



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FOURTH QUARTER AND FULL-YEAR OF 2014

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the fourth quarter and full year ending December 31, 2014. Financial statements for fiscal year 2014 have been reviewed by the Statutory Auditors.

Detailed comparisons between 2014 and 2013 are based on 2013 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF OPERATIONS FOR Q4 2014

With an average parity of \$1.25/€1, the U.S. dollar was up 9% compared to Q4 2013 (\$1.36/€1). The change of this and other currency movements mechanically increased revenues by €1.8 million (+3%) and income from operations by €1 million (+19%) at actual exchange rates compared with like-for-like figures.

Sharp Rise in Orders for New Systems

Orders for new systems totaled €26.8 million; they were €19 million, €24.8 million and €23.7 million respectively in Q1, Q2 and Q3 2014.

Orders were up €5.3 million compared with Q4 2013, a 26% increase like-for-like and 31% at actual exchange rates.

New software licenses (€6.1 million) and CAD/CAM equipment (€16.8 million) increased by 27%, training and consulting (€3.3 million) by 26%.

Increase in Revenues

Revenues totaled €57.4 million, up 5% (+8% at actual exchange rates).

Revenues from new systems sales (€24.6 million) increased by €0.6 million (+3%).

Recurring revenues (€32.9 million) rose by €2 million (+7%), thanks to a 5% increase in revenues from recurring contracts and 8% in revenues from spare parts and consumables. Their growth accelerated in the fourth quarter after rising 3% in Q3 and 4% for the first six months of the year.

Sharp Rise in Income from Operations before Non-Recurring Items and Net Income

Income from operations before non-recurring items amounted to €6.4 million, up €1.1 million (+26%) like-for-like and €2.2 million (+51%) at actual exchange rates.

The

Total revenues (€211.3 million) were up by 5% relative to 2013. Revenues increased 10% in Europe and 8% in Asia-Pacific, but decreased 6% in the Americas. These three regions accounted for 46% (including 8% for France), 23% and 24% of revenues respectively. Revenues from the rest of the world (7% of total revenues) decreased by 3%. In 2013, these regions accounted for 44% (including 8% for France), 22%, 27% and 7% of total revenues respectively.

Growth in Income from Operations and in the Operating Margin before Non-Recurring Items— Continuation of Investments for the Future

Income from operations before non-recurring items was €19.8 million. Like-for-like, it was up €2.4 million (+14%) relative to 2013.

At actual exchange rates, it increased by €2.3 million (+13%). This increase stems from the growth in revenues from new systems sales (€2.6 million), in recurring revenues (€4.1 million), and in gross profit margins (€1.5 million).

rank among the world's leaders. Lectra has been operating in the country for more than 25 years, represented until then by an exclusive agent.

3. STRATEGIC ROADMAP FOR 2013-2016: SECOND PROGRESS REPORT

In its financial report of February 12, 2013, the company published its strategic roadmap for 2013-2015 as well as a broad outline of its transformation plan and investments for the future representing €50 million over the period 2012-2015.

Global growth proved slower than forecast, in 2013, and the hoped for rise in business confidence failed to materialize. Consequently, the company's revenues and results fell behind the roadmap. Given the uncertain macroeconomic conditions of 2014, the company stated in its February 11, 2014 report that it would be prudent 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.

A long-term strategy

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 *Versalis* 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.

Progress Report

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

end of the year, on one hand, to readjust the breakdown of new hires over the company's geographic and market sectors and, on the other hand, to increase the number of pre-sales consultants, given the growing strategic importance for the company's customers in investing in Lectra's technologies.

The company now expects its sales and marketing teams—including the pre-sales consultants—to have expanded from 232 people at the end of 2011 to 360 at December 31, 2015, and from 17% to 23% of the total headcount. The transformation plan will have enabled a reallocation of resources toward the most strategically important activities as well as the geographical markets and market sectors with the greatest growth potential. The total Group headcount will be 1,540 as planned.

The transformation plan will be completed at the end of 2015, and the corresponding investments for the future will total €50 million over the period 2012-2015, as initially planned. Finally, fixed overhead costs will be limited to around €133 million in 2015, based on the chosen parity of \$1.25/€1 for the year. The inflation-adjusted level for 2015 will be less than in 2007, as anticipated.

Fully Internally Funded Development

The company's annual free cash flow should continue to exceed net income (assuming utilization or receipt of the research tax credit and the competitiveness and employment tax credit applicable in France), enabling it to pursue its policy of paying dividends to shareholders while financing its future development.

Its goal is to be free of all financial debt.

Lectra will pursue its dividend-payment policy. Barring further changes to the taxation of dividends in France, the total dividend is expected to represent a payout ratio of around 33% of net income (excluding non-recurring items), the remaining 67% serving to self-finance the company's growth. This ratio could exceptionally rise to or exceed 50% until the investments for the future have produced their full impact, insofar as they are already taken into account in the computation of net income and free cash flow.

Lastly, besides the Liquidity Agreement, the company will not implement any share buyback plan. It will preserve its cash in order to finance future targeted acquisitions in the coming years, should the right opportunities arise on favorable terms, while its organic growth continues to be financed internally thanks to its business model.

Progress Report

The balance sheet at the end of 2014 is stronger than expected.

4. CONSOLIDATED FINANCI

€14 million in variable costs, up €1.8 million (+15%), due to a rise in variable compensation resulting from the growth in activity and income, and from an increase in subcontracted services.

R&D costs

The working capital requirement amounted to €0.1 million. It has included the receivable of €23 million on the French tax administration (*Trésor public*) corresponding to the research tax credit recognized since fiscal year 2011, and the competitiveness and employment tax credit since 2013, neither of which has yet been received or offset against income tax. Restated for this receivable, the working capital requirement was negative at €22.9 million, a key feature of the Group's business model.

It should be noted that, when these tax credits cannot be deducted from corporate income tax, they are 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. Thus, the 2010 research tax credit was repaid to the company in October 2014 (see note 9 of the notes to this report).

5. APPROPRIATION OF EARNINGS

Dividend Raised to €0.25 per Share

As recommended by the Board of Directors, the company had declared a dividend of €0.22 per share in respect of fiscal 2011, 2012 and 2013.

No other crossing of statutory thresholds has been notified to the company since January 1, 2014.

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

André Harari and Daniel Harari, who together hold 36.6% of the capital and 36.2% of the voting rights;

Schroder Investment Management Ltd (UK), which holds 10.06% of the capital and 9.93% of the voti

9. BUSINESS TRENDS AND OUTLOOK

For every €1 million increment (or decline) in revenues from new systems sales, income from operations should increase (or decrease) by approximately €0.45 million.

It should continue to exceed net income, assuming the use or the receipt of the French research tax credit and competitiveness and employment tax credit recognized in the year. In 2015, free cash flow will benefit from the refund of the 2011 research tax credit (€4.7 million).

Company Confident in its Medium-Term Growth Prospects

The transformation plan is scheduled for completion at the end of 2015. The headcount will be strengthened and resources will be reallocated to the most strategically important activities and to those geographical sectors and market sectors offering the greatest growth potential.

Bolstered by the strength of its business model and the relevance of its strategic roadmap, the company maintains the financial goals it has set for 2016 unchanged and remains confident in its growth prospects for the medium term.

The Board of Directors

February 11, 2015

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended December 31, 2014	Twelve months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2013
Revenues	57,428	211,336	53,035	203,032
Cost of goods sold	(14,955)	(55,606)	(15,062)	(56,550)
Gross profit	42,473	155,730	37,973	146,482
Research and development	(4,124)	(13,479)	(3,247)	(12,503)
Selling, general and administrative expenses	(31,947)	(122,470)	(30,483)	(116,511)
Income (loss) from operations before non-recurring items	6,402	19,781	4,243	17,468
Non-recurring income				

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended December 31, 2014	Twelve months ended December 31, 2014	Three months ended December 31, 2013	Twelve months ended December 31, 2013
Net income (loss) ⁽¹⁾	4,670	14,353	2,926	21,775
Currency translation adjustments	299	382	119	119
Tax effect	(164)	(164)	-	-
Other comprehensive income (loss) to be reclassified in net income (loss)	135	218	119	119
Remeasurement of the net liability arising from defined benefits pension plans	(865)	(960)	(553)	(574)
Tax effect	283	311	188	192
Other comprehensive income (loss) not to be reclassified in net income (loss)	(582)	(649)	(365)	(382)
Total other comprehensive income	(446)	(431)	(246)	(263)
Comprehensive income (loss) ⁽¹⁾	4,224	13,922	2,680	21,512

(1) At December 31, 2013, income from operations and income before tax included a non-recurring income of €11.1 million, relating to the receipt

CONSOLIDATED STATEMENT OF CASH FLOWS

Twelve months ended December 31
(in thousands of euros)

	2014	2013
I - OPERATING ACTIVITIES		
Net income (loss)	14,353	21,775
Net depreciation, amortization and provisions	4,778	8,009
Non-cash operating expenses	(1,051)	517
Loss (profit) on sale of fixed assets	63	(17)
Changes in deferred income taxes, net value	(312)	1,393
Changes in inventories	(1,435)	584
Changes in trade accounts receivable	3,872	(5,005)
Changes in other current assets and liabilities	5,483	(4,680)
Net cash provided by (used in) operating activities ⁽¹⁾	25,751	22,575
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,898)	(1,879)
Purchases of property, plant and equipment	(4,880)	(2,915)
Proceeds from sales of intangible assets and property, plant and equipment	47	37
Acquisition cost of activities purchased ⁽²⁾	(1,560)	-
Purchases of financial assets ⁽³⁾	(2,547)	(2,407)
Proceeds from sales of financial assets ⁽³⁾	2,574	2,177
Net cash provided by (used in) investing activities	(8,264)	(4,987)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	2,904	3,159
Dividends paid	(6,554)	(6,377)
Purchases of treasury shares	(2,403)	(1,389)
Sales of treasury shares	2,401	1,827
Flows on financial derivatives qualifying net investment hedges	484	-
Repayments of long term and short term borrowings ⁽⁴⁾	(500)	(5,834)
Net cash provided by (used in) financing activities	(3,668)	(8,614)
Increase (decrease) in cash and cash equivalents	13,819	8,974
Cash and cash equivalents at opening	29,534	20,966
Increase (decrease) in cash and cash equivalents	13,819	8,974
Effect of changes in foreign exchange rates	131	(406)
Cash and cash equivalents at closing	43,484	29,534
Free cash flow before non-recurring items	19,047	6,464
Non-recurring items of the free cash flow ⁽¹⁾	-	11,124
Free cash flow	19,047	17,588
Income tax paid (reimbursed), net	2,997	2,834
Interest paid	-	15

(1) At December 31, 2013, net cash provided by operating activities included €11.1 of non-recurring elements, corresponding to the receipt of the remaining amount due in the litigation against Induyco.

(2) At December 31, 2014, this amount corresponds to the acquisition cost of the activities of the Group's former agent in South Korea (see note 3 hereafter).

(3) These amounts mainly correspond to the valuation of purchases and sales of treasury shares made through the Liquidity Agreement, and for which the counterpart is shown in the corresponding cash flows arising from financing activities.

(4) The balance outstanding on the medium-term bank loan taken out by the company in 2007, i.e. €5.4 million at December 31, 2012, was repaid ahead of schedule on March 31, 2013, at the company's initiative.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros, except for par value per share expressed in euros)	Share capital			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	Equity
	Number of shares	Par value per share	Share capital					
Balance at January 1, 2013	28,948,315	1.00	28,948	2,600	(380)	(8,840)	42,676	65,004
Net income (loss)							21,775	21,775
Other comprehensive income (loss)						119	(382)	(263)
Comprehensive income (loss)						119	21,393	21,512
Exercised stock options	716,100	1.00	716	2,443				3,159
Fair value of stock options							140	140
Sale (purchase) of treasury shares					297			297
Profit (loss) on treasury shares							94	94
Dividends paid							(6,377)	(6,377)
Balance at December 31, 2013	29,664,415	1.00	29,664	5,043	(83)	(8,721)	57,926	83,829
Net income (loss)							14,353	14,353
Other comprehensive income (loss)						218	(649)	(431)
Comprehensive income (loss)						218	13,704	13,922
Exercised stock options	664,699	1.00	665	2,239				2,904
Fair value of stock options							136	136
Sale (purchase) of treasury shares					(50)			(50)
Profit (loss) on treasury shares							32	32
Other variations							(71)	(71)
Dividends paid							(6,554)	(6,554)
Balance at December 31, 2014	30,329,114	1.00	30,329	7,282	(133)	(8,503)	65,173	94,148

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, Europe, Asia-Pacific, and the Rest of the World, where the company operates chiefly in Northern Africa, South Africa, Turkey, Israel, and the Middle East. 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

4. ORDERS FOR NEW SYSTEMS

To make the discussion of revenues and earnings as relevant as possible and to better reflect the company's value proposition, changes have been introduced in the Management discussion in reporting orders and backlog for new systems from January 1, 2014. Their total amount is now communicated, while previously only the orders for new software licenses and CAD/CAM equipment were stated. 2013 amounts have been restated accordingly for comparison with 2014 data.

5. CONSOLIDATED STATEMENT OF INCOME—LIKE-FOR-LIKE CHANGE

5.1. Q4 2014

(in thousands of euros)	Actual	At 2013 exchange rates	2013	Actual	Like-for-like
			Actual		
Revenues	57,428	55,654	53,035	+8%	+5%

5.2. Fiscal Year 2014

(in thousands of euros)	Twelve Months Ended December 31				
	2014		2013	Changes 2014/2013	
	Actual	At 2013 exchange rates	Actual	Actual	Like-for-like
Revenues	211,336	212,239	203,032	+4%	+5%
Cost of goods sold	(55,606)	(55,762)	(56,550)	-2%	-1%
Gross profit	155,730	156,477	146,482	+6%	+7%
(in % of revenues)	73.7%	73.7%	72.1%	+1.6 points	+1.6 points
Research and development	(13,479)	(13,479)	(12,503)	+8%	+8%
Selling, general and administrative expenses	(122,470)	(123,170)	(116,511)	+5%	+6%
Income (loss) from operations before non-recurring items	19,781	19,828	17,468	+13%	+14%
(in % of revenues)	9.4%	9.3%	8.6%	+0.8 points	+0.7 points
Non-recurring income	-	-	11,124	na	na
Goodwill impairment	-	-	(702)	na	na
Income (loss) from operations	19,781	19,828	27,890	-29%	-29%
(in % of revenues)	9.4%	9.3%	13.7%	-4.7 points	-4.8 points
Income (loss) before tax	19,396	19,443	27,084	-28%	-28%
Income tax	(5,043)	na	(5,309)	-5%	na
Net income (loss)	14,353	na	21,775	-34%	na

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

6.1. Q4 2014

Revenues by geographic region

(in thousands of euros)	Three Months Ended December 31							
	2014		2013		Changes 2014/2013			
	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like	
Europe, of which:	27,510	48%	27,472	22,739	43%	+21%	+21%	
- France	4,580	8%	4,586	4,002	8%	+14%	+15%	
Americas	14,829	26%	13,748	13,646	26%	+9%	+1%	
Asia-Pacific	11,051	19%	10,424	13,278	25%	-17%	-21%	
Other countries	3,940	7%	3,921	3,373	6%	+17%	+16%	
Total	57,330	100%	55,565	53,035	100%	+8%	+5%	

Revenues by product line

(in thousands of euros)	Three Months Ended December 31							
	2014		2013		Changes 2014/2013			
	Actual	%	At 2013 exchange rates	Actual	%	Actual	Like-for-like	
Software, of which:	16,754	29%	16,371	15,193	28%	+10%	+8%	
- New licenses	5,872	10%	5,720	4,987	9%	+18%	+15%	
- Software maintenance and on-line services contracts ⁽¹⁾	10,882	19%	10,651	10,206	19%	+7%	+4%	
CAD/CAM equipment	15,516	27%	14,840	15,336	29%	+1%	-3%	
Hardware maintenance and on-line services contracts ⁽¹⁾	7,916	14%	7,685	7,184	14%	+10%	+7%	
Spare parts and consumables	13,970	24%	13,570	12,590	24%	+11%	+8%	
Training and consulting services	2,640	5%	2,574	2,195	4%	+20%	+17%	
Miscellaneous	534	1%	525	537	1%	-1%	-2%	
Total	57,330	100%	55,565	53,035	100%	+8%	+5%	

(1) To make information as relevant as possible, as of January 1, 2014, online services have been separated for software, on one hand, and CAD/CAM equipment, on the other. They were previously grouped under the heading "hardware maintenance and online services contracts". 2013 amounts have been restated accordingly for comparison with 2014 data.

(1) Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, training and consulting and on-call interventions on the installed base.

(2) Recurring revenues fall into two categories:

- Recurring contracts: software evolution and online services contracts, and CAD/CAM equipment maintenance and online services contracts, which are renewable annually;
- Revenues from sales of spare parts and consumables, which are statistically recurrent.

–€2.9 million corresponding to the increase of customers down payments in the statement of financial position, due to new systems orders in Q4 2014 being higher than those in

At the date of publication of this report, it has not hedged its exposure to the U.S. dollar beyond December 31, 2014.

13. SENSITIVITY ANALYSIS

Sensitivity of Income from Operations to a Change in Revenues from New Systems Sales

Under the company's business model, each €1 million increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.45 million.