification was effectively sent by the said shareholder, to investor.relations@lectra.com.

Practical details pertaining to the above will be communicated in the notice of meeting sent to the shareholders.

6.2 Voting rights: one share, one vote

The Board of Directors called an extraordinary shareholders' meeting on September 26, 2014 to approve the amendments and simplifications to the Company by-laws, regarding in particular maintenance of the principle of "one share, one vote" following the entry into force of the French March 29, 2014 Act "aiming to recapture the real economy" (Law 2014-384, the "Florange Act"). This act reversed the previously existing principle, providing that shares of listed companies registered for at least two years in the name of the same shareholder will henceforward enjoy double voting rights, except where otherwise stipulated in Company by-laws adopted after the promulgation of the law. As recommended by the Board of Directors, the Extraordinary Shareholders' Meeting of September 26, 2014 approved almost unanimously (99%) the principle of one share, one vote, departing from the new law and amending the Company by-laws accordingly.
As a result, only 234,129 shares (representing 0.7% of the capital stock) held in registered form before May 15, 2001—at which date the Company abolished the previously-existing double voting rights for shares registered after that date, together with shares purchased after that date—carried double voting rights at December 31, 2019.

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

Article L. 225-37-5 of the French Commercial Code makes it mandatory for companies whose securities are eligible for trading on a regulated market to disclose and where applicable 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 of the French Commercial Code;
- the list of holders of any 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 control of the company, unless such disclosure, other than where legally required, would be seriously prejudicial to the company; and
- 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.

To the Company's knowledge, 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 the Company.

The Board of Directors
February 25, 2020

Consolidated Financial Statement

STATEMENT OF FINANCIAL POSITION

ASSETS

At December 31

(in thousands of euros)		2019 (1)	2018
Goodwill	note 6	47,380	39,473
Other intangible assets	note 7	4,008	3,688
Leasing rights-of-use		18,697	-
Property, plant and equipment	note 8	26,963	26,347
Other non-current assets	note 10	17,242	14,425
Deferred tax assets	note 12	8,589	9,194
Total non-current assets		122,879	93,127
Inventories	note 13	30,919	34,326
Trade accounts receivable	note 14	56,933	58,564
Other current assets	note 15	12,217	15,447
Cash and cash equivalents	note 21	120,558	102,223
Total current assets		220,627	210,560
Total assets		**343,506**	**303,687**

EQUITY AND LIABILITIES

(in thousands of euros)		2019 (1)	2018
Share capital	note 16	32,099	31,847
Share premium	note 16	15,802	13,843
Treasury shares	note 16	(698)	(560)
Currency translation adjustments	note 17	(9,481)	(9,554)
Retained earnings and net income		145,141	134,802
Non-controlling interests (2)		159	-
Total equity		183,022	170,377
Retirement benefit obligations	note 18	11,107	9,823
Non-current lease liabilities		13,407	-
Minority shares purchase commitment (2)		4,333	-
Borrowings, non-current portion	note 21	-	-
Total non-current liabilities		28,847	9,823
Trade and other current payables	note 22	58,896	59,664
Deferred revenues	note 23	58,459	56,225
Current income tax liabilities	note 12	3,436	3,488
Current lease liabilities		5,675	-
Minority shares purchase commitment (2)		2,167	-
Borrowings, current portion	note 21	-	-
Provisions for other liabilities and charges	note 24	3,004	4,110
Total current liabilities		131,637	123,487
Total equity and liabilities		**343,506**	**303,687**

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

(2) These amounts are the result of the acquisition of Retviews. Note 2.29 hereafter describes the impact of this acquisition on the Group's financial statements.

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

Income statement

consolidated

Twelve months ended December 31

(in thousands of euros)		2019 [1]	2018
Revenues	note 27	280,023	282,558
Cost of goods sold	note 28	(74,808)	(79,014)
Gross profit	note 28	205,214	203,544
Research and development	note 29	(22,019)	(21,497)
Selling, general and administrative expenses	note 30	(142,306)	(141,798)
Income from operations		40,889	40,249
Financial income	note 33	461	231
Financial expenses	note 33	(556)	(443)
Foreign exchange income (loss)	note 34	(719)	(1,120)
Income before tax		40,075	38,917
Income tax	note 12	(10,751)	(10,177)
Net income		**29,324**	**28,740**
of which, Group share		**29,305**	**28,740**
of which, Non-controlling interests		19	-
(in euros)			
Earnings per share, Group share:	note 35		
- basic		0.92	0.91
- diluted		0.90	0.89
Shares used in calculating earnings per share:			
- basic		31,977,237	31,697,500
- diluted		32,395,083	32,333,069

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

STATEMENT OF COMPREHENSIVE INCOME, GROUP SHARE [1]

Twelve months ended December 31

(in thousands of euros)		2019 [2]	2018
Net income		29,305	28,740
Currency translation adjustments	note 17	6	288
Tax effect		67	30
Other comprehensive income to be reclassified in net income		73	318
Remeasurement of the net liability arising from defined benefits pension plans	note 18	(700)	156
Tax effect		215	(54)
Other comprehensive income not to be reclassified in net income		(485)	102
Total other comprehensive income		(412)	420
Comprehensive income, Group share		**28,893**	**29,159**

(1) The Group considered as non-material the information regarding the comprehensive income of the non-controlling interests (30% of Retviews minority shares only) and thus only presents the comprehensive income of the Group share.

(2) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

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

Statement of cash flows
consolidated

Twelve months ended December 31

(in thousands of euros)		2019 [1]	2018
I - OPERATING ACTIVITIES			
Net income		29,324	28,740
Net depreciation, amortization and provisions [1]		12,690	8,380
Non-cash operating expenses	note 38	367	343
Loss (profit) on sale of fixed assets		81	(13)
Changes in deferred income taxes	note 12	1,033	61
Changes in inventories		2,419	(4,918)
Changes in trade accounts receivable		3,605	(82)
Changes in other current assets and liabilities		4,607	1,319
Changes in other operating non-current assets	note 10	(5,167)	(5,047)
Net cash provided by (used in) operating activities	note 39	48,961	28,783
II - INVESTING ACTIVITIES			
Purchases of intangible assets	note 7	(1,809)	(1,736)
Purchases of property, plant and equipment	note 8	(4,638)	(5,809)
Proceeds from sales of intangible and tangible assets		16	22
Acquisition cost of companies purchased	note 2	(7,629)	(7,102)
Purchases of financial assets	note 10	(6,082)	(5,180)
Proceeds from sales of financial assets	note 10	5,901	5,551
Net cash provided by (used in) investing activities		(14,241)	(14,254)
III - FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 16	2,211	1,849
Dividends paid	note 4	(12,782)	(12,022)
Purchases of treasury shares	note 16	(5,639)	(5,445)
Sales of treasury shares	note 16	5,660	5,110
Repayment of lease liabilities [1]		(6,162)	-
Net cash provided by (used in) financing activities		(16,711)	(10,508)
Increase (decrease) in cash and cash equivalents		**18,009**	**4,021**
Cash and cash equivalents at opening	note 21	102,223	98,134
Increase (decrease) in cash and cash equivalents		18,009	4,021
Effect of changes in foreign exchange rates		326	68
Cash and cash equivalents at closing	note 21	120,558	102,223
Net cash provided by (used in) operating activities		48,961	28,783
+ Net cash provided by (used in) investing activities		(14,241)	(14,254)
- Acquisition cost of companies purchased		7,629	7,102
- Repayment of lease liabilities [1]		(6,162)	-
Free cash flow	note 41	36,187	21,631
Income tax (paid) / reimbursed, net		(4,208)	(6,391)
Interest paid on lease liabilities		(163)	-
Interest paid		-	-

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements. The principal aggregates impacted in the statement of cash flows are amortization and depreciation charges, and the repayment of lease liabilities.

The notes 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)	Note	Share capital									
		Number of shares	Par value per share	Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	**Equity, Group share**	Non controlling interests (1)	**Equity**
Balance at January 1, 2018		31,571,096	1,00	31,571	12,270	(298)	(9,872)	117,538	151,209		151,209
Net income								28,740	28,740		28,740
Other comprehensive income							318	102	420		420
Comprehensive income							318	28,842	29,159		29,159
Exercised stock options	16	275,661	1,00	276	1,573				1,849		1,849
Fair value of stock options	16							493	493		493
Sale (purchase) of treasury shares	16					(262)			(262)		(262)
Profit (loss) on treasury shares	16							(49)	(49)		(49)
Dividend paid	4							(12,022)	(12,022)		(12,022)
Balance at December 31, 2018		31,846,757	1,00	31,847	13,843	(560)	(9,554)	134,802	170,377		170,377
Net income								29,305	29,305	19	29,324
Other comprehensive income							73	(485)	(412)		(412)
Comprehensive income							73	28,820	28,893	19	28,912
Exercised stock options	16	252,343	1,00	252	1,959				2,211		2,211
Fair value of stock options	16							693	693		693
Sale (purchase) of treasury shares	16					(138)			(138)		(138)
Profit (loss) on treasury shares	16							106	106		106
Integration of Retviews and minority shares purchase commitment (1)	20							(6,500)	(6,500)	140	(6,360)
Dividend paid	4							(12,782)	(12,782)		(12,782)
Balance at December 31, 2019 (2)		**32,099,100**	**1,00**	**32,099**	**15,802**	**(698)**	**(9,481)**	**145,141**	**182,863**	**159**	**183,022**

(1) These amounts are the result of the acquisition of Retviews. Note 2.29 hereafter describes the impact of this acquisition on the Group's financial statements.

(2) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

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

Notes to the consolidated financial statements

All amounts in the tables are in thousands of euros, unless otherwise indicated.

The Lectra Group, hereafter the Group, refers to Lectra SA, hereafter the Company, and its subsidiaries. The Group's consolidated financial statements were drawn up by the Board of Directors on February 25, 2020 and will be proposed to the Shareholders' Meeting for approval on April 30, 2020.

NOTE 1 BUSINESS ACTIVITY

A French high technology company, Lectra has developed privileged and long-term relationships with its customers in over 100 countries. They all have operational excellence in common and the soft materials they use – fabrics and leather, but also technical textile and composite materials – to manufacture their products (garments, shoes and luggage, car seats and interiors, airbags, sofas…).
In order to increase customers' competitiveness, Lectra creates premium technologies specifically for its customers' markets – mainly fashion, automotive and furniture. Lectra's solutions, combining software, automated cutting equipment and associated services, enable customers to automate and optimize product design, development and manufacturing, and to digitalize their processes.
Lectra's offer supports customers to achieve their strategic objectives: to boost productivity; to reduce cutting costs; to reduce time-to-market; to meet the challenges of globalization; to enhance product quality; to increase production capacity; and to develop their brands. In addition, customers now face challenges specific to Industry 4.0, such as securing digital communications along an extended supply chain, and making the factory more agile.
Established in 1973, Lectra has been listed on Euronext Paris since 1987.

Business model

Lectra's business model is based on three pillars:

- the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and the very large number of customers throughout the world;
- a balanced revenue mix between revenues from software licenses, equipment and non-recurring services, and recurring revenues;
- the generation of significant annual free cash flow.

Worldwide presence

Since the mid-1980s Lectra, with headquarters located in France, has established its global footprint.
The Group supports customers through its unrivalled network of 34 sales and services subsidiaries, from which Lectra generates over 90% of revenues.
Lectra also has an International Advanced Technology & Conference Center in Bordeaux-Cestas (France) where the Company welcomes customers from all over the world, and five international Call Centers, based in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China).

Customers

From global corporations to smaller national companies, Lectra's customers are, for the most part, fashion and apparel brands, manufacturers and retailers, automotive equipment manufacturers and subcontractors, and furniture brands and manufacturers.

Products and services

The Group markets end-to-end integrated technology solutions: software, automated cutting equipment services. The distinctive feature of Lectra's offer is to integrate business expertise with the best industrial practices for each market sector. All Lectra software and equipment, including electronics, are designed and developed in-house.
Equipment is assembled from parts produced by a network of subcontractors and tested in the Company's industrial facilities in Bordeaux-Cestas (France). Since 2007, cutting machines on the market incorporate hundreds of sensors which connect them to Lectra's Call Centers, enabling preventive and predictive maintenance.
The services include technical maintenance, support, training and consulting.
The Group also sells consumables and parts for its equipment.

People

Lectra's strength lies in the skills and experience of close to 1,800 employees worldwide. Thanks to Lectra's global presence the Group is geographically close to its customers, wherever they are in the world.

NOTE 2 ACCOUNTING RULES AND METHODS

NOTE 2.1 CURRENT ACCOUNTING STANDARDS AND INTERPRETATIONS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:
https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

The consolidated financial statements at December 31, 2019 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2018 financial statements, with the exception of the standard and interpretation presented below. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 25, 2020 and audited by the Statutory Auditors.

The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2019.

After analysis, application of IFRIC 23 (*Uncertainty over income tax treatments*) from January 1, 2019, does not have a significant impact on the Group's financial statements. IFRIC 23 does not impact the methods used by the Group up to now for assessing income tax related uncertainties. On the other hand, income tax related risks, previously classified under provisions, are now classified under tax related liabilities. The Group has chosen partial retrospective application of this interpretation.

The Group is not impacted by other changes in standards, amendments or interpretations.

Implementation of IFRS 16 – *Leases*

The Group applies, as from January 1, 2019, the new standard IFRS 16 – *Leases*.

The Group rents its office locations in most of the countries where it operates, with the notable exception of the Bordeaux-Cestas site in France, which it owns. Moreover, the contracts entering the scope of IFRS 16 also include vehicle rentals and IT equipment leases.

Until then, every lease contract was qualified either as finance lease or an operating lease, with a distinct accounting treatment for each category.

In application of IFRS 16, all lease contracts are now recognized as assets by way of booking a right-of-use, and as liabilities with a debt corresponding the discounted value of future payments. As authorized by the standard, the Group does not recognize in the balance sheet: short-term leases (less than or equal to 12 months) or those relating to low-value assets (threshold at $5,000).

The lease term is defined contract by contract and corresponds to the non-cancellable period of a lease, together with both periods covered by an option to extend the lease which will be reasonably certainly exercised, and periods covered by an option to terminate the lease, at the lessee's sole discretion, when the option to terminate is certain not to be exercised.

The discount rates used by the Group correspond to the rates at which the Group companies would be able to subscribe a financial borrowing (incremental borrowing rate). They are determined on the basis of the risk-free rate per currency and per maturity, to which a credit spread is added. For the two main currencies used by the Group, the weighted-average incremental borrowing rates amount to 0.30% for the euro and 3.03% for the US dollar at January 1, 2019.

The Group opted for the simplified retrospective transition method which entails accounting for the cumulative effect of initially applying the standard by considering that the asset relating to the right-of-use is equal to the lease payments debt, adjusted for prepaid lease payments and lease incentives received from lessors. Moreover, the following simplification measures have been applied at the transition date:

- Contracts with a residual term under 12 months at January 1, 2019 did not give rise to a right-of-use asset and a lease liability;

- A single discount rate was used for a portfolio of leases with similar characteristics. The discount rates applied at the date of implementation were based on the incremental borrowing rate by entity and by currency, taking into account the economic environment of each country. Moreover, on the transition date, the discount rates were determined based on the residual term of the contracts.

The main impacts of the first of application of IFRS 16 on the opening statement of financial position are as follows:

- The booking of rights-of-use and lease liabilities, for an amount of 19,201 thousand euros;
- The reclassification of prepaid lease payments as an increase to the rights-of-use, for an amount of 119 thousand euros;
- The cancellation of deferred rent (corresponding to past rent-free periods), as a decrease to the rights-of-use, for an amount of 471 thousand euros.

The impact of the standard's application is negligible on the income statement. In order to maintain comparability for the free cash flow with prior periods, it has been restated for the amount of repayment of lease liabilities.

The following tables summarize the effects of IFRS 16 adoption on the consolidated statement of financial position as at January 1, 2019, for each of the items concerned, and on the consolidated income statement as at December 31, 2019:

ASSETS

(in thousands of euros)	January 1, 2019	*Booking of rights-of-use and lease obligations*	*Reclassification of prepaid and defered lease payments*	Total IFRS 16 impact	December 31, 2018
Goodwill	39,473	-	-	-	**39,473**
Other intangible assets	3,688	-	-	-	**3,688**
Leasing rights-of-use	18,848	*19,201*	*(352)*	18,848	**-**
Property, plant and equipment	26,347	-	-	-	**26,347**
Other non-current assets	14,425	-	-	-	**14,425**
Deferred tax assets	9,194	-	-	-	**9,194**
Total non-current assets	111,975	*19,201*	*(352)*	18,848	**93,127**
Inventories	34,326	-	-	-	**34,326**
Trade accounts receivable	58,564	-	-	-	**58,564**
Other current assets	14,997	-	*(450)*	(450)	**15,447**
Cash and cash equivalents	102,223	-	-	-	**102,223**
Total current assets	210,110	-	*(450)*	(450)	**210,560**
Total assets	**322,085**	***19,201***	***(802)***	**18,398**	**303,687**

EQUITY AND LIABILITIES

(in thousands of euros)	January 1, 2019	*Booking of rights-of-use and lease obligations*	*Reclassification of prepaid and defered lease payments*	Total IFRS 16 impact	December 31, 2018
Share capital	31,847	-	-	-	31,847
Share premium	13,843	-	-	-	13,843
Treasury shares	(560)	-	-	-	(560)
Currency translation adjustments	(9,554)	-	-	-	(9,554)
Retained earnings and net income	134,802	-	-	-	134,802
Non-controlling interests	-				-
Total equity	170,377	-	-	-	170,377
Retirement benefit obligations	9,823	-	-	-	9,823
Non-current lease liabilities	14,065	*14,065*	-	14,065	-
Minority shares purchase commitment	-	-	-	-	-
Borrowings, non-current portion	-	-	-	-	-
Total non-current liabilities	23,888	*14,065*	-	14,065	9,823
Trade and other current payables	59,066	-	*(598)*	(598)	59,664
Deferred revenues	56,021	-	*(204)*	(204)	56,225
Current income tax liabilities	3,488	-	-	-	3,488
Current lease liabilities	5,136	*5,136*	-	5,136	-
Minority shares purchase commitment	-	-	-	-	-
Borrowings, current portion	-	-	-	-	-
Provisions for other liabilities and charges	4,110	-	-	-	4,110
Total current liabilities	127,821	*5,136*	*(802)*	4,334	123,487
Total equity and liabilities	**322,086**	***19,201***	***(802)***	**18,398**	**303,687**

INCOME STATEMENT

(in thousands of euros)	2019 (incl. IFRS 16)	IFRS 16 impacts	2019 (excl. IFRS 16)
Revenues	280,023	-	280,023
Cost of goods sold	(74,808)	-	(74,808)
Gross profit	205,214	-	205,214
Research and development	(22,019)	-	(22,019)
Selling, general and administrative expenses	(142,306)	72	(142,378)
Income from operations	40,889	72	40,818
Financial income	461	-	461
Financial expenses	(556)	(184)	(372)
Foreign exchange income (loss)	(719)	5	(724)
Income before tax	40,075	(107)	40,183
Income tax	(10,751)	28	(10,779)
Net income	**29,324**	**(79)**	**29,404**
of which, Group share	**29,305**	**(79)**	**29,385**
of which, Non-controlling interests	19	-	19
(in euros)			
Earnings per share, Group share:			
- basic	0.92		0.92
- diluted	0.90		0.90
Shares used in calculating earnings per share			
- basic	31,977,237		31,977,237
- diluted	32,395,083		32,395,083

NOTE 2.2 BASIS FOR PREPARATION

The Group's consolidated financial statements are prepared on a historical cost basis with the exception of the assets and liabilities listed below:

- Cash equivalents, recorded at fair value through profit or loss;
- Loans and receivables, together with borrowings and financial debts, trade payables and other current financial liabilities, recognized at their amortized cost;
- Derivative financial instruments, recorded at fair value through profit or loss, or other comprehensive income. The Group uses such instruments to hedge its foreign exchange risks (see note 3 'Risk 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 twelve 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 twelve months after the close of the financial year.

NOTE 2.3 GOODWILL

Goodwill solely relates to controlled entities. Other interests held are either accounted for under the equity method for entities held under significant influence, or classified as non-current financial assets.
Goodwill is calculated at the acquisition date, as the difference between (i) the total of the fair value of the consideration transferred and the amount of non-controlling third-party interest in the acquiree, and (ii) the net of the amounts of the identifiable assets acquired and the liabilities assumed.
Goodwill recognized in a foreign currency is translated at the year-end exchange rate.

Each goodwill is allocated to one or several Cash Generating Units (CGU) defined as being a sales subsidiary or group of more than one sales subsidiaries, generating cash inflows largely independent from the other assets.
Taking into account expected future revenue streams, goodwill is tested for possible impairment loss for each CGU at each closing date, or during the year when there is indication that it may be impaired.

NOTE 2.4 OTHER INTANGIBLE ASSETS

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

Information management software

This item contains only software utilized for internal purposes.
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 personnel 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.

NOTE 2.5 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. Depreciation is computed on this net amount.
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.

NOTE 2.6 LEASES

In accordance with IFRS 16, *Leases*, all leases eligible under the criteria of the standard are now reported by recognizing a right-of-use asset and a liability corresponding to the present value of the future lease payments.

Measurement of right-of-use assets

On the commencement date of the lease, the right-of-use asset is assessed at cost and includes the initial amount of the lease liability plus any lease payments prepaid to the lessor, net of any incentives received from the lessor.

The right-of-use asset is subject to straight-line depreciation over the lease term determined to measure the lease liability and corresponds to the period of the obligation, taking account of periods covered by renewal options that are reasonably certain to be exercised, and by termination options that are reasonably certain not to be exercised.

Measurement of lease liabilities

On the commencement date of the lease, the lease liability is recorded as the present value of future lease payments over the term of the lease. The Group has chosen a term of 9 years for its property leases in France, having entered into firm 6-year leases for its Paris premises. Other property leases entered into by subsidiaries do not contain renewal options exercisable at the sole discretion of the lessee.

The lease liability is measured including the amounts of the following payments:

- fixed lease payments;
- variable lease payments that depend on a rate or an index, using the rate or index at the commencement date of the lease;
- payments to be made by the lessee in respect of a residual value guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- penalties to be paid in the event an option was exercised for termination or non-renewal of the lease, if the lease term reflects the assumption that the lessee would exercise that option.

The lease liability evolves over time in the following way:

- it increases by the amount of interest expense computed by applying the discount rate to the liability, at the start of the period. The discount rates applied are based on the incremental borrowing rates per company and per currency, notably taking account of each country's specific economic environment;
- and it is reduced by the amount of payments made.

The interest expense for the period, as well as variable payments not taken into account during the initial assessment of the liability that were incurred during the period in consideration, are booked as expenses.

Furthermore, the liability may be reassessed in the following circumstances:

- modification of the lease term;
- modification relating to the reasonable degree of certainty (or otherwise) that the lessee will exercise an option to purchase the underlying asset;
- reassessment relating to residual value guarantees;
- changes in the rates or indexes used to determine the lease payments when the payment adjustment occurs.

On the balance sheet, the Group distinguishes between long-term lease liabilities and short-time lease liabilities based on a maturity schedule (see note 19).

Types of leases

The Group rents its offices in most of the countries where it operates, with the notable exception of the Bordeaux-Cestas site, which it owns. Furthermore, the leases within the scope of IFRS 16 also include leases for vehicles and for IT equipment hardware.

Exemptions

As authorized by IFRS 16, the Group does not recognize on the balance sheet: short-term leases (lease term less than or equal to twelve months) and leases of low-value items (threshold at $5,000).

NOTE 2.7 FIXED ASSETS 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 subject to impairment testing. Impairment tests on goodwill are carried out systematically at least once a year.

In order to be tested, assets are regrouped within Cash Generating Units (CGU), defined as the smallest group of assets generating cash inflows deriving from their continuous use, largely independent from cash inflows generated by other assets. The Group has defined its CGUs as being its operating subsidiaries or in some cases a group of several subsidiaries.

Goodwill resulting from business combinations is allocated to the CGUs likely to benefit from the combination synergies.

Goodwill

Goodwill is tested for impairment by comparing its carrying value with the recoverable amount of the CGU it has been allocated to, 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 fixed assets

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 CGU) 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. 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', or 'Selling, general and administrative expenses' in the income statement depending on the nature and use of the assets concerned.

NOTE 2.8 OTHER NON-CURRENT ASSETS

This item mainly comprises the long-term portion of the research tax credit receivable, investments in subsidiaries and receivables relating to financial investments in non-consolidated companies.
Investments in subsidiaries are recorded at fair value through profit or loss, as required by IFRS 9.

NOTE 2.9 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 shown in the statement of financial position. 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 fiscal 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.

NOTE 2.10 INVENTORIES

Inventories of raw materials are valued at the lower of purchase 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.
The purchase cost of raw materials and the industrial cost of works-in-progress and finished goods is calculated with the weighted-average cost method.
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 the net realizable value is lower than the book value.
Write-downs on inventories of consumables and parts 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.

NOTE 2.11 TRADE ACCOUNTS RECEIVABLE

Accounts receivable are originally accounted for in the statement of financial position at their fair value, and thereafter at their amortized cost, which generally corresponds to their nominal value. Impairment is recorded based on expected credit losses over the lifetime of receivables according to IFRS 9 and also 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 periods, trade accounts receivable are not discounted.

NOTE 2.12 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 if any. Cash equivalents comprise negotiable certificates of deposit issued by the Company's banks. Interest-bearing sight accounts and time deposits opened in the Company's banks are treated as cash. All these holdings are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, as specified by IAS 7.

Net cash (as shown in note 21.1) is defined as the amount of 'Cash and cash equivalents' less financial borrowings (as shown in note 21.2) when this difference is positive. When this difference is negative, the result corresponds to a net financial debt.

Cash equivalents are recognized at their fair value; changes in fair value are recognized through profit or loss.

NOTE 2.13 CAPITAL MANAGEMENT POLICY

In managing its capital, the Group seeks to achieve the best possible return on capital employed.

The liquidity of Lectra's shares on the stock market has been ensured by means of a liquidity agreement with Exane BNP Paribas (see note 16.2).

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 while preserving the necessary cash to fund the Group's future development.

NOTE 2.14 STOCK OPTIONS

The Company has granted stock options to Group employees and managers. The Chairman and CEO, holding more than 10% of the Company's share capital, is not eligible to any stock options program. 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 (see note 16.5).

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, for the options granted before September 28, 2012. Those granted after this date are no longer concerned, as tax and social security regulations have changed.

The application of IFRS 2 has resulted in the recognition of an expense corresponding to the fair value of the advantage granted to beneficiaries.

This expense is recognized in personnel costs with a counterpart in equity. It is measured using the Black & Scholes model and is deferred *prorata temporis* over the stock options' vesting period.

NOTE 2.15 BORROWINGS AND FINANCIAL DEBT

The Group has had no borrowing or financial debt since March 31, 2015.

NOTE 2.16 RETIREMENT BENEFITS OBLIGATIONS

The Group is subject to a variety of deferred employee benefits plans, in France or depending on the subsidiary concerned. The only deferred employee liabilities are retirement benefits 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 period. They are expensed as incurred, as are 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.

Defined benefits 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 industry-wide 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 investment-grade 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.
Actuarial gains and losses are recognised in other comprehensive income, in accordance with the principles set forth in IAS 19.
The relevant portion of any change in past-service cost is recognised immediately as a loss (in the case of an increase) or as a gain (in the case of a reduction) in the income statement when a plan is amended, in accordance with the principles set forth in IAS 19.

NOTE 2.17 COMMITMENTS TO PURCHASE MINORITY SHARES

Commitments given to minority shareholders of subsidiaries to purchase their shares are initially recorded as liabilities in the amount of the discounted value of the exercise price, against shareholders' equity (Group share).
When the Group purchases minority shares in 2020, 2021 and 2020, in accordance with the purchase agreement, 'Non-controlling interests' will be reclassified under shareholders' equity, Group share, without affecting the income statement.

NOTE 2.18 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 reversal is deducted from the corresponding expenses.

Provision 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 of the booking of the sale generating a contractual obligation of warranty.

NOTE 2.19 TRADE PAYABLES

Trade accounts payables refer to obligations to pay for goods or services acquired in the ordinary course of business. They are classified in current liabilities when payment is due in less than twelve months, or in non-current liabilities when payment is due in more than one year.

NOTE 2.20 REVENUES

Contracts with customers comprise multiple obligations such as CAD/CAM equipment, CAD/CAM and PLM software, consumables and parts, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software.
Software sales are only recognized separately when the customer can benefit from the software

independently from the other goods and services promised in the contract. In particular, the software accompanying CAD/CAM equipment (called pilots) are not recognized separately from these, as they are an integral part to the equipment, allowing it to work: without the pilot, the equipment would be useless, and without the equipment, the pilot has no use either. However, specialized software (for instance, software for collection management, pattern-making, simulation), under perpetual license, usually installed on the clients' computers, sold separately from the equipment on a regular basis, are considered separate performance obligations.

The other obligations are considered as separate under IFRS 15 and are thus accounting for based on the following elements among others:

- Installation of equipment and specialized software is made in a few days, easy to implement, and does not modify their characteristics;
- Training is short-term and had no interdependence relationship with the other obligations;
- Consulting usually regards the optimization of clients' production and is very often sold separately to clients;
- Regarding maintenance of software and equipment, these are yearly contracts in which the Group's commitment is a stand-ready type, or an obligation to make future not-yet-planned versions of the software available. The solutions (equipment and software) are distinct from maintenance / assistance / evolution since they are entirely ready to work upon delivery and since maintenance / assistance / evolution services are not critical for the client in order to use the solution. Equipment is sold most often with one or two years of maintenance, and the client holds renewal options that are not discounted compared to the initial price for subscribing maintenance. Renewal options are thus not considered as significant rights that would require separate accounting under IFRS 15.

The company determines stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices are estimated based on the company's pricing policy, reflecting expected costs plus an appropriate margin.

Revenue from sales of equipment (including pilot software) is recognized when the control has been transferred to the purchaser. These conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

Software sold as perpetual licenses is regarded as right-of-use licenses under IFRS 15, for which revenue is booked at a certain date, generally the time of installation of the software on the customer's computer (either by CD-ROM or downloading).

Revenue from subscription sales of software is spread over the duration of the customer's commitment.

Revenue from training and consulting is recognized based on the completion of hours or days of work performed by the teams.

Revenue from equipment and specialized software installation is recognized when these services are rendered.

Revenue from software and equipment maintenance contracts is spread linearly over the duration of the contracts, as they are 'stand-ready obligations'.

Equipment is designed, made and assembled by the Group from parts produced by a network of subcontractors. Lectra acts as principal in the sale of equipment insofar as parts only constitute inputs used in the manufacturing of finished goods sold to customers.

NOTE 2.21 COST OF GOODS SOLD

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the net change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight out costs on equipment 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'.

NOTE 2.22 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, setting the stage for their commercialization. Consequently, the technical and economic criteria requiring the recognition of

development costs in assets at the moment they occur are not met, and these, together with research costs, are therefore fully expensed in the period in which they are incurred.
The French research tax credit (crédit d'impôt recherche), as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

NOTE 2.23 GRANTS

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 deducted from their associated charges in the income statement. This applies to subsidies received to finance research and development projects.
The research tax credit is treated as a subsidy and is discounted in light of the probability of future offsetting against income tax and in light of reimbursement of the unused portion after four years (see notes 10 and 15).

NOTE 2.24 BASIC AND DILUTED EARNINGS PER SHARE/EARNINGS PER SHARE

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the period, excluding the weighted-average number of treasury shares.
Diluted net earnings per share are calculated by dividing net income by the weighted-average number of shares adjusted for the dilutive effect of stock options outstanding during the period and excluding the weighted-average number of treasury shares held solely under the Liquidity Agreement.
The dilutive effect of stock options is computed in accordance with the share repurchase method provided by IAS 33. The assumed proceeds from exercise of stock options are regarded as having been used to repurchase shares at the average market price during the period. The number of shares thus obtained is deducted from the total number of shares resulting from the exercise of stock options.
Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the diluted capital.

NOTE 2.25 OPERATING SEGMENTS

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments disclosed in note 37 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the Group's 'chief operating decision maker'.
Operating segments refer to the major marketing regions that combine countries with similar economic characteristics in terms of type of product and service, customer type and distribution method. The regions concerned are: the Americas; Northern and Eastern Europe and Middle East; Southern Europe and North Africa; and Asia-Pacific. These regions are involved in sales and the provision of services to their customers. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, production, R&D, finance, legal affairs, human resources, information systems. All of these cross-divisional activities are reported as an additional operating segment referred to here as the 'Corporate' segment.
Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external customers; all inter-segment billings are excluded from this item.
The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include added value supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross profit is retained in the income computed for the Corporate segment in order to cover its costs. Since most of the Corporate segment's general overheads are fixed, its profit margin and consequently its income from operations depend mainly on the volume of business generated by marketing regions.

NOTE 2.26 PERFORMANCE INDICATORS

The Group uses performance indicators such as income from operations, free cash flow, and the security ratio, as defined above; it considers these aggregates appropriate for management of the Group and for measurement of the implementation of its strategy.

Income from operations before non-recurring items

The Group uses an intermediate balance referred to as 'Income from operations', defined as income excluding financial operations, companies accounted for by the equity method, discontinued operations or those held for sale, and income tax.
When the Group identifies non-recurring items, it 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 income and plus non-recurring expenses, as set forth in CNC (French National Accounting Council) recommendation 2009-R.03.
Where applicable, non-recurring items excluded from income from operations before non-recurring items reflect the impact on the financial statements of events that are either unusual, abnormal and infrequent. There are very few of these and their amounts are significant.

Free cash flow

Free cash flow is equal to net cash provided by operating activities minus cash used in investing activities, excluding cash used for acquisitions of companies (net of cash acquired), and minus repayments of lease liabilities according to IFRS 16.
The Group considers this definition of free cash flow as a performance indicator of the teams' work on cash management. Lease liabilities (according to IFRS 16) do not affect performance as monitored by the Group.

Security ratio

The security ratio is defined by the Group as the percentage of annual fixed overhead costs covered by gross profit on recurring revenues.
This ratio is used by the Group to measure of the coverage of annual fixed-overheads costs by revenues that do not depend on customer's investment decisions from one year to the next.

NOTE 2.27 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 accounting policies. The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the establishment of the consolidated financial statements, relate to goodwill (see note 6) and fixed assets impairment, evaluation of deferred tax assets (see note 12.3), and evaluation of rights-of-use and lease liabilities as part of implementation of IFRS 16 – Leases (see notes 9 and 19).

NOTE 2.28 TRANSLATION METHODS

Translation of financial statements of foreign subsidiaries

For most subsidiaries, which are all foreign companies, the functional currency is the local currency, which corresponds to the currency in which the majority of their transactions are denominated.
Accounts 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 consolidated subsidiaries, and those derived from the use of average exchange rates to determine income or loss, are recognized

in 'Currency translation adjustment' in other comprehensive income 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 purchases and revenues are booked at the average exchange rate for the month in which they are recorded, and may be hedged.
Receivables and payables denominated in foreign currencies are translated at the December 31 exchange rate.
Unrealized differences arising from the translation of foreign currencies appear in the income statement.
Where a currency has been hedged forward, the translation adjustment reflected on the income statement is offset by the 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 other comprehensive income 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 of main currencies

(equivalent value for one euro)	2019	2018
US dollar		
Annual average rate	1.12	1.18
Closing rate	1.12	1.15
Chinese yuan		
Annual average rate	7.73	7.81
Closing rate	7.84	7.86

NOTE 2.29 CONSOLIDATION METHODS

The consolidated financial statements include the accounts of the parent company Lectra SA and the subsidiaries the Group controls. The Group controls a subsidiary when it is exposed or has rights to variable earnings due to its links with the entity and its ability to change these earnings owing to the power it holds over the entity.
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 or at which these entities are liquidated.
Lectra SA holds more than 99% of the voting rights of its subsidiaries except for Retviews SA and Retviews Bucharest SRL, for which it holds 70%. They are consolidated and designated FC (fully consolidated) in the schedule below.
Certain sales and service subsidiaries not material to the Group, either individually or in the aggregate, are not consolidated. Most of these subsidiaries' sales activity is billed directly by Lectra SA. They are designated NC (non-consolidated) in the schedule.
Companies are consolidated on the basis of local 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.

Scope of consolidation

At December 31, 2019, the Group's scope of consolidation comprised Lectra SA together with 31 fully-consolidated companies.

			% of ownership and control		Consolidation method [1]	
Company	City	Country	2019	2018	2019	2018
Parent company						
Lectra SA	Cestas	France			FC	FC
Subsidiaries						
Lectra Australia Pty Ltd	Melbourne	Australia	100.0	100.0	FC	FC
Lectra Benelux NV	Gent	Belgium	99.9	99.9	FC	FC
Retviews SA	Bruxelles	Belgium	70.0	-	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
Lectra Danmark A/S	Herning	Denmark	100.0	100.0	FC	FC
Lectra Baltic Oü	Tallinn	Estonia	100.0	100.0	FC	FC
Lectra Suomi Oy	Helsinki	Finland	100.0	100.0	FC	FC
Lectra Deutschland GmbH	Munich	Germany	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
Kubix Lab Srl	Vicenza	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 Maroc Sarl	Casablanca	Morocco	99.4	99.4	FC	FC
Lectra Portugal Lda	Porto	Portugal	99.9	99.9	FC	FC
Retviews Bucharest SRL	Bucharest	Romania	70.0	-	FC	-
Lectra Russia OOO	Moscow	Russia	100.0	100.0	FC	FC
Lectra South Africa (Pty) Ltd	Durban	South Africa	100.0	100.0	FC	FC
Lectra Korea Ltd	Seoul	South Korea	100.0	100.0	FC	FC
Lectra Sistemas Española SAU	Madrid	Spain	100.0	100.0	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 Tunisie SA	Tunis	Tunisia	99.8	99.8	FC	FC
Lectra Tunisie CP SARL	Tunis	Tunisia	100.0	100.0	FC	FC
Lectra Systemes CAD - CAM AS	Istanbul	Turkey	99.0	99.0	FC	FC
Lectra UK Ltd	Greengates	United Kingdom	99.9	99.9	FC	FC
Lectra USA Inc.	Atlanta	USA	100.0	100.0	FC	FC
Công Ty TNHH Lectra Vietnam	Hô-Chi-Minh-City	Vietnam	100.0	100.0	FC	FC
Lectra Chile SA	Santiago	Chile	99.9	99.9	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

On July 15, 2019, the Group announced the acquisition of the Belgian company Retviews SA and its Romanian subsidiary Retviews Bucharest SRL.
Founded in 2017, Retviews has developed an innovative technological offer that enables fashion brands to analyze real-time market data, in order to increase their sales and margins. Today, more than 30 brands use Retviews in France and Belgium.
Retviews and its Romanian subsidiary have been fully consolidated since July 15, 2019.
The impact on the second half of 2019 is 0.5 million euros on revenues, and 0.1 million euros on income from operations.
The transaction involved the immediate acquisition of 70% of the capital and voting rights of Retviews for 8,000 thousand euros. The acquisition of the remaining capital and voting rights will take place in three installments in July 2020, July 2021 and July 2022 for the amounts of about 0.9 times 2020 revenues, 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.
The purchase price accounting is in the process of being finalized. As of today, the main impacts on the Group's financial statements are:

- Goodwill recorded for an amount of 7,673 thousand euros;
- Non-controlling interests recorded for an amount of 140 thousand euros, measured at their proportionate share in the net assets acquired (using the "partial goodwill method");
- A debt to recognize the minority shares purchase commitment, measured at fair value, recorded for a total amount of 6,500 thousand euros (of which 2,167 thousand euros is classified as current liabilities and 4,333 thousand euros as non-current liabilities). The counterpart is recorded in Equity, Group share.

The acquisition cost for Lectra has been entirely disclosed under the heading 'Acquisition cost of companies purchased' in the statement of cash flows, net of cash acquired, for an amount of 7,650 thousand euros.
In January 2018, the Group had purchased the Italian company Kubix Lab. The entire acquisition of the capital of Kubix Lab had been made for an amount of 7,178 thousand euros.
As the conditional part of this amount was already paid out on an escrow account, and as the Company believes the probability of objectives being met as high, the acquisition cost for Lectra was entirely disclosed under the heading 'Acquisition cost of companies purchased' in the statement of cash flows, net of cash acquired, for an amount of 7,102 thousand euros.
The conditional component in respect of the first 18 months was paid in full (1,300 thousand euros) in July 2019. The residual component, in the amount of 2,700 thousand euros, payable 36 months after signing, subject to the achievement of objectives, does not require adjustment.
Kubix Lab has been fully consolidated since January 26, 2018.
Finally, the purchase price accounting has been finalized without change and the main impact on the Group's financial statements was the goodwill recorded for an amount of 6,964 thousand euros.
There was no other change in the scope of consolidation in 2019 and 2018.

NOTE 3 RISK MANAGEMENT POLICY

The Group's risk management policy contained in these notes to the consolidated financial statements is mainly discussed in the Management Discussion of the Board of Directors, in chapter 4, Risk Factors — Internal Control And Risk Management Procedures and in chapter 13, Business Trends and Outlook, to which readers are invited to refer.

NOTE 3.1 SPECIFIC FOREIGN EXCHANGE RISKS – DERIVATIVE FINANCIAL INSTRUMENTS

Exchange rate fluctuations impact the Group at two levels.

Competitive impact

The Group sells its products and services in global markets. It manufactures its equipment in France, whereas many of its competitors, especially its main competitor, a US company, manufacture their equipment in China. As a result, their production costs are primarily in Chinese yuan, while those of the Group are in euros. Meanwhile, sales prices in many

markets are in US dollars or euros. The exchange rates between these three currencies have, therefore, a competitive impact.

Currency translation impact

On the income statement, as accounts are consolidated in euros, revenues, gross profit, and income from operations of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate fluctuations when translated into euros.

In the statement of financial position, this refers primarily to foreign currency accounts receivable, in particular to those between the parent company Lectra SA and its subsidiaries, and it corresponds to the variation between exchange rates at collection date and those at billing date. This impact is recognized in 'Foreign exchange income (loss)' 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 on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to significantly impact the Group's financial condition and competitive situation. The bulk of foreign currency risks concerns the US dollar.

The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the US dollar (revenues less all expenses denominated in US dollars or strongly correlated currencies) by purchasing dollar puts (or euro calls) or by forward currency contracts, when justified by the cost of the hedge. This was not the case in 2019, nor in 2018.

The Group's statement of financial position exposure is monitored in real time; it uses forward currency contracts to hedge all relevant receivables and debts. Consequently, all changes in the value of these instruments offset foreign exchange gains and losses on the re-measurement of these receivables and debts. The Group does not apply hedge accounted as defined by the IFRS.

NOTE 3.2 INTEREST RATE RISK

Since the Group has no financial debt, it is not exposed to interest-rate risk.

It follows a conservative policy in short-term investing its cash surpluses, placing them only in negotiable certificates of deposit issued by the Group's banks, or in interest-bearing sight accounts or time deposits.

NOTE 3.3 CUSTOMER DEPENDENCY RISK

There is no material risk of dependence on any particular customer or group of customers, as no individual customer has represented more than 4% of consolidated revenues over the last three-year period 2017-2019, and the Company's 10 largest customers combined has represented less than 19% of revenues, and the top 20 customers less than 25%.

NOTE 3.4 CREDIT AND COUNTERPARTY RISKS

The Group is exposed to credit risks in the event of customer insolvency or default, which can negatively impact Group profit. The Group pays close attention to the security of payment for the systems and services delivered to its customers. It manages this risk via a range of procedures, which include in particular preventively analyzing its customers' solvency and provide for the strict and systematic application of several measures for dealing with customers in arrears.

The Group's exposure to counterparty risk is very low. It arises from its cash holdings, only consisting in interest-bearing sight accounts held with blue-chip international banks, and contracts entered into within the framework of its policy on foreign exchange risk hedging, negotiated exclusively in France with the Company's three banks. The corresponding asset values are monitored regularly.

NOTE 3.5 LIQUIDITY RISK

The main indicator monitored by the Group in order to measure a possible liquidity risk is available cash.
This indicator is compared against cash forecasts over a three-month time horizon.
The risk that the Group may have to contend with a short-term cash shortage is close to zero. The Group's free cash represents a substantial and sufficient liquidity reserve.
Thanks to its structurally negative or near-zero working capital requirement, any cash flows generated by the Group bolster its liquidity.

NOTE 4 DIVIDEND

The Board of Directors has proposed to the Shareholders' Meeting on April 30, 2020 to declare a dividend of €0.40 per share in 2020 in respect of fiscal year 2019.
The Company declared a dividend of €0.40 per share in 2019, in respect of fiscal year 2018.

NOTE 5 POST-CLOSING EVENTS

No significant event has occurred since December 31, 2019.

NOTE 6 GOODWILL

The acquisition in July 2019 of a 70 percent interest in the Belgian company Retviews SA and its Romanian subsidiary led to recognition of goodwill in the amount of 7,673 thousand euros. This arises from the estimated total price of 14,500 thousand euros, composed as follows:

- 8,000 thousand euros paid in cash upon signing the acquisition agreement;
- 6,500 thousand euros corresponding to the estimated fair value of the commitment to purchase the minorities' shares, to be paid in three installments. The acquisition of the remaining capital and voting rights shall occur in July 2020, July 2021 and July 2022 for amounts of about 0.9 times 2020 revenues, 0.7 times 2021 revenues, and 0.5 times 2022 revenues, respectively.

As a reminder, the acquisition of Kubix Lab in January 2018 generated a goodwill for an amount of 6,964 thousand euros. This goodwill stemmed from a total acquisition price of 7,178 thousand euros, of which:

- 3,000 thousand euros was paid in cash when the acquisition agreement was signed;
- 178 thousand euros in price adjustment relating to previous years' earnings that had not been distributed to the previous shareholders prior to the acquisition;
- 4,000 thousand euros in earn out split between 1,300 thousand euros and 2,700 thousand euros paid respectively 18 and 36 months after the signature, providing objectives are met. The first earn-out payment, in the amount of 1,300 thousand euros, was made to the seller in July 2019

No other acquisition or liquidation was made in fiscal years 2019 or 2018.

	2019	2018
Book value at January 1	**39,473**	**32,105**
Change in scope of consolidation (1)	7,673	6,964
Goodwill impairment	-	-
Exchange rate differences	233	404
Book value at December 31	**47,380**	**39,473**

(1) Integration of Retviews in 2019 and Kubix Lab in 2018, see note 2.29.

Goodwill shown in the statement of financial position was subjected to impairment testing in December 2019. The projections used are based on the 2020–2022 plan for each CGU based on actual 2019 cash flows and on forecast trends in each market concerned and, beyond 2022, on a projection to infinity using a 2% growth rate assumption.

Future flows after tax are discounted using the weighted average cost of capital. The discount rates adopted differ depending on the CGU to allow for exposure to local economic environments. They break down as follows:

- The cost of capital is determined on the basis of an estimated risk free rate for each CGU 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 1% and 1.5% depending on the estimated risk attached to fulfillment of the 2020–2022 plan;
- The normative cost of debt is determined on the basis of average market conditions for the fourth quarter of 2019 plus the margin applied by the banks.

The resulting estimates of the value in use of goodwill components for the year end closing have not led to any impairment, as in 2018.

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

At December 31, 2019, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2019		2018	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy [1] [2]	7.0%	17,717	7.4%	16,182
France [1] [2]	7.0%	5,983	7.5%	4,065
Germany [2]	7.0%	5,782	7.5%	4,631
Northern Europe [2]	7.0%	2,166	7.5%	1,590
United Kingdom [2]	7.0%	1,839	7.5%	1,202
Portugal	7.0%	220	7.5%	220
Total Europe		33,707		27,890
North America [1] [2]	7.9%	10,201	8.6%	8,146
South America	12.8%	481	14.7%	472
Total Americas		10,681		8,617
Japan	6.1%	463	6.1%	449
Greater China	9.1%	685	9.2%	672
Other Asian Countries	7.6%	1,475	9.6%	1,478
Total Asia		2,623		2,598
Other Countries	13.5%	368	14.4%	368
Total		**47,380**		**39,473**

(1) Integration of Kubix Lab in 2018, see note 2.29.
(2) Integration of Retviews in 2019, see note 2.29.

The goodwill relating to Retviews was allocated to the following CGUs: France for 25%, North America for 25%, Italy for 20%, Germany for 15%, Northern Europe for 7.5% and the United Kingdom for 7.5%.

No reasonably possible variation could lead to an impairment. Indeed, the following sensitivity calculations have been performed:

- A 1 percentage point rise in the discount rate;
- A 1 percentage point decline relative to the revenue growth assumptions for each CGU used in the drawing up of the 2020–2022 plan;
- A 1 percentage point decline in the gross profit margin assumptions used in the drawing up of the 2019–2021 plan;
- A 1 percentage point decline in the long-term growth rate to infinity (from 2% to 1%).

None of these sensitivity calculations would entail any impairment of goodwill.

NOTE 7 OTHER INTANGIBLE ASSETS

2018	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2018	**23,140**	**1,658**	**864**	**25,662**
External purchases	995	65	10	1,070
Internal developments	666	-	-	666
Write-offs and disposals	(66)	-	-	(66)
Exchange rate differences	28	-	(4)	24
Gross value at December 31, 2018	**24,763**	**1,724**	**870**	**27,356**
Amortization at December 31, 2018	(21,308)	(1,498)	(862)	(23,668)
Net value at December 31, 2018	**3,455**	**225**	**8**	**3,688**

2019	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2019	**24,763**	**1,724**	**870**	**27,356**
External purchases	1,380	76	4	1,460
Internal developments	353	-	-	353
Write-offs and disposals	(1,277)	(237)	-	(1,514)
Transfers	(62)	-	(5)	(67)
Exchange rate differences	19	-	-	19
Gross value at December 31, 2019	**25,176**	**1,563**	**869**	**27,607**
Amortization at December 31, 2019	(21,388)	(1,346)	(865)	(23,599)
Net value at December 31, 2019	**3,788**	**216**	**4**	**4,008**

Changes in amortization:

2018	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2018	**(19,999)**	**(1,415)**	**(846)**	**(22,260)**
Amortization charges	(1,366)	(83)	(19)	(1,468)
Amortization write-backs	66	-	-	66
Exchange rate differences	(8)	-	3	(6)
Amortization at December 31, 2018	**(21,308)**	**(1,498)**	**(862)**	**(23,668)**

2019	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2019	**(21,308)**	**(1,498)**	**(862)**	**(23,668)**
Amortization charges	(1,342)	(85)	(5)	(1,432)
Amortization write-backs	1,277	237	-	1,514
Transfers	-	-	5	5
Exchange rate differences	(15)	-	(3)	(18)
Amortization at December 31, 2019	**(21,388)**	**(1,346)**	**(865)**	**(23,599)**

INFORMATION MANAGEMENT SOFTWARE

As part of an ongoing process to upgrade and reinforce its information systems, in 2018 and 2019 the Group has purchased licenses of new information management software together with additional licenses for software already in use. Investments concerned license purchase costs together with the cost of developing and configuring the corresponding software.

A growing part of the new management software used by the Group is contracted through subscription, and not the acquisition of licenses, which entails a decrease in the amount of new purchases of this caption, in respect of past years.

Write-offs and disposals of intangible assets mainly concern the scrapping of obsolete software.

OTHER INTANGIBLE ASSETS

At December 31, 2019, nearly all of the other intangible assets were fully amortized several years ago. The net residual value of these intangible assets was 4 thousand euros.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

2018	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2018	**14,227**	**19,667**	**27,808**	**61,703**
Additions	586	1,218	4,005	5,809
Change in scope of consolidation [(1)]	-	-	16	16
Write-offs and disposals	(702)	(1,079)	(1,593)	(3,374)
Exchange rate differences	0	35	(7)	28
Gross value at December 31, 2018	**14,111**	**19,842**	**30,229**	**64,183**
Accumulated depreciation at December 31, 2018	(6,630)	(10,227)	(20,978)	(37,835)
Net value at December 31, 2018	**7,481**	**9,615**	**9,251**	**26,347**

(1) Integration of Kubix Lab in 2018, see note 2.29.

2019	Land and buildings	Fixtures and fittings	Equipment and other	Total
Gross value at January 1, 2019	**14,111**	**19,842**	**30,229**	**64,183**
Additions	784	1,735	2,119	4,639
Change in scope of consolidation [(1)]	-	-	7	7
Write-offs and disposals	-	(979)	(3,158)	(4,138)
Transfers	-	(299)	366	67
Exchange rate differences	(11)	21	57	68
Gross value at December 31, 2019	**14,885**	**20,320**	**29,621**	**64,826**
Accumulated depreciation at December 31, 2019	(6,825)	(10,237)	(20,802)	(37,864)
Net value at December 31, 2019	**8,061**	**10,083**	**8,819**	**26,963**

(1) Integration of Retviews in 2019, see note 2.29.

Changes in depreciation:

2018	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2018	**(7,151)**	**(10,513)**	**(19,596)**	**(37,259)**
Additional depreciation	(181)	(1,020)	(2,700)	(3,901)
Write-offs and disposals	702	1,076	1,586	3,364
Exchange rate differences	(0)	230	(269)	(39)
Accumulated depreciation at December 31, 2018	**(6,630)**	**(10,227)**	**(20,978)**	**(37,835)**

2019	Land and buildings	Fixtures and fittings	Equipment and other	Total
Accumulated depreciation at January 1, 2019	**(6,630)**	**(10,227)**	**(20,978)**	**(37,835)**
Additional depreciation	(195)	(1,260)	(2,547)	(4,002)
Write-offs and disposals	-	971	3,068	4,039
Transfers	-	294	(299)	(5)
Exchange rate differences	1	(16)	(46)	(61)
Accumulated depreciation at December 31, 2019	**(6,825)**	**(10,237)**	**(20,802)**	**(37,864)**

LAND AND BUILDINGS

'Land and buildings' pertain mostly to the Group's industrial facilities in Bordeaux-Cestas (France), amounting to a gross value of 14,144 thousand euros, net of investment grants received and to a net value of 7,384 thousand euros at December 31, 2019. They also include the offices of Lectra Korea, located in Seoul, purchased on May 1, 2014, for a gross amount of 742 thousand euros at December 31, 2019 closing rate.
The facilities in Bordeaux-Cestas cover an area of 11.6 hectares (28.7 acres) and the buildings represent 33,135 sq. m. (356,600 sq. ft.). Land and buildings were partly purchased by the Company under financial leases (the Company became owner of them in October 2002), and partly outright. These have been paid for in full. Investments are made on a regular basis on the Bordeaux-Cestas facilities. In 2019, as in 2018, they mainly related to the extension and rehabilitation of buildings.
At December 31, 2019, the land (non-depreciable) is valued at 990 thousand euros. The buildings total a gross value of 13,895 thousand euros, already 6,825 thousand euros depreciated.

FIXTURES AND FITTINGS

Fixtures and fittings refer to the Bordeaux-Cestas industrial facility and the fittings installed in all Group subsidiaries for a gross amount of 20,320 thousand euros and for a net amount of 10,083 thousand euros at December 31, 2019.
Investments have been made in fixtures and fittings in 2019 (1,735 thousand euros) and in 2018 (1,218 thousand euros) throughout the Group. In 2019, one half of the investments related to the rehabilitation of buildings on the Bordeaux-Cestas facilities, and the other half to the refurbishing of Milan (Italy) and Shanghai (China) offices. In 2018, they related to the rehabilitation of buildings on the Bordeaux-Cestas facilities.

EQUIPMENT AND OTHER

Other fixed assets purchased in 2019 and 2018 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux-Cestas industrial facility.

NOTE 9 LEASING RIGHT-OF-USE ASSETS

The following table sets out right-of-use assets by category:

2019	Premises	Company cars	Equipment and other	Total
Gross value at January 1, 2019	**15,471**	**2,756**	**621**	**18,848**
New contracts	4,094	1,840	588	6,522
Modification of existing contracts	(424)	(33)	(135)	(592)
Disposals	(91)	(212)	(6)	(309)
Exchange rate differences	92	25	1	118
Gross value at December 31, 2019	**19,142**	**4,376**	**1,069**	**24,587**
Accumulated depreciation at December 31, 2019	(4,040)	(1,507)	(342)	(5,889)
Net value at December 31, 2019	**15,102**	**2,869**	**727**	**18,698**

Information on lease liabilities is set out in note 19.

NOTE 10 OTHER NON-CURRENT ASSETS

Since 2018, the Group presents separately the current and non-current part of the income tax receivable related to the French research tax credit. Thus, the portion corresponding to the research tax credit accounted for and not deducted from the corporate income tax in the past three years, and that will be repaid to the Group within the course of the second year (for the research tax credit recorded two years ago), third year (for the research tax credit recorded one year ago) and fourth year (for the research tax credit recorded in the past year), is presented within other non-current assets.

2018	Investments in subsidiaries	Research tax credit receivable	Other non-current financial assets	Total
Gross value at January 1, 2018	**2,239**	**12,807**	**1,643**	**16,688**
Additions	-	5,047	5,180	10,227
Disposals	-	-	(5,551)	(5,551)
Reclassification	-	(5,672)	-	(5,672)
Exchange rate differences	-	-	(3)	(3)
Gross value at December 31, 2018	**2,239**	**12,182**	**1,269**	**15,690**
Impairment provision at December 31, 2018	(1,265)	-	-	(1,265)
Net value at December 31, 2018	**974**	**12,182**	**1,269**	**14,425**

2019	Investments in subsidiaries	Research tax credit receivable	Other non-current financial assets	Total
Gross value at January 1, 2019	**2,239**	**12,182**	**1,269**	**15,690**
Additions	-	5,167	6,082	11,249
Disposals	-	-	(5,901)	(5,901)
Reclassification	-	(2,606)	-	(2,606)
Exchange rate differences	-	-	19	19
Gross value at December 31, 2019	**2,239**	**14,743**	**1,469**	**18,451**
Impairment provision at December 31, 2019	(1,209)	-	-	(1,209)
Net value at December 31, 2019	**1,030**	**14,743**	**1,469**	**17,242**

INVESTMENTS IN SUBSIDIARIES

'Investments in subsidiaries' exclusively concern companies not included in the scope of consolidation.
At December 31, 2019, three sales and service subsidiaries were not consolidated, their revenues being immaterial both separately and in the aggregate. Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA (see note 11).

RESEARCH TAX CREDIT

The Group presents separately the current and non-current portion of the income tax receivable related to the French research tax credit.
Note 15 describes the principles for accounting of the research tax credit receivable.

OTHER NON-CURRENT FINANCIAL ASSETS

'Other non-current financial assets' at December 31, 2019 primarily consisted of deposits and guarantees for 1,092 thousand euros (912 thousand euros at December 31, 2018) together with the amount of 377 thousand euros placed by the Company at the disposal of Exane BNP Paribas, along with company shares under the liquidity agreement (see note 16.2).
The cumulative amount of all transactions on treasury shares by Exane BNP Paribas under the liquidity agreement is shown in additions (in case of sales of shares) and disposals (in case of purchases of shares) of other non-current financial assets (see note 16.2).
The movements for the period also concern cash exchanged between the Company and Exane BNP Paribas, under the liquidity agreement managed by the latter.

NOTE 11 RELATED-PARTY TRANSACTIONS

The amounts below refer to fiscal year 2019 or December 31, 2019, as applicable.

Type of transaction	Items concerned in consolidated financial statements	Non-consolidated subsidiaries concerned	Amounts
Receivables[1]	Trade accounts receivable	Lectra Philippines Inc. (Philippines)	12
		Lectra Chile SA (Chile)	1
Payables[1]	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(1,157)
		Lectra Philippines Inc. (Philippines)	(263)
Sales[2]	Revenues	Lectra Chile SA (Chile)	211
		Lectra Philippines Inc. (Philippines)	380
Purchases[2]	Cost of goods sold		-
Commissions[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(166)
		Lectra Philippines Inc. (Philippines)	(75)
Personnel invoiced[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(1,285)
Fees[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(28)

(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.

All of the parties concerned are non-consolidated subsidiaries acting either as agents or distributors of the Company's products in their respective countries. The transactions in question mainly concern purchases to the parent company for the purposes of their local operations or charges and commissions billed to the parent company in order to cover their overheads when they act as agents, as is generally the case with new systems sales.
Transactions with the Board of Directors are limited to compensation, details of which are provided in notes 31.5 and 31.6.

NOTE 12 TAXES

NOTE 12.1 TAX EXPENSE

	2019	2018
Current tax income (expense)	(9,717)	(10,116)
Deferred tax income (expense)	(1,033)	(61)
Net tax income (expense)	**(10,751)**	**(10,177)**

The research tax credit (*crédit d'impôt recherche*) applicable in France is deducted from R&D expenses (see note 29). It amounts to 9,180 thousand euros in 2019 (8,369 thousand euros in 2018).
The French competitiveness and employment tax credit (*crédit d'impôt compétitivité et emploi*), which was applicable from 2013 to 2018, was shown as a deduction from the corresponding personnel expense in 2018 (see note 31) and amounted to 971 thousand euros in 2018.
These two tax credits are therefore not included in the net tax charge for the two fiscal years presented here.

NOTE 12.2 EFFECTIVE TAX RATE

	2019	2018
Income before tax	**40,075**	**38,917**
Standard rate of corporate income tax in France	31.8%	34.1%
Expense at standard rate of corporate income tax in France	**(12,729)**	**(13,260)**
Effect of other countries' different tax rates	828	1,222
Effect of reduction in unrecognized deferred tax assets	167	346
Effect of tax credits(1)	3,032	3,304
Effect of CVAE(2)	(948)	(1,019)
Effect of other non taxable income and non deductible expenses(3)	(494)	(514)
Others	(607)	(256)
Net tax income / (expense)	**(10,751)**	**(10,177)**
Consolidated effective tax rate	26.8%	26.2%

(1) This mainly includes the non taxation of the research tax credit and the competitiveness and employment tax credit, included in the income before tax.

(2) The "cotisation sur la valeur ajoutée des entreprises" (CVAE – tax on corporate added value) in France satisfies the definition of an income tax as set forth in IAS 12.2.

(3) This mainly corresponds to income or expenses for the year that will never be subject to taxation or tax deduction, including in particular the neutralization for tax purposes of some consolidation entries.

NOTE 12.3 DEFERRED TAXES

Owing to perspectives of future profits for the subsidiaries, related to their risks and functions profiles, the Group considers five years to be a reasonable period for the utilization of tax losses. Beyond that period, because forecasts of activity levels is deemed insufficiently reliable, the corresponding portion of their bases is not recognized. Forecasts made in order to determine the timetable for the utilization of deferred tax losses, based on assumptions consistent with those used in the impairment tests, were established on the basis of a Group three-year plan, extrapolated to five years, subject to annual review, with variants according to the strategic objectives of each of the subsidiaries concerned and allowing for the cyclical difficulties and macroeconomic environment in which it operates.

At December 31, 2019, unrecognized deferred tax assets totaled 1,165 thousand euros, compared with 1,214 thousand euros at December 31, 2018.

The share of deferred taxes directly recognized in equity for the year worked out to a positive 215 thousand euros corresponding to the tax effect of actuarial gains and losses on retirement benefit obligations booking (a negative 54 thousand euros in 2018).

Deferred taxes are listed below according to the type of timing difference:

At December 31	2017	P&L impact	Equity impact	Translation adjustments	Change in scope of consolidation (1)	2018
Tax losses carry-forward	2,216	(664)	-	57	-	1,608
Depreciation/amortization of tangible and intangible assets	1,008	(655)	-	(59)	-	294
Impairment of accounts receivable	431	(102)	-	3	-	331
Write-down of inventories	1,966	268	-	37	-	2,270
Other timing differences	3,645	1,093	(54)	6	-	4,690
Total	**9,266**	**(61)**	**(54)**	**43**	**-**	**9,194**

At December 31	2018	P&L impact	Equity impact	Translation adjustments	Change in scope of consolidation [1]	2019
Tax losses carry-forward	1,608	(501)	-	30	77	1,215
Depreciation/amortization of tangible and intangible assets	294	(558)	-	(23)	-	(287)
Impairment of accounts receivable	331	(58)	-	4	-	277
Write-down of inventories	2,270	(269)	-	76	-	2,077
Financial instruments	-	56	215	8	-	279
Other timing differences	4,690	296	-	42	-	5,028
Total	**9,194**	**(1,033)**	**215**	**137**	**77**	**8,589**

(1) Integration of Retviews in 2019 and Kubix Lab in 2018, see note 2.29.

'Other timing differences' comprise mainly timing differences related to retirement benefits and profit-sharing in France for Lectra SA, as well as timing differences due to invoicing in some subsidiaries (corporate income tax based on invoicing and not revenue). From January 1, 2019, they also include impacts of deferred taxes related to implementation of IFRS 16.

NOTE 12.4 SCHEDULE OF RECOGNIZED TAX LOSSES CARRY-FORWARDS

	Expiration date			
	Until 2020	Between 2021 and 2025	Beyond 2025	Total
Deferred tax assets on tax losses[1]	-	139	1,076	**1,215**

(1) The above expiration date corresponds to the maximum period of utilization. Recognized deferred tax assets are expected to be utilized within a period of one to five years.

NOTE 13 INVENTORIES

	2019	2018
Raw materials	26,606	29,976
Finished goods and work-in-progress[1]	12,703	13,354
Inventories, gross value	**39,310**	**43,330**
Raw materials	(4,359)	(4,564)
Finished goods and work-in-progress[1]	(4,032)	(4,441)
Write-downs	**(8,390)**	**(9,005)**
Raw materials	22,248	25,412
Finished goods and work-in-progress[1]	8,672	8,913
Inventories, net value	**30,919**	**34,326**

(1) Including demonstration and second-hand equipment.

1,648 thousand euros of inventory fully written-down was scrapped in the course of 2019 (736 thousand euros in 2018), thereby diminishing the gross value and write-downs by the same amount. Inventory write-downs charged for the year amounted to 2,396 thousand euros (2,408 thousand euros in 2018). Reversals of previous write-downs relating to sales transactions amounted to 1,369 thousand euros (684 thousand euros in 2018), booked against the charges for the period.

NOTE 14 TRADE ACCOUNTS RECEIVABLE

	2019	2018
Trade accounts receivable, gross value	59,166	61,064
Provision for impairment	(2,233)	(2,500)
Trade accounts receivable, net value	**56,933**	**58,564**

Trade receivables at December 31, 2019 include a great portion of the 58,549 thousand euros, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2020, but not yet collected (compared with 56,225 thousand euros, excluding taxes, at December 31, 2018 in respect of 2019), and for which the counterpart is recorded in 'Deferred revenues' (see note 23). Payments on recurring contracts generally become due on the first day of the period they cover.
Thus, at December 31, 2019, trade accounts receivable, net from deferred revenues and provision for impairment, amount to a negative 1,526 thousand euros (positive 2,339 thousand euros at December 31, 2018).
It should be noted that contract assets, which would be invoices to be issued for the Group, are integrated in the 'Trade accounts receivable' line and do not represent a significant amount.
The Group recognizes an impairment expense on trade accounts in light of an individual analysis of overdue accounts receivable and lifetime expected credit losses. Changes in impairment charges are analyzed below:
The Group recognizes an impairment expense on trade accounts in light of an individual analysis of overdue accounts receivable and lifetime expected credit losses. Changes in impairment charges are analyzed below:

	2019	2018
Impairment at January 1	**(2,500)**	**(2,849)**
Additional impairment	(810)	(1,183)
Write-back of impairment	1,106	1,515
Exchange rate differences	(29)	17
Impairment at December 31	**(2,233)**	**(2,500)**

Changes in 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' (see note 32).

Schedule of gross receivables by maturity:

	2019	2018
Receivables not yet due	45,083	44,803
Receivables overdue, by:	14,082	16,261
- less than 1 month	6,165	7,526
- 1-3 months	2,295	2,477
- more than 3 months	5,622	6,258
Total	**59,166**	**61,064**

The majority of the provisions of accounts receivable and related accounts amounting to 2,233 thousand euros at December 31, 2019 concerned accounts more than three months overdue.

NOTE 15 OTHER CURRENT ASSETS

	2019	2018
Research tax credit [1]	2,639	5,704
Other tax receivables	2,037	1,820
Income tax down-payments	2,610	3,362
Staff and social security receivables	304	329
Other current assets	4,627	4,232
Total other current assets	**12,217**	**15,447**

(1) The current portion of the research tax credit corresponds to the amount receivable within one year.

RESEARCH TAX CREDIT

When the research tax credit applicable in France cannot be deducted from the corporate income tax, it is treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the Company in the course of the fourth year. Owing to that, the Group now presents separately the current and non-current (to be repaid in over a year) part of the income tax receivable related to the French research tax credit (see note 10).

The research tax credit (9,180 thousand euros) for fiscal 2019 was accounted for but not received.

Thus, at December 31, 2019, Lectra SA held a 17,382 thousand euros receivable on the French tax administration (of which 14,743 thousand euros classified within other non-current assets – see note 10). This solely comprised the remaining amount of the research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year: for 2019 (5,167 thousand euros), 2018 (5,039 thousand euros), 2017 (4,537 thousand euros) and 2016 (2,639 thousand euros).

In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the Company does not expect to make any payment in respect of corporate income tax, from which will be deducted in full the research tax credit of each fiscal year. Thus, in Q4 2019, it received the balance outstanding relating to the 2015 tax credit of 5,663 thousand euros and expects to receive the reimbursement of the outstanding balance of these non-deducted tax credits as follows: in 2020 (in respect of the 2016 tax credit), 2021 (in respect of the 2017 tax credit), 2022 (in respect of the 2018 tax credit) and 2023 (in respect of the 2019 tax credit). This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.

If the income tax expense were to rise above the amounts of tax credits for the year, the Company would continue to not pay corporate income tax until the corresponding receivable is deducted in full. Thereafter it would deduct these tax credits each year from the income tax expense for the same year in full and would be required to pay the residual amount.

OTHER TAX RECEIVABLES

Other tax receivables at December 31, 2019 comprised the recoverable value-added tax for parent company and its subsidiaries.

OTHER CURRENT ASSETS

Other current assets comprise prepaid rental expenses, insurance premiums and equipment rental charges.

The reduction in this item in 2019 arises from implementation of IFRS 16 and the corresponding restatement of rental expenses.

NOTE 16 SHAREHOLDERS' EQUITY

NOTE 16.1 SHARE CAPITAL AND SHARE PREMIUM

The share capital at December 31, 2019 totaled €32,099,100, divided into 32,099,100 shares with a par value of €1.00. It was €31,846,757, divided into 31,846,757 shares with a par value of €1.00, at December 31, 2018.
Share capital has increased by 252,343 shares since January 1, 2019, resulting from the exercise of stock options, that is, an increase of €252,343 of share capital together with a total share premium of €1,959,113 (issuance of 275,661 shares in 2018).
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 authorization outstanding such as to alter the number of shares comprising the share capital.
The tables below provide details of changes in the number of shares, the capital and additional paid-in capital and merger premiums in fiscal 2019 and 2018.

Note 16.1.1 Share capital

	2019		2018	
	Number of shares	Share capital (in euros)	Number of shares	Share capital (in euros)
Share capital at January 1	**31,846,757**	**31,846,757**	**31,571,096**	**31,571,096**
Stock options exercised	252,343	252,343	275,661	275,661
Share capital at December 31	**32,099,100**	**32,099,100**	**31,846,757**	**31,846,757**

The shares comprising the capital are fully paid up.

Note 16.1.2 Share premium

	2019	2018
Share premium at January 1	**13,843**	**12,270**
Stock options exercised	1,959	1,573
Share premium at December 31	**15,802**	**13,843**

NOTE 16.2 TREASURY SHARES

The ordinary shareholders' meeting on April 30, 2019 renewed the existing share buyback program authorizing the Board of Directors to buy and sell company shares. The purpose of this program is solely to maintain liquidity in the market of 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).
Since May 21, 2012, Lectra had contracted with Exane BNP Paribas to act as liquidity provider under a liquidity agreement, signed in accordance with the Charter of Ethics of the *Association Française des Marchés Financiers* (AMAFI) recognized by the AMF.
On December 27, 2018, Lectra signed a new contract with Exane BNP Paribas, in accordance with AMF decision n° 2018-01 of July 2, 2018, defining the accepted market practice relating to liquidity agreements on capital shares, applicable as of January 1, 2019. This new contract took effect as of January 2, 2019 and replaced the previous agreement signed on May 11, 2012 with Exane BNP Paribas.

At December 31, 2019, the Company held 31,549 shares, i.e. 0.1% of its capital within the framework of the liquidity agreement (compared with 0.1% at December 31, 2018) for a total of 698 thousand euros (compared with 560 thousand euros at December 31, 2018) representing an average purchase price of €22.13 per share, which has been deducted from shareholders' equity.
The resources allocated to the liquidity agreement also included, at December 31, 2019, the amount of 377 thousand euros.
The Company holds no treasury shares outside the framework of the liquidity agreement.

	2019			2018		
	Number of shares	Amount	Average price per share (in euros)	Number of shares	Amount	Average price per share (in euros)
Treasury shares at January 1 (historical cost)	30,779	(560)	18.20	12,290	(298)	24.23
Liquidity agreement						
Purchases (at purchase price)	282,042	(5,798)	20.56	257,271	(5,445)	21.16
Sales (at sale price)	(281,272)	5,819	20.69	(238,782)	5,110	21.40
Net cash flow(1)	770	21		18,489	(335)	
Gains (losses) on disposals		159			(73)	
Treasury shares at December 31 (historical cost)	**31,549**	**(698)**	**22.13**	**30,779**	**(560)**	**18.20**

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

NOTE 16.3 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 had 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, then Chairman of the Board of Directors, and Daniel Harari, then Chief Executive Officer, had canceled at that time the double voting rights attached to the shares they held.
Following the recommendation of the Board of Directors, the extraordinary shareholders' meeting on September 26, 2014 maintained the principle of one share, one vote following the entry into force of the French March 29, 2014 Act (Law no. 2014-384, the "Florange Act"), reversing the principle that held until now, by providing that shares of listed companies registered for at least two years in the name of the same shareholder will henceforward enjoy double voting rights, and amended the Company bylaws in consequence.
As a result, at December 31, 2019, 31,864,971 shares qualified for normal voting rights, and only 234,129 (i.e. 0.7% of the share capital) for double voting rights. Moreover, no other shares could potentially qualify for double voting rights at some future date.
At December 31, 2019, the theoretical total number of voting rights attached to the Company's shares was 32,333,229. This number has been reduced to 32,301,680 due to the fact that no voting rights are attached to treasury shares (under the liquidity agreement).

NOTE 16.4 STATUTORY THRESHOLDS

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

NOTE 16.5 STOCK OPTION PLANS

At December 31, 2019, 300 employees were the beneficiaries of 1,661,879 options and 2 former employees still held 12,804 options; altogether, 302 persons were beneficiaries of options (respectively 301, 42 and 343 at December 31, 2018).

At that date, the maximum number of shares comprising the share capital, including potential new shares liable to be issued via the exercise of existing rights qualifying for subscription to new shares was 33,714,783, made up as follows:

- share capital: 32,099,100 shares;
- stock options: 1,615,683 shares.

Each option entitles the holder to purchase one new share with a par value of €1.00 at the exercise price set by the Board of Directors on the grant date. If all of the options outstanding were exercised—regardless of whether the beneficiary's options are vested or not yet vested—and regardless of their exercise price relative to their market price at December 31, 2019, the share capital would increase by €1,615,683, together with a total issue premium of €27,207,053.

None of the parent company's subsidiaries have set up a stock option or share purchase plan.

Annual option plans are granted by the Board of Directors at least twenty trading days after the dividend approved by the annual Shareholders' Meeting is made payable, or thirty to forty-five calendar dates after the Meeting if no dividend is declared, i.e. around June 10.

The share exercise price is set on the date of granting of the options, at a price in no circumstances less than the average opening price of the share listed for the twenty trading sessions prior to the date of granting of options by the Board of Directors.

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 2019 and 2018 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2019	2018
Exercise price (in euros)	22.50	22.25
Share price on the date of allocation (in euros)	22.40	21.35
Risk-free interest rate	-0.17%	-0.13%
Dividend payout rate	1.84%	1.70%
Volatility	24.60%	23.90%
Duration of options	4 years	4 years
Fair value of one option (in euros)	3.36	2.90

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.

Fair value of the options granted on June 12, 2019 amounts to 1,225 thousand euros. It was reduced to 1,011 thousand euros following the cancellation of options after the calculation of the actual performance of 2019 for each beneficiary, and the departure of eleven beneficiaries in 2019.

An expense of 693 thousand euros was recognized in the 2019 financial statements, including 151 thousand euros in respect of the grants made in 2019, and 542 thousand euros in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2019 will impact the years 2020, 2021 and 2022 alone in the estimated amounts of 751, 499 and 274 thousand euros respectively.
The Group paid a 176 thousand euros employer's contribution based on the fair value of the options granted in 2019, fully expensed in personnel costs for 2019.

Note 16.5.1 Stock options outstanding: options granted, exercised and canceled during the period

	2019		2018	
	Number of stock options	Average exercise price (in euros)	Number of stock options	Average exercise price (in euros)
Stock options outstanding at January 1	**1,677,887**	**15.71**	**1,692,996**	**13.11**
Stock options granted during the year	364,662	22.50	370,591	22.25
Stock options exercised during the year	(252,343)	8.76	(275,661)	6.71
Stock options expired/canceled during the year	(174,523)	20.21	(110,039)	20.25
Stock options outstanding at December 31	**1,615,683**	**17.84**	**1,677,887**	**15.71**
- of which fully vested	785,408	11.25	745,975	8.82
- for which exercise rights remain to be acquired	830,275	24.08	931,912	21.22

For the plan granted since 2016, the right to exercise these options vests on a single occasion at the end of the four-year period starting on January 1 of the year of granting and ending on December 31 of the fourth year.
For the plans granted before January 1, 2016 and still in force at December 31, 2019, the terms relating to the vesting of options are determined on an annual basis over a period of four years since January 1 of the year they are granted, and depend on whether the beneficiary was a Group employee at December 31 of the elapsed fiscal year.

Note 16.5.2 Breakdown of stock options outstanding at December 31, 2019, by category of beneficiaries

	2019				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Executive Committee[1]	10	711,387	44%	419,566	291,821
Group management	26	242,674	15%	100,022	142,652
Other employees	264	647,818	40%	252,016	395,802
Persons having left the company and still holding unexercised options	2	13,804	1%	13,804	-
Total	**302**	**1,615,683**	**100%**	**785,408**	**830,275**

(1) The sole beneficiaries are Jérôme Viala, Executive Vice President, Maximilien Abadie, Chief Strategy Officer, Fabio Canali, President, Southern Europe & North Africa, Olivier du Chesnay, Chief Financial Officer, Céline Choussy, Chief Marketing & Communications Officer, Javier Garcia, President, Asia-Pacific, Laurence Jacquot, Chief Customer Success Officer, Edouard Macquin, President, Americas, Holger Max-Lang, President, Northern & Eastern Europe, Middle East and Véronique Zoccoletto, Chief Transformation Officer, members of the Executive Committee. Daniel Harari, Chairman and Chief Executive Officer does not hold any options.

Note 16.5.3 Breakdown of stock options at December 31, 2019, by expiration date and exercise price

Grant date	Expiration date	Number of stock options	Exercise price (in euros)
September 4, 2012	September 4, 2020	147,364	6.25
June 13, 2013	June 13, 2021	85,171	6.25
June 16, 2014	June 16, 2022	104,207	8.50
June 12, 2015	June 12, 2023	134,404	13.75
June 9, 2016	June 9, 2024	305,815	14.50
June 8, 2017	June 8, 2025	244,075	28.25
June 12, 2018	June 12, 2026	293,664	22.25
June 12, 2019	June 12, 2027	300,983	22.50
Total		**1,615,683**	**17.84**

The 13,804 options held by people having left the Group and still holding unexercised options, are broken down by expiration date as follows: 4,943 options will expire in 2020, 4,186 options in 2021 and 4,675 options in 2022.

Note 16.5.4 Breakdown of stock options for which exercise rights remain to be acquired after December 31, 2018 by the beneficiaries

Year of vesting	Number of stock options
2020	244,349
2021	286,831
2022	299,095
Total	**830,275**

Note 16.5.5 Absence of stock option plans for the company officer

No stock options were granted to Daniel Harari, Chairman and Chief Executive Officer, who owns more than 10% of the capital since 2000 and has therefore been prohibited since this date by French law from being granted further stock options, and has not received any options.

Note 16.5.6 Stock options granted in 2019

The Board of Directors, meeting on June 12, 2019, granted, in respect of the 2019 stock option plan, a maximum of 364,662 options to 241 beneficiaries, at an exercise price of €22.50 per share, as follows:

- a maximum number of 237,697 options to 63 beneficiaries, in respect of the fulfilment of their annual performance targets set for 2019;
- 126,965 options to 179 beneficiaries, of which 88,827 options to 157 beneficiaries of a stock option plan unrelated to their performance in 2019 and 38,138 options to the 42 winners of the 2018 Lectra Worldwide Championship and 2019 Lectra Awards (20 winners of the 2018 Lectra Worldwide Championship and the 2019 Lectra Awards being beneficiaries of other options also granted in 2019).

The definitive number of options at December 31, 2019 is then calculated with reference to the percentage fulfilment of targets set for each beneficiary for 2019. It also takes account of departures between the date of grant and the end of the year.

At the date of this report, the calculations of actual performance in 2019, based on the Group's consolidated financial statements, have been finalized for all the beneficiaries. In light of this performance, 52,893 options have thus been cancelled, out of the 237,697 options initially granted.
Moreover, 10,786 options have ceased to be valid mainly due to the departure of eleven beneficiaries in 2019.
As a result, the total number of options at December 31, 2019 initially granted (364,662 options to 241 beneficiaries) has been reduced to 300,983 and the number of beneficiaries to 226. The options representing the difference between those initially granted, and those actually granted as a result of actual performance by the beneficiaries, or corresponding to departures, are available to be used again by the Board of Directors.
The 10 Group employees to whom the largest number of options was granted in the course of fiscal 2019 were granted a total of 101,843 options.
All of the options granted concerned Group employees. The only company officer (*dirigeant mandataire social*), Daniel Harari, have held no stock options since 2000.
The right to exercise these options vests at the end of the period ended December 31, 2022 (the beneficiary being required to retain links with the Company or with one of its affiliates in the form of an employment contract or as a company officer at this date). In the event of the departure of a beneficiary before this date, all options that were granted to the beneficiary cease to be valid.
By way of exception, the right to exercise options shall be maintained in the event of the death of the beneficiary, or retirement at the statutory pensionable age in the beneficiary's country. Provided the death or retirement occurs between January 1 of the year following the grant and the end of the four-year vesting period (that is, for Plans 15d, 15e and 15f, between January 1, 2020 and December 31, 2022), this right to exercise shall apply in full for options whose exercise is contingent only on continued presence. For options whose exercise is also contingent on actual performance, it shall apply to the definitive number of options calculated with reference to the beneficiary's actual performance at December 31 of the year of the grant (that is, December 31, 2019, for the 2019 Plan).
The options are valid for a period of eight years from the date of granting.
Moreover, 110,844 options granted prior to 2019 have ceased to be valid due to the departure of the beneficiaries or because they have not been exercised.

Note 16.5.7 Stock options exercised in 2019

252,343 options pertaining to the different options plans in force at December 31, 2018 were exercised in 2019.

	2019	
Grant date	Number of stock options exercised	Exercise price (in euros)
June 9, 2011	58,179	6.25
September 4, 2012	33,388	6.25
June 13, 2013	24,497	6.25
June 16, 2014	73,863	8.50
June 12, 2015	62,416	13.75
Total	**252,343**	**8.76**

NOTE 17 CURRENCY TRANSLATION ADJUSTMENTS

Analysis of changes recorded in 2019 and 2018:

	2019	2018
Cumulative translation adjustments at January 1	**(9,554)**	**(9,872)**
Differences on translation of subsidiaries' income statements	(10)	39
Adjustments required to maintain subsidiaries' retained earning at historical exchange rate	422	659
Other movements	(338)	(380)
Cumulative translation adjustments at December 31	**(9,481)**	**(9,554)**

NOTE 18 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. The company officer (*dirigeant mandataire social*) is not the beneficiary of any defined benefit retirement plan.

These obligations apply mainly in France, in Italy and Japan, as detailed below:

2018	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2018	**7,659**	**991**	**674**	**195**	**9,518**
Expense/(income) of the year	575	6	65	84	730
Benefits paid	(237)	(14)	-	(23)	(274)
Contributions paid	-	-	-	(36)	(36)
Actuarial losses (gains)	(157)	23	28	(50)	(156)
Exchange rate differences	-	-	52	(11)	41
Retirement benefits at December 31, 2018	**7,840**	**1,006**	**819**	**159**	**9,823**

2019	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2019	**7,840**	**1,006**	**819**	**159**	**9,823**
Expense/(income) of the year	591	11	70	94	766
Benefits paid	(135)	(28)	(20)	-	(184)
Contributions paid	-	-	-	(18)	(18)
Actuarial losses (gains)	572	46	38	45	700
Exchange rate differences	-	-	26	(6)	20
Retirement benefits at December 31, 2019	**8,867**	**1,035**	**932**	**273**	**11,107**

Breakdown of net annual charge:

2018	France	Italy	Japan	Others	Total
Service cost provided in the year	460	-	63	58	581
Past service cost	-	-	-	5	5
Net interest cost	115	6	1	22	144
Expense/(income) of the year	**575**	**6**	**65**	**84**	**730**

2019	France	Italy	Japan	Others	Total
Service cost provided in the year	472	-	68	70	610
Past service cost	-	-	-	-	0
Net interest cost	119	11	2	24	156
Expense/(income) of the year	**591**	**11**	**70**	**94**	**766**

Main actuarial assumptions used in 2019:

	France	Italy	Japan
Discount rate	0.71%	0.29%	0.20%
Average rate of salary increase, including inflation	2.80%	2.25%	1.71%
Personnel turnover rate	4.47% / 8.75%	3.00%	15.78%

The discount rate used is determined by reference to the yield the date of measurement on investment-grade corporate bonds with a maturity corresponding to the duration of the obligation. For the Eurozone, the discount rate used is determined by reference to the iBoxx rates, made up from corporate bonds rated AA or higher; the same applies to Japan.

According to estimates made by the Group, a change of plus or minus 0.25% of the discount rate would result in a change in actuarial liabilities of the opposite sign by approximately 2.7%. Moreover, a change of plus or minus 0.25% of the rate of salary increase would result in a change in actuarial liabilities of the same sign by approximately 2.7%.

The personnel turnover rate was calculated via a table based on age group. For France, the personnel turnover rate for employees under 50 years of age was 3.88% for non-managerial grade personnel, and 9.00% for managerial grade personnel. It was 0% over 50 years of age.

NOTE 19 LEASE LIABILITIES

STATEMENT OF CHANGES IN LEASE LIABILITIES

	Long term lease liabilities	Short term lease liabilities	Total
Assessed value at January 1, 2019	**14,065**	**5,136**	**19,201**
New contracts and renewals	4,110	1,819	5,929
Reimbursement	-	(6,162)	(6,162)
Reclassificaiton	(4,852)	4,852	-
Others	3	(9)	(6)
Exchange rate differences	81	39	120
Book value at December 31, 2019	**13,407**	**5,675**	**19,082**

MATURITY SCHEDULE OF LEASE LIABILITIES

	Until 2020	Between 2021 and 2025	Beyond 2025	Total
Lease liabilities	5,675	11,549	1,858	**19,082**

NOTE 20 COMMITMENT TO PURCHASE MINORITIES' SHARES

As part of the acquisition of 70% of the capital and voting rights of the Belgian company Retviews and its Romanian subsidiary Retviews Bucharest SRL, the Group has committed to acquire the remaining capital and voting rights in three installments in July 2020, July 2021 and July 2022 for the amounts of about 0.9 times 2020 revenues, 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.
The liability relating to the commitment to purchase minorities' shares has been estimated to total 6,500 thousand euros, of which 2,167 thousand euros short term and 4,333 thousand euros in over one year.

NOTE 21 BORROWINGS AND FINANCIAL DEBTS

NOTE 21.1 NET CASH

	2019	2018
Available cash	90,558	72,223
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	**120,558**	**102,223**

After the repayment in 2015 of the remainder of public grants to finance R&D programs, which were its sole debt, the Group had no remaining borrowing or financial debt.
Cash equivalents solely consist in a term deposit with a one-month maturity and a blocked account with a 32-day maturity.
Net cash was equal to cash and cash equivalents, and amounted to 102,558 thousand euros at December 31, 2019.
The major part of cash is invested in interest-bearing sight accounts and time deposits.

NOTE 21.2 BORROWINGS BY CATEGORY AND BY MATURITY

The Group has been debt-free since 2015.

NOTE 21.3 FINANCIAL INSTRUMENTS: INTEREST RATE HEDGES

Since the Group has no financial debts, it is not exposed to interest-rate risk, and thus holds no interest rate hedges.

NOTE 21.4 FINANCIAL INSTRUMENTS: CURRENCY HEDGES

In 2019 and 2018, the Group mainly used forward sales and purchases of currencies to hedge its foreign currency balance sheet positions at the end of each month.

Forward transactions entered into by the Company to hedge significant balance sheet currency positions at December 31, 2019 and 2018 are analyzed below:

	2019				2018			
	In foreign currency(1) (in thousands)	Value (in thousands of euros)(2)	Difference in value(3)	Expiration date	In foreign currency(1) (in thousands)	Value (in thousands of euros)(2)	Difference in value(3)	Expiration date
USD	83	74	4	January 7, 2020	1,754	1,532	5	January 7, 2019
CAD	1,899	1,301	(2)	January 7, 2020	3,418	2,191	21	January 7, 2019
CNH	10,699	1,371	(7)	January 7, 2020	-	-	-	-
GBP	(1,829)	(2,149)	7	January 7, 2020	(1,738)	(1,943)	17	January 7, 2019
JPY	(180,462)	(1,480)	(14)	January 7 and 8, 2020	(68,311)	(543)	0	January 7 and 8, 2019
Other currencies	na	(912)	(17)	January 7, 2020	na	(653)	2	January 7, 2019
Total		**(1,796)**	**(28)**			**583**	**45**	

(1) For each currency, net balance of forward sales and (purchases) against euros.

(2) Equivalent value of forward contracts is calculated by dividing the amounts in local currencies hedged by the closing rate.

(3) Difference in value reflects the difference between historical equivalent value and equivalent value at closing price of the forward contracts.

Fair value of forward currency contracts at December 31, 2019 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 used for information purposes by the banks with which these forward currency contracts were entered into.

With the exception of the subsidiaries located in Mexico, Russia, South Korea, Tunisia and Turkey (individually representing less than 7% and together less than 10% of Group revenues), 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 the most significant parent company's foreign currency assets and liabilities, together with the net value of forward transactions unexpired at December 31, 2019 and December 31, 2018:

	2018					
(in thousands of currencies)	USD	BRL	CAD	HKD	INR	JPY
Carrying position to be hedged:						
Trade account receivables	11,989	13,823	3,306	3,887	10,695	(219)
Cash	173	-	-	-	-	-
Trade payables	(6,906)	(11,890)	-	-	(49,762)	(78,855)
Total	**5,256**	**1,933**	**3,306**	**3,887**	**(39,066)**	**(79,074)**
Net nominal of hedges	(1,754)	-	(3,418)	(4,245)	32,696	68,311
Net residual position	**3,502**	**1,933**	**(112)**	**(358)**	**(6,370)**	**(10,763)**
Equivalent value in euros at closing rate	3,059	435	(72)	(40)	(80)	(86)
Analysis of sensitivity to currency fluctuations						
Closing rate	1.15	4.44	1.56	8.97	79.73	125.85
5% currency appreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.20	4.67	1.64	9.42	83.72	132.14
Foreign exchange impact in P&L	(146)	(21)	3	2	4	4
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.09	4.22	1.48	8.52	75.74	119.56
Foreign exchange impact in P&L	161	23	(4)	(2)	(4)	(5)

	2019					
(in thousands of currencies)	USD	BRL	CAD	HKD	INR	JPY
Carrying position to be hedged:						
Trade account receivables	7,524	10,645	1,759	3,134	13,452	3,361
Cash	408	-	-	-	-	-
Trade payables	(7,689)	(9,205)	(12)	(589)	(53,297)	(169,107)
Total	**243**	**1,441**	**1,747**	**2,545**	**(39,845)**	**(165,746)**
Net nominal of hedges	(83)	-	(1,899)	(3,609)	24,906	180,462
Net residual position	**160**	**1,441**	**(152)**	**(1,064)**	**(14,939)**	**14,716**
Equivalent value in euros at closing rate	142	319	(104)	(122)	(186)	121
Analysis of sensitivity to currency fluctuations						
Closing rate	1.12	4.52	1.46	8.75	80.19	121.94
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.18	4.74	1.53	9.18	84.20	128.04
Foreign exchange impact in P&L	(7)	(15)	5	6	9	(6)
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.07	4.29	1.39	8.31	76.18	115.84
Foreign exchange impact in P&L	7	17	(5)	(6)	(10)	6

NOTE 22 TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	24,046	23,212
Social debts	20,936	22,672
Fiscal debts	4,385	4,640
Down-payments from customers	8,608	8,358
Other current payables	921	782
Total	**58,896**	**59,664**

NOTE 23 DEFERRED REVENUES

	2019	2018
Deferred revenues on recurring contracts	55,346	51,983
Other deferred revenues[1]	3,113	4,243
Total	**58,459**	**56,225**

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

The counterpart of deferred revenues that has not yet been collected is recorded for the same amount (plus VAT and related taxes) in 'Trade accounts receivable' in the statement of financial position (see note 14).
Deferred revenues correspond to contract liabilities as defined by IFRS 15.

BRIDGE FOR MAIN CONTRACT LIABILITIES	2019	2018
Contract liabilities at January 1	51,983	48,713
Revenue booked during the period	(97,901)	(91,394)
Invoicing during the period	100,628	94,563
Change in scope of consolidation [1]	88	53
Exchange rate differences	548	48
Contract liabilities at December 31	**55,346**	**51,983**

(1) Integration of Retviews in 2019 and Kubix Lab in 2018, see note 2.29.

NOTE 24 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

2018	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2018	1,004	1,517	380	830	3,730
Additional provisions	941	413	35	1,334	2,722
Used amounts reversed	(435)	-	-	(1,355)	(1,791)
Unused amounts reversed	(269)	-	-	(119)	(388)
Exchange rate differences	-	(164)	(1)	-	(164)
Provisions at December 31, 2018	**1,241**	**1,765**	**414**	**689**	**4,110**

2019	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2019	1,241	1,765	414	689	4,110
Additional provisions	194	117	-	950	1,261
Used amounts reversed	(670)	(300)	(17)	(1,116)	(2,103)
Unused amounts reversed	(187)	-	(18)	(32)	(237)
Exchange rate differences	-	(25)	-	-	(25)
Provisions at December 31, 2019	**578**	**1,556**	**379**	**491**	**3,004**

CONTINGENT LIABILITIES

The Group had no knowledge, at the date of Board of Directors' meeting to draw up the accounts, of any contingent liability at December 31, 2019.

To the Group's knowledge, there were no proceedings pending at December 31, 2019, other than those for which provision has been made, that could have a material negative 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 25 ADDITIONAL DISCLOSURE CONCERNING FINANCIAL INSTRUMENTS

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

At December 31, 2018	Previous IAS 39 category	IFRS 9 classification			Carrying amount	Fair value
		Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI		
Non-consolidated shares	*Available for sale financial assets*		X		974	974
Loans, deposits and guarantees	*Loans and receivables*	X			1,269	1,269
Trades account receivables	*Loans and receivables*	X			58,564	58,564
Other financial assets	*Loans and receivables*	X			1,053	1,053
Derivatives not designated as hedges	*Financial assets at fair value through profit or loss*		X		-	-
Cash and cash equivalents	*Fair value through profit or loss*		X		102,223	102,223
Total financial assets					**164,083**	**164,083**
Derivatives not designated as hedges	*Financial liabilities at fair value through profit or loss*		X		45	45
Trade payables and other current liabilities	*Financial liabilities carried at amortized cost*	X			55,024	55,024
Total financial liabilities					**55,069**	**55,069**

At December 31, 2019	IAS 39 category	IFRS 9 classification			Carrying amount	Fair value
		Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI		
Non-consolidated shares	*Available for sale financial assets*		X		1,030	1,030
Loans, deposits and guarantees	*Loans and receivables*	X			1,469	1,469
Trades account receivables	*Loans and receivables*	X			56,933	56,933
Other financial assets	*Loans and receivables*	X			1,145	1,145
Derivatives not designated as hedges	*Financial assets at fair value through profit or loss*		X		50	50
Cash and cash equivalents	*Fair value through profit or loss*		X		120,558	120,558
Total financial assets					**181,185**	**181,185**
Derivatives not designated as hedges	*Financial liabilities at fair value through profit or loss*		X		-	-
Trade payables and other current liabilities	*Financial liabilities carried at amortized cost*	X			54,511	54,511
Total financial liabilities					**54,511**	**54,511**

Fair value of current loans and trade accounts receivable, trade payables and other current liabilities is identical to their book value, given their short-term nature. For loans and deposits included in other non-current financial assets, their fair value is deemed close to their book value, since the discounting effect is considered negligible.

NOTE 26 ADDITIONAL DISCLOSURES

COMMITMENTS GIVEN

At the end of 2018, commitments given in respect of contractual obligations came to 28,683 thousand euros. The table below summarizes the correspondence between off-balance sheet commitments relating to contractual obligations stated at December 31, 2018, in accordance with IAS 17, and the lease liabilities stated on the balance sheet on January 1, 2019, in accordance with IFRS 16:

Commitments relating to contractual obligations at December 31, 2018	28,683
Contracts excluded from the scope of IFRS 16 (exemptions)	(8,946)
Impact of discounting	(400)
Others	(136)
Lease liabilities at January 1, 2019, after implementation of IFRS 16	19,201

The commitments relating to contractual obligations exempt from application of IFRS 16 and other guarantees given are as follows:

	Payments due by period			
	Less than 1 year	Between 1 to 5 years	More than 5 years	Total
Contractual commitments[(1)]	4,564	4,058	20	**8,642**
Other guarantees: sureties[(2)]	1,517	90	273	**1,880**

(1) Mainly Group management software subscription contracts, miscellaneous services contracts and IT and office equipment rentals.

(2) This mainly concerns sureties given by banks on the Company's behalf, or given by the Company to financial institutions against leases made by the latter to its subsidiaries.

Rentals booked as expenses that lie outside the criteria for application of IFRS 16 in 2019 amounted to 5,548 thousand euros.

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. As the 2018 and 2019 acquisitions had a non-material impact on the Group's financial statements, there is no need for a restatement of the financial statements in either 2019 or 2018.

NOTE 27 REVENUES

In 2019, no single customer represented more than 4% of consolidated revenues, the ten largest customers combined accounted for less than 16% of revenues, and the 20 largest customers for less than 23%.

NOTE 27.1 REVENUES BY GEOGRAPHIC REGION

In 2019, as in 2018, almost 50% of total revenues were generated in 5 countries: the United States (11%), Mexico (9%), Italy (11%), China (9%) and France (6%). These percentages were 11%, 11%, 10%, 10% and 6% respectively in 2018.

The share of revenues generated in the United-Kingdom was less than 3%. Greece's and Russia's share of revenues is immaterial.

	2019		2018		Changes 2019/2018
	Actual	%	Actual	%	
Europe, of which:	113,452	41%	111,559	39%	+2%
- France	17,223	6%	16,538	6%	+4%
Americas	67,503	24%	76,146	27%	-11%
Asia-Pacific	76,426	27%	75,334	27%	+1%
Other countries	22,642	8%	19,519	7%	+16%
Total	**280,023**	**100%**	**282,558**	**100%**	**-1%**
€ / $ average parity	*1.12*		*1.18*		

NOTE 27.2 REVENUES BY TYPE OF BUSINESS

	2019		2018		Changes 2019/2018
	Actual	%	Actual	%	
Revenues from software licenses, equipment and non recurring services, of which:	110,239	39%	122,721	43%	-10%
- CAD/CAM and PLM software licenses	13,493	5%	13,902	5%	-3%
- Equipment and accompanying software	82,077	29%	93,840	33%	-13%
- Training and consulting services	12,236	4%	12,654	4%	-3%
- Miscellaneous	2,434	1%	2,325	1%	+5%
Recurring revenues, of which:	169,784	61%	159,837	57%	+6%
- CAD/CAM and PLM subscription contracts	1,562	ns	470	ns	+232%
- CAD/CAM and PLM software licenses maintenance contracts	38,485	14%	37,577	13%	+2%
- Equipment and accompanying software maintenance contracts	57,854	21%	53,347	19%	+8%
- Consumables and parts	71,883	26%	68,443	24%	+5%
Total	**280,023**	**100%**	**282,558**	**100%**	**-1%**
€ / $ average parity	*1.12*		*1.18*		

NOTE 27.3 BREAKDOWN OF REVENUES BY CURRENCY

	2019	2018
Euro	43%	42%
US dollar	31%	33%
Chinese yuan	8%	9%
Japanese yen	2%	2%
British pound	2%	2%
Brazilian real	2%	2%
Other currencies[1]	11%	10%
Total	**100%**	**100%**

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

NOTE 27.4 REMAINING PERFORMANCE OBLIGATIONS

In its Management Discussion, the Group discloses an 'order backlog for new systems' corresponding to orders for new CAD/CAM and PLM software licenses, CAD/CAM equipment and training and consulting services.
This entire 'order backlog' is due to be delivered within 12 months.
Moreover, the contract liabilities of the Group, corresponding to its deferred revenues, will also be reversed and booked as revenue in the 12 months following the closing date.
Thus, and according to IFRS 15.121, the Group does not hold any significant remaining performance obligation which it would have to disclose.

NOTE 28 COST OF GOODS SOLD AND GROSS PROFIT

	2019	2018
Revenues	280,023	282,558
Cost of goods sold, of which:	(74,808)	(79,014)
Purchases and freight-in costs	(63,129)	(73,333)
Inventory movement, net	(3,095)	3,442
Industrial added value	(8,585)	(9,124)
Gross profit	**205,214**	**203,544**
(in % of revenues)	73.3%	72.0%

Industrial added value includes personnel costs that are included in production costs, freight-out costs on equipment sold, and a share of depreciation of the manufacturing facilities at the Bordeaux-Cestas site.
Personnel 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 29 RESEARCH AND DEVELOPMENT

	2019	2018
Fixed personnel costs	(25,928)	(24,884)
Variable personnel costs	(919)	(1,016)
Other operating expenses	(3,549)	(3,302)
Depreciation expenses	(1,434)	(1,259)
Total before research tax credit and grants[1]	**(31,830)**	**(30,461)**
(in % of revenues)	11.4%	10.8%
Research tax credit and government grants	9,811	8,964
Total	**(22,019)**	**(21,497)**

(1) This amount includes, in fixed personnel expenses, the relative share of the (French) competitiveness and employment tax credit (applicable in 2018). Before this deduction, it amounted to 30,807 thousand euros in 2018 that is 10.9% of revenues.

NOTE 30 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Fixed personnel costs	(86,091)	(84,404)
Variable personnel costs	(9,759)	(11,639)
Other operating expenses	(36,662)	(41,960)
Depreciation expenses	(9,471)	(3,378)
Net provisions	(323)	(417)
Total [1]	**(142,306)**	**(141,798)**
(in % of revenues)	50.8%	50.2%

(1) 'Selling, general and administrative expenses' do not include the expenses comprised in 'Industrial added value' (see note 28), which amounted to 8,585 thousand euros in 2019 and 9,124 thousand euros in 2018.

FEES PAID TO GROUP AUDITORS AND COMPANIES IN THEIR NETWORKS

In 2019, other operating expenses comprised 847 thousand euros in respect of the audit of all Group companies, of which 484 thousand euros for PwC, 282 thousand euros for KPMG and 81 thousand euros for other audit firms, excluding non-audit services. The corresponding amount in 2018 was 787 thousand euros.

Fees paid by the Group in 2019 to the Statutory Auditors in respect of the audit and non-audit services performed by their networks to consolidated entities were 907 thousand euros, of which 588 thousand euros for PwC and 319 thousand euros for KPMG:

	PwC				KPMG			
	Amount		%		Amount		%	
	2019	2018	2019	2018	2019	2018	2019	2018
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
- Issuer (Lectra SA)	155	154	26%	25%	148	133	46%	36%
- Fully-consolidated subsidiaries	329	304	56%	49%	134	133	42%	36%
Non-audit services								
- Issuer (Lectra SA)(1)	-	-	0%	0%	23	21	6%	6%
- Fully-consolidated subsidiaries	-	-	0%	0%	-	-	0%	0%
Subtotal	**484**	**458**	**82%**	**74%**	**305**	**287**	**96%**	**79%**
Other services to consolidated entities								
- Legal, tax and social reviews(2)	104	165	18%	26%	14	78	4%	21%
Subtotal	**104**	**165**	**18%**	**26%**	**14**	**78**	**4%**	**21%**
Total	**588**	**623**	**100%**	**100%**	**319**	**365**	**100%**	**100%**

(1) These services relate to the verification, by one of the statutory auditors, designated as independent third-party, of social, environmental and societal information.

(2) These missions mostly relate to tax compliance services provided by members of the network to foreign subsidiaries of the company.

NOTE 31 STAFF

NOTE 31.1 TOTAL PERSONNEL EXPENSES

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

	2019	2018
Research and development	(26,847)	(25,900)
Selling, general and administrative	(95,850)	(96,043)
Manufacturing, logistics and purchasing(1)	(6,298)	(6,409)
Total	**(128,996)**	**(128,353)**

(1) 'Manufacturing, logistics and purchasing' personnel expenses are included in the cost of goods sold, in 'Industrial added value' (see note 28).

The (French) competitiveness and employment tax credit, applicable until 2018, was deducted from personnel expenses. For 2018, it amounted to 971 thousand euros.

NOTE 31.2 ACTIVE HEADCOUNT AT DECEMBER 31

Since 2019, the Group presents the active headcount. The 2018 data has been restated accordingly.
At December 31, 2018, the published total of economic headcount was 1,693.

	2019	2018
Parent company[1]	914	882
Subsidiaries[2], of which:	879	829
Europe	363	335
Americas	191	174
Asia-Pacific	252	248
Other countries	73	72
Total	**1,793**	**1,711**

(1) In 2019 as in 2018, expatriates are attached to the economic entities for which they work.

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

Analysis of headcount by function

	2019	2018
Marketing, Sales	356	340
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	587	545
Research and Development	368	350
Purchasing, Production, Logistics	152	167
Administration, Finance, Human Resources, Information Systems	330	309
Total	**1,793**	**1,711**

NOTE 31.3 CONTRIBUTIONS TO PENSION PLANS

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid.
In 2019, Group companies subject to defined-contribution pension plans booked a sum of 5,659 thousand euros under personnel costs in respect of their contributions to these pension or retirement funds. The main subsidiary concerned, in addition to the parent company, was Italy.

NOTE 31.4 EMPLOYEE PROFIT-SHARING AND INCENTIVE PLAN

Profit-sharing plan

An amendment to the October 1984 employee profit-sharing plan (*participation*), applicable solely to parent company employees, was signed in October 2000. Under this plan, a portion of the special employee profit-sharing reserve set aside annually may be invested in equity securities, in a corporate savings plan. Consequently, beneficiaries may choose between five types of funds, one consisting exclusively of Lectra shares, at their discretion.
In 2020, a payment for profit-sharing totaling 790 thousand euros will be made, in respect of fiscal year 2019 (741 thousand euros paid in 2019, in respect of fiscal year 2018).

Incentive plan

A collective employee incentive plan (*intéressement*), applicable solely to parent company employees, was signed for the first time in September 1984 and renewed every year since that date. The most recent incentive plan signed in June 2017 covers the period 2017–2019.

The incentive amount in respect of fiscal 2019 equals 1,079 thousand euros (1,328 thousand euros in respect of 2018). For fiscal 2019, an interim payment of 338 thousand euros was made in November 2019, the balance outstanding to be paid in the first half of 2020.

Thus, the cumulative amount of profit-sharing and incentive plans totaled 1,869 thousand euros in respect of fiscal 2019 (2,069 thousand euros in respect of fiscal 2018).

NOTE 31.5 COMPENSATION OF GROUP MANAGEMENT

Since January 1, 2019, the Group management team consists of one company officer: the Chairman and Chief Executive Officer; the Executive Vice President, the Chief Strategy Officer, the Chief Financial Officer, the Chief Transformation Officer, the Chief Customer Success Officer, President Asia-Pacific, President Americas, President Southern Europe & North Africa, President Northern & Eastern Europe, Middle East and the Chief Marketing and Communications Officer.

In 2018, the management team consisted of the Chairman and Chief Executive Officer (the only company officer), the Executive Vice President, the Chief Transformation Officer, the Chief Sales Officer, and the Chief Marketing and Communications Officer.

Personnel expenses related to the Group management team, accounted for in 2019, amounted to 4,188 thousand euros (2,288 thousand euros in 2018) and broke down as follows:

	2019	2018
Fixed compensation	2,481	1,342
Variable compensation	1,022	682
Other short-term benefits	363	130
Post-employment benefits[1]	46	19
Other long-term benefits	-	-
Severance compensation	-	-
Granting of stock options[1]	276	115
Personnel expenses related to the Group management team	**4,188**	**2,288**

(1) The company officer (dirigeant mandataire social) is not granted 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 his functions, or at the time of his retirement, or more generally subsequent to the termination of his functions. He holds no stock options.

NOTE 31.6 DIRECTORS' FEES

Conditional upon approval by the Shareholders' Meeting on April 30, 2020, 239 thousand euros in Directors' fees will be allocated to the members of the Board with respect to fiscal 2019 (unchanged from fiscal 2018). Compensation paid to the four Directors who are not company officers consists exclusively of Directors' fees.

NOTE 32 DEPRECIATION AND AMORTIZATION CHARGES

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

	2019	2018
Research and development[1]	(1,434)	(1,259)
Selling, general and administrative	(9,471)	(3,378)
Manufacturing, logistics and purchasing[2]	(739)	(740)
Total	**(11.644)**	**(5.377)**

(1) Amortization and depreciation expenses allocated to 'Research and development' pertain to the share of the intangible assets and property, plant and equipment used by these teams. R&D costs themselves are expensed in full in the year.

(2) 'Manufacturing, logistics and purchasing' depreciation and amortization charges are included in 'Industrial added value' (see note 28).

NOTE 33 FINANCIAL INCOME AND EXPENSES

	2019	2018
Financial income, of which:	461	231
- Gains on sales of cash equivalents	62	42
- Other interest income	374	164
- Reversal of provisions for depreciation of investments and loans	25	25
Financial expenses, of which:	(556)	(443)
- Bank charges	(351)	(440)
- Interest expense on bank loans and financial debts	-	-
- Interest on lease liabilities (IFRS 16)	(184)	-
- Other financial expenses	(21)	(3)
Total	**(95)**	**(212)**

NOTE 34 FOREIGN EXCHANGE INCOME

A foreign exchange translation loss of 719 thousand euros was recognized in 2019 (1,120 thousand euros in 2018). At December 31, 2019, as at December 31, 2018, the Company held no currency options (see note 21.4).

NOTE 35 SHARES USED TO COMPUTE EARNINGS PER SHARE

At December 31, 2019 and 2018, the Company had not issued any dilutive instrument other than the stock options detailed in note 16.5.

Basic earnings (Group share) per share	2019	2018
Net income, Group share (in thousands of euros)	29,305	28,740
Weighted average number of shares outstanding during the period[1]	32,000,871	31,723,203
Weighted average number of treasury shares held during the period	(23,634)	(25,703)
Weighted average number of shares used to compute basic earnings per share	31,977,237	31,697,500
Basic earnings per share (in euros)	**0.92**	**0.91**

(1) In 2019, 252,343 stock options were exercised, giving rise to the creation of 252,343 new shares. In 2018, 275,661 stock options were exercised, giving rise to the creation of 275,661 new shares (see note 16).

Diluted earnings (Group share) per share	2019	2018
Net income, Group share (in thousands of euros)	29,305	28,740
Weighted average number of shares outstanding during the period(1)	32,000,871	31,723,203
Weighted average number of treasury shares held during the period	(23,634)	(25,703)
Dilutive effect of stock options, under the share repurchase method(2)	417,846	635,569
Weighted average number of shares used to compute diluted earnings per share	32,395,083	32,333,069
Diluted earnings per share (in euros)	**0.90**	**0.89**

(1) In 2019, 252,343 stock options were exercised, giving rise to the creation of 252,343 new shares. In 2018, 275,661 stock options were exercised, giving rise to the creation of 275,661 new shares (see note 16).

(2) In 2019, due to an average share price of €20.48 during the period, the dilutive effect of stock options under the share repurchase method resulted in 417,846 theoretical additional shares (635,569 theoretical additional shares in 2018 due to an average share price of €21.37).

NOTE 36 GROUP EXPOSURE TO FOREIGN-EXCHANGE FLUCTUATIONS

The Company's net operational exposure to foreign exchange fluctuations corresponds to the difference between revenues and total costs denominated in each of these currencies. This exposure mainly concerns the US dollar, which is the main currency in which business is transacted after the euro.
The overall currency variations between 2018 and 2019 increase 2019 Group revenues by 4,968 thousand euros and income from operations by 3,011 thousand euros.
The US dollar (average parity versus the euro of $1.12/€1 in 2019, compared to $1.18/€1 in 2018) accounted for a increase of 4,483 thousand euros in revenues and of 3,079 thousand euros in income from operations in the 2019 figures at actual exchange rates, relative to the 2019 figures at 2018 exchange rates.
In 2019, 43% of the Group's consolidated revenues, 82% of its cost of sales, and 67% of its overhead expenses were denominated in euros. These percentages were respectively 31%, 12%, and 11% for the US dollar, as well as 8% (part of the revenues generated in China are denominated in US dollars or other currencies), 3% and 6% for the Chinese yuan. The other currencies each represented less than 3% of revenues, cost of sales and overhead costs.

SENSITIVITY OF REVENUES AND INCOME FROM OPERATIONS TO A CHANGE IN CURRENCIES EXCHANGE RATES

The sensitivity of revenues and income from operations to a change in exchange rates was based on the December 31, 2019 exchange rates for the relevant currencies, in particular $1.12/€1.
In view of the estimated share of revenues and costs denominated in US dollars or in currencies correlated with the US dollar, a 5-cent fall in the euro against the US dollar (leading to an annual average exchange rate of $1.07/€1) would mechanically increase 2020 annual revenues by approximately 4.2 million euros and annual income from operations by 2.8 million euros. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.17/€1) would mechanically reduce annual revenues and income from operations by the same amounts.
In addition to fluctuating against the US dollar and currencies strongly correlated with it, the euro also fluctuates against other currencies. These variations are frequently dissimilar both in direction (upward and downward) and in scale.

NOTE 37 OPERATING SEGMENTS INFORMATION

2018 [1] (in thousands of euros)	Northern Europe[2]	Southern Europe[3]	Americas	Asia-Pacific	Corporate	Total
Revenues	54,092	73,108	76,146	79,212	-	282,558
Income (loss) from operations	6,008	12,848	12,676	5,897	2,820	40,249

2019 [1] (in thousands of euros)	Northern Europe[2]	Southern Europe[3]	Americas	Asia-Pacific	Corporate	Total
Revenues	59,083	72,571	67,503	80,866	-	280,023
Income (loss) from operations	8,005	13,472	9,772	8,044	1,595	40,889

(1) Following the new organization into four main regions in January 2019, operating segments have been reviewed, and the 2018 amounts restated accordingly. In the tables showing the breakdown of revenues by region, countries from the 'Other countries' caption have here been reallocated to Northern Europe, Southern Europe and Asia-Pacific.

(2) This segment covers the following regions: Germany and Eastern Europe, United Kingdom, Benelux, Scandinavia, Baltic countries, Turkey and Middle East.

(3) This segment covers the following regions: France, Italy, Spain, Portugal and North Africa.

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

Application of IFRS 16 has no material impact on income from operations, whether for the Group or for each of the operating segments.

NOTE 38 NON-CASH OPERATING EXPENSES

In 2019, as in 2018, ‘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 2.28 – Translation 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 39 CHANGES IN WORKING CAPITAL REQUIREMENT

In 2019, the main changes in the working capital requirement broke down as follows:

- −3,604 thousand euros corresponding to the decrease in trade accounts receivable, following a decline in revenues from software licenses, equipment and non-recurring services (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes ‘Deferred revenues’ in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
- −2,419 thousand euros corresponding to the increase in inventories;
- −5,663 thousand euros arising from the reimbursement in Q4 2019 of the outstanding balance of the 2015 research tax credit;
- +1,662 thousand euros arising from the difference between the variable portion of salaries for the Group in respect of fiscal year 2018 paid mainly in 2019, and the one recognized in 2019 that will be paid in 2020;
- −607 thousand euros arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

In 2018, the main changes in the working capital requirement broke down as follows:

- +82 thousand euros corresponded to the increase in trade accounts receivable;
- +4,918 thousand euros corresponded to the increase in inventories, due to the increase in manufacturing activity, notably the launch of a new offer for the cutting room;
- −6,857 thousand euros arose from the balance outstanding relating to the 2014 research tax credit received in Q4 2018;
- +2,506 thousand euros corresponded to a decrease in trade accounts payable;
- +2,191 thousand euros arose from the difference between the variable portion of salaries for the Group in respect of fiscal 2017 paid mainly in 2018, and the one recognized during fiscal 2018 and payable in 2019;
- +841 thousand euros arose from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

At December 31, 2019, as at December 31, 2018, the ratio of accounts receivable net of down payments received and deferred revenues, measured in DSO (Days Sales Outstanding) represented less than ten days of revenues (inclusive of VAT).

NOTE 40 REPAYMENT OF LONG-TERM AND SHORT-TERM BORROWINGS

In 2019 as in 2018, the Group did not contract any financial debts.

NOTE 41 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 and repayments of lease liabilities recognized in accordance with IFRS 16.

	2019	2018
Net cash (used in)/provided by operating activities	48,961	28,783
Net cash (used in)/provided by investing activities, excluding cash used for acquisition of companies	(6,612)	(7,152)
Repayment of lease liabilities	(6,162)	-
Free cash flow	**36,187**	**21,631**

In 2019, net cash provided by operating activities of 48,961 thousand euros (28,783 thousand euros in 2018) comprised a 10,631 thousand euros decrease in working capital requirement (increase of 3,681 thousand euros in 2018) and an increase in other operating non-current assets of 5,167 thousand euros, corresponding to the part of the 2019 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA (increase of 5,047 thousand euros in 2018).
Details of changes in working capital requirement are provided in note 39 above.
Free cash flow was 36,187 thousand euros and there were no non-recurring items. The repayment of lease liabilities (according to IFRS 16) does not affect performance as monitored by the Group, thus it was deducted in the free cash flow analysis above. In 2018, free cash flow was 21,631 thousand euros and there were no non-recurring items.

Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2019

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 readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. 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,

OPINION

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Lectra SA for the year ended December 31, 2019.
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 at December 31, 2019 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.
The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

INDEPENDENCE

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2019 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No. 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw your attention to Notes 2.1 and 2.6 to the consolidated financial statements, which describe the change in accounting method resulting from the application of IFRS 16 "Leases" at January 1, 2019.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.
These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

RECOGNITION OF EXPORT REVENUES (NOTE 2.20)

Description of risk

The Group markets integrated technology solutions (automated cutting equipment and software) and related services, such as technical maintenance, remote support, training, consulting, and sales of consumables and parts.
In 2019, the Group's revenues amounted to €280 million. Most sales of CAD/CAM equipment and related software (€82.1 million) are made outside France, by Lectra SA directly or by its subsidiaries.
The terms and conditions for the transfer of the risks and benefits (Incoterms) relating to these sales vary according to destination and customer. Given that there are multiple conditions to be taken into account, there is a risk of error when determining the revenue recognition date, particularly around the closing date.
Accordingly, we deemed the recognition of export revenues to be a key audit matter, in light of the following factors:

- the significant impact on the Group's financial statements;

- the importance of Incoterms for estimating the risk and benefit transfer dates, as determined pursuant to the sales contracts.

How our audit addressed this risk

Our audit approach for export sales is based on our work on revenue recognition and includes both tests of internal control processes and substantive procedures.
Our work on internal control mainly focused on examining the procedures implemented by the Group and tests of the controls that we identified as key for our audit, particularly regarding the conclusion of sales contracts and invoicing.
Based on a sample of sales from December 2019 and January 2020, our substantive procedures for revenues mainly consisted of:

- reconciling invoices issued for corresponding contracts and the delivery documents relating to the invoices;
- verifying that Incoterms have been properly taken into account.

MEASUREMENT OF GOODWILL (NOTES 2.3, 2.7 AND 6)

Description of risk

As part of the development of its business, the Group carried out external growth operations and thus needed to recognize the resulting goodwill on its balance sheet. Goodwill corresponds to the difference between the acquisition cost and the fair value of the assets acquired and liabilities assumed, as described in Note 2.3 to the consolidated financial statements. It is monitored by sales subsidiary or group of several sales subsidiaries that pool resources in the same geographic region (cash-generating units – CGUs).
Every year, management verifies that the carrying amount of this goodwill, for which an amount of €47.4 million was recorded in the balance sheet in this particular instance, is lower than its recoverable amount and that there is no risk of impairment.
The methods used to perform impairment tests and details of the assumptions used are described respectively in Notes 2.7 and 6 to the consolidated financial statements.
Given the materiality of the amounts involved and the degree of judgment required from management in terms of determining the growth and margin rates to be applied to cash flow projections and the applicable discount rates, we deemed the measurement of goodwill to be a key audit matter.

How our audit addressed this risk

We reviewed the compliance of the methodology applied by the Group with current accounting standards.
We also performed a critical assessment of the procedure for implementing the methodology described in Notes 2.7 and 6 to the consolidated financial statements and verified:

- the consistency between the inputs included in the determination of the carrying amount of the Group's different CGUs and those included in cash flow projections;
- the reliability of the process used to prepare the estimates by examining the reasons for any differences between the outcomes projected in preceding years and the actual outcomes;
- the reasonableness of projected cash flows in terms of the economic and financial context of the Group's different CGUs, based on the most recent management estimates, which are validated by the Strategic Committee, and market analyses;
- the calculation of the discount rates applied to the estimated future cash flows expected for the different CGUs, verifying that the various inputs used to calculate the weighted average cost of capital were sufficient to approximate the return expected by market participants for such an activity;
- the analysis performed by management to ascertain the sensitivity of value in use to changes in the main assumptions used, as set out in Note 6 to the consolidated financial statements.

SPECIFIC VERIFICATIONS

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.
We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the information pertaining to the Group presented in the management report includes the consolidated non-financial information statement required under Article L. 225-102-1 of the French Commercial Code. However, in accordance with Article L. 823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Lectra SA by the Annual General Meetings held on June 28, 1990 for PricewaterhouseCoopers Audit S.A. and May 22, 1996 for KPMG S.A.

At December 31, 2019, PricewaterhouseCoopers Audit S.A. and KPMG S.A. were in the thirtieth and the twenty-fourth consecutive year of their engagement, respectively.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

RESPONSIBILITIES OF THE STATUTORY AUDITORS RELATING TO THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Mérignac and Neuilly-sur-Seine, February 25, 2020

The Statutory Auditors

KPMG SA
Jean-Pierre Raud

PricewaterhouseCoopers Audit
Matthieu Moussy

People responsible for the Annual Financial Report and auditing the financial statements

CERTIFICATION BY THE PEOPLE RESPONSIBLE FOR 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 that appears on pages 5 to 37 presents a true and fair view of the operations, results, and financial condition of the Company and consolidated companies, together with a description of the main risks and uncertainties that they face.”

Paris, March 27, 2020

Daniel Harari
Chairman and Chief Executive Officer

Olivier du Chesnay
Chief Financial Officer

PEOPLE RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

Acting Statutory Auditors

PricewaterhouseCoopers Audit
Represented by Matthieu Moussy
Crystal Park, 63 rue de Villiers
92208 – Neuilly-sur-Seine
Term expires at the end of the
Shareholders’ Meeting convened to
approve the 2019 financial statements*

KPMG SA
Represented by Jean-Pierre Raud
Domaine de Pelus, 11 rue Archimède
33692 Mérignac Cedex
Term expires at the end of the
Shareholders’ Meeting convened to
approve the 2019 financial statements*

Substitute Statutory Auditors

Monsieur Jean-Christophe Georghiou
63 rue de Villiers
92200 – Neuilly-sur-Seine
Term expires at the end of the
Shareholders’ Meeting convened to
approve the 2019 financial statements**

KPMG AUDIT IS
Tour Eqho, 2 avenue Gambetta
92066 Paris La Défense Cedex
Term expires at the end of the
Shareholders’ Meeting convened to
approve the 2019 financial statements**

** The renewal of this term is subject to the approval of the Combined Shareholders’ Meeting of 30 April 2020.*

*** This term is not intended to be renewed.*

CONTACT US

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