

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SECOND QUARTER AND FIRST HALF 2016

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the second quarter and first half of 2016, ending June 30. Financial statements for the first half have been subject to a limited review by the Statutory Auditors; statements relating solely to the second quarter have not been reviewed.

Detailed comparisons between 2016 and 2015 are based on 2015 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF OPERATIONS FOR Q2 2016

With an average parity of \$1.13/€1

Lectra Opens a Subsidiary in

Revenues from New Systems Sales

Overall, revenues from new systems sales (€54.6 million) increased by 13%. They represented 43% of total revenues (42% in H1 2015):

Revenues from new software licenses (€11.7 million) decreased by 1% and accounted for 9% of total revenues (10% in H1 2015);

CAD/CAM equipment revenues (€36.4 million) increased by 25% and accounted for 29% of total revenues (26% in H1 2015);

Training and consulting revenues (€5.5 million) decreased by 9% and accounted for 4% of total revenues (5% in H1 2015).

Revenues from Recurring Contracts and Consumables and Parts

Recurring revenues (€71.7 million) increased by 8%. They accounted for 57% of total revenues (58% in H1 2015).

Revenues from recurring contracts—which contributed 56% of recurring revenues and 32% of total revenues—totaled €40.4 million, a 4% increase:

Revenues from software

R&D costs (€11.7 million) are fully expensed in the period and included in overhead costs and represented 9.3% of revenues (€11.4 million and 9.8% in H1 2015). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France, net R&D costs amounted to €8.2 million (€7.1 million in 2015).

Income from Operations and Net Income

Income from operations reached €15.4 million, an increase of €3.2 million (+24%) like-for-like and €2.3 million (+17%) at actual exchange rates compared with H1 2015.

The operating margin was 12.2%, up 1.5 percentage points like-for-like and 0.9 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of €0.2 million. Foreign exchange gains and losses generated a net loss of €0.1 million.

After an income tax expense of €4.4 million, net income amounted to €10.7 million, up 18% at actual exchange rates (€9 million in H1 2015).

Net earnings per share were €0.35 on basic capital and €0.34 on diluted capital (€0.29 on basic capital and diluted capital in H1 2015).

Free Cash Flow

Free cash f1

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At June 30, 2016, the share capital totaled €30,957,385 divided into 30,957,385 shares with a par value of €1.00.

Share capital has increased by €170,986 (with a total share premium of €469,441) due to the creation of 170,986 shares since January 1, 2016 resulting from the exercise of stock options.

Main Shareholders

On April 8, 2016, and again in a second disclosure on April 24, Allianz SE (Germany) reported that, acting through French companies controlled by it, it had increased its shareholding above the thresholds of 5% of the company's capital stock and voting rights and that it held 5.10% of the capital stock and 5.05% of the voting rights.

No other crossing of statutory thresholds has been notified to the company since January 1, 2016.

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

André Harari and Daniel Harari together hold 35.9% of the capital and 35.5% of the voting rights;

Delta Lloyd Asset Management NV (Netherlands), on behalf of investment funds and clients managed by it, and Allianz SE (Germany), through French companies controlled by it, 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 June 30, 2016, the company held 0.05% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement contracted with Exane BNP Paribas.

Share Price Performance and Trading Volumes

The company's share price at ce a

Company Certification of the First-Half 2016 Report

We certify that, to our knowledge, the first-half 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 first-half report on operations presents a true and sincere view of the significant events that occurred during the first six months of the fiscal year and their impact on the financial statements, and a description of the main risks and uncertainties for the coming six months.

Paris, July 28, 2016

Daniel Harari
Chief Executive Officer

Jérôme Viala
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	June 30, 2016	December 31, 2015	June 30, 2015
Goodwill	32,493	32,769	32,585
Other intangible assets	4,642	4,890	4,687
Property, plant and equipment	19,203	19,706	17,830
Non-current financial assets	2,111	2,100	1,896
Deferred tax assets	9,259	8,696	8,016
Total non-current assets	67,708	68,161	65,014
Inventories	25,532	23,326	23,475
Trade accounts receivable	44,331	53,404	42,790
Other current assets	34,825	31,493	36,821
Cash and cash equivalents	57,826	59,347	41,535
Total current assets	162,514	167,570	144,621
Total assets	230,222	235,731	209,635

EQUITY AND LIABILITIES

(in thousands of euros)	June 30, 2016	December 31, 2015	June 30, 2015
Share capital	30,957	30,786	30,723
Share premium	9,488	9,018	8,773
Treasury shares	(191)	(203)	(282)
Currency translation adjustments	(9,014)	(8,194)	(8,135)
Retained earnings and net income	82,618	81,547	66,891
Total equity	113,858	112,954	97,969
Retirement benefit obligations	9,194	8,420	8,444
Borrowings, non-current portion	-	-	-
Total non-current liabilities	9,194	8,420	8,444

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Three months ended June 30, 2016	Six months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2015
Revenues	64,132	126,345	60,308	116,428
Cost of goods sold	(17,082)	(33,366)	(14,824)	(28,195)
Gross profit	47,050	92,979	45,484	88,233
Research and development	(4,196)	(8,157)	(3,589)	(7,147)
Selling, general and administrative expenses	(34,768)	(69,397)	(34,331)	(67,912)

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Three months ended June 30, 2016	Six months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2015
Net income	5,525	10,655	5,281	8,992
Currency translation adjustments	(820)	(820)	(72)	368
Tax effect	-	-	-	-
Other comprehensive income to be reclassified in net income	(820)	(820)	(72)	368
Remeasurement of the net liability arising from defined benefits pension plans	(581)	(581)	121	169
Tax effect	190	190	(29)	(43)
Other comprehensive income not to be reclassified in net income	(391)			

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Six months ended June 30, 2016	Six months ended June 30, 2015
I - OPERATING ACTIVITIES		
Net income	10,655	8,992
Net depreciation, amortization and provisions	3,296	3,280
Non-cash operating expenses	(625)	(525)
Loss (profit) on sale of fixed assets	35	2
Changes in deferred income taxes	(330)	330
Changes in inventories	(2,588)	(2,453)
Changes in trade accounts receivable	6,546	5,028
Changes in other current assets and liabilities	(7,714)	(7,868)
Net cash provided by (used in) operating activities	9,275	6,786
II - INVESTING ACTIVITIES		

(1) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2016

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed since 1987 on Euronext (compartment B). Lectra is the world leader in software, CAD/CAM equipment and associated services dedicated to large-scale users of fabrics, leather, technical textiles and composite materials. Lectra addresses a broad array of major global markets, mainly fashion and apparel, automotive (car seats and interiors, airbags), furniture as well as a wide variety of other industries, such as the aeronautical and marine industries, and wind power.

The company's technology offer is geared to the specific needs of each market, enabling itsE

Business Model

Lectra's business model is based on three pillars:

a balance of risks, which benefit from natural hedging by the distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and by the very large number of customers throughout the world;

a balanced revenue mix between revenues from new systems sales, the company's growth driver, and revenues from recurring contracts and consumables and parts, a key factor in the company's stability, that provide a cushion in periods of difficult economic conditions;

the generation of annual free cash flow exceeding net income, assuming utilization or receipt

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 impairment and deferred tax.

Revenues

Revenues from sales of hardware and software are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.

For hardware, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms. For software, these conditions are generally fulfilled at the time of installation of the software on the customer's computer (either by CD-ROM or downloading).

Revenues from software evolution contracts and recurring services contracts are billed in advance, and their booking is spread over the duration of the contracts.

Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

Cost of Goods Sold

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

Research and Development Costs

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 and the portion of the competitiveness and employment tax credit (*té et emploi*) relating to R&D personnel, as well as BT1 0 0 1 70.584 306.77 Tm[BT1dnt)-8(wl(e)-9(r)-)-10(d4(s)-5(er.)-BT1l)53 ap

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 (hQ 714.46ng1

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

4.1. Q2 2016

(in thousands of euros)	Three Months Ended June 30				
	2016		2015	Changes 2016/2015	
	Actual	At 2015 exchange rates	Actual	Actual	Like-for-like
Revenues	64,132	65,352	60,308	+6%	+8%
Cost of goods sold	(17,082)	(17,199)	(14,824)	+15%	+16%
Gross profit	47,050	48,153	45,485	+3%	+6%
(in % of revenues)	73.4%	73.7%	75.4%	-2.0 points	-1.7 points
Research and development	(4,196)	(4,196)	(3,589)	+17%	+17%
Selling, general and administrative expenses	(34,768)	(35,364)	(34,331)	+1%	+3%
Income from operations	8,086	8,594	7,564	+7%	+14%
(in % of revenues)	12.6%	13.2%	12.5%	+0.1 points	+0.7 points
Income before tax	7,990	8,498	7,197	+11%	+18%
Income tax	(2,465)	na	(1,916)	+29%	na
Net income	5,525	na	5,281	+5%	na

4.2. First Half 2016

(in thousands of euros)	Actual	At 2015 exchange rates	2015		
			Actual	Actual	Like-for-like
Revenues	126,345	128,178	116,428	+9%	+10%
Cost of goods sold	(33,366)	(33,430)	(28,195)	+18%	+19%
Gross profit	92,979	94,748	88,233	+5%	+7%
(in % of revenues)	73.6%	73.9%	75.8%	-2.2 points	-1.9 points
Research and development	(8,157)	(8,157)	(7,147)	+14%	+14%
Selling, general and administrative expenses	(69,397)	(70,223)	(67,912)	+2%	+3%
Income from operations	15,425	16,368			

5.

5.2. First Half 2016

Revenues by geographic region

(in thousands of euros)	2016		Six Months Ended June 30 2015			Actual	Like-for-like
			At 2015 exchange rates				
Europe, of which:	54,154	43%	54,600	50,335	43%	+8%	+8%
- France	9,398	7%	9,397	8,138	7%	+15%	+15%
Americas	33,621	27%	34,211	30,121	26%	+12%	+14%
Asia-Pacific	30,680	24%	31,160	28,595	25%	+7%	+9%
Other countries	7,890	6%	8,207	7,377	6%	+7%	+11%
Total	126,345	100%	128,178	116,428	100%	+9%	+10%

Revenues by product line

(in thousands of euros)	2016		Six Months Ended June 30 2015			Actual	Like-for-like
			At 2015 exchange rates				
Software, of which:	35,045	28%	35,552	34,877	30%	0%	+2%
- New licenses	11,686	9%	11,853	12,028	10%	-3%	-1%
- Software evolution and online services contracts	23,359	18%	23,699	22,850	20%	+2%	+4%
CAD/CAM equipment	36,353	29%	36,754	29,440	26%	+23%	+25%
Hardware maintenance and online services contracts	17,021	13%	17,276	16,626	14%	+2%	+4%
Consumables and spare parts	31,364	25%	31,991	28,297	24%	+11%	+13%
Training and consulting services	5,545	4%	5,582	6,111	5%	-9%	-9%
Miscellaneous	1,017	1%	1,023	1,077	1%	-6%	-5%
Total	126,345	100%	128,178	116,428	100%	+9%	+10%

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2016		Six Months Ended June 30 2015			Actual	Like-for-like
			At 2015 exchange rates				
Revenues from new systems sales ⁽¹⁾	54,601	43%	55,212	48,656	42%	+12%	+13%
Recurring revenues							

(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 consumables and parts, which are statistically recurrent.

6. OPERATING SEGMENTS INFORMATION

(1) *The 2015 amounts have been restated in order to account for the change in gross profit margins (see below) and allow for comparison with 2016.*

+€1.9

At June 30

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STATUTORY AUDITORS'

2. Specific verification

We have verified the information presented in the Half-Year Financial Report (part of the condensed half-year consolidated financial statements subject to our review. At the exception of the possible variation of 0.143.42684t of 4ewg0AMCID[S 1 42 684e)-9 684t, 0Ave39.94 6 0 0 e n.94 o10(of2.144 684.43.03