2014
FINANCIAL REPORT

Dear Shareholders,

This Management Discussion and Analysis reports on the company's operations and financial results, as well as on those of all of its subsidiaries, for its 41st fiscal year, ended December 31, 2014.
It is separate from the report of the Board of Directors to the Ordinary Shareholders' Meeting of April 30, 2015 (available in French only), which, in addition, discusses in detail the financial statements and other disclosures relating to the parent company, Lectra SA, presents its report on the Group's corporate social and environmental responsibility information in the framework of the "Grenelle II" Act and the reasons underlying the draft resolutions submitted for approval by the shareholders.
To make the discussion of revenues and earnings as meaningful as possible, detailed comparisons between 2014 and 2013 are based on 2013 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF EVENTS AND PERFORMANCE IN 2014

The company indicated on February 11, 2014 that the year was likely to be both difficult and unpredictable. Macroeconomic, geopolitical and monetary conditions were complex in the course of the year (see chapter 2).

Growth in orders for new systems improves product mix

Overall, orders for new systems amounted to

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to consider that it would only reach in 2016 the financial objectives it had set for 2015. The roadmap had, accordingly, been extended to the period 2013-2016.
The year 2014 was the third year of the transformation plan and investments for the future and the second year of the strategic roadmap, which are recalled in full below as communicated in the February 12, 2013 report, each chapter being followed by a second progress report, coming after last year's report.

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Formulated at the end of 2009 with a view to emerging strengthened from the crisis, to prepare for the new post-crisis challenges and seize resulting opportunities, the 2010-2012 strategic roadmap proved its effectiveness and demonstrated the strength of Lectra's business model and the company's resilience. On the strength of its success, the company framed a new roadmap for 2013-2015 to enable it to fully realize its growth potential at the end of 2012.
Continuing to focus on a long-term strategy, its overriding objectives remain unchanged: accentuate Lectra's technological leadership and the high value of its product and service offer; strengthen its competitive position and its long-term relationships with customers; accelerate organic growth; boost profitability by regularly increasing the operating margin; and generate free cash flow in excess of net income (assuming that the French research tax credit and the competitiveness and employment tax credit recognized in the year, are received or used) thus self-financing its future growth.

Progress Report

These five strategic objectives remain unchanged.

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Eight economies (Brazil, Russia, India, China, South Korea, Indonesia, Mexico and Turkey) are expected to account for half of global growth in the present decade. Following China's example, their growth models will increasingly be driven by their domestic markets, greater added value and companies' quest for higher margins. Lectra is well armed to turn this new economic order into a vehicle for dynamic growth. The other half of global growth will still take place in developed countries, where the Group already has a significant market share.
From this dual-growth perspective, the company will benefit from its premium positioning, sustained by the new generations of all of its solutions, enhanced technological leadership, high performing services, the expertise of its staff in their customers' businesses, and its growing importance as a supplier to major global customers as it supports them in their drive for competitiveness, primarily targeting the Group's top 3,000 customers and providing dedicated resources for the top 300. Lectra is the only player in its industry supplying a complete high value offer across all its geographical markets and market sectors, giving its customers a unique long-term competitive advantage.
Five accelerators will drive Lectra's growth: emerging countries, together with the industrial revival in the United States and other developed countries; the automotive market — an industry currently experiencing far-reaching technological and geographical change; the leather market, thanks to the revolutionary new range of *ersa i* automated cutters; PLM for fashion and apparel offering collaborative solutions facilitating collection management; and, finally, 3D technology for fashion and apparel, the new universal product development solution.

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The different countries' contributions to growth in Lectra's activity appear today to vary widely, depending on the change in their respective situation and potential for the Group since 2013.
Of the eight economies forecast to account for half of global growth in the current decade, China alone is expected to represent a third of potential growth in Lectra's activity over the next two years and into the medium term, followed by South Korea. Looking further ahead, Brazil, Mexico and Turkey — where Lectra already holds a strong position, but where the current economic situation is difficult — are expected to increase their contribution.
The main contribution from developed countries will come from the United States, Germany, Italy and France, gradually picking up momentum in the medium term.
The automotive market's share is expected to increase further, under the combined impact of expanding markets in emerging countries, the rising proportion of leather-

upholstered car interiors, and the growing use of airbags, in 2015-2016 as well as in the medium term.
Growth in the leather market will be essentially concentrated in the automotive sector, with slower uptake of new technologies in the furniture and fashion markets.
In the fashion and apparel markets, market globalization, the rise in consumption in the emerging countries and in internet sales are all expected to boost sales of PLM software as of 2015-2016. On the other hand, adoption of 3D technology could proceed more slowly than forecast, but will pick up in the medium term. This technology represents an unavoidable revolution for businesses and will prompt a radical rethink of their development methods so that they can take full advantage of theÊbeneÞts it brings.
Consequently, the three growth accelerators for 2015 andÊ2016 will be China, the automotive market and PLM for fashion and apparel.

Deliberately Cautious Macroeconomic Assumptions

The roadmap assumed that macroeconomic conditions would be as weak as in 2012, consistent with growth forecasts for 2013 and 2014 known on February 12, 2013, while allowing for an upturn in business conÞdence. After all, businesses will need to adapt and build for their own future within these conditions, which will gradually encourage them to resume their investment decisions.
As the very strong rebound in orders in 2010 and theÊÞrst half of 2011 showed, companies in the different geographical markets and market sectors served by Lectra will need to accelerate their investment plans or make good the investments they have postponed over several years and acquire the technologies necessary to boost their competitiveness and growth. The crisis and its further developments have ampliÞed the challenges they face.

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In its report of February 11, 2014, the company stated that the coming year was likely to be both difÞcult and unpredictable. The latest growth forecasts for 2014 and 2015 conÞrmed signs of a partial upturn in some developed countries, the United States and Japan in particular, while Europe continued to accumulate structural difÞculties and could face deßation.
AtÊtheÊsame time, growth in certain emerging countries was revised downward. Finally, certain currency risks were likely to increase, with the gradual tightening of U.S. monetary policy and the likely depreciation of theÊemerging currencies.
While most of these expectations proved founded, aÊnumber of unforeseen events combined to worsen the macroeconomic and geopolitical environment, including wars in Ukraine and the Middle East, the oil price slump, the Greek and Russian crisis, etc. Sharply lower interest rates, expanding consumption in emerging countries, China notably, and the proven competitiveness of German and U.S. industries were among the positive factors.
For Lectra, the euroÕs fall since midsummer 2014 against the dollar and the Chinese yuan in particular is a major event. Variations in the exchange rate between DecemberÊ31, 2013, and December 31, 2014, were signiÞcant: the dollar appreciated 13.6% against the euro (from $1.38/Û1 to $1.21/Û1) and the Chinese yuan rose 12.4% (from CNY 8.35/Û1 to CNY 7.43/Û1). Over and beyond its positive impact for Group customers in Europe (while the negative impact for China and the United States is expected to be limited), should this decline prove durable, it will mechanically boost the companyÕs revenues and results signiÞcantly in 2015 and 2016.

Clear and Ambitious Financial Goals

The main goals for 2016 contained in the strategic roadmap are (like-for-like variations):
Ð revenue growth of 33% or greater over the period 2013-2016;
Ð a 15% operating margin (before non-recurring items) in 2016;
Ð more than doubling income from operations (before non-recurring items) and net income in four years.
These goals are supported by a determination to maintain a tight grip on key operating ratios, by preserving a security ratio (i.e. the percentage of annual Þxed overhead costs covered by gross proÞt on recurring revenues) equal to or greater than 75%. They are founded on organic growth and are based on the exchange rates ofÊFebruary 1, 2013, in particular $1.35/Û1.
If these goals were met, income from operations before non-recurring items would be multiplied by nearly four in 2016 relative to 2007, the last pre-crisis year, and

theÊoperating margin (before non-recurring items) would rise by nearly 10 percentage points, on an actual basis. The company had indicated that, given the uncertainties at a time when forecasting is difÞcult, it may review these goals over the course of this three-year period.

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While orders and revenues from new systems again fell behind the roadmap for the year in 2014, recurring revenues, on the other hand, have grown faster than expected.

At actual exchange rates, revenues are close to pre-crisis levels (Û216.6 million in 2007 when the euro/dollar exchange rate had been more or less at the same rate at $1.37/Û1). The companyÕs business model has been strengthened, with recurring revenues exceeding their 2007 level by Û21.1 million (+21%) and representing 58%Êof revenues against 47%. The acceleration of theÊgrowth in revenues of new systems in 2015 and 2016 should lead them to exceed their 2007 level in 2016, with the aim of having an equal weighting to that of recurring revenues.

The proÞtability ratios (especially the overall gross proÞt margin and operating margin) were better than expected, with a particularly robust 79% security ratio.

Fixed overhead costs other than investments for theÊfuture were below budget and all other metrics were in line or better than expected.

As stated in chapter 14, Business Trends and Outlook, the company maintains the Þnancial goals it has set forÊ2016 unchanged.

Far-Reaching Company Transformation Plan andÊInvestments for the Future

Faced with the scale of the economic crisis in 2008-2009, the company reduced its Þxed overhead costs by nearly 20%, bringing them down from Û124 million in 2007 to Û100 million in 2010. Its 2010-2012 roadmap called for a second transformation phase in order to build its new post-crisis structure.

Innovation, human capital united around a strong corporate culture built on core values, uncompromised ethics in conducting business, and proximity to customers continue to drive LectraÕs leadership. On the strength of its results, the company decided at the end of 2011 to give precedence to its long-term strategy rather than to short-term proÞtability, by devoting the requisite Þnancial resources to this goal.

This three-point plan will cover the period to 2015, comprising:

Ð a major recruitment plan devoted to strengthening sales and marketing teams, which will grow from 220Êpeople at the end of 2011 to 330, and from 16% toÊ22% of the total workforce (with a doubling of theÊnumber of sales people);

Ð the addition of 40 software R&D engineers inÊBordeaux-Cestas, bringing the total R&D workforce toÊ260 engineers;

Ð accelerated investment in marketing.

If the recruitment program is executed in full, LectraÕs workforce should rise by around 200 to 1,540 by end 2015. This is equivalent to the pre-crisis level of 1,551 in 2007, but with resources reallocated to core strategic activities and the most promising geographical markets and market sectors, as well as increasing efÞciency and improving skills and performance.

These investments for the future will represent aÊcumulative Û50 million over the period 2012-2015, fully expensed, while their beneÞts will only be felt progressively.

Fixed overhead costs will continue to be limited to around Û130 million in 2015, versus Û102 million in 2011, before the launch of the transformation plan. Adjusting for inßation, the level of Þxed overhead costs in 2015 would be below that of 2007.

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The increase in costs relating to the transformation plan in 2014 (Û3.9 million) accounted for two thirds of the increase in total Þxed overhead costs (Û5.8Êmillion), compared with 2013. Moreover, given the new recruitments, the Group devoted a signiÞcant part of its budget, Û3.7 million, or 4% of its total payroll costs, onÊtraining its teams.

Overall, as of December 31, 2014, LectraÕs workforce has increased by 136 since the end of 2011 to 1,474Êemployees, 13% of which joined the company in 2014 and 31% since the start of the plan. The sales and marketing teams totaled 287 (+73 persons), 24% of which joined the Group in 2014 and 56% since the launch of

theÊplan. The total number of consultants was 69 (+33), while the total for the R&D teams came to 260 (+42). The transformation plan has resulted in a strengthening of LectraÕs consulting, marketing and software R&D teams, for which the recruitment program was completed at the end of 2014.

Revenues

Revenues totaled Û211.3 million, up 5% (+4% at actual exchange rates) compared with 2013.

Revenues from New Systems Sales

Revenues from new software licenses (Û21.8 million) rose by Û1.9 million (+9%) and accounted for 10% of total revenues, as in 2013.

Income from Operations and Net Income

Income from operations reached Û19.8 million. Compared with income from operations before non-recurring items of 2013, it increased Û2.4 million (+14%) like-for-like, andÊrose Û2.3 million (+13%) at actual exchange rates.
Financial income and expenses represented a net charge close to zero. Foreign exchange gains and losses generated a net loss of Û0.4 million.
After an income tax expense of Û5 million, net income reached Û14.4 million (Û12.5 million for 2013 excluding non-recurring items).
Net earnings per share were Û0.48 on basic capital and Û0.47 on diluted capital (Û0.43 and Û0.42 in 2013 excluding non-recurring items).

Free Cash Flow

Free cash ßow amounted to Û19 million (Û17.6 million for 2013 after including a non-recurring receipt ofÊÛ11.1Êmillion). There were no non-recurring items in 2014. Excluding non-recurring items, free cash ßow increased by Û12.5 million.
The amount of Û19 million results from cash ßow provided by operating activities of Û25.8 million (including a Û7.9 million decrease in the working capital requirement), and cash ßow used for capital expenditures of Û6.7 million.
The 2010 research tax credit (Û5.7 million) has been received. The research tax credit (Û6.8 million) and the

activity, Þnancial condition, Þnancial results (or its ability to achieve its goals) or reputation.

Production Risks

Maintaining LectraÕs R&D and production in France has enabled the Group to meet three challenges, namely: to compete with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors; to boost its competitiveness in the face of a persistently weak U.S. dollar against theÊeuro; and, Þnally, to boost its margins. The decision has also served to protect its intellectual property. This risk-protection strategy was made possible only through innovation. The Group intends to keep its R&D and production in France.

A substantial portion of the manufacturing of theÊequipment the company markets is subcontracted,

Currency ßuctuations impact the Group at two levels:

a) impact on competitive position: the Group sells its products and services in global markets. It competes primarily with its main competitor, a U.S. company that currently manufactures its equipment in China, as do the majority of the GroupÕs other competitors. 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 U.S. dollars or euros. The exchange rates between these three currencies have, therefore, a competitive impact;

b) currency translation impact:
ÐÊon the income statement, as accounts are consolidated in euros, revenues, gross proÞt, and income from operations of a subsidiary conducting its business in a foreign currency are mechanically affected by exchange rate ßuctuations when translated into euros;
ÐÊon balance sheet positions, this refers primarily toÊforeign 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 ÒForeign exchange income/lossÓ 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 ßows against currency risk on economically reasonable terms. Hedging decisions take into account currency risks and trends where these are likely to signiÞcantly impact the GroupÕs Þnancial condition and competitive situation. The bulk of foreign currency risk concerns the U.S. dollar.
The Group generally seeks to hedge the risk arising in respect of its net operational exposure to the U.S. dollar (revenues less all expenses denominated in U.S. dollars or strongly correlated currencies) by purchasing dollar puts (calls euros / puts dollars) or by forward currency contracts, when justiÞed by the cost of the hedge. Sensitivity to U.S. dollar ßuctuations and other currencies is shown in note 33 to the consolidated Þnancial statements. The GroupÕs statement of Þnancial position exposure is monitored in real time; it utilizes forward currency contracts to hedge all relevant receivables and debts.

Interest-Rate Risks

The Group now no longer has any Þnancial debt and therefore has no interest-rate risk exposure.
The remainder of its debt (Û0.4 million at December 31, 2014) consists of interest-free repayable public subsidies to fund R&D programs.

Stock Market Risks

The Group holds no interests in listed companies other than its own shares held under a Liquidity Agreement (see note 15.2 to the consolidated Þnancial statements), and is therefore not subject to stock market risk.

4.4. Customer Dependency Risks

Each year, revenues from new systems, accounting for 42% of total revenues in 2014, are generated by around 2,000 customers and comprise both sales to new customers and extensions to or the renewal of existing customersÕ installed bases. Revenues from recurring contracts, accounting for around 34% of 2014 total revenues, are generated on almost 5,500ÊLectraÕs customers. Finally, sales of spare parts and consumables, which account for 24% of 2014 total revenues, are generated on a large proportion ofÊtheÊinstalled CAD/CAM equipment.
There is thus no material risk of dependence on any particular customer or group of customers, as no individual customer represented more than 7% of consolidated revenues over the last three-year period, and the companyÕs 10 largest customers represented less than 20% of revenues combined, and the top 20Êcustomers less than 25%.

4.5. Legal and Regulatory Risks

The Group markets its products in more than 100Êcountries through a network of 32 sales and services subsidiaries, supplemented by agents and distributors in countries where it does not have a direct presence. Consequently, it is subject to a very large number of legal, customs, tax, and social regulations in these countries.

While the companyÕs 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