

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND

Revenues from Recurring Contracts, Consumables and Parts

Recurring revenues (114.9 million) increased by 6%. They accounted for 56% of total revenues (57% in 2016).

Revenues from recurring contracts which represented 58% of recurring revenues and 32% of total revenues (66.2 million, an 8% increase):

Revenues from CAD/CAM and PLM software evolution and online services contracts (28.7 million), up 5% compared to 2016, represented 14% of total revenues;

Revenues from CAD/CAM equipment and accompanying software maintenance and online services (37.5 million), up 10%, represented 18% of total revenues.

In parallel, revenues from consumables and parts (48.7 million) increased by 4% and represented 24% of total revenues (25% for the first nine months of 2016).

Order Backlog

At September 30, 2017 (24.5 million) was stable relative to December 31, 2016, like-for-like, but down 3.9 million relative to September 30, 2016, at actual exchange rates. The backlog was however up 3.9 million relative to September 30, 2016, at actual exchange rates.

This backlog comprised orders for new software licenses and CAD/CAM equipment totaling 17.7 million, including 16.2 million for shipment in Q4 2017, 1.5 million in 2018, and 6.8 million for training and consulting, to be delivered as projects progress.

Gross Profit

Gross profit (150.5 million).

The overall gross profit margin was 73.2%, down 0.6 percentage points relative to the first nine months of 2016.

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

Overhead costs (121.4 million, up 7.4 million (+7%) compared to the first nine months of 2016).

The breakdown is as follows:

107.9 million in fixed overhead costs (+6%);

13.5 million in variable costs (+13%).

R&D costs (18.8 million) are fully expensed in the period, included in overhead costs and represented 9.1% of total revenues (16.7 million and 8.7% in the first nine months of 2016). After deducting the research tax credit and the corresponding portion of the competitiveness and employment tax credit applicable in France, net R&D costs (12.9 million).

A New Strategic Roadmap for 2017-2019

The new strategic roadmap was framed to enable Lectra to become an indispensable player in Industry 4.0, to consolidate its global leadership and achieve sustained growth, while maintaining short-term profitability and continuing to focus activities on its main market sectors, i.e. fashion and apparel, automotive and furniture.

Industry 4.0 presents an unprecedented opportunity for Lectra, calling for the integration of smart solutions and services, and the replacement of production tools incompatible with the connected

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF CASH FLOWS

(1) At September 30, 2016, this amount corresponded

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, 2016	30,786,399	1.00	30,786	9,018	(203)	(8,194)	81,547	112,955
Net income							18,731	18,731
Other comprehensive income						(697)	(746)	(1,443)
Comprehensive income						(697)	17,985	17,288
Exercised stock options	384,806	1.00	385	1,569				1,954
Fair value of stock options							96	96
Sale (purchase) of treasury shares					(77)			(77)
Profit (loss) on treasury shares							60	60
Dividend paid							(9,274)	(9,274)
Balance at September 30, 2016	31,171,205	1.00	31,171	10,587	(280)	(8,891)	90,413	123,001
Balance at January 1, 2016	30,786,399	1.00	30,786	9,018	(203)	(8,194)	81,547	112,955
Net income							26,662	26,662
Other comprehensive income						(343)	(106)	(449)
Comprehensive income						(343)	26,556	26,213
Exercised stock options	461,155	1.00	461	1,893				2,354
Fair value of stock options							142	142
Sale (purchase) of treasury shares					112			112
Profit (loss) on treasury shares							81	81
Dividend paid							(9,274)	(9,274)
Balance at December 31, 2016	31,247,554	1.00	31,248	10,912	(91)	(8,537)	99,052	132,583
Net income							20,074	20,074
Other comprehensive income						(1,305)	(60)	(1,365)
Comprehensive income						(1,305)	20,014	18,709
Exercised stock options	247,274	1.00	247	1,107				1,354
Fair value of stock options							189	189
Sale (purchase) of treasury shares					(119)			(119)
Profit (loss) on treasury shares							31	31
Dividend paid							(10,977)	(10,977)
Balance at September 30, 2017	31,494,828	1.00	31,495	12,018	(210)	(9,842)	108,308	141,769

quarter of the year. This, in particular, applies to sales of new software licenses and CAD/CAM equipment. Moreover, overhead costs are reduced during the third quarter due to the summer holidays in France and in European subsidiaries. These two items have a positive impact on income from operations in these quarters.

-for- 7 figures restated at 2016 exchange rates,
in comparison with actual data for 2016.

Critical Accounting Estimates and Judgments

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies. Although such estimates are made in a particularly uncertain environment, t

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

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3. SCOPE OF CONSOLIDATION

At September 30, 2017

Lectra SA, together with 28 fully-

any,

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

4.1. Q3 2017

4.2. First Nine Months of 2017

	Nine Months Ended September 30				
	2017		2016	Changes 2017/2016	
	Actual	At 2016 exchange rates	Actual	Actual	Like-for-like
(in thousands of euros)					
Revenues	205,713	205,666	190,743	+8%	+8%
Cost of goods sold	(55,227)	(55,199)	(49,969)	+11%	+10%
Gross profit	150,485	150,467	140,775	+7%	+7%
(in % of revenues)	73.2%	73.2%	73.8%	-0.6 points	-0.6 points
Research and development	(12,932)	(12,932)	(11,518)	+12%	+12%
Selling, general and administrative expenses	(108,501)	(108,675)	(102,649)	+6%	+6%
Income from operations	29,052	28,859	26,608	+9%	+8%
(in % of revenues)	14.1%	14.0%	13.9%	+0.2 points	+0.1 points
Income before tax	28,113	27,920	26,016	+8%	+7%
Income tax	(8,039)	na	(7,285)	+10%	na
Net income	20,074	na	18,731	+7%	na

5. BREAKDOWN OF REVENUES LIKE-FOR-LIKE CHANGE

5.1. Q3 2017

(1)

5.2. First Nine Months of 2017

Revenues by region

(in thousands of euros)	Nine Months Ended September 30							
	2017			2016			Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like	
Europe, of which:	86,046	42%	86,362	79,492	41%	+8%	+9%	
- France	13,845	7%	13,845	13,221	7%	+5%	+5%	
Americas	50,553	24%	49,986	50,885	27%	-1%	-2%	
Asia-Pacific	54,765	27%	55,248	48,798	26%	+12%	+13%	
Other countries	14,349	7%	14,069	11,568	6%	+24%	+22%	
Total	205,713	100%	205,666	190,743	100%	+8%	+8%	

Revenues by type of business

(in thousands of euros)	Nine Months Ended September 30							
	2017			2016			Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like	
New CAD/CAM and PLM software licenses ⁽¹⁾	12,352	6%	12,317	10,448	5%	+18%	+18%	
CAD/CAM and PLM software evolution and online services contracts ⁽²⁾	28,681	14%	28,653	27,194	14%	+5%	+5%	
CAD/CAM equipment and accompanying software ⁽¹⁾	66,961	33%	67,126	62,061	33%	+8%	+8%	
CAD/CAM equipment and accompanying software maintenance and online services contracts ⁽²⁾	37,538	18%	37,556	34,196	18%	+10%	+10%	
Consumables and parts	48,693	24%	48,495	46,801	25%	+4%	+4%	
Training and consulting services	9,861	5%	9,886	8,356	4%	+18%	+18%	
Miscellaneous	1,627	1%	1,633	1,689	1%	-4%	-3%	
Total	205,713	100%	205,666	190,743	100%	+8%	+8%	

(1)

7,645,000) has been restated accordingly to allow for comparison

with 2017 data.

(2) Evolution and online services contracts related to CAD/CAM equipment accompanying software, which appeared in 2016 under the

8,049,000) has been restated accordingly to allow for comparison with

2017 data.

Revenues by nature

(in thousands of euros)	Nine Months Ended September 30							
	2017			2016			Changes 2017/2016	
	Actual	%	At 2016 exchange rates	Actual	%	Actual	Like-for-like	
Revenues from new systems sales ⁽¹⁾	90,801	44%	90,962	82,553	43%	+10%	+10%	
Recurring revenues ⁽²⁾ , of which:	114,912	56%	114,704	108,190	57%	+6%	+6%	
- Recurring contracts	66,219	32%	66,209	61,389	32%	+8%	+8%	

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

6. OPERATING SEGMENTS INFORMATION

Nine months ended September 30, 2016
(in thousands of euros)

Europe Americas Asia-Pacific

Income from operations, which is obtained by adding together the income for each segment, is statements and therefore does not need to be reconciled.

7. CONSOLIDATED CASH FLOW SUMMARY

Nine months ended September 30, 2017 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	19,211	-	19,211
Proceeds from issuance of ordinary shares ⁽¹⁾	1,354	-	1,354
Sale and purchase of treasury shares ⁽²⁾	(72)	-	(72)
Dividends paid	(10,977)	-	(10,977)
	(1,175)	-	(1,175)
Change in cash position for the period	8,341	-	8,341
Cash position at December 31, 2016	75,696	-	75,696
Cash position at September 30, 2017	84,037	-	84,037
Change in cash position for the period	8,341	-	8,341

(1) Resulting solely from the exercise of stock options.

(2) Carried out solely under the liquidity agreement administered by Exane BNP Paribas (see note 9).

Free cash flow at September 30 19.2 million. This figure results from a combination of million in cash flows provided by operating activities (including an increase in working capital million) a million.

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

million. Conversely, a 5-cent appreciation of the euro against the US revenues and income from operations by the same amounts.

The parity is \$1.16

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.