LECTRA

FINANCIAL REPORT 2020

The Annual Financial Report is a translation of the official Annual Financial Report that was written in French and is available on the issuer's website www.lectra.com.

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On course for a new Lectra

Statement from Daniel Harari, Chairman and Chief Executive Officer

A year marked by the COVID-19 crisis and its consequences

2020 will be remembered as the year of the COVID-19 crisis. As the situation emerged, our first priority was to take whatever measures were required to protect the health of our employees, our customers, our suppliers and everyone involved in Lectra's operations. Immediately thereafter, Lectra's teams in France and many other countries volunteered to contribute to manufacturing face masks and protective medical coats.

Furthermore, we decided not to put in place short-time working arrangements (under the partial activity scheme), and not to benefit from any financial support from the French government, considering that our own resources would enable us to weather the crisis and that such support should be reserved to those in need.

These decisions and the dedication of our teams provides ample evidence of Lectra's commitment to its social, environmental and societal responsibilities, and to the fundamental values that underlie these responsibilities .

A business model that has once again demonstrated its robustness – a very strong balance sheet

This crisis has again demonstrated the exceptional strength of our business model, which has attenuated the impact of the crisis on our results, while confirming Lectra's capacity for resilience.

Despite a 14% decline in revenues, income from operations before non-recurring items totaled 25.6 million euros and the operating margin before non-recurring items came to 10.9%. Free cash flow amounted to 25.2 million euros, exceeding net income by 7.6 million euros.

Finally, thanks to the improved performance in the third and fourth quarters, growth in revenues from recurring contracts in 2020 despite the crisis, and an even stronger balance sheet, with consolidated shareholders' equity of 192.2 million euros and a net cash position of 134.6 million euros, we can look forward to 2021 with confidence.

An acceleration in the implementation of our Lectra 4.0 strategy

Launched in February 2017, the Lectra 4.0 strategy aims to position Lectra as a key Industry 4.0 player in our market sectors between now and 2030. So far, the strategy has been implemented through two strategic roadmaps, the second of which covers the 2020-2022 period.

Despite the consequences of the economic crisis caused by the COVID-19 pandemic, most of the roadmap's objectives remain unchanged. Significant progress was made in 2020, particularly in the growing adoption of Lectra's offers for Industry 4.0, with almost 150 new customers in 2020, bringing the total number of customers who use these offers to 270.

A strategic acquisition adding a new dimension to Lectra

On February 8, 2021, Lectra announced plans to acquire the entire capital and voting rights of its largest competitor, the US-based company Gerber Technology.

The acquisition, if and when consummated, would occur at an opportune time for both companies and their customers. The current uncertain economic climate and unprecedented challenges that fashion, automotive and furniture companies are facing due to the COVID-19 pandemic make it more important than ever for them to transform, digitalize and optimize their operations.

This combination will create for customers of the new group a premier advanced technology partner able to deliver even more value through seamlessly integrated solutions. Together, the two companies will have a large installed base of product development software and automated cutting solutions in operation, with a worldwide presence and a long list of prestigious customers

The acquisition is also expected to create significant value for Lectra's shareholders, given each company's individual financial performance and the synergies resulting from their combination.

While the year 2021 remains uncertain, due to the evolution of the pandemic and its consequences on the macroeconomic environment and on the financial situation of the Group's customers, it should nevertheless provide Lectra with the opportunity for a rebound in revenues and earnings.

I hope that you will find this report of interest and trust it provides the information you require.

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Daniel Harari

Chairman and Chief Executive Officer

01

Management Discussion

01 Management Discussion

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01 Management Discussion

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**”, i.e., the consolidated entity formed by Lectra SA and all French and foreign subsidiaries under its control within the meaning of article L. 233-6 II of the French Commercial Code).

It is separate from the report of the Board of Directors to the Shareholders’ Meeting of April 30, 2021, 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 2019 and 2020 are based on 2019 exchange rates (“**like-for-like**”), unless stated otherwise.

1. Summary of events and performance in 2020

The COVID-19 epidemic and its consequences had a very significant impact in 2020.

From the start of the crisis, the Group took the necessary hygiene and physical distancing measures to safeguard the health of employees, customers, suppliers and other stakeholders. These measures are still in effect.

A remote working system was in place throughout the year for all employees whose physical presence on site was not required; this was done in France and all other countries where such measures were ordered or recommended by the government.

In parallel, the Group maintained all business operations. In particular, it continued its manufacturing operations; maintained deliveries of equipment, consumables and parts; and provided after-sales support for the Group’s solutions worldwide and without interruption throughout the year.

Furthermore, in light of its sound financial position, capacity for resilience, and medium-term outlook, the Group decided not to put in place short-time working arrangements (under the partial activity scheme), and not to benefit from any financial support from the French government.

Lectra also supported the nation’s collective effort to fight the COVID-19 crisis by voluntarily cutting masks and medical personal protective equipment.

Lockdown measures implemented by most countries, at different times during the year, led to a significant reduction in activity by the Group’s customers.

While overall business activity improved in the closing months of the year, many customers were still operating below pre-crisis levels and therefore made reductions in capital expenditures or operating expenses. All three strategic market sectors—fashion, automotive and furniture—have been strongly impacted, though the furniture market experienced a rebound starting in the third quarter.

1.1 Negative impact of currency changes

With an average exchange rate of $1.14/€1 in 2020, the US dollar was down 2% compared to the same period in 2019. The slide in the dollar intensified late in the year, and the exchange rate stood at $1.23 to the euro on December 31, 2020. The yuan also declined by 2% against the euro.

Currency changes thus mechanically decreased revenues by 4.4 million euros (-2%) and income from operations before non-recurring items by 2.3 million euros (-8%) at actual exchange rates compared to like-for-like figures.

1.2 Orders down overall, strong growth in software subscription sales

In the unique, unprecedented environment of the COVID-19 crisis, orders for perpetual software licenses, equipment and accompanying software, and non-recurring services (82.6 million euros) were down 22%. Orders for perpetual software licenses (7.8 million euros), equipment and accompanying software (64.3 million euros), as well as training and consulting (9 million euros) declined by 39%, 18% and 27%, respectively.

Geographically, orders for perpetual software licenses, equipment and accompanying software, and non-recurring services fell by 32% in Asia-Pacific, by 24% in Europe and rose by 18% in the Americas. They were down 45% in the rest of the world (including North Africa, South Africa, Turkey and the Middle East). They decreased by 28% in the fashion market and by 26% in the automotive market but increased by 1% in the furniture market and 5% in other industries.

In addition, the annual value of new software subscription orders came to 2.9 million euros, up 55% compared to 2019. This strong increase, at a time when orders for perpetual software licenses fell due to the consequences of the COVID-19 crisis, confirms the positive adoption of the Industry 4.0 offers launched in 2018-2019 and strengthens the Group's confidence in their potential for growth. These orders increased in all geographical regions, primarily in the fashion market.

1.3 Strong resilience in earnings and free cash flow, despite the consequences of the health crisis

Revenues were 236.2 million euros, down 14% relative to 2019 (-16% at actual exchange rates).

Revenue from perpetual software licenses, equipment and accompanying software, and non-recurring services (77.7 million euros) was down 28%; and revenue from consumables and parts (59.2 million euros) fell 15% due to the severe reduction in business activity by the Group's customers.

Revenue from recurring contracts, on the other hand, rose by 3% to 99.3 million euros. This component of the revenue stream is a key pillar of the Group's business model and constitutes a protective factor that has mitigated the impact of the COVID-19 crisis on the earnings.

Furthermore, the Group has implemented measures to reduce its overhead costs by cancelling or postponing all non-essential expenses. Overhead costs were initially budgeted to increase by 8% in 2020 but ended the year 7% lower than in 2019.

The reduction in overhead costs mitigated the impact of the decline in revenues on income from operations before non-recurring items and on the operating margin before non-recurring items, which declined by 32% to 25.6 million euros and by 3.0 percentage points to 10.9%, respectively. At actual exchange rates, income from operations before non-recurring items fell by 37% and the operating margin before non-recurring items by 3.7 percentage points.

Income from operations came to 24.9 million euros, after a non-recurring charge of 0.8 million euros recognized in 2020 for fees and other costs relating to the proposed acquisition of the company Gerber Technology.

Net income totaled 17.6 million euros, down 40% at actual exchange rates.

Free cash flow amounted to 25.2 million euros, compared to 36.2 million euros in 2019. Free cash flow exceeded net income by 7.6 million euros in 2020; the decline from 2019 was slightly less than the decline in net income, which again confirms the strength and resiliency of the Group's business model, including in a challenging environment.

1.4 Particularly robust balance sheet – positive net cash position of close to 135 million euros

At December 31, 2020, consolidated shareholders' equity amounted to 192.2 million euros (183 million euros at December 31, 2019), after payment on May 8 of the dividend of 12.8 million euros (€0.40 per share) declared in respect of FY 2019.

The Group has no financial debt. Cash and cash equivalents, as well as net cash position, totaled 134.6 million euros (120.6 million euros at December 31, 2019).

2. 2020-2022 strategic roadmap: first progress report

The Lectra 4.0 strategy was launched in 2017 with the aim of positioning Lectra as a key Industry 4.0 player in its markets before 2030. It has been implemented to date through two consecutive strategic roadmaps.

The first roadmap, for 2017-2019, established the key fundamentals for the future of the Group. These included the successful integration into its new offers of the key new technologies for Industry 4.0 (cloud computing, the Internet of Things, big data and artificial intelligence), the strengthening of the Executive Committee, the reorganization of subsidiaries into four main regions, and the launch of the first software offers in SaaS mode.

The second roadmap, for 2020-2022, was published in the financial report dated February 11, 2020. It will enable Lectra to capture the full potential of its new offers for Industry 4.0, while delivering sustainable, profitable business growth.

Despite the consequences of the economic crisis caused by the COVID-19 pandemic (see chapter 1), most of the objectives of the 2020-2022 strategic roadmap remain unchanged, particularly the acceleration towards Industry 4.0. The only adjustments to the original objectives are in the growth targets for the end of the three-year period – particularly following the proposed acquisition of the company Gerber Technology.

The Lectra 4.0 strategy, and each of the chapters in the strategic roadmap for 2020-2022, are summarized below, followed by the first progress report on the related actions implemented in 2020.

2.1 Lectra 4.0: a long-term vision

2.1.1. 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, release new and ever-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 challenging 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.

2.1.2. 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 then 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.

2.1.3. 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 before 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 combining 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: fourteen years' experience in the Industrial Internet of Things (IIoT), 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.

2.2 2020-2022 strategic roadmap

2.2.1. Acceleration towards Industry 4.0

In February 2020, the Group 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.
- 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 its 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 R&D, 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 have 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 developing partnerships with different industry players.

Progress report

These four strategic priorities guided the Group's action in 2020.

The growing adoption of Lectra's offers for Industry 4.0 – Quick Estimate, Quick Nest, Fashion On Demand by Lectra, Furniture On Demand by Lectra, Kubix Link and Retviews – confirms the relevance of Lectra's strategy and choices since 2017. In 2020, nearly 150 new customers chose one of these offers for Industry 4.0, bringing the total number of customers for these offers to 270. This success can be seen in the rise in orders for new software subscription contracts in 2020 (see chapter 1). These offers, which will be further expanded in the next two years, mean that Lectra will be fully capable of helping all companies in its markets to meet the challenges of the post-COVID-19 world.

Prospecting actions were intensified throughout the year, using digital marketing tools to acquire new customers and reach out to the installed base; over 5000 people participated in webinars and digital events organized in 2020.

Lectra teams multiplied interactions with customers throughout the year. Deployment of Customer Success teams was accelerated to further strengthen customer relationships and help customers minimize disruptions from lockdowns and remote working. The Group believes that these decisions limited the number of maintenance contract cancellations to the same level as in previous years. This deployment will continue in 2021 and 2022, at a faster pace than initially planned.

Lectra has also maintained its policy of strong investment in R&D, which came to 31.5 million euros, or 13.3% of revenues, in 2020. While the amount was stable relative to the 31.8 million in 2019, it represented a greater percentage of revenues following the reduction in business activity caused by the COVID-19 epidemic. Innovations were introduced to all the existing offers throughout the year, and new offers will be launched in 2021 and 2022. R&D spending in 2021 will exceed 12% of revenues.

Furthermore, the Group continued to investigate potential acquisitions. While the COVID-19 epidemic and its consequences led to the postponement or cancellation of potential operations in the first half of 2020, some discussions have since resumed and could lead to the announcement of targeted acquisitions in 2021, in addition to the proposed acquisition of the company Gerber Technology announced on February 8, 2021.

Finally, following the announcement, Lectra has added a fifth strategic priority for its 2020-2022 strategic roadmap: "to capture all synergies arising from the acquisition of Gerber Technology." The two groups have many complementary strengths (see chapter 12) that will enable Lectra to make optimal use of its product portfolio with Gerber Technology customers – particularly its offers for Industry 4.0 – while aiming to optimize cost-effectiveness by rationalizing the internal capacities of both companies.

2.2.2. Sustainable, profitable growth

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

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

The growth in margin generated by recurring revenues provides the means to finance the Group's 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 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.

Progress report

While the Group maintains its determination to ensure sustainable, profitable growth, the financial objectives announced previously must be adjusted to take into account the consequences of the economic crisis arising from the COVID-19 epidemic and have been revised to take into account the proposed acquisition of Gerber Technology.

The revised objectives the Group has set for itself are indicated in chapter 14.

The cash portion of the Gerber Technology acquisition price (175 million euros) will be funded by the Group's cash resources and by debt.

Free cash flow generated by the new entity will allow continued pursuit of the strategy of targeted acquisitions, maintaining of the dividend payment policy, and payment of the debt.

3. Consolided financial statements for 2020

3.1 Revenues

Revenues totaled 236.2 million euros, down 14% like-for-like and 16% at actual exchange rates. They decreased by 11% in Europe, 2% in the Americas, 27% in Asia-Pacific and 24% in the rest of the world. These regions respectively accounted for 43% (including 7% for France), 27%, 23% and 7% of total revenues.

3.1.1. Revenues from software licenses, equipment and accompanying software, and non-recurring services

Revenues from perpetual software licenses, equipment and accompanying software, and non-recurring services (77.7 million euros) decreased by 28%. They include mainly:

- perpetual software licenses (8.4 million euros), which decreased by 37% and accounted for 4% of total revenues (5% in 2019);
- equipment and accompanying software (57.7 million euros), which decreased by 28% and accounted for 24% of total revenues (29% in 2019);
- training and consulting revenues (9.9 million euros), which decreased by 18% and accounted for 4% of total revenues (4% in 2019).

At December 31, 2020, the order backlog for perpetual software licenses, equipment and accompanying software, and training and consulting amounted to 23.8 million euros. Compared to December 31, 2019, it rose by 5.1 million euros like-for-like and by 4.1 million euros at actual exchange rates.

3.1.2. Revenues from recurring contracts, consumables and parts

Revenues from recurring contracts—which represented 42% of total revenues—totaled 99.3 million euros, a 3% increase. The breakdown is as follows:

- software subscriptions came to 3.7 million euros (1.6 million euros in 2019);
- software maintenance contracts (37.5 million euros), down 1%, represented 16% of revenues;
- equipment and accompanying software maintenance contracts (58.2 million euros), up 2%, represented 25% of revenues.

In parallel, revenue from consumables and parts (59.2 million euros) decreased by 15%. They represented 25% of revenues (26% in 2019).

Overall, recurring revenues (158.5 million euros) declined by 5%.

3.2 Gross profit

Gross profit amounted to 176.5 million euros, down 12% compared to 2019.

The overall gross profit margin was 74.7%, up 1.8 percentage points relative to 2019. This increase stems primarily from the evolution of the product mix, and specifically from the greater share of recurring contract revenues.

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.

3.3 Overhead costs

Total overhead costs were 150.8 million euros, down 7% compared to 2019. The breakdown is as follows:

- 141.2 million euros in fixed overhead costs (-4%);
- 9.6 million euros in variable costs (-39%).

At actual exchange rates, total overhead costs fell by 8%.

Research and development costs (31.5 million euros), which are fully expensed in the period and included in fixed overhead costs, represented 13.3% of revenues (31.8 million euros and 11.4% of revenues in 2019). After deducting the research tax credit applicable in France and grants received, net research and development costs totaled 22.7 million euros (22 million euros in 2019).

3.4 Income from operations and net income

Income from operations before non-recurring items amounted to 25.6 million euros. Compared to 2019, it decreased by 12.9 million euros (-32%) like-for-like, and by 15.2 million euros (-37%) at actual exchange rates.

The operating margin before non-recurring items was 10.9%, down 3 percentage points like-for-like and 3.7 percentage points at actual exchange rates.

Income from operations came to 24.9 million euros.

Financial income and expenses represented a net charge of 0.4 million euros. Foreign exchange gains and losses generated a net loss of 0.7 million euros.

After an income tax expense of 6.1 million euros, net income amounted to 17.6 million euros, down 11.7 million euros (-40%) at actual exchange rates.

Net earnings per share came to €0.54 on basic capital and on diluted capital (respectively €0.92 and €0.90 for 2019).

3.5 Free cash flow

Free cash flow was 25.2 million euros, down 11 million euros compared with 2019, at actual exchange rates.

It results from a combination of 36 million euros in cash flows provided by operating activities (including a decrease in working capital requirement of 9.8 million euros) and capital expenditures of 5 million euros. The cash provided by operating activities also comprises an increase in other operating non-current assets of 7.8 million euros (corresponding to the portion of the 2020 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA – see note 16 hereafter). Finally, the repayment of 5.8 million euros in lease liabilities (according to IFRS 16: see notes 2 and 42 hereafter) was taken into account.

3.6 Shareholders' equity

At December 31, 2020, consolidated shareholders' equity amounted to 192.2 million euros (183 million euros at December 31, 2019).

The Group is debt-free. Cash and cash equivalents, as well as net cash position, totaled 134.6 million euros (120.6 million euros at December 31, 2019).

The working capital requirement was a negative 27.7 million euros.

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 each year since that time.

Non-financial risks—social, societal and environmental risks—have been addressed in a specific mapping exercise and are described in greater detail in the Non-financial Statement included in this Report.

Risks directly related to the COVID-19 health crisis are discussed in chapter 1.

The Audit Committee has reviewed the principal risks liable to have a significant adverse impact on 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.

4.1.1. Risks related to the environment in which the Group operates

Risks related to the macroeconomic and geopolitical environment

The Group is exposed to the global economic cycles.

Indeed, 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 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.

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 (Software-as-a-Service) 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 (90.9% in 2020).

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.

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 2020, 42% of the Group's consolidated revenues, 83% of its cost of sales, and 70% of its overhead expenses were denominated in euros. These percentages were respectively 32%, 10%, and 11% for the US dollar, and 8% (a portion of revenues generated in China being invoiced in US dollars or in other currencies), 2% and 4% 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 37 to the consolidated financial statements.

Liquidity risks

At December 31, 2020, the Company was debt free; had no loans or credit lines; and cash and cash equivalents (134.6 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 17.2 to the consolidated financial statements), or more generally under the new share repurchase program authorized by the Shareholders' Meeting of April 30, 2020 (see chapter 10). At December 31, 2020, the Company held 0.04% 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 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.

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 2020 represented 8.9 million euros, or 28% of the total corresponding expense, 35% of income from operations before non-recurring items, and 50% 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. Any significant reduction or abrogation of this tax credit in the coming year would therefore 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.

4.1.2. Risks related to the Group's business

Risks related to the product offer and innovation

Lectra develops and manufactures technological solutions—based on software, automatic cutting 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 13.3% of revenues in 2020, 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 offer or technologies developed by third parties that it could acquire. Finally, Lectra collaborates with 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 offer running on a cloud infrastructure

Since 2018, the Group has launched new software sold in SaaS 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, breach of confidentiality, 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 officer ("**DPO**"), registered with the *Commission Nationale de l'Informatique et des Libertés* ("**CNIL**"), the French data protection authority, 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. The data hosted by these suppliers is systematically encrypted and backed up daily at remote sites.

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. Production activity was maintained without interruption throughout 2020, and the Group experienced no disruption in procurement, thanks to close monitoring and support for suppliers that encountered difficulties as a result of the COVID-19 crisis.

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 automatic cutting 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 ISSO and its DPO 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.

In addition to real-time data synchronization, servers and data are backed up daily.

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 by means of periodical campaigns (videos, emails and e-learning courses) 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 (entry into effect of the GDPR), the Group has established a department dedicated to data management and data security. The ISSO and the DPO monitor and manage data security related risks.

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 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 33% of total revenues in 2020, are generated by a very large number of customers (around 1,100 in 2020) and comprise both sales to new customers and extensions or the renewal of existing customers' installed bases. Revenues from recurring contracts, accounting for 42% of 2020 total revenues, are generated by around 5,700 customers. Finally, sales of consumables and parts, which accounted for 25% of 2020 total revenues, are generated on a large proportion of the installed base of nearly 7,250 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 20% 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, which is home to the Group's industrial operations, Lectra builds on the complementary capabilities of a safety engineer, the Human Resources Division, Facility Management, and the Occupational Health Department. The Safety and Working Conditions Committee ("**CSSCT**") is consulted on a regular basis, and participates in the Company's actions in the area.

Numerous accident prevention campaigns and training programs have been organized.

In 2020, for instance, a working group that included members from the Human Resources Division, team managers, the CSSCT, and an outside consultant held several meetings to define a methodology for identifying psychosocial risks that will lead to improvements in current practices and will subsequently be deployed through the Company on a permanent basis.

Thanks to its accident prevention policy, the Company has achieved a very good record, with accident frequency and severity rates respectively six and thirty-four 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).

4.1.3. 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

4.2.1. 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.).

Since 2018, Lectra has deployed 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.

In 2020, Lectra put in place an internal charter on the identification, approval and review of related-party agreements and agreements entered into in the ordinary course of business, in accordance with article L. 22-10-12 of the French Commercial Code. The charter is described in the Report on Corporate Governance, which is included in the present report.

Oversight of proper application of Executive Committee instructions and orientations

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.

Proper functioning of the company's internal processes, especially those relating to the protection of its assets

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.

4.2.2. 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 Company's 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 sales process. In particular, the "Sales Rules and 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 s pell 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 forecasted 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€ 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 almost entirely borne by the Company. The Group seeks to protect its foreign-currency denominated receivables and debts, as well as future cash flows when hedges are available under reasonable economic conditions. 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. In addition, the Audit Committee monitors the effectiveness of the internal control and risk management systems.

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 in 2018 and in previous years and will be pursued in 2021:

- 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.

4.3.1. 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.

4.3.2. 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

5.1 Off-balance sheet commitments relating to the Group financing

The Company provided a total of 2 million euros at December 31, 2020 (1.9 million euros at December 31, 2019) 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, 2020 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 positive 1.7 million euros (-1.8 million euros at December 31, 2019).

5.2 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, etc., 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, 2020 were valued using the same methodology as in previous years.

6. Research and development

The Group invests significantly in research and development (R&D).

At December 31, 2020, the R&D headcount was 374 persons (368 at December 31, 2019), including 340 in France, 12 in Spain, 9 in Italy, 9 in Romania and 4 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 have been implemented, 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 applicable in France, these expenditures totaled 31.5 million euros in 2020, or 13.3% of revenues (31.8 million euros and 11.4% in 2019). Net R&D expense, after deducting the subsidies and research tax credit, amounted to 22.7 million euros (22 million euros in 2019).

These substantial investments (239 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

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 41 to 70 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, 2021 the payment of a dividend to €0.24 per share in respect of fiscal year 2020. The gross dividend represents a payout ratio of 44% of 2020 consolidated net income and a yield of 1% based on the December 31, 2020 closing share price.

Subject to approval by the Shareholders' Meeting of April 30, 2021, the dividend will be made payable on May 7, 2021.

9. Share capital - Ownership - Share price performance

9.1 Change in share capital

At December 31, 2020, the share capital totaled €32,511,651, divided into 32,511,651 shares with a par value of €1.00.

Share capital increased by €412,551 (with a total share premium of €3,585,035) due to the creation of 412,551 shares since January 1, 2020, resulting from the exercise of stock options.

9.2 Main shareholders

On June 15, and then on July 17, 2020, the Company was notified that Allianz SE (Germany) had fallen below, and then exceeded, the 5% threshold for voting rights. As of July 17, it held 5.14% of the share capital and 5.11% of the voting rights through the companies Allianz IARD and Allianz Vie that it controls. The first crossing was a passive threshold crossing resulting from the increase in the number of shares and voting rights in the Company.

On September 22, 2020, the Company was notified that Artisan Partners Limited Partnership (United States) had exceeded the 5% threshold of share capital, then on September 25, 2020 the 5% threshold for voting rights. As of September 25, 2020, Artisan Partners Limited Partnership, acting on behalf of the investment funds and customers that it manages, holds 5.12% of the share capital and 5.08% of the voting rights.

No other crossing of statutory thresholds was reported to the Company since January 1, 2020.

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, Artisan Partners Limited Partnership (United States) 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.

9.3 Treasury shares

At December 31, 2020, the Company held 0.04% of its own shares in treasury, solely within the framework of the liquidity agreement contracted with Exane BNP Paribas.

9.4 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.

9.4.1. 2020 stock option plan

The 2020 stock option plan was prepared taking into account the decline in stock markets in general, and in the Lectra share in particular, due to the health crisis. A solution was sought that would allow the beneficiaries concerned to envisage a gain on the options granted in previous years, with an exercise price close to Lectra's current share price, but without increasing dilution for Lectra's shareholders.

The plan, for all beneficiaries of stock options in 2017, 2018 and 2019 who were still employees on June 1, 2020, was based on granting the same number of new stock options as those obtained in respect of the three earlier years, subject to their renunciation of all stock options for those three years. No further stock options were offered to them in 2020, except for ten employees who were promoted or whose 2019 performance was considered exceptional.

For many beneficiaries, the definitive number of stock options granted each year is adjusted with reference to their performance. Because the stock options received under the 2017, 2018 and 2019 plans were already adjusted in those years, the stock options granted under the 2020 plan are not subject to a performance criterion.

Beneficiaries of stock options granted in 2017, 2018 and 2019 who decided not to renounce all options received during those years could keep them and, as a result, did not benefit from any stock options under the 2020 stock option plan.

Accordingly, the Board of Directors at its meeting on June 9, 2020 granted, in respect of the 2020 stock option plan, at an exercise price of 18.00 euros per share:

- 807,140 stock options to 258 beneficiaries, granted subject to the condition precedent of their renunciation of all options they had been granted in 2017, 2018 and 2019 and, in the event this plan is accepted, an additional grant of 2,228 options to be divided among ten of those beneficiaries;
- 10,629 stock options to 13 first-time beneficiaries; and
- 17,239 stock options to the 25 winners of the 2019 Lectra Worldwide Championship, including 15 first-time beneficiaries.

17 of the 258 holders eligible for the grant subject to the condition precedent of their renunciation of the options granted in 2017, 2018 and 2019 preferred to keep their options; this amounted to a total of 37,569 options.

Therefore, under the 2020 stock option plan, a total of 799,667 options were granted to 269 beneficiaries, at an exercise price of 18.00 euros per share, as follows:

- 771,799 options to 241 beneficiaries who renounced all options they had been granted in 2017, 2018 and 2019;
- 10,629 options to 13 first-time beneficiaries; and
- 17,239 options to the 25 winners of the 2019 Lectra Worldwide Championship, including 15 first-time beneficiaries.

Moreover, 769,571 stock options from the 2017, 2018 and 2019 stock option plans have been cancelled following renunciation by the holders in connection with the grant made under the 2020 stock option plan.

Finally, 11,756 options granted in 2020 have ceased to be valid mainly due to the departure of six beneficiaries.

As a result, the total number of options at December 31, 2020 initially granted (837,235 options to 286 beneficiaries) has been reduced to 787,911 and the number of beneficiaries to 263. The options representing the difference between those initially granted and those actually granted are available to be used again by the Board of Directors.

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 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, 2023 (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 15g, 15h, and 15i, between January 1, 2021 and December 31, 2023) the right to exercise options shall be maintained in full.

9.4.2. Options outstanding at December 31, 2020

412,551 options granted under the different stock option plans outstanding at December 31, 2019 were exercised in 2020 and 33,793 options, granted before 2020, have ceased to be valid due to the departure of their beneficiaries or the fact that they have not been exercised.

Of the 297 persons holding options at December 31, 2020, 295 employees hold 1,173,823 options, and 2 former employees still hold 13,856 options (respective figures at December 31, 2019 were: 302, 300, and 2).

At December 31, 2020, 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 33,699,330, consisting of:

- capital stock: 32,511,651 shares;
- stock options: 1,187,679 shares.

Each stock option gives the beneficiary the right to acquire one new share with a par value of €1, 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, 2020, the Company's capital (at par value) would increase by a total of €1,187,679, associated with a total additional paid-in capital of €18,540,898.

Note 17.5 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, 2020.

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).

9.4.3. Summary of stock option plans

The following is the historical table of stock options granted:

Plans	2020	2019	2018	2017	2016	2015	2014	2013
Date of the Shareholders' Meeting[(1)]	**27/04/2018**	27/04/2018	27/04/2018	30/04/2014	30/04/2014	30/04/2014	30/04/2014	27/04/2012
Date of Board of Directors meeting	**09/06/2020**	12/06/2019	12/06/2018	08/06/2017	09/06/2016	12/06/2015	16/06/2014	13/06/2013
Total number of shares available for subscription	**837,236**	364,662	370,591	399,794	608,665	581,420	687,656	836,000
Daniel Harari, Chairman and Chief Executive Officer	**0**	0	0	0	0	0	0	0
Starting date for the exercise of options	**10/06/2024**	13/06/2023	13/06/2022	09/06/2021	10/06/2020	13/06/2019	17/06/2018	14/06/2017
Expiry date	**09/06/2028**	12/06/2027	12/06/2026	09/06/2025	09/06/2024	12/06/2023	16/06/2022	13/06/2021
Subscription price (in euros)	**18.00**	22.50	22.25	28.25	14.50	13.75	8.50	6.25
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 31/12/2020	**0**	0	0	0	104,493	121,690	227,213	252,767
Cumulative number of subscription options cancelled or lapsed	**49,325**	354,863	353,490	385,345	308,841	384,600	406,245	549,473
Subscription options remaining in force at the end of the fiscal year	**787,911**	9,799	17,101	14,449	195,331	75,130	54,198	33,760

(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.

9.4.4. 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.

9.4.5. Share price performance and trading volumes

The Company's share price at December 31, 2020, was €25.00, up 12% compared to December 31, 2019 (€22.35). In 2020, it reached a low of €12.20 on March 23 and a high of €25.35 on December 17.

Over the same period, the CAC 40 and CAC Mid & Small indexes fell by 7% and 1%, respectively.

Lectra is 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.

15.3 million shares were traded on Euronext and other trading platforms in 2020, which is 10% above 2019. Euronext accounted for 36% of shares traded in 2020, or the same percentage as a year before.

In its press releases dated January 8, 2019 and April 15, 2020, 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.

9.4.6. 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 executives, or similar persons, during the 2020 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):

Senior executives (1)	Date	Nature of the transaction	Number of shares	Price *(in euros)*	Value *(in euros)*
Maximilien Abadie Chief Strategy Officer	February 21, 2020	Exercise of stock options	621	13.75	8,539
	February 21, 2020	Exercise of stock options	707	8.50	6,010
	February 21, 2020	Sale of shares	621	22.60	14,035
	February 21, 2020	Sale of shares	707	22.60	15,978
	February 26, 2020	Exercise of stock options	467	13.75	6,421
	February 26, 2020	Exercise of stock options	533	8.50	4,531
	February 26, 2020	Sale of shares	467	21.00	9,807
	February 26, 2020	Sale of shares	533	21.00	11,193
Céline Choussy Chief Product Officer	September 15, 2020	Exercise of stock options	1,015	8.50	8,628
	September 15, 2020	Exercise of stock options	679	13.75	9,336
	September 15, 2020	Exercise of stock options	2,099	14.50	30,436
	September 15, 2020	Sale of shares	1,015	20.38	20,684
	September 15, 2020	Sale of shares	679	20.38	13,840
	September 15, 2020	Sale of shares	2,099	30.38	63,763
	September 16, 2020	Exercise of stock options	2,093	8.50	17,791
	September 16, 2020	Exercise of stock options	1,579	13.75	21,711
	September 16, 2020	Exercise of stock options	4,331	14.50	62,800
	September 16, 2020	Sale of shares	2,093	20.83	43,606
	September 16, 2020	Sale of shares	1,579	20.84	32,899
	September 16, 2020	Sale of shares	4,331	20.83	90,235
Laurence Jacquot Chief Customer Success Officer	September 10, 2020	Exercise of stock options	2,500	13.75	34,375
Jérôme Viala Executive Vice President	February 14, 2020	Sale of shares	15,000	22.11	331,619
	February 24, 2020	Exercise of stock options	31,961	6.25	199,756
	February 26, 2020	Exercise of stock options	467	13.75	6,421
	February 26, 2020	Exercise of stock options	533	8.50	4,531
	February 26, 2020	Sale of shares	467	21.00	9,807
	February 26, 2020	Sale of shares	533	21.00	11,193
	June 2, 2020	Sale of shares	3,096	17.29	53,521
	June 3, 2020	Sale of shares	11,904	17.35	206,484
	June 4, 2020	Sale of shares	187	17.60	3,291
	June 5, 2020	Sale of shares	14,813	17.49	259,035
	June 9, 2020	Sale of shares	6,000	18.00	108,000
	August 28, 2020	Exercise of stock options	37,977	6.25	237,356
Véronique Zoccoletto Chief Digital Officer	May 11, 2020	Exercise of stock options	6,907	6.25	43,169
	May 11, 2020	Exercise of stock options	6,527	6.25	40,794
	May 11, 2020	Sale of shares	6,907	16.01	110,558
	May 11, 2020	Sale of shares	6,527	16.00	104,414
	May 12, 2020	Exercise of stock options	9,077	6.25	56,731
	May 12, 2020	Exercise of stock options	7,300	6.25	45,625
	May 12, 2020	Sale of shares	9,077	15.23	138,221
	May 12, 2020	Sale of shares	7,300	15.23	111,164
	May 13, 2020	Exercise of stock options	2,817	6.25	17,606
	May 13, 2020	Exercise of stock options	3,470	6.25	21,688
	May 13, 2020	Sale of shares	2,817	15.01	42,283
	May 13, 2020	Sale of shares	3,470	15.01	52,084
	May 14, 2020	Exercise of stock options	614	6.25	3,838
	May 14, 2020	Exercise of stock options	763	6.25	4,769
	May 14, 2020	Sale of shares	614	15.00	9,210
	May 14, 2020	Sale of shares	763	15.00	11,445
	May 15, 2020	Exercise of stock options	5,350	6.25	33,438
	May 15, 2020	Exercise of stock options	4,344	6.25	27,150
	May 15, 2020	Sale of shares	5,350	15.03	80,427
	May 15, 2020	Sale of shares	4,344	15.03	65,303
	May 18, 2020	Exercise of stock options	3,967	6.25	24,794
	May 18, 2020	Exercise of stock options	4,815	6.25	30,094
	May 18, 2020	Sale of shares	3,967	15.02	59,587
	May 18, 2020	Sale of shares	4,815	15.02	72,325
	November 9, 2020	Exercise of stock options	5,057	6.25	31,606
	November 9, 2020	Sale of shares	5,057	18.60	94,060
	November 10, 2020	Exercise of stock options	24,487	6.25	153,044
	November 10, 2020	Sale of shares	24,487	19.99	489,593

(1) On November 2, 2020, the Company updated the list of senior executives and similar persons required to report their transactions in Lectra securities under article 19 of the Market Abuse Regulation. The updated list excluded certain members of the Executive Committee who did not meet the criteria set out in article L. 621-18-2 (b) of the French Monetary and Financial Code. It is specified that between January 15, 2019 and November 1, 2020, the company officers (dirigeants mandataires sociaux) and all members of the Executive Committee were subject to the disclosure obligation. From November 2, 2020, securities transactions must be reported by the company officers (dirigeants mandataires sociaux) as well as by the Executive Vice President, the Chief Financial Officer, and the Chief Strategy Officer, all three of whom are members of the Executive Committee.

9.4.7. 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, 2020 granted authority to the Company to trade in its own shares for a period of eighteen (18) 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 regulations and market practice allowed 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 company 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;
- to cancel some or all of the treasury 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.

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 euros. 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, 2020; this will 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 2020

10.2.1. 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 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 2020, the Company purchased 242,587 shares and sold 260,139 shares at an average price of €19.05 and €19.29 respectively.

Consequently, at December 31, 2020, the Company held 13,997 Lectra shares (or 0.04% of share capital), at a par value of €1, with an average purchase price of €24.50, entirely under the Liquidity Agreement, together with 774 thousand euros in cash and cash equivalents.

10.2.2. Share repurchases outside of the Liquidity Agreement

The Company did not repurchase any shares outside of the Liquidity Agreement between January 1, 2020 and the date of this report.

10.2.3. Share cancellations

The Company did not cancel any shares between January 1, 2020 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 will propose to the Shareholders' Meeting of April 30, 2021 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 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 50 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, 2021, in other words, by way of illustration, 3,249,765 shares on the basis of the share capital on December 31, 2020, allowing for subtraction of 13,997 shares held in treasury, for a maximum amount of 50 million euros, 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 twelfth resolution of the Ordinary Shareholders' Meeting of April 30, 2020.

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 February 8, 2021, Lectra announced having entered into a Memorandum of Understanding to acquire the entire capital and voting rights of the US-based company Gerber Technology.

Under the proposed acquisition, Lectra would acquire all outstanding shares of Gerber Technology on a cash-free debt-free basis for an upfront payment of 175 million euros – through a combination of cash and debt – plus 5 million newly issued Lectra shares to AIPCF VI LG Funding, LP ("AIPCF VI LG"), an affiliate of American Industrial Partners that is Gerber Technology's sole shareholder.

The strategic combination of Gerber Technology and Lectra will create a premier advanced technology partner, able to quickly meet changing customer needs and deliver even more value through seamlessly integrated solutions. Together, the two companies will have a large installed base of product development software and automated cutting solutions in operation, with a worldwide presence and a long list of prestigious customers.

If and when the acquisition is consummated, a stable shareholding agreement will be entered into between AIPCF VI LG and Lectra. Under its terms, AIPCF VI LG will have representation at the Board of Directors as long as it owns more than 2.5 million shares and will benefit from anti-dilution right in the event of the issuance of new shares. AIPCF VI LG also undertakes, except in certain limited circumstances, to retain directly or through affiliates, at least 10% of Lectra's capital stock for a period of 90 days following the closing of the transaction, not to increase its ownership percentage without the approval of the Board of Directors, not to sell its shares to a hostile shareholder, or to a shareholder that would then have more than 5% of the share capital and not to compete with Lectra.

After the French work council of Lectra is consulted and the binding documentation is signed, completion of the acquisition shall remain subject to merger control clearance and other customary conditions and shall be submitted to Lectra shareholders for approval.

12. Financial calendar 2021

The Annual Combined Shareholders' Meeting will take place on April 30, 2021.

First, second, and third quarter earnings for 2021 will be published on April 29, July 29, and October 27, respectively, after the close of trading on Euronext Paris. Full-year earnings for 2021 will be published on February 9, 2022.

13. Business trends and outlook

In its 2019 Financial Report, published February 11, 2020, Lectra had reported its long-term vision and its new strategic roadmap for the 2020-2022 period.

The Group already noted the uncertainties linked to the COVID-19 epidemic, which has since become a pandemic, leading to a major and rapid slowdown of the global economic activity.

Through its decisions, the Group has demonstrated its commitment to its social, environmental and societal responsibilities, and to the fundamental values that underlie these responsibilities.

13.1 Financial objectives for 2022

To provide a better gauge for measuring the results of the new business combination following the acquisition of Gerber Technology, Lectra has decided to employ EBITDA before non-recurring items[1] to measure its operational performance.

In 2020, Lectra and Gerber Technology achieved combined revenue of 401 million euros and combined EBITDA before non-recurring items[2] of 50.3 million euros, including 236 million euros in revenue and 37.5 million euros in EBITDA before non-recurring items for Lectra.

These results were impacted by the consequences of the COVID-19 crisis; the combined revenue of Lectra and Gerber Technology in 2019 came to 482 million euros.

Lectra has set itself the 2022 objective of returning to the level of combined revenue achieved by the two groups in 2019.
Lectra also estimates that the acquisition will generate synergies that should have an impact of between 12 and 18 million euros on EBITDA before non-recurring items in 2022. Adding these synergies to the expected operational performance of the two groups, the EBITDA before non-recurring items margin is expected to then be between 17% and 20%.

13.2 2021 outlook

Through its business model that yet again demonstrated its strength in 2020, Lectra entered 2021 with particularly solid operating fundamentals and an even more robust balance sheet.

Uncertainty surrounding the evolution of the pandemic and its consequences on the macroeconomic environment, together with the degraded financial situation of the Group's customers, could however weigh on customers' investment decisions and postpone or constrain the rebound in orders for new systems.

The objectives set out below were established before taking the Gerber Technology acquisition into account and will be adjusted at the time of the completion of the operation, which is expected to occur during the second quarter of 2021.

13.2.1. Impact of exchange rate fluctuations

Lectra prepared its 2021 scenarios on the basis of the closing rates on December 31, 2020, and particularly \$1.23/€1 (compared to the average rate of \$1.14/€1 in 2020).

In 2020, the euro appreciated against the dollar and many other currencies. If the 2020 closing rates had applied throughout the year, the Group's 2020 results would have been negatively affected, as follows. Revenues and income from operations before non-recurring items would have been lower by 6.9 million and 4.4 million euros, respectively, at 229.3 and 21.3 million euros. The operating margin before non-recurring items would have been 1.6 points lower, at 9.3%.

Sensitivity to fluctuations in the euro-U.S. dollar exchange rate is discussed in note 37 of the Notes to the consolidated financial statements at December 31, 2020 appended to this report.

(1) See note 2.26 to the consolidated financial statements for the definition of this new indicator.

(2) The 2020 financial statements of Gerber Technology are unaudited and were prepared according to U.S. GAAP. The EBITDA before non-recurring items has been adjusted to eliminate non-recurring expenses.

13.2.2. Financial objectives

Taking into account the information set out above, Lectra has set the objectives of achieving 2021 revenues in the range of 250 to 268 million euros (+9% to +17% like-for-like) and income from operations before non-recurring items in the range of 27 to 34 million euros (+27% to +60% like-for-like).

Achieving these objectives, however, remains subject to the still significant uncertainties related to the evolution of the pandemic. Furthermore, based on the order backlog at December 31, 2020, revenues and income from operations before non-recurring items for the first quarter of 2021 are expected to be substantially higher than those reported for the first quarter of 2020.

13.3 Confidence in growth prospects for the medium-term

Bolstered by the strength of its business model, its roadmap fully geared to the demands of Industry 4.0, and the opportunities arising from the acquisition of Gerber Technology, the Group is confident in its prospects for the medium term.

The Board of Directors
February 24, 2021

14. Additional information on the consolidated financial statements

14.1 Orders for new systems – like-for-like

14.1.1 Perpetual software licenses, equipment and accompanying software and non recurring services

By product line

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
Perpetual software licenses	7,751	9%	7,847	12,794	12%	-39%	-39%
Equipment and accompanying software	64,277	78%	65,616	80,157	74%	-20%	-18%
Training and consulting services	9,014	11%	9,120	12,410	12%	-27%	-27%
Miscellaneous	1,594	2%	1,614	2,434	2%	-34%	-34%
Total	82,636	100%	84,197	107,795	100%	-23%	-22%
€/$ average parity	*1.14*		*1.12*	*1.12*			

Twelve Months Ended December 31

By region

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
Europe	30,549	37%	30,595	40,107	37%	-24%	-24%
Americas	19,748	24%	20,701	17,500	16%	+13%	+18%
Asia-Pacific	27,018	33%	27,469	40,354	38%	-33%	-32%
Other countries	5,321	6%	5,433	9,833	9%	-46%	-45%
Total	82,636	100%	84,197	107,795	100%	-23%	-22%
€/$ average parity	*1.14*		*1.12*	*1.12*			

Twelve Months Ended December 31

By market

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
Fashion	39,162	47%	39,930	55,166	51%	-29%	-28%
Automotive	23,837	29%	24,285	32,964	31%	-28%	-26%
Furniture	15,092	18%	15,354	15,249	14%	-1%	+1%
Other industries	4,545	6%	4,629	4,415	4%	+3%	+5%
Total	82,636	100%	84,197	107,795	100%	-23%	- 22%
€/$ average parity	*1.14*		*1.12*	*1.12*			

Twelve Months Ended December 31

14.1.2 New software subscriptions

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
Annual value of new software subscriptions	2,868	na	2,898	1,868	na	+54%	+55%
€/$ average parity	*1.14*		*1.12*	*1.12*			

Twelve Months Ended December 31

14.2 Breakdown of revenues – like-for-like

Revenues by region

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
Europe, of which:	100,770	43%	101,164	113,452	41%	-11%	-11%
France	16,512	7%	16,504	17,223	6%	-4%	-4%
Americas	63,455	27%	66,215	67,503	24%	-6%	-2%
Asia-Pacific	55,088	23%	55,931	76,426	27%	-28%	-27%
Other countries	16,870	7%	17,250	22,642	8%	-25%	-24%
Total	236,182	100%	240,561	280,023	100%	-16%	-14%
€/$ average parity	*1.14*		*1.12*	*1.12*			

Twelve Months Ended December 31

Revenues by type of business

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
Revenues from perpetual software licenses, equipment and accompanying software, and non-recurring services, of which:	77,681	33%	78,978	110,239	39%	-30%	-28%
- Perpetual software licenses	8,418	4%	8,521	13,493	5%	-38%	-37%
- Equipment and accompanying software	57,742	24%	58,819	82,077	29%	-30%	-28%
- Training and consulting services	9,927	4%	10,025	12,236	4%	-19%	-18%
- Miscellaneous	1,594	1%	1,614	2,434	1%	-34%	-34%
Recurring revenues, of which:	158,501	67%	161,583	169,784	61%	-7%	-5%
- Software subscriptions	3,669	2%	3,709	1,562	ns	+135%	+137%
- Software maintenance contracts	37,463	16%	37,918	38,485	14%	-3%	-1%
- Equipment and accompanying software maintenance contracts	58,205	25%	59,202	57,854	21%	+1%	+2%
- Consumables and parts	59,164	25%	60,754	71,883	26%	-18%	-15%
Total	236,182	100%	240,561	280,023	100%	-16%	-14%
€/$ average parity	*1.14*		*1.12*	*1.12*			

Twelve Months Ended December 31

14.3 Consolidated income statement – like-for-like

(in thousands of euros)	2020 Actual	2020 At 2019 exchange rates	2019 Actual	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
	Twelve months ended December 31				
Revenues	236,182	240,561	280,023	-16%	-14%
Cost of goods sold	(59,696)	(60,005)	(74,808)	-20%	-20%
Gross profit	176,486	180,556	205,214	- 14%	-12%
(in % of revenues)	74.7%	75.1%	73.3%	+1.4 point	+1.8 point
Research and development	(22,689)	(22,689)	(22,019)	+3%	+3%
Selling, general and administrative expenses	(128,157)	(129,913)	(142,306)	-10%	- 9%
Income from operations before non-recurring items	25,640	27,954	40,889	-37%	-32%
(in % of revenues)	10,9%	11,6%	14,6%	-3.7 points	-3.0 points
Non-recurring expenses	(786)	(786)	—	na	na
Income from operations	24,854	27,168	40,889	-39%	-34%
(in % of revenues)	10.5%	11.3%	14.6%	-4.1 points	-3.3 points
Income before tax	23,709	26,022	40,075	-41%	-35%
Income tax	(6,131)	na	(10,751)	-43%	na
Net income	**17,578**	**na**	**29,324**	**-40%**	**na**
of which, Group share	**17,529**	**na**	**29,305**	**-40%**	**na**
of which, Non-controlling interests	49	na	19	na	na
€/$ average parity	*1.14*	*1.12*	*1.12*		

02

Non-financial Statement

02 Non-financial Statement

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02 Non-financial Statement

This Non-financial Statement ("**NFS**") describes Lectra's approach, orientations and actions in the area of Corporate Social Responsibility ("**CSR**"). It is an integral part of the Management Discussion and analysis and focuses on the key CSR issues that Lectra has identified and places at the heart of its strategy as a responsible company.

The NFS is structured around the following issues:

- presentation of the business model;
- methodology used for non-financial reporting;
- principal social, societal and environmental issues;
- policies implemented to address them and the results achieved as evidenced by key performance indicators;
- report by the independent third party ("**ITP**") on the NFS.

1. Business model

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.

To sustain this ambition, Lectra has established a series of three-year strategic roadmaps. The first strategic roadmap for the Lectra 4.0 strategy was successfully completed. In 2020, the Group embarked on its second strategic roadmap, with the objective of capturing the full potential of its new offers for Industry 4.0, while ensuring sustainable business growth.

Under the strategic roadmap for 2020-2022, Lectra intends to accelerate the implementation of a structured CSR policy using tangible indicators to identify Lectra's contribution to the United Nations Sustainable Development Goals.

The reflection on Lectra's social, societal and environmental responsibility naturally stems from the four core values that make up the company's DNA, and which are also reflected in the Group's strategy: Caring, Committed, Insightful and Visionary. This has led to the identification of a number of risks (mapped in chapter 2.6 below), which constitute tangible opportunities for the Group to align its strategy with social, societal and environmental considerations.

These opportunities are already providing three strategic drivers for value creation: enhancing the Group's attractiveness to all stakeholders, empowering customers with the means to manage their responsibilities in their own activities and developing a virtuous ecosystem around Lectra.

The 2020 NFS marks a milestone in delineating the issues that Lectra is addressing in moving forward with this process.

LECTRA

A key player in Industry 4.0 in the fashion, automotive and furniture markets, Lectra designs smart industrial solutions that help brands, manufacturers and retailers develop, produce and market their products in over 100 countries across the world.

PRINCIPAL STRENGTHS

Human

1,771 employees including **374** in R&D

Industrial and sales

34 subsidiaries*

100 countries

Production facility in **France**

Global data center

Financial

Long-term shareholders

67% recurring revenues

Debt-free

Negative working capital requirement

Intellectual property

Trademarks and patents

Strong technological assets

Societal and environmental

Eco-design of equipment

Eco-responsible supply chain

Fair business practices

Governance

Three committees:
Audit, Strategy, Compensation

Code of Conduct

Compliance policies

*: the NFS reporting scope is set out on page 46.

FOUR STRATEGIC PILLARS

INDUSTRY 4.0 OFFER COMBINING

FOUR KEY VALUES

RESULTS, IMPACTS AND VALUES

Commitment to diversity

Training: **> over 20,000** hours in 2020

Hiring: **178** new employees hired in 2020

New Customer Success management organization

Industry 4.0 facility and campus

Revenue:
236 million euros

Dividend: **0.24** euro per share**

New cloud-based services

Innovation Lab, Software R&D

Digital management technologies

Suppliers

- in France: **52%**
- in New Aquitaine: **29%**
- in Europe (excluding France): **13%**
- in the rest of world: **6%**

Responsible purchasing charter

Gaïa, EcoVadis and CDP ratings and evaluations

All employees completed anti-corruption compliance program

2,811 responses to satisfaction surveys

Code of Conduct and whistleblowing procedure

Insider trading policy

Charter on related-party agreements

**: Resolution submitted to the Shareholders' Meeting of April 30, 2021.

2. Methodology

2.1 Scope

Social and societal issues have been identified for the entire scope of the Group, unless otherwise specified.

For environmental issues, it was decided for 2020, as for previous years, to focus on a scope composed of the company Lectra and its five principal subsidiaries (forming the Non-financial Statement scope, or "**NFS scope**"):

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

These six companies accounted for 68% of the Group's consolidated revenues and 76% of its headcount. 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 issues have been identified for the NFS scope, with the exception of waste, which has been analyzed only for the production site Bordeaux-Cestas (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.

2.2 Governance of the CSR process and methods for collecting non-financial data

CSR policy is conducted under the direct leadership of the Chairman and Chief Executive Officer and the Executive Vice President.

At the operational level, the CSR process is managed by a cross-divisional team drawn from the Industrial Operations, Finance, Legal Affairs, Human Resources, Strategy and Facility Management departments.

This team is responsible for the coordination of all projects in the relevant areas - social, environmental, societal and economic - as well as the production of non-financial reporting and responses to a range of CSR performance questionnaires.

In addition, the NFS is reviewed and validated by Lectra's Board of Directors.

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

- reporting protocols are sent to the subsidiaries and departments whose data are relevant for preparing the NFS;
- 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.

Data are for the fiscal year ended December 31, 2020 and are compared to data for prior years to enable an analysis of changes over time.

2.3 Exclusions

This NFS, 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 challenges, 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 challenge for the Group, in view of its activity.

Lectra considers that tax evasion mentioned in article L. 225-102-1 of the French Commercial Code does not constitute a significant issue. 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 issues 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.

2.4 Methods of auditing

PricewaterhouseCoopers, 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 2020.

This NFS was examined by the Audit Committee at its meeting on February 24, 2021, prior to the Board of Directors meeting on February 24, 2021, which adopted its content.

2.5 Rating

Since 2018, Lectra has been included in the Gaïa Index, the benchmark for non-financial transparency and sustainable development developed by EthiFinance for publicly traded French mid-caps. In 2020, Gäia Rating ranked Lectra:

- 12th out of 69 companies in the category of companies with revenues of 150 to 500 million euros; and
- 54th out of 230 in the global ranking of listed SMEs and mid-tier companies.

Since 2019, Lectra's non-financial performance has been assessed by EcoVadis, an independent rating agency specialized in the analysis of CSR performance in four themes: labor and human rights, environment, business ethics, and sustainable procurement.

Also in 2020, Lectra's environmental performance was assessed by CDP (formerly the Carbon Disclosure Project), the international organization.

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

As part of the risk mapping carried out in 2018 with PricewaterhouseCoopers, Lectra has identified and hierarchized its principal risks and issues. This risk mapping is validated and updated annually. The main risks are described in greater detail on pages 15 to 25 of the Management Discussion.

To redefine its CSR strategy in line with stakeholder expectations, and confirm its social, societal and environmental priorities, Lectra initiated a new materiality analysis, with assistance from the EthiFinance agency, at the end of 2020.

The seven principal corporate social, environmental and societal issues, together with the actions implemented as part of the CSR process, and the indicators for monitoring, are set out in the summary table below.

Type of issue	Issues identified	Actions implemented	Key indicators	Section
Employment issues	*Management of key resources and skills*	■ Lectra Academy, the in-house training center ■ Lectra Together, the integration seminar for all Group employees ■ Sales Enablement team created to strengthen the focused training system ■ 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 mobility	■ Average time to recruit ■ Percentage of departures at the initiative of employees with permanent contracts	3.4.2
Environmental issues	*Controlling the environmental footprint of Lectra solutions over their lifecycle*	Optimizing material consumption ■ R&D investment for continuous improvement of machines to reduce textile and consumable waste ■ Deployment of "Industry 4.0" services to reduce machine consumables and optimize remote maintenance ■ Development of the On Demand and PLM offers designed to match production quantities to demand Energy efficiency and control of CO2 emissions ■ Optimizing energy efficiency of machines ■ Optimizing logistic flows of machines and parts in order to facilitate a low carbon mix. ■ SaaS software coding methods to optimize server resource requirements ■ Optimizing remote technical support, reducing the need for travel	% of textile waste on a standard production cycle Energy consumption by machines on a standard production cycle Share of low carbon-footprint transport in logistics for machines and parts	5.1

Type of issue	Issues identified	Actions implemented	Key indicators	Section
Environmental issues	*Controlling the environmental footprint of Lectra activities*	Energy efficiency and control of CO2 emissions ■ Energy efficiency actions on the principal Lectra sites ■ Actions to control emissions arising from travel Optimizing material consumption ■ Actions to sort and recycle waste on the production site ■ Actions to promote biodiversity on the production site	■ Change in energy consumption on Lectra sites ■ Change in CO2 emissions on Lectra sites ■ Change in production and recycling of waste on principal production site	5.2
Societal issues	*Ethics and the fight against corruption*	■ Code of Conduct ■ Whistleblowing procedure ■ Annual e-learning training programs	■ 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 ■ Number of alerts reported through the whistleblowing system	4.1
	Fair practices	■ Internal control and quality assurance procedures ■ Strict selection of suppliers	■ Number of responses collected from customer satisfaction surveys	4.2.2
	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

3. Human capital

3.1 Introduction

For several decades, Lectra has developed highly innovative solutions that require a high degree of expertise from its teams. Human resources are therefore crucially important, especially at a time of strong growth for the Group.
The decision to recruit a Senior Vice President Human Resources at Group-level in 2019 reflects senior management's commitment to placing human resources management and development at the center of the Group's strategy.

The year 2020 saw the launch of numerous initiatives that provide the foundations for a Group-wide human resources policy focused on the commitment and excellence of its teams. Lectra also plans to integrate a new human resources information system, which is currently being selected, in order to efficiently support existing processes and facilitate the development of new processes (people reviews, continuous feedback loops, etc.), while making its new functionalities available to employees and managers.

The risk mapping carried out in 2018 with PricewaterhouseCoopers, had enabled Lectra to identify two social risks at Group level:

- the management of key competencies and resources;
- the ability to attract and retain talent.

These developments and the corresponding action plans continue to be relevant beyond the year 2020. They are presented in the following chapters, preceded by general information on the Group's human resources.

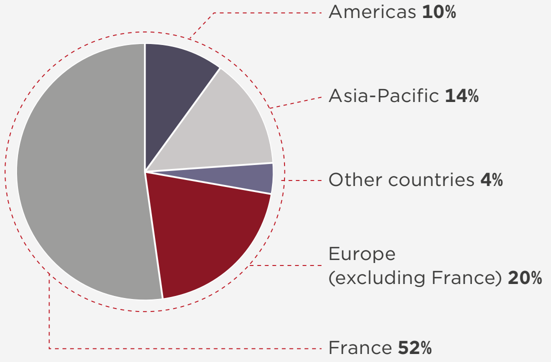
3.2 General information on the Group's human resources

3.2.1. Headcount

The Group's active headcount[1] at December 31, 2020 was 1,735 employees (1,793 at December 31, 2019). The Group's total headcount was 1,771 employees (registered workforce). Unless otherwise specified, the information and analyses that follow in this statement refer to the active headcount.

Lectra is a customer-focused company with operations in 35 countries organized into geographic regions with the following headcount breakdown:

Distribution of employees by geographic region



3.2.2. 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.

(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.

3.2.3. Anti-discrimination policy

Lectra, whose teams operate in 35 countries and represent more than 57 nationalities, 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.

3.2.4. Equal treatment between women and men

At December 31, 2020, women represented 35% of the Group's headcount. This percentage has been stable for several years; it is explained primarily by the high proportion of engineering positions that require education in science, technology, engineering and mathematics (STEM) fields, in which women are structurally underrepresented.

Gender	**At December 31, 2020** *(% of total headcount)*	At December 31, 2019 *(% of total headcount)*	At December 31, 2018 *(% of total headcount)*
Male	**65%**	65%	64%
Female	**35%**	35%	36%

The distribution of employees by age group is as follows:

Age group	**At December 31, 2020** *(% of total headcount)*	At December 31, 2019 *(% of total headcount)*	At December 31, 2018 *(% of total headcount)*
Age 29 or younger	**10%**	11%	11%
Age 30-39	**28%**	29%	29%
Age 40-49	**30%**	29%	30%
Age 50-59	**27%**	27%	27%
Over 60	**5%**	4%	3%

Lectra is committed to full equal treatment in hiring and career management.

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 and the actions required to achieve them.

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 11.5% 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 on permanent contracts (10.5 years) is 2.2 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 2.2% higher for women than for men, while the average seniority of the women among these 100 is three 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, the Company's overall score on the gender equality index was 84/100 (reference year 2019), placing it among the most highly rated companies in this respect.

This index exhibits considerable volatility from one year to the next, due to its mathematical formula, for companies with virtually equal pay, which is the case for Lectra. (The first indicator, for instance, shows a difference of -0.26% between men's and women's compensation.)

Diversity policy in the Group's managing bodies

Starting in 2020, the gender diversity policy that was already in place for the members of the Board of Directors was supplemented by a proactive, ambitious diversity policy for the Group's managing bodies.

The Group managing bodies comprise the members of the Executive Committee plus the senior executives (Senior Vice President, Vice President) within the teams at the Company and in the regions.

This group of 42 men and women of 14 different nationalities is located in 13 countries.

It accounts for 2.4% of the total headcount and includes 11 women (26%) and 31 men (74%), compared to the Group's overall gender breakdown (36% women and 64% men).

For information purposes only, 27% of Lectra's Executive Committee members are women; this is significantly higher than the average 20% for SBF 120 companies published on July 1, 2020 on the website of the French Ministry for Gender Equality, Diversity and Equal Opportunities (the results of the 7th edition of the awards for female representation on corporate decision-making bodies of SBF 120 companies in 2019).

The gender gap in Lectra's managing bodies nevertheless shows a 10% shortfall in female representation. Lectra aims to raise the gender mix in its managing bodies to the same level as in the Group as a whole, by the end of 2025; this would require the appointment of four women to its managing bodies, at constant headcount.

An action plan is designed to achieve this ambition by actively encouraging the promotion of Lectra's female employees, and more broadly of women, to positions of key responsibility within the Group.

It includes initiatives in the following areas:

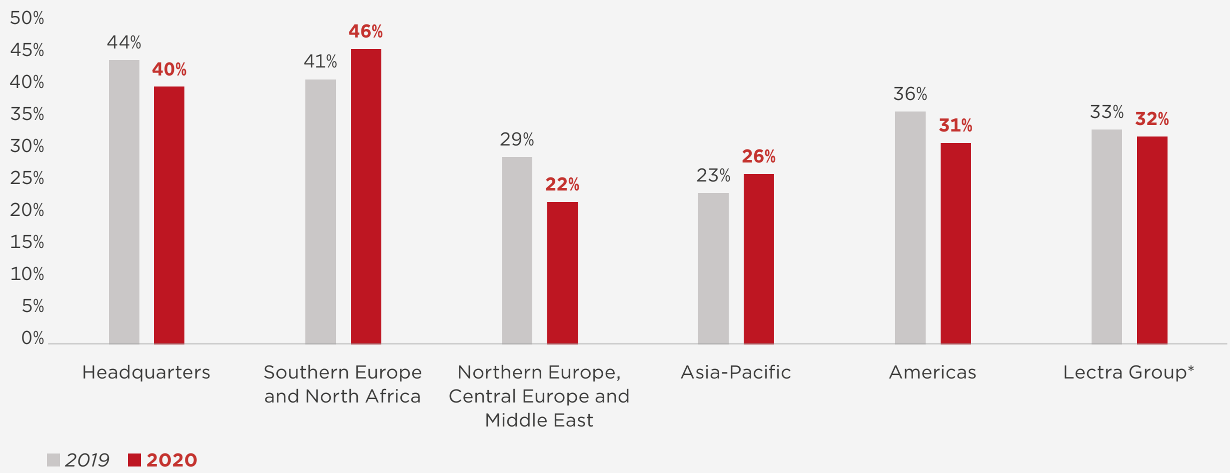
- communications and training;
- hiring;
- identifying high-potential women;
- managing women's careers;
- setting up an internal network of high-potential women;
- human resources focusing on facilitating the sharing of parental responsibilities.

Gender diversity in the Group's highest-responsibility positions

Beyond the Group-level managing bodies, Lectra is also attentive to gender diversity for the 10% of positions with the highest responsibility, including in the local management teams (109 employees, making up over 6% of the total workforce).

Women accounted for 32% of the local management teams, or 5% lower than for the Group as a whole; this was slightly lower than a year before.

Percentage of women in management teams



**Includes Retviews and Kubix Lab.*

3.2.5. Compensation policy

The Group payroll amounted to 116 million euros in 2020, a 0.7% decrease compared to 2019.

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 individual and/or collective performance, together with 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.

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.

3.2.6. Employee relations

Organization of labor relations

In France, the Company manages its collective employee relations through employee representative bodies. Two trade unions are present and participate in the collective bargaining negotiations. The Social and Economic Committee ("**CSE**") that was created in 2019 consists of 16 permanent members and 16 alternate members, plus 2 trade union representatives. The Health, Safety and Working Conditions Committee (CHSCT) consists of 4 members elected from the CSE.

In 2020, there were 23 meetings of the CSE (including 14 extraordinary meetings), 6 meetings of the CSSCT (including 1 extraordinary meetings) and 18 negotiating meetings with the trade union representatives.

In 2020, the Company disbursed 0.6 million euros to the works council, that is, 0.24% of total payroll for the CSE's operating expenses and 1.10% of payroll for its social activities.

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 and meets at least four times a year. It is consulted in the event of major organizational changes and dismissals;
- 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 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 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 good labor relations are organized in each country to address as closely as possible the aspirations of its employees.

Report on collective agreements

34 collective agreements currently in effect have been identified within the NFS scope. They concern employees in France (28 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 organization of work and labor relations were strongly impacted by the COVID-19 pandemic, both by the implementation of preventive measures to protect the health and safety of our teams, and the impact of the pandemic on our performance.

Several company-wide agreements were signed in 2020 in France: an agreement creating an exceptional purchasing power bonus to support employees who continued to work at the production site during the lockdown in March, April and May; an agreement on scheduling vacation time; and an agreement suspending the employee time-savings scheme (*compte épargne temps*).

The 2020 negotiations on work time, salary increases and the profit-sharing agreement also resulted in agreements. A further agreement to implement an employer contribution to the company savings plan (PEE, *plan d'épargne-entreprise*) was entered into; it will take effect for amounts paid-in starting in 2021.

No supplementary agreements were entered into in 2020 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
- an agreement signed in 2019 establishes 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 made in the past by the Company, 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.

3.2.7. Health and safety

The Group 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. In France, which is home to the Group's industrial operations, Lectra is building upon the complementary capabilities of a safety engineer, the Human Resources Division, Facility Management, and the Occupational Health Department. The Safety and Working Conditions Committee ("**CSSCT**") is consulted on a regular basis, and participates in the Company's actions in the area.

Numerous accident prevention campaigns and training programs have been organized.

In 2020, for instance, a working group that included members from the Human Resources Division, team managers, the CSSCT, and an outside consultant held several meetings to define a methodology for identifying psychosocial risks that will lead to improvements in current practices and will subsequently be deployed through the Company on a permanent basis.

Frequency and severity of accidents at work, occupational diseases

These two 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 3.66 accidents per million hours worked and 0.04 days of temporary disability per thousand hours worked, are respectively 6 and 34 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 2020 and no occupational disease was reported in 2020, for the NFS scope.

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.

COVID-19 pandemic

Beyond the need to ensure business continuity, the COVID-19 pandemic required the Company to address the risk of Lectra employees being contaminated by COVID-19 in the workplace, which could lead to contagion in their personal lives, with potentially serious individual consequences.

The need to adapt working conditions for teams

The pandemic required major adjustments to all teams' working conditions. The Group has strictly complied with the measures prescribed by all governments, in each and every region.

As a result, for many weeks, a large proportion of Lectra's worldwide sites closed their doors to comply with the containment measures put in place in each country.

With the exception of the Bordeaux-Cestas industrial site, all sites included in the NFS scope were forced to close.

As the Group decided not to put in place short-time arrangements (under the partial activity scheme), remote work was organized on a large scale, with technical support from IT (hardware, access to applications and data), and adjustments to communication resources (audio and videoconferencing software), working procedures, and managerial oversight.

Over 1,200 employees within the NFS scope carried out part of their work remotely in 2020.

In France, only the Bordeaux-Cestas site, where all the production teams are located, maintained on-site activity throughout 2020. During the two lockdown periods in France, over 160 employees carried out full-time or part-time activities on site, enabling Lectra to continue to manufacture and ship machines, consumables and parts, and thus fulfill its commitments and provide support to its customers. To ensure that on-site activity was carried out under optimum safety conditions, Lectra implemented all necessary measures to comply with safety precautions and physical distancing. Numerous measures put in place that continue in effect at all French sites include the provision of masks and disinfection equipment, standards to determine the capacity of meeting rooms, reorganization of food services, continuous disinfection and cleaning of all shared resources and tools, the introduction of flow directions, ground markings, and so on.

These circumstances led to a virtually continuous dialogue with the members of the CSSCT, resulting in five meetings of the CSE dedicated entirely to the COVID-19 situation and related measures, five other meetings devoted in part to the situation, and two meetings of the CSSCT also devoted in part to the situation.

All the actions implemented were given a positive opinion by the CSE, which was consulted for this purpose.

Finally, the year 2020 was marked by a number of actions undertaken by Lectra in the collective fight against COVID-19.

Since the initial government announcements, Lectra has taken steps to support its customers and its entire ecosystem to ensure the continuity of their operations.

In France, Lectra helped fashion students to continue their studies by providing them with free student licenses until the end of the 2019-2020 academic cycle. This enabled students to take distance learning courses with their fashion teachers, work on graded exercises, and take their final examinations at the end of the academic year.

Lectra also mobilized its production tools and expertise for the benefit of as many people as possible, participating in the "Masque Solidaire" mask making campaign and responding to numerous requests from manufacturers and the medical profession. Lectra employees volunteered to participate in numerous initiatives that resulted in the cutting of over 23,000 gowns and aprons for hospitals, and over 1.4 million masks.

Health and safety of operators at Lectra customer sites

Lectra's focus on health and safety is not limited to its own teams. Indeed, the industrial equipment produced by Lectra optimizes the cutting of flexible materials but can expose users to certain risks.

Lectra's research and development teams have accordingly integrated concern for the safety of future users into equipment design from the outset.

The innovative capabilities of Lectra's teams contribute to the design of high-performance security features. For example, the Virga offer, launched in 2018, includes a new radar system to detect user motion, which provides for immediate emergency shutdowns in the event of inappropriate user behavior.

This system marks a further improvement in the performance of previous safety systems and is now installed on new ranges (Vector automotive IP).

It is also offered as an option on previous Vector ranges, in all markets.

These integrated safety systems are accompanied by on-site support provided by Lectra's technical experts, who install, start up and, in some cases, maintain the machines on customer sites.

The initial training for customer operators incorporates all applicable safety rules, both in the production phases and in the remote maintenance carried out by Lectra's teams.

Finally, as part of the service contracts offered to customers, Lectra's technical experts carry out regular preventive audits of their installations, which include all embedded safety systems.

3.3 Management of key skills and resources

3.3.1. Description of challenges

Lectra's offer is intrinsically expertise intensive and addresses complex issues of product design, cross-functional collaboration and optimization of its customers' production processes.

This offer combines multiple dimensions (software, industrial equipment, services, and so on) is offered on a global scale in the highly complex fashion, automotive and furniture markets.

Lectra's credibility and recognition as an expert partner is based to a great extent on its customers' experience in their direct contact with its in-house teams, who make a direct contribution to the sales and loyalty-building processes for customers who decide to invest in Lectra solutions.

Employee and management expertise in the technical areas required to develop the offer and provide customer support is therefore fundamental. In addition to thorough knowledge of the markets addressed, this also requires a perfect mastery of Lectra's offers.

Developing talents and skills is therefore a fundamental challenge for Lectra.

3.3.2. Description of actions implemented

Training and integration

Lectra invests significantly in training for its employees. Therefore, the Group'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.

The creation of the Sales Enablement team in 2018 strengthened 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 as much to the specific needs of Lectra's business areas as to 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, Lectra establishes an annual skills development plan, in compliance with current regulations, that includes all training actions. The Company's 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. This information may also be drawn from the career appraisals offered once every two years to employees in France.

The various COVID-19 lockdown periods disrupted the organization of the in-person training sessions initially scheduled for the year. To sustain the skills development initiatives for Lectra employees, the training teams organized a number of initiatives to develop content for distance learning:

- the business experts and training teams joined forces in April 2020 to develop and conduct over a hundred distance learning courses that generated nearly 1,300 registrations for virtual classes that focus mainly on understanding and mastering the Lectra offer;
- new e-learning modules that also focus on the offer, and particularly a dozen videos with commentary and subtitles that demonstrate technical operations on our solutions, were made available online on the internal training platform;
- Lectra also subscribed to an external platform (Edflex), which includes a wide variety of educational content in English and French—articles, videos, podcasts, and MOOCs—that can be accessed by all Group teams, and is carefully selected to suit their needs, whether in the areas of cybersecurity, office automation, business training or technical training. More than 1,000 people have logged on to this platform;
- finally, the "Lectra Together" induction seminar was maintained, in a new virtual format.

Investment in training

In 2020, the Group invested close to 2.6 million euros in training its teams (close to 3.9 million euros in 2019), representing 2.2% of the Group's payroll (3.4% in 2019).

Hours of training

In total, nearly 20,422 hours of Lectra Academy and Sales Enablement training were provided to Group employees, combined with more than 3,200 hours of training related to local activities.

	2020	2019	2018
Number of training hours	**20,422**	41,346	37,691

The number of training hours was considerably lower than in 2019, as the COVID-19 pandemic interrupted in-person courses, which were significantly longer on average than distance learning sessions that replaced them. As a result of the initiatives mentioned above, this was offset by the increase in team participation in the many virtual classes that were organized (8,227 registrations in 2020 compared to 4,500 in 2019, for all training courses combined).

In addition, although not included in these figures, the Edflex educational platform was widely consulted, with an access rate of over 65%.

3.3.3. Indicators tracked

Percentage of employees who took at least one training course in the year (1)

1,819 employees, or 103 % of the registered workforce (82 % in 2019), had access to training courses organized by Lectra Academy and Sales Enablement in 2020. The percentage of employees who took at least one training course exceeds 100% because of the departure of some employees who had taken a course during the year.

	2020	2019	2018
Registered workforce on December 31	**1,771**	1,818	1,741
Number of employees having taken at least one training course	**1,819**	1,496	1,543
Number of employees having taken a training course in business ethics*	**1,681**	477	1,140
Percentage of employees having taken at least one training course	**103%**	82%	89%

**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 2020 increased significantly compared to 2019. In addition to the broad participation in virtual courses mentioned above, this is due to the deployment of the training in professional ethics, 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.

In the first quarter of 2020, the course was taken by all Group teams, or a total of 1,681 employees.

Average number of training hours per employee who took at least one training course

	2020	2019	2018
Average number of training hours per person	**11.2**	27.6	24.4

The average number of hours of training per employee who took at least one training course during the reference year fell sharply in 2020 due to the pandemic situation described above, which led to more use of distance learning courses, which are structurally shorter in duration than in-person training courses.

3.4 Attractiveness and ability to retain talents

3.4.1. Description of challenges

To support its continued organic growth, Lectra must capitalize on its ability to attract talent and to develop it sustainably within the company, supported by an ambitious recruitment policy and actions to improve the quality of life in the workplace.

Lectra's global footprint and indispensable closeness to customers requires finding the right profiles on all five continents, in competitive and challenging markets. The sector's dynamic growth and the expertise demanded are additional factors of tension. Excessive recruitment times would be detrimental to the organization of teams across countries. Similarly, high turnover would have an adverse impact on the organization.

Lectra has accordingly established an ambitious recruitment policy and is committed to implementing a number of initiatives to improve the quality of life in the workplace and employee development in order to attract and retain employees.

3.4.2. Description of actions implemented

An ambitious recruitment policy

Employees who joined during the year are as follows:

(in number of people)	2020	2019	2018
Recruitments (total)	**178**	318	265
■ of which: permanent contracts	**157**	265	222
■ of which: fixed-term contracts	**21**	53	43

Despite the pandemic, Lectra has continued to recruit actively in the countries where the Group operates. 46% of recruitments were in France, 21% in Europe (excluding France), 12% in the Americas, 19% in Asia-Pacific, and 2% in the rest of the world. The majority of these recruitments were on permanent contracts, with most fixed-term contracts relating to apprenticeship and professionalization contracts, or replacements during maternity or long-term leave. Recruitments covered a very wide range of job categories: sales force, marketing and communication, R&D, finance, maintenance, customer relations, and so on.

The breakdown by age group reflects Lectra's decision to recruit, for certain positions, experts with proven experience.

Age group (total)	At December 31, 2020 (% of total headcount)	At December 31, 2019 (% of total headcount)	At December 31, 2018 (% of total headcount)
Age 29 or younger	**33%**	31%	32%
Age 30-39	**43%**	43%	38%
Age 40-49	**21%**	19%	20%
Age 50-59	**3%**	5%	9%
Over 60	**0%**	2%	1%

The table also shows the Group's commitment to recruiting young graduates and offering them stimulating assignments, a pleasant working environment and an attractive career path. With this in mind, Lectra regularly participates in school forums in France (ENSEIRB Forum, French Tech Day) to raise its profile among young graduates, and regularly welcomes apprentices and people on professionalization contracts (35 on work/study programs in 2020) and interns (21 in 2020).

To meet these substantial needs, the Group combines the business expertise of a corporate recruitment unit with local knowledge of the market, via local human resources teams and/or recruitment agencies with long-standing partnering arrangements with Lectra in countries where the Group operates.

Empowering employees to share in the company's success from day one

New employees follow an induction program, including a Lectra Together welcome seminar, during which Lectra's strategy, organization, markets and products are explained. This 2 to 5-day event is intended for all Group employees around the world and takes place in Bordeaux-Cestas—except in 2020, when it was held remotely due to the global COVID-19 pandemic. New employees subsequently have additional opportunities to meet and exchange ideas with their peers and management at global and local events throughout the year.

The Executive Committee is committed to listening to employees and wishes to continue discussions on a regular basis. With this in mind, the deployment of an engagement survey, as well as "pulse" surveys, is under consideration for 2021.

The performance review system will also evolve towards a continuous feedback model, with reviews throughout the year replacing the current annual appraisal system. The aim is to encourage dialogue between employees and management.

The determination to associate employees with Lectra's success is also reflected in the Group's compensation policy, which has several components directly linked to Lectra's performance:

- French employees (over 50% of the workforce) benefit from a profit-sharing agreement based on financial performance criteria;
- approximately 35% of employees (in France and internationally) receive a variable compensation component, the payment of which depends on the achievement of Group, regional, national and individual objectives;
- Lectra has a stock option plan that covers approximately 12% of employees each year.

Lectra also recognizes employees' projects and initiatives through an Awards system. The Lectra Awards annual internal competition recognizes twelve employees worldwide each year who have contributed to Lectra's success. The criteria for the awards are based on the candidates' professional qualities and how they embody Lectra's values: Caring, Committed, Insightful and Visionary.

The competition also highlights three projects each year that have won the support of employees, based on the challenge involved, the processes put in place, and the results achieved.

Promoting mobility

Lectra offers individualized career paths adapted to the needs of each employee. In addition to an extensive training program (see chapter 3.3), Lectra encourages mobility whenever possible. This mobility may be within a given team, within a given country, or between countries.

Of the 202 positions staffed in 2020, 48, or 23.8%, were filled through internal mobility.

These efforts will be continued in coming years, with particular emphasis on international mobility.

Offering a stimulating work environment and rewarding assignments

The Group 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.

Lectra has undertaken major renovation and modernization work at its Bordeaux-Cestas premises to provide a pleasant environment suitable for a more flexible work organization.

The Executive Committee is convinced that Lectra's success depends in part on the fulfillment of its employees and its ability to offer them stimulating assignments with varied content. Lectra's decision to invest substantially in innovation is reflected in the large proportion of employees dedicated to R&D (over 20% of the workforce) and in the dynamic corporate culture that is open to the outside world and constantly monitoring market trends.

Proposing a way of organizing working time that takes employee well-being into account

Employee well-being is also dependent on a work organization that respects the balance between professional and personal life, in accordance with current legislation. Lectra favors an organization of work time appropriate to each type of activity. This organization 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 4.7% 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.

3.4.3. Indicators tracked

Average recruitment time

Recruitment time, or the time required to find a candidate from the start of the recruitment process, is an indicator that Lectra has tracked at Group level since 2018; the average time has fallen from 16 weeks in 2018 to 12 weeks in 2020.

	2020	2019	2018
Average number of weeks between the start of a recruitment process for a permanent employee and signing of acceptance by the future employee	**12**	12	16

Number of departures and voluntary departure rate

Number of departures

In 2020, 207 employees left the Group (on all grounds), compared with 241 in 2019:

Reason for leaving	**December 31, 2020**	December 31, 2019	December 31, 2018
Termination of employment contract at Lectra's initiative	**59**	43	60
End of fixed-term contract	**26**	26	29
Termination of employment contract by mutual agreement	**25**	30	15
Resignation	**87**	128	120
Retirement	**10**	14	10
Death not arising from work-related accident or occupational disease	**0**	0	1
Total	**207**	241	235

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

Voluntary departure rate

The relatively low voluntary departure rate for 2020 (4.9%) is an indicator of the effectiveness of Lectra's actions in this area, even if, in times of pandemic, employees may be less inclined to change companies.

	2020	2019	2018
Registered workforce on December 31	**1,771**	1,818	1,741
Number of resignations or voluntary terminations by employees during probationary period	**87**	128	119
Percentage of departures at employees' initiative	**4.9%**	7.0%	6.8%

Absenteeism

Since 2013, the Group has been tracking an absenteeism indicator calculated for the NFS scope. The indicator was slightly higher in 2020 (4.0% compared to 3.6% in 2019).

4. Information on societal commitments

Lectra places ethics and respect for values such as integrity, probity and transparency at the heart of its business conduct. Over the years, it has established a strong culture based on fair practices and respect for fundamental values in its interactions with all stakeholders.

The Group has identified three societal issues associated with its reputation and its business 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

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. This risk is identified in the risk mapping chapter of the Management Discussion.

In addition, some of the Group's activities take place in countries identified by Transparency International, the non-governmental organization, as being at risk.

Lectra has accordingly put in place an extremely robust anti-corruption system, which it has constantly worked to strengthen.

4.1.2. Description of actions implemented

Since 2018, the Group has 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.

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 internal communication system and the commitment to annual training in business ethics.

This system was developed on the basis of a risk mapping exercise by an outside consultant that focused specifically on corruption, which made it possible to identify the principal issues 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 and guides 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.

Internal communication system and commitment to annual 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 3.3.3 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.

Finally, in 2020, the Group undertook a comprehensive review of its contractual relations with its network of agents in order to harmonize and strengthen its ethical requirements, and to standardize its practices throughout the Group, in all territories.

4.1.3. Indicators tracked

The efficiency of the anti-corruption system is monitored in terms of the number of alerts reported through the whistleblowing system.

In 2020, no whistleblowing alerts were made.

4.2 Fair practices

4.2.1. Description of actions implemented

Lectra wishes to behave towards its customers as a responsible economic player in order to ensure its position as a trusted partner and to strengthen its ties by providing value within the framework of a long-term relationship.

For the Group, being a trusted partner means first and foremost not exposing customers and the users of its solutions and services to risks that can be addressed by internal implementation of tools and best practices.

As such, the security of data belonging to customers and users is a priority, particularly because lack of transparency and vigilance in these matters could severely damage the Group's image.

The Group has therefore established a digital protection department responsible for setting up a consistent, structured approach to all data-related issues; this involves developing technological measures, best practices and procedures to secure data, to process data in keeping with the highest standards, and to comply with the General Data Protection Regulation (GDPR) with respect to personal data.

Moreover, strengthening customer relations is one of Lectra's four strategic objectives. This calls for the Group to support its customers by taking their needs into account and guaranteeing their satisfaction and security.

Lectra has therefore implemented specific actions:

- to scrupulously control the quality of its products and services both internally and at suppliers' facilities;
- to gradually deploy a new organization at the Group level designed to help our customers make optimal use of Lectra's solutions in order to achieve their operational objectives;
- to continuously measure customer satisfaction via satisfaction surveys;
- to place innovation at the heart of its activity in order to support customers in their digital transformation and in optimizing their processes.

Finally, central to all of Lectra's offers is the Group's constant drive to improve its customers' processes for greater efficiency and accountability: better collaboration (fewer unnecessary physical prototypes, fewer round trips and lower resource consumption), better material management (reducing consumption and discards), better working conditions (cutting equipment designed to improve working conditions, incorporating accident detection and prevention systems for greater operator safety), but also the determination to meet CSR challenges by placing them at the heart of all the Group's major orientations, strategic decisions, and its own transformation, particularly through the following actions:

- the transformation of the Bordeaux-Cestas facility into a showcase plant for Industry 4.0 through digitization of processes and flows, automation of key processes, partial robotization, and the creation of an integrated, connected supply chain that enables the company to be more responsive to customer demands, increase productivity, and improve quality in order to maintain a premium positioning;

- the launch of 4.0 offers enabling customers to pursue new business models. These include on-demand production, which involves producing only those products that have already been sold, making it possible to reduce inventory, unsold items and waste, in a process that is more responsible, more sustainable, and aligned with the needs of end consumers;
- the launch of two offers designed for specific markets: Fashion On Demand by Lectra and Furniture On Demand by Lectra. These are powerful drivers of agility that are now vital for brands and manufacturers. They enable industry players to secure production quality while controlling manufacturing processes, providing the ability to deliver orders quickly, with controlled production costs, while maintaining high standards of operational excellence and finished product quality. These are disruptive offers that also open up new opportunities made possible by the boom in customization.
- a new cutting solution (Vector iP6-iP9) combining innovative fabric cutting with an optimized software application and new consumables, making it possible for manufacturers to achieve zero-buffer cutting on a wide variety of textiles. This breakthrough innovation significantly increases material yield for manufacturers and reduces waste.

4.2.2. Indicators tracked

The results of actions are tracked by customer satisfaction surveys organized by the Customer Experience team.

For 2020, Lectra collected 2,811 responses to customer satisfaction surveys.

4.3 Responsible purchasing policy

4.3.1. Description of the challenge

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's strategy 4.0 is based on its ability to support suppliers in terms of innovation and services. This calls for closer cooperation with both suppliers and subcontractors.

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, which must be signed when any contract for subcontracting or the provision of services is entered into; and
- contracts setting out its corporate social, societal 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.

Hence, 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.

4.3.3. Indicators tracked

The Group's activities rely on partnerships with an international network of close to 878 suppliers and subcontractors. Lectra also favors partnerships close to its production site to reduce the carbon footprint of its logistics, while relying on partners who conform to environmental and labor standards that ensure a high level of performance and integrity.

Lectra tracks an indicator on the geographic location of its suppliers and subcontractors.

Location	**2020** *(%)*	2019 *(%)*	2018 *(%)*
Nouvelle Aquitaine	**29**	29	30
Rest of France	**52**	53	51
European Union (excluding France)	**13**	13	14
Rest of World (mainly Asia and USA)	**6**	5	5

5. Information on environmental commitments

Lectra's business sector has, by its very nature, a moderate environmental impact. Nevertheless, Lectra's customers are involved in the production and use of soft materials (textiles, leather, etc.); these sectors have a significant environmental impact.

In addition to minimizing its own environmental impact, for several years now the Group has been working alongside customers to reduce the environmental footprint of its solutions (software, CAD/CAM equipment, and services) throughout their life cycle.

This approach responds to challenges associated with Lectra's business model, notably the preservation of its reputation and the response to a need that is increasingly voiced by all stakeholders. Lectra has identified two major challenges for its environmental commitments:

- managing the environmental footprint of Lectra's solutions over their life cycle; and
- managing the environmental footprint of Lectra's own activities.

5.1 Managing the environmental footprint of Lectra's solutions over their life cycle

5.1.1. Description of the challenge

Lectra's customers favor solutions that provide the best material and energy yields, thus enhancing productivity while reducing waste. These criteria are increasingly important as growing numbers of companies in Lectra's three strategic market sectors—the automotive, fashion and furniture industries—analyze the entire life cycle of their products, including total textile and energy consumption.

5.1.2. Description of actions implemented

For many years, Lectra has focused its research and development efforts on a comprehensive eco-design program covering the entire life cycle of its CAD/CAM equipment and software, including design, manufacturing, use, and end-of-life. Engineers in the design department are developing breakthrough functional innovations that move beyond market practices, and file several patent applications each year. The performance of new machines, in each phase of the life cycle, is measured and improved with each new generation of equipment.

Optimizing material yield

Lectra contributes to reducing waste produced by its customers by developing increasingly efficient equipment. Optimizing the use of flexible materials 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 are continually improving fabric yields. Along the same lines, increasingly intelligent blade guiding systems enable highly precise cutting with zero buffer between parts, thus reducing scrap. For leather, optical systems analyze the quality of hides to limit the number of pieces scrapped due to visual defects.

Lectra also improves its solutions to reduce the need for consumables. For instance, the Virga cutting machine cuts fabric directly, eliminating the need for the plastic or paper that was used in previous generations. In addition, the cutting blades recently launched on the market have a lifetime several times longer than blades used by earlier equipment.

For several years now, Lectra's solutions have also included smart services as part of the Industry 4.0 transformation. These smart services collect large numbers of operational parameters and transmit them to a remote platform that analyzes them in detail to optimize usage. One of the benefits of smart services is to optimize maintenance and replacement intervals for parts subject to wear and tear, eliminating the material footprint of unnecessary changes.

Lectra works continuously to enhance the reliability of its solutions while ensuring their maintainability over periods that can exceed 25 years. Furthermore, with Fashion On Demand by Lectra, Furniture On Demand by Lectra and PLM (Product Lifecycle Management), Lectra allows customers to launch on-demand production, by adjusting to meet the exact needs of end customers. 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.

Energy efficiency and CO2 emissions

In terms of energy consumption, Lectra has generalized the use of premium-efficiency IE3-class motors on its CAD/CAM equipment, ensuring efficiency gains on the order of 2% compared to IE2 versions. In addition, Lectra has optimized the vacuuming functions that consume the most energy to improve efficiency by an estimated 30% on the next generation of machines.

Similarly, for its cloud-based software offers marketed in SaaS mode, Lectra has implemented development methodologies for code and programs that significantly optimize computing times and server resource requirements. This also reduces the associated environmental footprint.

To reduce supply chain related CO2 emissions, Lectra has introduced an optimization plan that includes (i) sourcing certain parts from local suppliers, (ii) forward stocking on continents or in regions where customers are located, and (iii) giving priority to low-carbon modes of transport such as maritime, inland waterway and rail, rather than road or air.

Similarly, smart services facilitate remote diagnostics that reduce the environmental footprint associated with travel. Thus, in 2020, Lectra was able to adapt very quickly to the COVID-19 restrictions. This has also enabled a full-scale rollout of remote intervention methods for nearly all support and maintenance operations, with the development of highly detailed video tutorials. Over 50% of interventions in 2020 were carried out remotely.

5.1.3. Indicators tracked

Today, 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.

Machines marketed in 2020 vs. 2015	Production of textile scrap
Virga	-3/-6%*

(*) indicator calculated on the basis of simulations on over 100 typical markers. The reported gain relates to 2020 improvements in the marker algorithm and to an innovative patented method for managing ends of rolls.

The environmental performance of the logistics for machines, consumables and parts is tracked in terms of changes in tonnage per category of low-carbon transport (maritime, inland waterway and railways) or other means (road and air).

Means of transport	2020 (tonnes)	2019 (tonnes)	2020/2019 % change
Maritime	**1,315**	1,466	-10%
Air	**218**	317	-31%
Road	**1,526**	2,060	-26%
Air Express	**100**	115	-13%
Total	**3,159**	3,958	-20%
Percentage Maritime	**42%**	37%	+12%

Several initiatives are a direct result of the functionalities provided by smart services. It is therefore relevant to track the percentage of new machines equipped with smart services, and the percentage of the installed base that can be considered "connected" machines.

New machines incorporating smart services	Percentage of connected* installed base
100%	75%

(*) Criterion: a machine is counted if it is connected over 70% of the time.

5.2 Managing the environmental footprint of Lectra's own activities

5.2.1. Description of the challenge

While less significant than the lifecycle impact of its machines, Lectra's internal activity also has an environmental impact, particularly at the only production site, at Bordeaux-Cestas. All stakeholders, particularly customers and investors, are extremely attentive to Lectra's exemplary status in this area, and they evaluate Lectra on both qualitative and quantitative criteria. The results of these evaluations can influence business or investment decisions and are therefore a key part of Lectra's business model.

5.2.2. Description of actions implemented

Lectra has set up an Environmental Management System (the EMS) involving the Group's main business divisions. Its purpose is to detect and analyze any new environmental risks, and then to define and implement the appropriate action plan.

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 Lectra'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.

Key areas covered by EMS actions include:

- eco-responsibility of the supply chain and our own production operations;
- eco-responsibility for Lectra's infrastructures, particularly in terms of energy consumption management, waste treatment, and biodiversity;
- eco-responsibility for business travel by employees;
- employee involvement and training in the specificities of environmental issues.

Energy efficiency and control of CO2 emissions

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 75% of the 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 included in the five-year plan was subject to demanding environmental performance objectives. The rue Chalgrin building in Paris will be submitted to a BREEAM certification process in 2021. The Bordeaux-Cestas site continues to roll out a project to install solar arrays to generate electricity for self-consumption, with the ultimate objective of covering 20% of the site's requirements.

With regard to travel related CO2 emissions, the installation of videoconferencing rooms on Group sites contributes to reducing travel and the environmental footprint; this was particularly important in 2020 due to COVID-19-related travel restrictions. Similarly, the travel policy promotes the use of videoconferencing and greener travel. 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 CO2 emissions, and facilitating car-pooling for work. Starting in 2021, the corporate car policy now privileges the use of 100% electric or hybrid cars. The Bordeaux-Cestas site is equipped with charging stations for electric vehicles.

Optimization of material yield

For managing waste, Lectra initiated a three-year action plan (2018-2020) intended to significantly reduce its own waste production and to recycle the waste produced in the course of business.

Several initiatives have been undertaken at the Bordeaux-Cestas site:

- reduction of packaging for equipment and parts delivered to Lectra's customers;
- working with suppliers to optimize the packaging of purchased components by working on types of packaging, and also by seeking to develop reusable packaging;
- establishing a partnership with a specialized contractor to manage all selective waste collection and recycling, in particular for wood, metals, paper and cardboard, plastic, and glass, or separate treatment for special waste;
- elimination of disposable cups and digitization of invoices.

100% sorting of waste has now been deployed at Bordeaux-Cestas.

Finally, Lectra has contributed to the preservation of biodiversity by installing insect enclosures and has developed a nature trail for visitors to the Lectra Technology Campus to raise awareness of flora and fauna.

5.2.3. Indicators tracked

Three-year review of energy consumption, CO2 emissions and waste produced [(1)]

Energy	**2020**	2019	2018
Electricity (GWh)	**5.4**	6.1	6.3
Gas (GWh)	**0.3**	0.42	0.55
CO2 emissions (tCO2 eq)	**1,108**	n/a	n/a

(1) Energy consumption is mainly electricity relating to the use of tertiary equipment; a number of action plans have resulted in a significant reduction in consumption. It is difficult to properly assess the year, however, because COVID-19 lockdowns had a positive impact on our consumption. The same is true for CO2 emissions, particularly given the decrease in travel using our fleet of vehicles.

Waste at Bordeaux-Cestas site [(1)]

Type of waste	**2020** *(tonnes)*	2019 *(tonnes)*	2018 *(tonnes)*
Wood	**125**	168	232
Metals	**56**	46	69
Paper, cardboard	**40**	41	65
Plastics	**0.4**	13	17
Non-hazardous industrial waste	**95**	93	123
Municipal waste	**7**	16	33
Special waste	**5**	5	6
Glass	**0**	0	1
Total	**328**	382	546

(1) Waste levels were also significantly lowered. Once again, it is difficult to separate the portion arising from the decline in activity related to COVID-19 from the portion linked to the increasingly efficient waste reduction and sorting initiatives undertaken by Lectra.

6. Report by the Statutory Auditor, appointed as an independent third party, on the consolidated Non-financial Statement included in the Group management report

Year ended December 31, 2020

This is a free translation into English 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 Shareholders,

In our capacity as Statutory Auditor of Lectra SA Group (hereinafter the "entity"), appointed as an independent third party and certified by COFRAC (Cofrac Inspection accreditation no. 3-1060, whose scope is available at www.cofrac.fr), we hereby report to you on the consolidated non-financial statement for the year ended December 31, 2020 (hereinafter the "Statement"), included in the Group management report pursuant to the legal and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

The entity's responsibility

Pursuant to legal and regulatory requirements, the CSR Department is responsible for preparing the Statement, which must include a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented in light of those risks and the outcome 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.

Independence and quality control

Our independence is defined by the provisions 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 the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Responsibility of the Statutory Auditor, appointed as an independent third party

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

- the consistency of the Statement with the provisions 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 outcome of the policies, including key performance indicators, and the measures implemented in light of 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 provisions, in particular the French duty of care law and anti-corruption and tax evasion legislation;
- the consistency 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 Articles A. 225 1 et seq. of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional standards applicable in France to such engagements, as well as with ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Our procedures allowed us to assess the consistency of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities, and the impact of those risks on compliance with human rights and anti-corruption and tax evasion legislation, as well as the resulting policies and their outcomes;
- we assessed the appropriateness of the Guidelines with respect to their relevance, completeness, reliability, objectivity 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 the information provided for in the second paragraph of Article L. 22-10-36 regarding compliance with human rights and anti-corruption and tax evasion legislation;
- we verified that the Statement includes an explanation for the absence of the information required under Article L. 225-102-1 III, 2;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under Article R. 225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;
- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with Article L. 233-16 within the limitations set out in the Statement;
- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative results that we considered to be the most important (see the list provided in the 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, i.e., Lectra France in Paris, the production plant at Bordeaux-Cestas and Lectra in Italy, and covers between 80% and 100% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important (see the list provided in the appendix);
- 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 persons between November 2020 and February 2021 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 around ten interviews with the people responsible for preparing the Statement, representing Executive Management and the Human Resources, Training, Employee Relations, Environment, Ethics and Anti-Corruption, Fair Practices and Purchasing departments.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the consolidated non-financial statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly.

Neuilly-sur-Seine, February 24, 2021

The Statutory Auditor
PricewaterhouseCoopers Audit

Matthieu Moussy	Pascal Baranger
Partner	Director, Sustainable Development Department

APPENDIX

List of information that we considered to be the most important

Key performance indicators and other quantitative results:

- 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;
- Average time to recruit;
- Percentage of departures at the initiative of employees with permanent contracts;
- Percentage of textile waste in a typical production cycle;
- Energy consumption of machines in a typical production cycle;
- Percentage of low-carbon transport in the machines and parts supply chain;
- Change in energy consumption on Lectra sites;
- Change in CO2 emissions from Lectra sites;
- Change in production and recovery of waste at the main production site;
- 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;
- Number of alerts reported through the whistleblowing system;
- Number of satisfaction surveys collected from customers;
- Geographical locations of suppliers and subcontractors.

Qualitative information (measures and outcomes):

- Lectra Academy, the in-house training center;
- Lectra Together onboarding seminar for all Group employees;
- Sales Enablement team created to strengthen the focused training system;
- Annual performance reviews;
- Support for employees throughout their careers;
- Improvement in working conditions (renovation work, notably at Bordeaux-Cestas);
- Priority to internal transfers;
- R&D investment to drive continuous improvement in machines and thereby reduce textile waste and consumables;
- Deployment of Industry 4.0 services to reduce the need for machine consumables and ensure optimized remote maintenance;
- Development of on-demand and PLM offers aimed at adjusting the quantities produced to match demand as closely as possible;
- Optimization of machine energy efficiency;
- Optimization of machines and spare parts logistics flows to achieve a low-carbon mix;
- Coding methods for SaaS software optimizing the need for server resources;
- Optimization of remote technical support reducing the need for staff travel;
- Energy efficiency initiatives at the main Lectra sites;
- Initiatives aimed at managing the emissions resulting from the movement of people;
- Waste sorting and recycling initiatives at the production site;
- Initiatives promoting biodiversity at the production site;
- Code of Conduct;
- Whistleblowing procedure;
- Annual e-learning training;
- Internal control and quality assurance procedures;
- Strict supplier selection;
- In relations with suppliers and subcontractors, taking into account their social and environmental responsibility;
- Taking social and environmental issues into account in the purchasing policy.

03

Report on Corporate Governance

03 Report on Corporate Governance

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03 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 applied to Directors and in the managing bodies;
- 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, 2020;
- 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 chapters, 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 chapters falling under their respective areas of responsibility, this Report was approved by the Board of Directors at their meeting of February 24, 2021 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. 22-10-10 of the French Commercial Code.

The Internal rules and procedures of the Board of Directors and its committees (the "**Internal Rules and Procedures**"), updated on April 30, 2020, 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.

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 Product 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 Digital 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 for managing bodies

In compliance with article L. 22-10-10 of the French Commercial Code and with Recommendation 7 of the AFEP-MEDEF Code, on a proposal by the General Management and a recommendation by the Compensation Committee, the Board of Directors, at its meeting on February 24, 2021, established the diversity policy applicable to the Group's managing bodies (members of the Executive Committee, Senior Vice Presidents, Vice Presidents). This policy, its objectives and its implementation are described in detail in chapter 3.2.4 of the Non-financial Statement.

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 and economic matters or questions relating to human capital.

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.

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.

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 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 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.

The Board of Directors is informed of market developments, the competitive environment and the most important issues facing the Company, including in the field of corporate social and environmental responsibility and performs such controls and verifications as it deems appropriate.

The Board of Directors reviews financial, legal, operational, labor-related and environmental risks and opportunities, as well as the measures taken, on a regular basis in line with the strategy it has defined. All information required to perform this task is provided to the Board of Directors, and in particular by the Chairman and Chief Executive Officer.

The Board of Directors also verifies that the Chairman and Chief Executive Officer implements a policy of non-discrimination and diversity, particularly with respect to the balanced representation of women and men in management bodies.

1.4.2. Membership of the Board of Directors

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

DANIEL HARARI

Chairman and Chief Executive Officer

Chairman of the Strategic Committee

Independent Director

Member of the Audit, Compensation and Strategic Committees

ANNE BINDER

Independent Director and Lead Director

Chairman of the Audit and Compensation Committees

Member of the Strategic Committee

BERNARD JOURDAN

Independent Director

Member of the Audit, Compensation and Strategic Committees

NATHALIE ROSSIENSKY

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].

Gender balance
M/W
2 2

Independent Directors
3/4

Term of office
4 years

Lead Director
1

Committees
3

Rate of attendance in 2020
100% (Board)
100% (Committees)

(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.

Summary table of changes in Board of Directors membership in 2020

Re-elected(1)	Daniel Harari (Chairman and Chief Executive Officer) Nathalie Rossiensky (Independent Director)
Elected	N/A
Term expired(2)	Ross McInnes (Independent Director)

(1) At the Combined Shareholders' Meeting of April 30, 2020.
(2) At the end of the Combined Shareholders' Meeting of April 30, 2020.

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 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	66	M	FR	5,507,560	0	No	1991	AGM 2024	30			Chair
Bernard Jourdan Independent Director	76	M	FR	1,503	0	Yes	21/12/2011	AGM 2023	9	Chair	Chair	Member
Anne Binder Independent Director	70	F	FR	1,500	0	Yes	27/10/2011	AGM 2023	9	Member	Member	Member
Nathalie Rossiensky Independent Director	51	F	FR	1,500	0	Yes	29/04/2016	AGM 2024	5	Member	Member	Member

■ **Chair** ■ Member

The members of the Board of Directors of Lectra

Daniel Harari

Chairman and Chief Executive Officer
Chairman of the Strategic Committee

Age
66

Nationality
French

Director since
1991

Term of office began
April 30, 2020

Term of office ends
At end of the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2023

Number Lectra shares held
5,507,560

Other current positions and Directorships

None

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.

Directorships expired in the past five years

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

Bernard Jourdan

Independent Director and Lead Director

Chairman of the Audit Committee and the Compensation Committee

Member of the Strategic Committee

Age
76

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

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

None

Anne Binder

Independent Director

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

Age
70

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

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

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

Directorships expired in the past five years

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

**listed company*

Nathalie Rossiensky

Independent Director

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

Age
51

Nationality
French

Director since
April 29, 2016

Term of office began
April 30, 2020

Term of office ends
At end of the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2023

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
- Director, Selectys (SICAV)

Directorships expired in the past five years

- Director, Bayard Invest (SICAV)
- Director, Bienvenues Invest (SICAV)

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. (Articles L. 22-10-3 and L. 225-18-1 of the French Commercial Code)	2 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.
Directors' independence	At least half the members of the board of directors should be independent. (Article 9.3 of the AFEP-MEDEF Code)	3/4 of the Directors are independent.
Age of Directors	At least half of the members of the Board of Directors must be under 72 years of age. (Article 11 of the Company's by-laws)	3 out of the 4 Directors are under 72 years of age.

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 24, 2021, attended by the Chairman and Chief Executive Officer, the status of independent director was discussed and confirmed for each member. The Board of Directors, at its meeting on February 24, 2021, decided upon the qualifications of independent director proposed by the Compensation Committee.

Anne Binder, Bernard Jourdan 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).

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**	**Nathalie Rossiensky**
Criterion 1: Employee or company officer within the previous 5 years	**Yes**	No	No	No
Criterion 2: Cross-Directorships	No	No	No	No
Criterion 3: Significant business relationships	No	No	No	No
Criterion 4: Family ties to a company officer	No	No	No	No
Criterion 5: Auditor within the previous 5 years	No	No	No	No
Criterion 6: Period of office exceeding 12 years	**Yes**	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)*	N/A	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

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) and article L. 22-10-3 of the French Commercial Code created by Ordonnance 2020-1142 of September 16, 2020, 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 four members, two women and two men.

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

Under article 11 of the Company by-laws, as amended by the Combined Shareholders' Meeting of April 30, 2020, the proportion of Directors aged over 72 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 Director who is the oldest 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.

On the date of this Report, three out of four Directors are less than 72 years old.

Under article 13 of the Company's by-laws, the age limit for the position of Chairman of the Board of Directors is 76.

Duration of Directors' appointments

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. In this respect, the Board of Directors initially recommended that certain Directors should be invited to tender their resignations in 2019, 2021 and 2022 and to then seek re-election as Directors at the Shareholders' Meetings held in those years.

Accordingly, 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 approved their re-election for a new four-year term to expire at the end of the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2022.

The Shareholders' Meeting of April 30, 2020 decided 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 called to approve the financial statements for fiscal year ended December 31, 2023.

At the Shareholders' Meeting of April 30, 2021, the Board of Directors will propose the election of a new Director to a four-year term to expire at the end of the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2024.

This election allows Directors to be elected regularly and, therefore, proper staggering of terms in light of the composition of the Board of Directors (five members, subject to approval of the seventh resolution).

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.

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 are organized each year for all the Directors.

In 2020, the annual campus visit was canceled due to COVID-19 travel restrictions. Three half-day videoconferences were nonetheless organized to present technological developments and the product strategy.

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.

Proposed change in the composition of the Board of Directors submitted to the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2020

A proposal will be made to the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2020, to elect Céline Abecassis-Moedas as Director for a four-year term expiring at the end of the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2024.

The election of Céline Abecassis-Moedas will enable the Board of Directors to draw upon her experience in strategy and innovation management. Her presence will further strengthen the functioning of the Strategic Committee, particularly with respect to Lectra's strategy of investment in innovative companies and the importance of pursuing the development of offers for Industry 4.0. Céline Abecassis-Moedas will also bring to the Board of Directors her considerable knowledge of the creative industries, and the fashion industry in particular. She will draw upon her international experience as an independent director of listed companies; she serves or has served as a director of four companies in Spain and in Portugal for nearly ten years. Céline Abecassis-Moedas is to be appointed a member of the Audit Committee, the Compensation Committee and the Strategic Committee.

At the close of the Shareholders' Meeting of April 30, 2021, subject to a favorable vote, the membership of the Board of Directors would thus be composed of 5 individuals, including 3 women and 2 men; with 4 Independent Directors.

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 composition, 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 April 30, 2020 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 1.7 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 deliberations and 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 last day 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, 2020 and December 31, 2021 was finalized by the Board of Directors at its meetings on October 30, 2019 and October 28, 2020, 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, 2021 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 nine times in 2020, with an effective attendance rate of 100%.

Work performed in 2020

The Board of Directors addressed, inter alia, the following matters in 2020:

- the parent company and consolidated financial statements for the fiscal year ended December 31, 2019 and the notes thereto;
- the reports of the Board of Directors to the Combined Shareholders' Meeting of April 30, 2020 (the Management Discussion, the Non-financial Statement, the Report on Corporate Governance, the Report on Proposed Resolutions and the Special Report on the Granting of Stock Options);
- the strategic roadmap for 2020-2022 and the scenarios for the 2020-2022 business plan;
- the Group's prospects for organic and external growth and the Group's principal strategic opportunities and initiatives;
- the budget for fiscal year 2020 and the related scenarios;
- review of the quarterly financial statements and management reports;
- financial notices and quarterly press releases;
- the exercise of stock options during the fiscal year ended December 31, 2019, and the corresponding capital increase;
- authorization of commitments, guarantees and sureties;
- ordinary agreements entered into or continued during the fiscal year ended December 31, 2019;
- the compensation of company officers in respect of fiscal years 2019 and 2020, it being specified that in compliance with article 18.3 of the AFEP-MEDEF Code, the Board of Directors' deliberations and vote relating to the compensation of the Chairman and Chief Executive Officer took place in his absence;
- the reelection of Directors;
- the reappointment of the Statutory Auditors;
- the financial forecast documents;
- the impacts of the COVID-19 epidemic and the measures taken by Lectra;
- determination of the methods for organizing the Combined Shareholders' Meeting of April 30, 2020;
- the responses of the Board of Directors to the opinions issued by the Social and Economic Committee;
- the share buyback program and the liquidity agreement;
- the 2020 stock option plan;
- the self-evaluation of the functioning of the Board of Directors;
- Directors' independence;
- the policy for professional and pay equality;
- the implementation of an internal charter on related-party and ordinary agreements;
- amendments to the Company's By-laws;
- updating the Internal Rules and Procedures of the Board of Directors;
- updating the internal policy on insider trading, including the list of permanent insiders;
- the financial calendar for the 2021 fiscal year through the Shareholders' Meeting on April 30, 2022.

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, 2020:

	Board of Directors		**Audit Committee**		**Compensation Committee**		**Strategic Committee**	
	Number of meetings[2]	%	Number of meetings	%	Number of meetings	%	Number of meetings	%
Daniel Harari Chairman and Chief Executive Officer	9/9	100%	Not a member		Not a member		5/5	100%
Bernard Jourdan Lead Director	9/9	100%	6/6	100%	4/4	100%	5/5	100%
Anne Binder Independent Director	9/9	100%	6/6	100%	4/4	100%	5/5	100%
Ross McInnes[1] Independent Director	4/4	100%	4/4	100%	2/2	100%	1/1	100%
Nathalie Rossiensky Independent Director	9/9	100%	6/6	100%	4/4	100%	5/5	100%
Average attendance rate		**100%**		**100%**		**100%**		**100%**

(1) For the period from January 1 to April 30, 2020. Ross McInnes's term of office expired at the close of the Combined Shareholders' Meeting of April 30, 2020.

(2) 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 the meeting that took place on December 2, 2020 in the absence of the Chairman and Chief Executive Officer.

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 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 2020 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 2020, the Independent Directors met once on December 2, 2020 at which time an oral report was made to the Chairman and Chief Executive Officer. In addition to the 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.

Because of the COVID-19 epidemic restrictions, the Combined Shareholders' Meeting of April 30, 2020, was held behind closed doors; the only participants physically present were Daniel Harari, in his capacity as Chairman; and Anne Binder and Bernard Jourdan, as scrutineers. All the Directors attended 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, which relates in particular to the appreciation of each Director's effective contribution to the work of the Board of Directors. 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.

Because the previous three-year evaluation had been performed in 2018, the Independent Directors met on December 2, 2020 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 24, 2021. Prior to that meeting, the Lead Director, following the recommendations of the report by the High Committee for Corporate Governance (HGCE) dated November 6, 2020, held for the first time individual meetings with each Director and with the Secretary of the Board of Directors, in order to hear their evaluations and remarks to identify possible improvements in the functioning of the Board of Directors. As in previous years, the Independent Directors 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, despite the difficulties caused by the COVID-19 crisis. 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 Chairman of the Audit and Compensation Committees to certain meetings in this context.

Finally, the Directors 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. 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.

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

Former membership *(before April 30, 2020)*	**Current membership** *(from April 30, 2020)*
Bernard Jourdan (Chairman)	Bernard Jourdan (Chairman)
Anne Binder	Anne Binder
Ross McInnes[1]	Nathalie Rossiensky
Nathalie Rossiensky	

(1) Ross McInnes's term of office expired at the close of the Combined Shareholders' Meeting of April 30, 2020.

The Audit Committee is chaired by an Independent Director and does not include the Chairman and Chief Executive Officer. All members of the Audit Committee are Independent Directors.

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.

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 they have provided, other than certifying the financial statements, 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 Management Discussion of the Board of Directors (available on the Company's website, lectra.com) for non-financial information as required by law, particularly articles L. 22-10-36 and 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

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 held 6 meetings in 2020, with an effective attendance rate of 100%.

The Chairman and Chief Executive Officer, and the Executive Vice President, were invited to participate in all meetings.

Work performed in 2020

The Audit Committee addressed, inter alia, the following matters in 2020:

- the parent company and consolidated financial statements for fiscal year 2019, and the notes thereto;
- the reports to the Combined Shareholders' Meeting of April 30, 2020;
- review of the overall audits performed by the Statutory Auditors;
- the goodwill impairment tests at December 31, 2019 and changes between 2018 and 2019;
- the deferred tax assets at December 31, 2019 and changes between 2018 and 2019;
- the Group budget, the revenue and financial results scenarios for fiscal year 2020;
- the assessment of the 2017-2019 strategic roadmap;
- the new strategic roadmap for 2020-2022;
- the audit work performed by the Statutory auditors;
- services other than certification of the financial statements;
- reappointment of the Company's Statutory Auditors;
- the impacts of the COVID-19 epidemic and the measures taken by Lectra;
- the macroeconomic environment;
- the quarterly consolidated financial statements and management reports;
- financial notices and press releases;
- risk mapping, including a review of risk prevention actions carried out in 2019;
- the information system and data security plan (2019 situation and objectives for 2020); and
- ongoing tax audits.

In 2020, the Audit Committee did not identify any operations liable to give rise to a conflict of interest. In addition, it 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 13, 2020, 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

Former membership *(before April 30, 2020)*	**Current membership** *(from April 30, 2020)*
Bernard Jourdan (Chairman)	Bernard Jourdan (Chairman)
Anne Binder	Anne Binder
Ross McInnes[1]	Nathalie Rossiensky
Nathalie Rossiensky	

(1) Ross McInnes's term of office expired at the close of the Combined Shareholders' Meeting of April 30, 2020.

The Compensation Committee is chaired by an Independent Director and does not include the Chairman and Chief Executive Officer. All members of the Audit Committee are Independent Directors.

Article 18.1 of the AFEP-MEDEF Code states that it is advised that an employee director be a member of the Compensation 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.

Missions

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 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

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 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 four times in 2020 with an effective attendance rate of 100%.

The Chairman and Chief Executive Officer was invited to attend all meetings of the Compensation Committee, it being specified that he was associated with the Committee's work on the compensation policy applicable to the principal managers who are not company officers, in accordance with article 18.2 of the AFEP-MEDEF Code, and with the Committee's work when it acted as the Nominations Committee. The Chairman and Chief Executive Officer did not attend discussions on topics relating to his own compensation.

Work performed in 2020

The Compensation Committee addressed, inter alia, the following matters in 2020:

- the compensation of company officers;
- the compensation of the members of the Executive Committee and the senior Group managers;
- the methods for calculating the criteria determining the 2020 variable compensation of the Chairman and Chief Executive Officer, the members of the Executive Committee, and the senior Group managers;
- the 2020 stock option plan;
- the Company's policy for professional and pay equality;
- the succession plan for company officers and members of the Executive Committee;
- the incentive policy for 2020 and subsequent years, in light of the COVID-19 crisis; and
- Directors' independence.

Strategic Committee

Membership

Former membership *(before April 30, 2020)*	**Current membership** *(from April 30, 2020)*
Daniel Harari (Chairman)	Daniel Harari (Chairman)
Bernard Jourdan	Bernard Jourdan
Anne Binder	Anne Binder
Ross McInnes[(1)]	Nathalie Rossiensky
Nathalie Rossiensky	

(1) Ross McInnes's term of office expired at the close of the Combined Shareholders' Meeting of April 30, 2020.

The Strategic Committee is chaired by Daniel Harari; it is comprised of all the members of the Board of Directors.

Missions

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. 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

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 each year.

The Strategic Committee met five times in 2020, with an effective attendance rate of 100%.

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.

Work performed in 2020

The Strategic Committee addressed, inter alia, the following matters in 2020:

- review of the progress made in executing the 2017-2019 strategic roadmap;
- the new 2020-2022 strategic roadmap;
- the 2020-2022 Business Plan and related scenarios;
- the 2020 budget and related scenarios;
- the development of Lectra's offers, and the offer strategy for the fashion market;
- the business development plan;
- the evolution of the Group's positioning in light of the COVID-19 crisis;
- the broad outlines of the research and development action plan, marketing plan and human resources plan;

- the impact on the Group's activities of developments in the macroeconomic and competitive environment;
- the analysis of acquisition projects, in particular the one related to Gerber Technology.

The Strategic Committee also devoted three half-day videoconference meetings to a review of the technological advances and the product strategy; the annual visit of the Group's technology campus in Bordeaux-Cestas was canceled due to travel restrictions due to the COVID-19 epidemic.

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 Activity Report in 2020

During fiscal year ended December 31, 2020, 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, 2020, as he stated at the meeting of the Board of Directors on February 24, 2021, when he reported on his activity. He chaired a meeting of Independent Directors, December 2, 2020, in the absence of the Chairman and Chief Executive Officer. The objective of this meeting was to carry out the periodic assessment of the operation of the Board of Directors, following the triennial assessment carried out in 2018. The agenda for this meeting 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 24, 2021. 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 a further four-year term 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.

Furthermore, at its meeting on September 17, 2020, the Compensation Committee began to work on a succession plan for the members of the Board of Directors whose terms expire at the Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2022, and for the members of the Executive Committee expected to retire in the period from 2023 to 2025.

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. 22-10-10 of the French Commercial Code.

In fiscal year 2020, 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 of company officers and directors

In accordance with legal and regulatory requirements, and the recommendations of the AFEP-MEDEF Code, this chapter describes (i) the compensation policy for company officers of Lectra SA for fiscal year 2021 and subsequent years, (ii) the components of compensation paid or granted to them during the fiscal year ended December 31, 2020, and (iii) changes in the compensation of the company officers over the past five fiscal years in light of the changes in the compensation of employees and the Company's economic performance.

The compensation policy applied to the company officer (*dirigeant mandataire social*) and the information relating to his potential or actual compensation are also 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.

2.1 Compensation policy for company officers and directors

The compensation policy applied to company officers and Directors of Lectra SA is determined by the Board of Directors, on a proposal by the Compensation Committee, as provided under article L. 22-10-8 of the French Commercial Code. The policy has two chapters: the compensation policy for the Chairman and Chief Executive Officer, the only company officer (*dirigeant mandataire social*) of Lectra SA; and the compensation policy for the members of the Board of Directors.

The two policies are subject to an annual binding ex-ante vote by the Shareholders' Meeting, in separate resolutions. In the event of failure of the ex-ante vote, the compensation policy previously approved by the Shareholders' Meeting would continue to apply.

2.1.1. Policy governing the compensation of the Chairman and Chief Executive Officer

General principles

The compensation policy for the Chairman and Chief Executive Officer, as determined by the Board of Directors during its meeting on February 24, 2021 in respect of fiscal year 2021 is in line, in terms of principals and structure, with the policy of previous fiscal years, in particular, with the policy approved by the Shareholders Meeting of April 30, 2020.

The decision making process for setting, reviewing and implementing the compensation policy, including measures to avoid or manage conflicts of interest and the role of the Compensation Committee, are discussed in detail in chapter 1, "Directors and Managing Bodies", above.

In accordance with the recommendations of the AFEP-MEDEF Code, and in keeping with good governance practices, the Board of Directors ensures that the compensation policy is clear and transparent; consistent with the long-term strategy and the environment in which Lectra operates, with the Group's challenges and objectives; and also that it is capable of incentivizing performance and competitiveness by the officer. Furthermore, this policy reflects the experience, competencies and responsibilities of the Chairman and Chief Executive Officer; and takes into account the scope of the missions assigned to him.

The compensation of the Chairman and Chief Executive Officer includes variable compensation that is intended to promote consistent implementation of strategy, year after year. 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 and predefined annual objectives 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 and suited to the Company's strategy; and they account for the largest share of this variable compensation.

The three criteria used to determine the variable compensation of the Chairman and Chief Executive Officer correspond to the Group's three main objectives for the period covered by the 2020-2022 strategic roadmap:

- to grow sales, particularly for the Industry 4.0 offers launched in 2018-2019;
- to optimize income from operations; and
- to maintain and expand recurring contracts, particularly software subscriptions.

The annual objectives are set in advance, at the start of the year for that fiscal year, by the Board of Directors based on a recommendation by the Compensation Committee. The Board of Directors, with support from 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 officer' 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.

The Board of Directors is also responsible for ensuring that the compensation policy for the Chairman and Chief Executive Officer is appropriate in light of the conditions of employee compensation at Lectra. The performance criteria applicable to the variable compensation of Group employees eligible for this type of compensation are accordingly aligned with those applicable to the Chairman and Chief Executive Officer.

This compensation policy, the structure and fundamental principles of which have remained unchanged for several years, has proved its worth both in tough years and in years of record profits.

Structure of compensation

The annual compensation of the Chairman and Chief Executive Officer comprises a fixed portion and a variable portion.

The total annual amount of compensation, the ratio of the fixed to variable components, and the criteria for performance evaluation are established and regularly reexamined by the Board of Directors, without necessarily being revised each year. The compensation policy for the Chairman and Chief Executive Officer is subject to approval by the Shareholders' Meeting each year.

The compensation of the Chairman and Chief Executive Officer 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.

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 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 30, 2020)[(2)]
- Chairman of the Board of Directors (Board of Directors meeting of April 30, 2020)

End date of term of office as Director:
Shareholders' Meeting of 2024

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) Last renewal date.

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 SA within the meaning of article L. 233-16 of the French Commercial Code. Lectra is not controlled by any company.

Compensation of the Chairman and Chief Executive Officer for fiscal year ending December 31, 2021

In accordance with the above-mentioned principals and subject to approval by the Shareholders' Meeting of April 30, 2021, the Board of Directors, at its meeting on February 24, 2021, on a recommendation by the Compensation Committee on February 24, 2021, decided to:

- maintain the total annual target-based compensation of the Chairman and Chief Executive Officer at €780,000 for fiscal year 2021;
- maintain the fixed to variable compensation ratio for fiscal year 2021: the fixed compensation of the Chairman and Chief Executive Officer would account for 50% of his total annual target-based compensation, and the variable compensation would account for 50% of his total annual target-based compensation.

As a reminder, the total annual target-based compensation of Daniel Harari, as well as the fixed to variable compensation ratio, were set by a decision of the Board of Directors on July 27, 2017, when he became Chairman and Chief Executive Officer, and have remained unchanged since that date.

Fixed compensation

In accordance with the decision of the Board of Directors at its meeting on February 24, 2021, and subject to approval by the Shareholders' Meeting of April 30, 2021, the fixed compensation of the Chairman and Chief Executive Officer for fiscal year 2021 would remain at €390,000.

Variable compensation

In accordance with the decision of the Board of Directors at its meeting on February 24, 2021, and subject to approval by the Shareholders' Meeting of April 30, 2021, the target-based variable compensation of the Chairman and Chief Executive Officer for fiscal year 2021 would remain at €390,000 in 2020.

In accordance with the abovementioned principles and on a recommendation by the Compensation Committee, at its meeting on February 25, 2020, the Board of Directors revised for the 2020-2022 period, and subsequently adjusted on February 24, 2021, 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 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) protection of recurring contracts (accounting for 30%).

"Protection of recurring contracts" was the only criterion adjusted by the Board of Directors on February 24, 2021, for fiscal years 2021 and 2022, to measure the continuation of contracts in effect on January 1 of the year, and the variation in their value.

For each of the three criteria, the variable compensation is equal to zero below specified thresholds, equal to 100% if the annual objectives are achieved, and capped at 200% if the annual objectives are exceeded. Between these thresholds, it is calculated on a straight-line basis. These results are then weighted by the relative weight of each criterion.

Only the annual objectives and the corresponding thresholds are reviewed each year in light of the Group's objectives for the year.

The variable compensation is accordingly equal to 0% if none of the thresholds is met, and is capped at 200% of the target-based variable amount if the annual objectives are exceeded for all the criteria and cause each to be capped at 200%. As variable compensation accounts for 50% of the total annual target-based compensation, the actual total compensation can therefore vary, depending on performance, between 50% and 150% of the target-based amount. In other words, variable compensation is between 0 and 200 % of fixed compensation.

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.

Under Article L. 22-10-8, III, paragraph 2 of the French Commercial Code, the Board of Directors may, on the recommendation of the Compensation Committee, temporarily derogate from the compensation policy for the Chairman and Chief Executive Officer in exceptional circumstances and insofar as the changes made are in the Company's interest and necessary to ensure the Company's continuity or viability.

The compensation component for which such derogation is permitted is the annual variable compensation. Such derogation would consist in a change to the performance criteria and the annual targets mentioned above, in the event of exceptional circumstances arising inter alia from a significant change in the Group's scope of consolidation following a merger or divestment, the acquisition or creation of a new business of material importance, or the discontinuation of a business of material importance, or a major change in strategy or major event affecting the Group's markets and/or business sector.

Modification of these criteria and targets by the Board of Directors could thus take into account changes in the Group's scope of consolidation following an exceptional external growth operation, if the situation of the Company and Group were to so warrant. Which would be the case for the acquisition of the company Gerber Technology announced by a press release dated February 8, 2021, if this acquisition were to be completed.

Any such modification would ensure that the actual performance of the Group and of the Chairman and Chief Executive Officer continues to be reflected. It would be clearly explained and made public, with the Company providing specific information to justify the derogation in light of its situation and the reasons such derogation is required.

Payment of the variable compensation would in all cases continue to be subject to approval by the shareholders.

Draft resolution submitted to the Shareholders' Meeting

"Ninth resolution: approval of the policy governing the compensation of the Chairman and Chief Executive Officer in respect of fiscal year 2021, in compliance with article L. 22-10-8 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. 22-10-8 of the French Commercial Code, approves the policy governing the compensation of the Chairman and Chief Executive Officer, proposed in respect of fiscal year 2021, as described in chapter 2.1.1 of the Report on Corporate Governance."

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

The maximum total annual amount of compensation that can be allocated to the Directors was set at €239,000 by the Shareholders' Meeting of April 27, 2018. This amount is not subject to annual adjustment and remains in effect until decided otherwise by the Shareholders' Meeting.

In anticipation of the entry into the Board of Directors of a sixth member, as part of the acquisition of Gerber Technology, the Board of Directors will propose that the Shareholders' Meeting increase the maximum total amount of compensation for Directors to €288,000, with the same terms and conditions as in previous years.

The apportionment between the Directors of the total annual compensation decided by the Shareholders' Meeting is determined by the Board of Directors, acting on a recommendation of the Compensation Committee.

In accordance with the recommendations in article 21.1 of the AFEP-MEDEF Code, and the decision by the Board of Directors at its meeting on February 11, 2016.

- the compensation of the Directors includes a predominantly variable share, to have due regard for their effective attendance at meetings of the Board of Directors and committees;
- an additional amount is granted to Directors who are not company officers for membership of the Board of Directors' specialized committees; and
- an additional amount is granted 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 method for apportioning Directors' compensation remains unchanged since fiscal year ended December 31, 2016. Out of the maximum total annual amount:

- the sum of €40,000 is granted to each Director for their attendance at meetings of the Board of Directors;
- the sum of €9,000 is granted for attendance by each Director (excluding the Chairman and Chief Executive Officer) at each of the Board of Directors' three committees;
- the sum of €1,500 is granted 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.

Draft resolution submitted to the Shareholders' Meeting

"Tenth resolution: approval of the policy governing the compensation of the Directors in respect of fiscal year 2021, in compliance with article L. 22-10-8 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. 22-10-8 of the French Commercial Code, approves the policy governing the compensation of the Directors, proposed in respect of fiscal year 2021, as described in chapter 2.1.2 of the Report on Corporate Governance."

2.2 Components of compensation paid or granted to the company officers in respect of fiscal year 2020

The components of compensation paid or granted to the company officers in respect of the fiscal year ended December 31, 2020, are determined in accordance with the compensation policy previously approved by the Shareholders' Meeting.

The information referred to in article L. 22-10-9.-I relating to the total compensation and benefits of all kinds, with a distinction between the fixed and variable components, paid or granted in respect of their position as company officers during the fiscal year ended December 31, 2020, 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 post* vote by the Shareholders' Meeting called to approve the financial statements for the fiscal year ended December 31, 2020.

The amount of the fixed compensation paid and the amount of the variable compensation granted in respect of fiscal year 2020 to Daniel Harari, in his capacity as Chairman and Chief Executive Officer, must be the subject of an *ex post* vote by the Shareholders' Meeting called to approve the financial statements for fiscal year ended December 31, 2020.

In the event of failure of the *ex post* vote on the compensation paid or granted to the Chairman and Chief Executive Officer, no variable or exceptional components of compensation could be paid to him.

In the event of failure of the *ex post* vote on the information presented in the Report on Corporate Governance relating to compensation of company officers in compliance with article L. 22-10-9 of the French Commercial Code, the Board of Directors would then submit a revised policy to the subsequent Shareholders' Meeting. Payment of Directors' compensation would be suspended until the vote at such subsequent Shareholders' Meeting. In the event of a negative vote on the revised compensation policy proposal, the compensation would not be paid.

2.2.1. Compensation of the Chairman and Chief Executive Officer in respect of fiscal year 2020

The elements of compensation and benefits paid or granted to Daniel Harari, Chairman and Chief Executive Officer, in respect of fiscal year 2020, and set out below, are consistent with the compensation policy, as determined by the Board of Directors during its meeting on February 25, 2020 and approved with a 99.99% vote at the Shareholders' Meeting of April 30, 2020.

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 2020, submitted for approval by the shareholders

Components of compensation	Amount	Comments
Annual fixed compensation	€390,000 (amount paid)	On a recommendation by the Compensation Committee, the Board of Directors, at its meeting on February 25, 2020, decided to maintain at €390,000 the gross fixed annual compensation of Daniel Harari, in his capacity as Chairman and Chief Executive Officer, for the fiscal year 2020. The fixed compensation remains unchanged since July 2017. Daniel Harari therefore received gross compensation of €390,000 in respect of the period from January 1, 2020 to December 31, 2020. This compensation was paid on a monthly basis.
Variable annual compensation	€50,979 (subject to approval by the Shareholders' Meeting of April 30, 2021)	On a recommendation by the Compensation Committee, the Board of Directors, at its meeting on February 25, 2020, decided to maintain 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 fiscal year 2020. The target-based variable compensation remains unchanged since July 2017. The Board of Directors, at its meeting on February 25, 2020, decided 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 Daniel Harari, reducing the number of criteria from four to three and increasing the weighting for growth in recurring contracts, in light of objectives of the 2020-2022 strategic roadmap: (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%); and (iii) growth in recurring contracts (30%).

		For each of the three criteria, the variable compensation is equal to zero below specified thresholds, equal to 100% if the annual objectives are achieved, and capped at 200% if the annual objectives are exceeded. Between these thresholds, it is calculated on a straight-line basis. These results are then weighted by the relative weight of each criterion. Only the annual objectives and the corresponding thresholds are reviewed each year in light of the Group's objectives for the year. The variable compensation is accordingly equal to 0% if none of the thresholds is met and is capped at 200% of the target-based variable amount if the annual objectives are exceeded for all the criteria and cause each to be capped at 200%. The fixed compensation and the variable compensation of the Chairman and Chief Executive Officer each account for 50% of the total target-based compensation, the actual total compensation can therefore vary, depending on performance, between 50% and 150% of the target-based amount. In other words, variable compensation is between 0 and 200% of fixed compensation. At its meeting on February 10, 2021, the Board of Directors, on a proposal by the Compensation Committee, determined the degree to which the above performance criteria had been achieved: (i) 6% for the contributive value of growth in sales activity; (ii) 0% for consolidated income before tax, excluding net financial expense and non-recurring items; (iii) 36% for growth in recurring contracts. In total, the percentage obtained for the variable portion of Daniel Harari's compensation represented 13% of the total amount set for achieving the annual performance objectives, and his variable compensation in respect of fiscal year 2020 was therefore €50,979.
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 10, 2021, decided to allocate to Daniel Harari the amount of €40,000 in his capacity as Director in respect of fiscal year ended December 31, 2020.
Value of benefits in kind	€13,444	The only benefit in kind corresponds to the tax value of the use of the company car, which amounted to €13,444 for fiscal year ended December 31, 2020.
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.

Achievement of variable annual compensation criteria of the Chairman and Chief Executive Officer

Quantitative performance criteria	Weighting of criterion	Variable compensation percentage achievement: Minimum 0%	Objective 100%	Maximum 200%	Percentage achieved	Amount
Contributive value of growth in sales activity	40%	70% of the objective	Objective	115% of the objective	6%	
Consolidated income before tax, excluding net financial expense and non- recurring items	30%	Objective less 8 million euros	Objective	Objective plus 4 million euros	0%	
Growth in recurring contracts	30%	0	Objective	133% of the objective	36%	
Total percentage achievement	100%				**13%**	**€50,979**

Synthesis of the Chairman and Chief Executive Officer's compensation in respect of 2020

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, 2020:

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

Daniel Harari Chairman and Chief Executive Officer *(in euros)*	**2020**			**2019**		
	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
Fixed compensation	390,000	390,000	100%	390,000	390,000	100%
Variable compensation	390,000	50,979	13%	390,000	240,172	62%
Total	**780,000**	**440,979**	**57%**	780,000	630,172	81%

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, 2020 and amounts actually paid in the year:

Table summarizing the compensation of the Chairman and Chief Executive Officer

	2020		2019	
(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	390,000	390,000	390,000	390,000
Variable compensation (1)	50,979	240,172	240,172	282,420
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 (2)	13,444	13,444	12,201	12,201
Total	**494,423**	**683,616**	682,373	724,621

(1) The variable compensation in respect of fiscal year 2019 was paid in 2020; the variable compensation in respect of fiscal year 2020 will be paid in 2021, subject to approval by the Combined Shareholders' Meeting of April 30, 2021. The difference between the percentage of variable compensation granted in respect of fiscal year 2019 (62%), which was paid in 2020, and the percentage in respect of fiscal year 2020 (13%) explains the difference between the amounts of variable compensation due in respect of fiscal year 2020 and paid in 2020.

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

Draft resolution submitted to the Shareholders' Meeting

"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, 2020 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. 22-10-34 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, 2020 to Daniel Harari in his capacity as Chairman and Chief Executive Officer of the Company, as described in chapter 2.2.1 of the Report on Corporate Governance."

2.2.2. Compensation of Directors in respect of the fiscal year ended December 31, 2020

The compensation paid to the Directors in respect of the fiscal year ended December 31, 2020, is detailed below and is consistent with the compensation policy set by the Board of Directors at its meeting on February 25, 2020 and approved by a 99.99% vote at the Shareholders' Meeting of April 30, 2020.

In accordance with the decision of the Shareholders' Meeting of April 27, 2018, the maximum total amount of compensation is set at €239,000. In respect of the fiscal year ended December 31, 2020, the gross amount paid to the Directors was €209,797.

The apportionment of the total amount of compensation was established by the Board of Directors on February 11, 2016 and remains unchanged since fiscal year ended December 31, 2016. From this annual amount of €239,000:

- the sum of €40,000 is granted to each Director for their attendance at meetings of the Board of Directors;
- the sum of €9,000 is granted for attendance by each Director (excluding the Chairman and Chief Executive Officer) at each of the Board of Directors' three committees;
- the sum of €1,500 is granted for the Chairmen of the Audit Committee and the Compensation Committee.

It is specified that the 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 in chapter 2.2.1 of this Report.

Table on the compensation received by Directors

Company officers	Compensation in respect of 2020 (in euros)			Compensation in respect of 2019 (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(2)	6,124	13,672	**19,797**	18,375	27,054	45,429
Nathalie Rossiensky Independent Director	18,375	30,625	**49,000**	18,375	30,625	49,000
Total	**79,249**	**130,547**	**209,797**	91,500	143,929	235,429

(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 2.2.1 of this Report.*

(2) *For the period from January 1 to April 30, 2020. Ross McInnes's term of office expired at the close of the Combined Shareholders' Meeting of April 30, 2020.*

2.3 Yearly evolution of compensation of company officers over the past five years

Pursuant to article L. 22-10-9 of the French Commercial Code as amended by Law 2019-486 of May 22, 2019 (the "PACTE Law"), set out in the tables below are:

- the equity ratios between the level of compensation of the Chairman and Chief Executive Officer and the average and median compensations of the Company's employees, as well as the evolution of these equity ratios over the past five fiscal years; and
- the yearly evolution of compensation of the Chairman and Chief Executive Officer, Company performance, average and median compensation of employees over the past five years.

Daniel Harari has served as Chairman and Chief Executive Officer since 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, the total compensation of Daniel Harari for the year 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.

The Company's method for calculating the pay equity ratios was established with reference to the AFEP guidelines for compensation ratios published January 28, 2020, it being specified that:

- the scope used for calculating the equity ratios and compensation is that of Lectra SA, the parent company of the Lectra group, which includes 100% of the workforce in France;
- the compensation used for calculating the ratios corresponds to total compensation paid to company officers (dirigeants mandataires sociaux) and the Company's employees on a full-time equivalent basis in each fiscal year;
- the employees taken into account to calculate the denominator are employees on permanent contracts, fixed-term contracts and work-study contracts, but not expatriates and interns;
- the compensation of company officers (dirigeants mandataires sociaux) and employees of the Company comprises the aggregate annual gross amounts reported on the Déclaration Sociale Nominative (electronic payroll reporting statement, or DSN, formerly called the DADS), variable compensation paid during the relevant fiscal year, bonuses paid during the relevant year, benefits in kind, miscellaneous compensation (e.g., in respect of a directorship), amounts under the profit-sharing plan (participation) and the collective employee incentive plan (intéressement), and the value of stock options in accordance with IFRS standards; this excludes indemnities or benefits in respect of retirement, dismissal, expiry of fixed-term employment contract, and negotiated termination (*rupture conventionnelle*).

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

	Fiscal year 2020		Fiscal year 2019		Fiscal year 2018		Fiscal year 2017		Fiscal year 2016	
	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	13	15	14	17	17	22	N/A	N/A	N/A	N/A
Chief Executive Officer	N/A	N/A	N/A	N/A	N/A	N/A	12	15	10	13
Chairman of the Board of Directors	N/A	N/A	N/A	N/A	N/A	N/A	9	12	10	13

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

		2020	2019	2018	2017	2016
Evolution of compensation						
Compensation of the company officers *(in euros)*	*Chairman and Chief Executive Officer*	685,644	726,582	929,720	N/A	N/A
	Chief Executive Officer	N/A	N/A	N/A	616,642	514,617
	Chairman of the Board of Directors	N/A	N/A	N/A	499,779	515,123
Average compensation of employees, full-time equivalent *(en euros)*		53,122	52,631	53,665	52,909	50,771
Median compensation of employees, full-time equivalent *(in euros)*		44,634	42,642	42,770	40,580	40,514
Evolution of pay equity ratios						
Average ratio	*Chairman and Chief Executive Officer*(1)	13	14	17	N/A	N/A
	Chief Executive Officer	N/A	N/A	N/A	12	10
	Chairman of the Board of Directors	N/A	N/A	N/A	9	10
Median ratio	*Chairman and Chief Executive Officer*(1)	15	17	22	N/A	N/A
	Chief Executive Officer	N/A	N/A	N/A	15	13
	Chairman of the Board of Directors	N/A	N/A	N/A	12	13
Evolution of Group performance						
Performance coefficient (1) for fiscal year N-1 used to determine the variable portion of company officers' compensation		62%	72%	111%	86%	62%

(1) *The performance coefficient measures the percentage achievement of performance objectives that determines the annual variable compensation of company officers (Daniel Harari in his capacity as Chief Executive Officer, and since July 27, 2017, as Chairman and Chief Executive Officer). The objectives are established and reviewed by the Board of Directors in light of the strategic roadmap, and thus reflect the strategy of profitable sales activity and earnings growth. The same criteria also apply to the members of the Executive Committee (excluding region leaders), and to certain managers in the Group, it being specified that there are differences in the weighting given to each criterion and the relative share of their target-based variable compensation.*
It is specified that the coefficient indicated for year N corresponds to the percentage achievement of objectives for year N-1 in order to align it with the impact of payment of the variable component in year N+1.

Draft resolution submitted to the Shareholders' Meeting

"Fifth resolution: approval of the information relating to the compensation of the company officers in respect of fiscal year ending December 31, 2020, in compliance with article L. 22-10-9 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. 22-10-34 of the French Commercial Code, approves the information mentioned in article L. 22-10-9 of the French Commercial Code relating to the compensation of the company officers in respect of fiscal year 2020, as described in chapters 2.2 and 2.3 of the Report on Corporate Governance."

3. Market abuse prevention measures

In accordance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (**the Market Abuse Regulation, MAR**), the Board of Directors has adopted an insider trader prevention policy intended:

- to formalize the measures taken by the Company to prevent insider trading and the disclosure of privileged information; and
- to restate the legal and regulatory provisions governing transactions in Lectra securities by officers and senior executives, the obligations of confidentiality and abstention from trading imposed on insiders, and the administrative and penal sanctions incurred for failure to comply with them.

The information on this policy is made available to Lectra employees and other insiders. The Board of Directors ensures that it is applied properly within the Group and updates it as required; the most recent update was July 27, 2020.

In compliance with article 18 of the Market Abuse Regulation, as supplemented by the AMF guide on ongoing information (Position-recommendation DOC-2016-08) dated October 26, 2016, the Company:

- draws up, in an electronic format, a list of all persons, internally and externally, 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; and
- 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 list of permanent insiders is reviewed at least once a year by the Board of Directors.

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.

In keeping with the Insider trading prevention policy, it is prohibited for all persons identified by the Company as permanent insiders or persons with regular access to privileged information, which includes the members of the corporate management and the senior management teams of the Group, to buy or sell the Company's shares (including through the exercise of stock options) during the period (called "blackout periods") 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. The calendar of blackout periods in the coming fiscal year is notified to Lectra employees at the end of each year.

The exercise of stock options during blackout periods 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 accordance with the Market Abuse Regulation, article L. 621-18-2 of the French Monetary and Financial Code and article 223-22 A of the General Regulation of the AMF, transactions in Lectra securities carried out by any of the following three categories of persons must be notified to the AMF by electronic means and to the Company within three business days of the transaction date:

- officers of the Company (Directors and the Chairman and Chief Executive Officer);
- senior executives, in the list established and kept up to date by the Board of Directors;
- persons with close personal ties to the two preceding categories.

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

4.1 Procedure for evaluation and control of related-party agreements and agreements entered into in the ordinary course of business

Pursuant to article L. 22-10-12 of the French Commercial Code and AMF Recommendation no. 2012-05 of July 2, 2012, as amended on October 5, 2018, the Board of Directors, at its meeting on July 27, 2020, adopted an internal charter on related-party agreements and agreements entered into in the ordinary course of business (the “**Charter**”). This Charter, for the use of employees of the Lectra group and the members of the Board of Directors, aims:

- to formalize the methodology applied internally to identify and characterize the agreements entered into between Lectra and related parties;
- to restate the regulatory framework applicable to related-party agreements;
- to describe the procedure for regular evaluation of agreements entered into in the ordinary course of business.

The Charter takes into account, inter alia, the February 2014 study by Compagnie Nationale des Commissaires aux Comptes on related-party agreements and agreements entered into in the ordinary course of business.

All agreements that could potentially be considered related-party agreements for the Company are submitted, prior to conclusion, to the Finance Division and the Legal Affairs Department, which examine its characterization with the third parties concerned. Any conclusion, modification, renewal (including by tacit renewal) or cancellation of a related-party agreement is submitted to examination by the Audit Committee, and then to prior approval by the Board of Directors. Furthermore, each year, at its meeting called for the closing of the annual financial statements, the Board of Directors examines all related-party agreements authorized in previous years. In this respect, it can reclassify any agreement when it is no longer considered a related-party agreement.

As it regards the monitoring of current agreements that are exempt from the ex-ante control procedure, a report on agreements considered to be entered into in the ordinary course of business and concluded under normal conditions that were in force during the fiscal year ended, which is prepared by the Finance Division in collaboration with the Legal Affairs Department, is sent to the Audit Committee for consideration at the meeting called to examine the financial statements for the fiscal year. The Audit Committee is responsible for verifying that those agreements meet the conditions required for classification as agreements entered into in the ordinary course of business. The Board of Directors is then called upon to confirm the classification. The Board of Directors may also decide to modify the classification criteria, and, if required, to reexamine any agreements which, at the time of the review, do not or no longer meet the new criteria.

Persons with a direct or indirect interest in any agreement do not participate in evaluating that agreement (whether in the Audit Committee or the Board of Directors). The internal Charter on related-party agreements and agreements entered into in the ordinary course of business can be consulted on the Lectra website.

4.2 Related-party agreements and commitments

No related-party agreements within the meaning of Article L. 225-38 of the French Commercial Code were entered into during fiscal year ended December 31, 2020.

It is also specified, in accordance with article L. 225-37-4 of the French Commercial Code, that to the Company’s knowledge there are no agreements, other than those relating to ordinary transactions entered into under normal terms and conditions, whether directly or through an intermediary, between a company officer or a shareholder with over 10% of the Company’s voting rights, on the one hand, and another company controlled by the Company within the meaning of Article L. 233-3 of the French Commercial Code, on the other hand.

4.3 Agreements entered into in the ordinary course of business

Pursuant to article L. 22-10-12 of the French Commercial Code, and the internal Charter on related-party agreements and agreements entered into in the ordinary course of business, the Board of Directors at its meeting on February 10, 2021 conducted the annual review of the ordinary agreements entered into under normal terms and conditions that were implemented or continued in effect in fiscal year 2020. 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.

5. Financial authorizations and delegations

All financial authorizations and delegations in effect granted by the Shareholders' Meetings of April 27, 2018 and April 30, 2020, to the Board of Directors of Lectra, and utilizations thereof at December 31, 2020, 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 31/12/2020: **814,811** Options remaining at 31/12/2020: **1,185,189**
Authority to cancel treasury shares as per article L. 225-209 of the French Commercial Code *(in the version in force before repeal by Ordonnance 2020-1142 of September 16, 2020)*	Shareholders' Meeting of April 30, 2020 *(resolution no. 13)*	26 months *(June 29, 2022)*	Up to 10% of the share capital, per 24-month period	None

(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, 2020 are indicated in par value of shares.

6. Attendance at Shareholders' Meeting

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 233,504 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, 2020.

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

Article L. 22-10-11 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 24, 2021

04

Consolidated Financial Statements

04 Consolidated Financial Statements

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1. Statement of financial position

consolidated

ASSETS

At December 31 *(in thousands of euros)*		**2020**	2019
Goodwill	note 7	46,528	47,380
Other intangible assets	note 8	4,665	4,008
Leasing rights-of-use	note 10	15,429	18,697
Property, plant and equipment	note 9	25,067	26,963
Other non-current assets	note 11	20,992	17,242
Deferred tax assets	note 13	7,950	8,589
Total non-current assets		120,631	122,879
Inventories	note 14	29,519	30,919
Trade accounts receivable	note 15	43,009	56,933
Other current assets	note 16	13,076	12,217
Cash and cash equivalents	note 22	134,626	120,558
Total current assets		220,230	220,627
Total assets		**340,861**	**343,506**

EQUITY AND LIABILITIES

(in thousands of euros)		**2020**	2019
Share capital	note 17	32,512	32,099
Share premium	note 17	19,387	15,802
Treasury shares	note 17	(343)	(698)
Currency translation adjustments	note 18	(11,293)	(9,481)
Retained earnings and net income		151,750	145,141
Non-controlling interests		160	159
Total equity		192,173	183,022
Retirement benefit obligations	note 19	11,995	11,107
Non-current lease liabilities	note 20	10,434	13,407
Minority shares purchase commitment	note 21	2,165	4,333
Borrowings, non-current portion	note 22	-	-
Total non-current liabilities		24,594	28,847
Trade and other current payables	note 23	53,657	58,896
Deferred revenues	note 24	56,690	58,459
Current income tax liabilities	note 13	2,958	3,436
Current lease liabilities	note 20	5,411	5,675
Minority shares purchase commitment	note 21	2,332	2,167
Borrowings, current portion	note 22	-	-
Provisions for other liabilities and charges	note 25	3,046	3,004
Total current liabilities		124,094	131,637
Total equity and liabilities		**340,861**	**343,506**

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

2. Income statement
consolidated

Twelve months ended December 31 *(in thousands of euros)*		**2020**	2019
Revenues	note 28	236,182	280,023
Cost of goods sold	note 29	(59,696)	(74,808)
Gross profit	note 29	176,486	205,214
Research and development	note 30	(22,689)	(22,019)
Selling, general and administrative expenses	note 31	(128,157)	(142,306)
Income (loss) from operations before non-recurring items		25,640	40,889
Non-recurring expenses	note 6	(786)	-
Income from operations		24,854	40,889
Financial income	note 34	94	461
Financial expenses	note 34	(541)	(556)
Foreign exchange income (loss)	note 35	(699)	(719)
Income before tax		23,709	40,075
Income tax	note 13	(6,131)	(10,751)
Net income		**17,578**	**29,324**
of which, Group share		**17,529**	**29,305**
of which, Non-controlling interests		49	19

(in euros)			
Earnings per share, Group share:	note 36		
- basic		0.54	0.92
- diluted		0.54	0.90
Shares used in calculating earnings per share			
- basic		32,227,995	31,977,237
- diluted		32,490,553	32,395,083

(in thousands of euros)		
Income (loss) from operations before non-recurring items	25,640	40,889
+ Net depreciation and amortization of non-current assets	11,853	11,644
EBITDA before non-recurring items	37,493	52,533

STATEMENT OF COMPREHENSIVE INCOME, GROUP SHARE (1)

Twelve months ended December 31 *(in thousands of euros)*		**2020**	2019
Net income		17,529	29,305
Currency translation adjustments	note 18	(1,562)	6
Tax effect		(249)	67
Other comprehensive income to be reclassified in net income		(1,812)	73
Remeasurement of the net liability arising from defined benefits pension plans	note 19	(324)	(700)
Tax effect		92	215
Other comprehensive income not to be reclassified in net income		(232)	(485)
Total other comprehensive income		(2,044)	(412)
Comprehensive income, Group share		**15,485**	**28,893**

(1) The Group considered as non-material the information regarding the comprehensive income of the non-controlling interests (20% of Retviews minority shares only since July 2020, and 30% before that – see note 3 hereafter) and thus only presents the comprehensive income of the Group share.

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

3. Statement of cash flows
consolidated

Twelve months ended December 31 *(in thousands euros)*		**2020**	2019
I - OPERATING ACTIVITIES			
Net income		17,578	29,324
Net depreciation and amortization (non-current assets)		11,853	11,644
Net depreciation and provisions (current assets)		4,014	1,046
Non-cash operating expenses	note 39	408	367
Loss (profit) on sale of fixed assets		22	81
Changes in deferred income taxes	note 13	140	1,033
Changes in inventories		(1,082)	2,419
Changes in trade accounts receivable		12,204	3,605
Changes in other current assets and liabilities		(1,331)	4,607
Changes in other operating non-current assets	note 11	(7,776)	(5,167)
Net cash provided by (used in) operating activities	note 40	36,030	48,961
II - INVESTING ACTIVITIES			
Purchases of intangible assets	note 8	(2,205)	(1,809)
Purchases of property, plant and equipment	note 9	(2,198)	(4,638)
Proceeds from sales of intangible and tangible assets		26	16
Acquisition cost of companies purchased	note 2	(878)	(7,629)
Purchases of financial assets	note 11	(5,306)	(6,082)
Proceeds from sales of financial assets	note 11	4,648	5,901
Net cash provided by (used in) financing activities		(5,913)	(14,241)
III - FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	note 17	3,998	2,211
Dividend paid	note 4	(12,844)	(12,782)
Purchases of treasury shares	note 17	(4,620)	(5,639)
Sales of treasury shares	note 17	5,018	5,660
Repayment of lease liabilities		(5,844)	(6,162)
Net cash provided by (used in) financing activities		(14,292)	(16,711)
Increase (decrease) in cash and cash equivalents		**15,825**	**18,009**
Cash and cash equivalents at opening	note 22	120,558	102,223
Increase (decrease) in cash and cash equivalents		15,825	18,009
Effect of changes in foreign exchange rates		(1,757)	326
Cash and cash equivalents at closing	note 22	134,626	120,558
Net cash provided by (used in) operating activities		36,030	48,961
+ Net cash provided by (used in) investing activities		(5,913)	(14,241)
- Acquisition cost of companies purchased		878	7,629
- Repayment of lease liabilities		(5,844)	(6,162)
Free cash flow	note 42	25,151	36,187
Income tax (paid) / reimbursed, net		(4,673)	(4,208)
Interest paid on lease liabilities		(155)	(163)
Interest paid		-	-

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

4. Statement of changes in equity

consolidated

(in thousands of euros, except for par value per share expressed in euros)	note	Share capital			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	**Equity, Group share**	Non controlling interests [1]	**Total equity**
		Number of shares	Par value per share	Share capital							
Balance at January 1, 2019		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	17	252,343	1.00	252	1 959				2,211		2,211
Fair value of stock options	17							693	693		693
Sale (purchase) of treasury shares	17					(138)			(138)		(138)
Profit (loss) on treasury shares	17							106	106		106
Integration of Retviews and minority shares purchase commitment [1]	21							(6,500)	(6,500)	140	(6,360)
Dividend paid	4							(12,782)	(12,782)		(12,782)
Balance at December 31, 2019		32,099,100	1.00	32,099	15,802	(698)	(9,481)	145,141	182,863	159	183,022
Net income								17,529	17,529	49	17,578
Other comprehensive income							(1,812)	(232)	(2,044)		(2,044)
Comprehensive income							(1,812)	17,297	15,485	49	15,534
Exercised stock options	17	412,551	1.00	413	3,585				3,998		3,998
Fair value of stock options	17							955	955		955
Sale (purchase) of treasury shares	17					355			355		355
Profit (loss) on treasury shares	17							29	29		29
Minority shares purchase for Retviews [2]	21							1,172	1,172	(48)	1,124
Dividend paid	4							(12,844)	(12,844)		(12,844)
Balance at December 31, 2020		**32,511,651**	**1.00**	**32,512**	**19,387**	**(343)**	**(11,293)**	**151,750**	**192,013**	**160**	**192,173**

(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) This amount stems from the acquisition of an additional 10% of Retviews in July 2020.

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

5. 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 S.A., hereafter the Company, and its subsidiaries. The Group's consolidated financial statements were drawn up by the Board of Directors on February 24, 2021 and will be proposed to the Shareholders' Meeting for approval on April 30, 2021.

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, 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 more than 1,700 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, 2020 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2019 financial statements, with the exception of the amendment to the IFRS 16 standard dated May 28, 2020 presented below. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 24, 2021 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, 2020.

Except for the IFRS 16 amendment, the Group is not impacted by other changes in standards, amendments or interpretations.

Amendment to IFRS 16 – *Leases*

The Group has applied the amendment to IFRS 16: *COVID-19-Related Rent Concessions*. This amendment enables the Group not to consider certain rent concessions as lease modifications. The Group has chosen to apply the amendment to all rent concessions meeting the conditions (that is, among other conditions: that are a direct consequence of the COVID-19 pandemic and that have been obtained without other substantive changes to terms and conditions of the leases).

At December 31, 2020, this amendment affected a limited number of subsidiaries. Its impact on the Group's consolidated income statement was less than 0.2 million euros.

Note 2.2 Basis for preparation

The Group's consolidated financial statements are prepared on going-concern and 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 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 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.

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 20).

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, property, plant and equipment, or right-of-use assets net of lease liabilities, 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 22.1) is defined as the amount of 'Cash and cash equivalents' less financial borrowings (as shown in note 22.2) 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 17.2).

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 Chief Executive Officer, 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 17.5).

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

he 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 2021 and 2022, 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 automated cutting 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 equipment 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 11 and 16).

Note 2.24 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 38 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, EBITDA, 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.

EBITDA before non-recurring items

The Group defines EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) as the addition of operating income before non-recurring items and net depreciation and amortization of non-current assets.

This indicator allows the Group to monitor its operating performance directly related to business activity, excluding the impacts of capitalized investments.

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 7) and fixed assets impairment, evaluation of deferred tax assets (see note 13.3).

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)	**2020**	2019
US dollar		
Annual average rate	1.14	1.12
Closing rate	1.23	1.12
Chinese yuan		
Annual average rate	7.87	7.73
Closing rate	8.01	7.84

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 80%. 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.

Scope of consolidation

At December 31, 2020, the Group's scope of consolidation comprised Lectra S.A. together with 31 fully-consolidated companies.

Company	City	Country	% of ownership and control 2020	% of ownership and control 2019	Consolidation method [1] 2020	Consolidation method [1] 2019
Parent company						
Lectra SA	Cestas	France				
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	Brussels	Belgium	80.0	70.0	FC	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	80.0	70.0	FC	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.

The transaction involved the immediate acquisition of 70% of the capital and voting rights of Retviews for 8 million euros. As initially planned, Lectra acquired in July 2020 an additional 10% of capital and voting rights of Retviews, for an amount of 1,045 thousand euros (878 thousand euros paid out in July 2020 and the remainder in January 2021). The acquisition of the remaining capital and voting rights will take place in two installments in July 2021 and July 2022 for the amounts of about 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.

The purchase price accounting has been finalized without change and the main impacts on the Group's financial statements were:

- Goodwill recorded for an amount of 7,673 thousand euros;
- Non-controlling interests recorded for an initial 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, for a total amount of 6,500 thousand euros, with its counterpart recorded in 'Equity, Group share';
- The acquisition cost for Lectra, net of cash acquired, amounted to 7,629 thousand euros.

At December 31, 2020, the acquisition of an additional 10% of capital and voting rights caused the reclassification, within total Equity, of an amount of 48 thousand euros, from 'Non-controlling interests' to 'Equity, Group share'. Following this acquisition, the debt corresponding to the minority shares purchase commitment was reduced (by 1,124 thousand euros) against equity (Group share), and amounted to 4,497 thousand euros, of which 2,332 thousand euros classified as current liabilities and 2,165 thousand euros as non-current liabilities.

Retviews and its Romanian subsidiary have been fully consolidated since July 15, 2019.

There was no other change in the scope of consolidation in 2020 and 2019.

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, as well as in the Non-financial Statement (chapters 3 and 5), 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 and market 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.

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.

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 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. 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, when on economically reasonable terms, future cash flows against currency risk. 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 2020, nor in 2019.

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 2018-2020, and the Company's 10 largest customers combined has represented less than 20% 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, 2021 to declare a dividend of €0.24 per share in 2021 in respect of fiscal year 2020.

The Company declared a dividend of €0.40 per share in 2020, in respect of fiscal year 2019.

NOTE 5 Impacts of the health crisis

The COVID-19 epidemic and its consequences really marked 2020.

From the start of the crisis, the Group took the necessary hygiene and physical distancing measures to safeguard the health of employees, customers, suppliers and other stakeholders. These measures are still in effect.

Lockdown measures implemented by most countries, at different times during the year, led to a significant reduction in activity by the Group's customers, without raising any going-concern issue.

In light of its sound financial position (25,151 thousand euros in free cash-flow generated in 2020, 192,173 thousand euros of total equity and a net cash amounting to 134,626 thousand euros at December 31, 2020), its capacity for resilience, its medium-term outlook and its will not to compromise its product development plan, the Group decided not to put in place short-time working arrangements (under the partial activity scheme) in any of the countries it operates in, nor to apply to any financial support from local governments. However, it sometimes benefited from support granted to all companies, such as an automatic reduction on wages social charges for instance, in a total amount of 740 thousand euros approximately in 2020.

In some cases, the Group was able to renegotiate some of its renting agreements. Those rent concessions were all analyzed and those entering the scope of the IFRS 16 amendment were treated accordingly, as explained in note 2.1. Other concessions outside the scope of the IFRS 16 amendment also generated savings for the Group, in the total amount of approximately 200 thousand euros for 2020.

Finally, the Group has implemented measures to reduce its overhead costs (initially budgeted to increase by 8% in 2020) by cancelling or postponing all non-essential expenses.

As detailed in note 7, the impacts of the health crisis were taken into account for the impairment tests performed by the Group in December 2020. These tests conclude that no impairment should be recorded in 2020, on either goodwill or other non-current assets of the Group.

NOTE 6 Post-closing events

On February 8, 2021, Lectra announced having entered into a Memorandum of Understanding to acquire the entire capital and voting rights of the US-based company Gerber Technology.

Under the proposed acquisition, Lectra would acquire all outstanding shares of Gerber Technology on a cash-free debt-free basis for an upfront payment of 175 million euros – through a combination of cash and debt – plus 5 million newly issued Lectra shares to AIPCF VI LG Funding, LP (“AIPCF VI LG”), an affiliate of American Industrial Partners that is Gerber Technology’s sole shareholder.

After the French work council of Lectra is consulted and the binding documentation is signed, completion of the acquisition shall remain subject to merger control clearance and other customary conditions and shall be submitted to Lectra shareholders for approval.

Notes to the statement of financial position

consolidated

NOTE 7 Goodwill

The acquisition in July 2019 of a 70% interest in the Belgian company Retviews SA and its Romanian subsidiary had led to recognition of goodwill in the amount of 7,673 thousand euros. This arose 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.

As initially planned, Lectra acquired in July 2020 an additional 10% of capital and voting rights of Retviews, for an amount of 1,045 thousand euros. This acquisition of non-controlling interests had no impact on the goodwill recognized initially.

The acquisition of the remaining capital and voting rights shall occur in July 2021 and July 2022 for amounts of about 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.

As a reminder, the acquisition of Kubix Lab in January 2018 comprised 4,000 thousand euros in earn out (already placed in escrow), 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 transferred to the seller in July 2019, and the remainder of 2,700 thousand euros was integrally transferred in January 2021, since the objectives were met.

No other acquisition or liquidation was made in fiscal years 2020 or 2019.

	2020	2019
Book value at January 1	**47,380**	**39,473**
Change in scope of consolidation (1)	-	7,673
Exchange rate differences	(852)	233
Book value at December 31	**46,528**	**47,380**

(1) Integration of Retviews in 2019, see note 2.29.

Impairment tests: parameters used

Goodwill shown in the statement of financial position was subjected to impairment testing in December 2020. The projections used are based on the 2021–2023 plan for each CGU based on actual 2020 cash flows and on forecast trends in each market concerned and, beyond 2023, 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 2021–2023 plan;
- The normative cost of debt is determined on the basis of average market conditions for the fourth quarter of 2020 plus the margin applied by the banks.

Impairment tests: impacts of the health crisis

The consequences of the COVID-19 epidemic on the Group's financial statements have been reviewed in detailed, as explained in note 5.

The Group adapted its previsions in the 2021-2023 plan, but its financial robustness and its business model, including a significant part of recurring revenues, the margin of which covers the majority of fixed overheads, allowed to anticipate an activity level high enough to provide the results detailed below.

Impairment tests: results

The resulting estimates of the value in use of goodwill components for the year end closing have not led to any impairment, as in 2019.

An identical valuation of the CGUs would result from applying a pre-tax discount rate to pre-tax cash flows.

Impairment tests: sensitivity analyses

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 2021–2023 plan;
- A 1 percentage point decline in the gross profit margin assumptions used in the drawing up of the 2021–2023 plan;
- A 1 percentage point decline in the long-term growth rate to infinity (from 2% to 1%).

None of these calculations would entail any impairment of goodwill.

At December 31, 2020, goodwill and discount rates used in impairment testing were allocated as follows among the different CGUs:

	2020		2019	
	Discount rate	Goodwill	Discount rate	Goodwill
Italy	6.5%	17,717	7.0%	17,717
France	6.5%	5,983	7.0%	5,983
Germany	6.5%	5,782	7.0%	5,782
Northern Europe	6.5%	2,166	7.0%	2,166
United Kingdom	6.5%	1,772	7.0%	1,839
Portugal	6.5%	220	7.0%	220
Total Europe		33,639		33,707
North America	7.5%	9,589	7.9%	10,201
South America	12.8%	440	12.8%	481
Total Americas		10,029		10,681
Japan	6.1%	447	6.1%	463
Greater China	9.1%	627	9.1%	685
Other Asian Countries	7.6%	1,418	7.6%	1,475
Total Asia-Pacific		2,492		2,623
Other Countries	13.5%	368	13.5%	368
Total		**46,528**		**47,380**

NOTE 8 Other intangible assets

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**

2020	Information management software	Patents and trademarks	Other	Total
Gross value at January 1, 2020	**25,176**	**1,563**	**869**	**27,607**
External purchases	672	91	-	763
Internal developments	1,442	-	-	1,442
Write-offs and disposals	(469)	-	-	(469)
Exchange rate differences	(92)	-	(9)	(101)
Gross value at December 31, 2020	**26,728**	**1,653**	**861**	**29,242**
Amortization at December 31, 2020	(22,286)	(1,434)	(857)	(24,578)
Net value at December 31, 2020	**4,442**	**219**	**3**	**4,665**

Changes in amortization:

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)**

2020	Information management software	Patents and trademarks	Other	Total
Amortization at January 1, 2020	**(21,388)**	**(1,346)**	**(865)**	**(23,599)**
Amortization charges	(1,434)	(88)	(1)	(1,522)
Amortization write-backs	451	-	-	451
Exchange rate differences	84	-	8	92
Amortization at December 31, 2020	**(22,286)**	**(1,434)**	**(857)**	**(24,578)**

Information management software

As part of an ongoing process to upgrade and reinforce its information systems, in 2019 and 2020 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, 2020, nearly all of the other intangible assets were fully amortized several years ago. The net residual value of these intangible assets was 3 thousand euros.

NOTE 9 Property, plant and equipment

2019	Land and buildings	Fixtures and fittings	Equipment and other	Assets under construction	Total
Gross value at January 1, 2019	**13,748**	**19,607**	**29,600**	**1,227**	**64,183**
Additions	-	888	1,492	2,258	4,638
Change in scope of consolidation[1]	-	-	7	-	7
Write-offs and disposals	-	(979)	(3,158)	-	(4,138)
Transfers	50	(129)	861	(714)	67
Exchange rate differences	(11)	21	57	-	68
Gross value at December 31, 2019	**13,787**	**19,408**	**28,860**	**2,771**	**64,826**
Accumulated depreciation at December 31, 2019	(6,824)	(10,236)	(20,804)	-	(37,864)
Net value at December 31, 2019	**6,963**	**9,171**	**8,056**	**2,771**	**26,963**

2020	Land and buildings	Fixtures and fittings	Equipment and other	Assets under construction	Total
Gross value at January 1, 2020	**13,787**	**19,408**	**28,860**	**2,771**	**64,826**
Additions	172	600	1,224	202	2,198
Write-offs and disposals	-	(39)	(833)	-	(872)
Transfers	1,072	1,028	798	(2,696)	201
Exchange rate differences	(23)	(117)	(282)	-	(421)
Gross value at December 31, 2020	**15,009**	**20,878**	**29,768**	**277**	**65,932**
Accumulated depreciation at December 31, 2020	(7,045)	(11,485)	(22,334)	-	(40,865)
Net value at December 31, 2020	**7,963**	**9,393**	**7,434**	**277**	**25,067**

Changes in depreciation:

2019	Land and buildings	Fixtures and fittings	Equipment and other	Assets under construction	Total
Accumulated depreciation at January 1, 2019	**(6,629)**	**(10,226)**	**(20,980)**	**-**	**(37,835)**
Additional depreciation	(195)	(1,260)	(2,546)	-	(4,001)
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	**(6,824)**	**(10,236)**	**(20,804)**	**-**	**(37,864)**

2020	Land and buildings	Fixtures and fittings	Equipment and other	Assets under construction	Total
Accumulated depreciation at January 1, 2020	**(6,824)**	**(10,236)**	**(20,804)**	**-**	**(37,864)**
Additional depreciation	(223)	(1,368)	(2,541)	-	(4,132)
Write-offs and disposals	-	31	811	-	842
Transfers	-	10	(18)	-	(8)
Exchange rate differences	2	78	218	-	298
Accumulated depreciation at December 31, 2020	**(7,045)**	**(11,485)**	**(22,334)**	**-**	**(40,865)**

Land and buildings

'Land and buildings' pertain mostly to the Group's industrial facilities in Bordeaux–Cestas (France), amounting to a gross value of 14,290 thousand euros, net of investment grants received and to a net value of 7,317 thousand euros at December 31, 2020. They also include the offices of Lectra Korea, located in Seoul, purchased on May 1, 2014, for a net amount of 646 thousand euros at December 31, 2020 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, mainly related to the extension and rehabilitation of buildings.

At December 31, 2020, the land (non-depreciable) is valued at 980 thousand euros. The buildings total a gross value of 14,028 thousand euros, already 7,045 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 20,878 thousand euros and for a net amount of 9,393 thousand euros at December 31, 2020.

Investments have been made in fixtures and fittings in 2020 and 2019 throughout the Group. In 2020, the investments mostly related to the rehabilitation of buildings on the Bordeaux-Cestas facilities. 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.

Equipment and other

Other fixed assets purchased in 2020 and 2019 mainly concerned computer equipment and manufacturing molds and tools for the Bordeaux-Cestas industrial facility.

NOTE 10 Leasing right-of-use

The following table sets out leasing right-of-use 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**	**4,375**	**1,069**	**24,586**
Accumulated depreciation at December 31, 2019	(4,040)	(1,507)	(342)	(5,889)
Net value at December 31, 2019	**15,102**	**2,868**	**727**	**18,697**

2020	Premises	Company cars	Equipment and other	Total
Gross value at January 1, 2020	**19,142**	**4,375**	**1,069**	**24,586**
New contracts	987	2,897	65	3,949
Modification of existing contracts	(646)	(11)	2	(655)
Disposals	(172)	(863)	(161)	(1,196)
Exchange rate differences	(539)	(84)	(10)	(633)
Gross value at December 31, 2020	**18,772**	**6,314**	**965**	**26,051**
Accumulated depreciation at December 31, 2020	(7,724)	(2,449)	(448)	(10,622)
Net value at December 31, 2020	**11,048**	**3,864**	**517**	**15,429**

Information on lease liabilities is set out in note 20.

NOTE 11 Other non-current assets

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**	**15,689**
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**

2020	Investments in subsidiaries	Research tax credit receivable	Other non-current financial assets	Total
Gross value at January 1, 2020	**2,239**	**14,743**	**1,469**	**18,451**
Additions	-	7,776	5,306	13,082
Disposals	-	-	(4,648)	(4,648)
Reclassification	-	(4,531)	-	(4,531)
Exchange rate differences	-	-	(53)	(53)
Gross value at December 31, 2020	**2,239**	**17,987**	**2,075**	**22,301**
Impairment provision at December 31, 2020	(1,309)	-	-	(1,309)
Net value at December 31, 2020	**930**	**17,987**	**2,075**	**20,992**

Investments in subsidiaries

'Investments in subsidiaries' exclusively concern companies not included in the scope of consolidation.

At December 31, 2020, 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 12).

Research tax credit

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.

Note 16 describes the principles for accounting of the research tax credit receivable.

Other non-current financial assets

'Other non-current financial assets' at December 31, 2020 primarily consisted of deposits and guarantees for 1,302 thousand euros (1,092 thousand euros at December 31, 2019) together with the amount of 774 thousand euros placed by the Company at the disposal of Exane BNP Paribas, along with company shares under the liquidity agreement (see note 17.2).

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 17.2).

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 12 Related-party transactions

The amounts below refer to fiscal year 2020 or December 31, 2020, 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)	15
		Lectra Chile SA (Chile)	9
Payables[1]	Trade payables and other current liabilities	Lectra Singapore Pte Ltd (Singapore)	(1,005)
		Lectra Philippines Inc. (Philippines)	(206)
Sales[2]	Revenues	Lectra Chile SA (Chile)	62
		Lectra Philippines Inc. (Philippines)	84
Purchases[2]	Cost of goods sold		-
Commissions[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(57)
		Lectra Philippines Inc. (Philippines)	(8)
Personnel invoiced[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(976)
Fees[2]	Selling, general and administrative expenses	Lectra Singapore Pte Ltd (Singapore)	(6)

(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 32.5 and 32.6.

NOTE 13 Taxes

Note 13.1 Tax expense

	2020	2019
Current tax income (expense)	(5,991)	(9,717)
Deferred tax income (expense)	(140)	(1,033)
Net tax income (expense)	**(6,131)**	**(10,751)**

The research tax credit (*crédit d'impôt recherche*) applicable in France is deducted from R&D expenses (see note 30). It amounts to 8,851 thousand euros in 2020 (9,180 thousand euros in 2019).

This tax credit is therefore not included in the net tax charge for the two fiscal years presented here.

Note 13.2 Effective tax rate

	2020	2019
Income before tax	**23,709**	**40,075**
Standard rate of corporate income tax in France	28.5%	31.8%
Expense at standard rate of corporate income tax in France	**(6,757)**	**(12,729)**
Effect of other countries' different tax rates	230	828
Effect of reduction in unrecognized deferred tax assets	8	167
Effect of tax credits(1)	2,489	3,032
Effect of CVAE(2)	(1,059)	(948)
Effect of other non taxable income and non deductible expenses(3)	(673)	(494)
Others	(369)	(607)
Net tax income/(expense)	**(6,131)**	**(10,751)**
Consolidated effective tax rate	25.9%	26.8%

(1) This mainly includes the non-taxation of the research 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 13.3 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, 2020, unrecognized deferred tax assets totaled 1,023 thousand euros, compared with 1,165 thousand euros at December 31, 2019.

The share of deferred taxes directly recognized in equity for the year worked out to a positive 92 thousand euros corresponding to the tax effect of actuarial gains and losses on retirement benefit obligations booking (a positive 215 thousand euros in 2019).

Deferred taxes are listed below according to the type of timing difference:

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
Assets depreciation/amortization	294	(558)	-	(23)	-	(287)
Impairment of accounts receivable	331	(58)	-	4	-	277
Write-down of inventories	2,270	(269)	-	76	-	2,077
Other timing differences	4,690	353	215	50	-	5,307
Total	**9,194**	**(1,033)**	**215**	**137**	**77**	**8,589**

(1) Integration of Retviews in 2019, see note 2.29.

At December 31	2019	P&L impact	Equity impact	Translation adjustments	Change in scope of consolidation	2020
Tax losses carry-forward	1,215	(179)	-	(103)	-	933
Assets depreciation/amortization	(287)	300	-	110	-	124
Impairment of accounts receivable	277	17	-	(24)	-	271
Write-down of inventories	2,077	(122)	-	(285)	-	1,670
Other timing differences	5,307	(156)	92	(290)	-	4,953
Total	**8,589**	**(140)**	**92**	**(591)**	**-**	**7,950**

'Other timing differences' comprise mainly timing differences related to retirement benefits and profit-sharing in France for Lectra S.A., as well as timing differences due to invoicing in some subsidiaries (corporate income tax based on invoicing and not revenue), and the impacts of deferred taxes related to implementation of IFRS 16.

Note 13.4 Schedule of recognized tax losses carry-forwards

	Expiration date			
	2021	Between 2022 and 2026	Beyond 2026	Total
Deferred tax assets on tax losses (1)	-	64	869	**933**

(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 14 Inventories

	2020	2019
Raw materials	26,687	26,606
Finished goods and work-in-progress(1)	12,057	12,703
Inventories, gross value	**38,743**	**39,310**
Raw materials	(5,302)	(4,359)
Finished goods and work-in-progress(1)	(3,923)	(4,032)
Write-downs	**(9,224)**	**(8,390)**
Raw materials	21,385	22,248
Finished goods and work-in-progress(1)	8,134	8,672
Inventories, net value	**29,519**	**30,919**

(1) Including demonstration and second-hand equipment.

1,266 thousand euros of inventory fully written-down was scrapped in the course of 2020 (1,648 thousand euros in 2019), thereby diminishing the gross value and write-downs by the same amount. Inventory write-downs charged for the year amounted to 3,414 thousand euros (2,396 thousand euros in 2019). Reversals of previous write-downs relating to sales transactions amounted to 1,299 thousand euros (1,369 thousand euros in 2019), booked against the charges for the period.

NOTE 15 Trade accounts receivable

	2020	2019
Trade accounts receivable, gross value	44,758	59,166
Provision for impairment	(1,749)	(2,233)
Trade accounts receivable, net value	**43,009**	**56,933**

Trade receivables at December 31, 2020 include a great portion of the 56,690 thousand euros, excluding taxes, on recurring contracts, other services and equipment billed in advance for 2021, but not yet collected (compared with 58,549 thousand euros, excluding taxes, at December 31, 2019 in respect of 2020), and for which the counterpart is recorded in 'Deferred revenues' (see note 24). Payments on recurring contracts generally become due on the first day of the period they cover.

Thus, at December 31, 2020, trade accounts receivable, net from deferred revenues and provision for impairment, amount to a negative 13,681 thousand euros (negative 1,526 thousand euros at December 31, 2019).

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 decrease in trade accounts receivable at December 31, 2020 is related to the lower level of activity of the year, due to the health crisis.

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:

	2020	2019
Impairment at January 1	**(2,233)**	**(2,500)**
Additional impairment	(1,110)	(810)
Write-back of impairment	1,536	1,106
Exchange rate differences	58	(29)
Impairment at December 31	**(1,749)**	**(2,233)**

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 33).

Schedule of gross receivables by maturity:

	2020	2019
Receivables not yet due	34,959	45,083
Receivables overdue by:	9,799	14,082
- less than 1 month	4,566	6,165
- 1-3 months	1,496	2,295
- more than 3 months	3,737	5,622
Total	**44,758**	**59,166**

The majority of the provisions of accounts receivable and related accounts amounting to 1,749 thousand euros at December 31, 2020 concerned accounts more than three months overdue.

NOTE 16 Other current assets

	2020	2019
Research tax credit(1)	4,578	2,639
Other tax receivables	1,677	2,037
Income tax down-payments	2,596	2,610
Staff and social security receivables	311	304
Other current assets	3,914	4,627
Total other current assets	**13,076**	**12,217**

(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 11).

The research tax credit (8,851 thousand euros) for fiscal 2020 was accounted for but not received.

Thus, at December 31, 2020, Lectra SA held a 22,565 thousand euros receivable on the French tax administration (of which 17,987 thousand euros classified within other non-current assets – see note 11). 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 2020 (7,776 thousand euros), 2019 (5,173 thousand euros), 2018 (5,039 thousand euros), and 2017 (4,578 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 Q3 2020, it received the balance outstanding relating to the 2016 tax credit of 2,598 thousand euros and expects to receive the reimbursement of the outstanding balance of these non-deducted tax credits as follows: in 2021 (in respect of the 2017 tax credit), 2022 (in respect of the 2018 tax credit), 2023 (in respect of the 2019 tax credit) and 2024 (in respect of the 2020 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, 2020 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.

NOTE 17 Shareholders' equity

Note 17.1 Share capital and share premium

The share capital at December 31, 2020 totaled €32,511,651, divided into 32,511,651 shares with a par value of €1.00. It was €32,099,100, divided into 32,099,100 shares with a par value of €1.00, at December 31, 2019.

Share capital has increased by 412,551 shares since January 1, 2020, resulting from the exercise of stock options, that is, an increase of €412,551 of share capital together with a total share premium of €3,585,035 (issuance of 252,343 shares in 2019).

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 2020 and 2019.

Note 17.1.1 Share capital

	2020		2019	
	Number of shares	Share capital *(in euros)*	Number of shares	Share capital *(in euros)*
Share capital at January 1	**32,099,100**	**32,099,100**	**31,846,757**	**31,846,757**
Stock options exercised	412,551	412,551	252,343	252,343
Share capital at December 31	**32,511,651**	**32,511,651**	**32,099,100**	**32,099,100**

The shares comprising the capital are fully paid up.

Note 17.1.2 Share premium

	2020	2019
Share premium at January 1	**15,802**	**13,843**
Stock options exercised	3,585	1,959
Share premium at December 31	**19,387**	**15,802**

Note 17.2 Treasury shares

The ordinary shareholders' meeting on April 30, 2020 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, 2020, the Company held 13,997 shares, i.e. 0.04% of its capital within the framework of the liquidity agreement (compared with 0.1% at December 31, 2019) for a total of 343 thousand euros (compared with 698 thousand euros at December 31, 2019) representing an average purchase price of €24.50 per share, which has been deducted from shareholders' equity.

The resources allocated to the liquidity agreement also included, at December 31, 2020, the amount of 774 thousand euros.

The Company holds no treasury shares outside the framework of the liquidity agreement.

	2020			2019		
	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)	**31,549**	**(698)**	**22.13**	**30,779**	**(560)**	**18.20**
Liquidity agreement						
Purchases (at purchase price)	242,587	(4,620)	19.05	282,042	(5,798)	20.56
Sales (at sale price)	(260,139)	5,018	19.29	(281,272)	5,819	20.69
Net cash flow[1]	(17,552)	398		770	21	
Gains (losses) on disposals		43			159	
Treasury shares at December 31 (historical cost)	**13,997**	**(343)**	**24.50**	**31,549**	**(698)**	**22.13**

(1) A negative figure corresponds to a net outflow reflecting purchases and sales of its own shares by the Company.

Note 17.3 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 his own initiative, Daniel Harari, now Chairman and Chief Executive Officer, had canceled at that time the double voting rights attached to the shares he 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, 2020, 32,278,147 shares qualified for normal voting rights, and only 233,504 (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, 2020, the theoretical total number of voting rights attached to the Company's shares was 32,745,155. This number has been reduced to 32,731,158 due to the fact that no voting rights are attached to treasury shares (under the liquidity agreement).

Note 17.4 Statutory thresholds

Other than the legal notification requirements for crossing the thresholds established by French law, there is no special statutory obligation.

Note 17.5 Stock option plans

At December 31, 2020, 295 employees were the beneficiaries of 1,173,823 options and 2 former employees still held 13,856 options; altogether, 297 persons were beneficiaries of options (respectively 300, 2 and 302 at December 31, 2019).

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 33,699,330, made up as follows:

- share capital: 32,511,651 shares;
- stock options: 1,187,679 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, 2020, the share capital would increase by €1,187,679, together with a total issue premium of €18,540,898.

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 the new stock options granted in 2020 and 2019 was measured at grant date by means of the Black & Scholes method, using the following assumptions:

	2020	2019
Exercise price *(in euros)*	18.00	22.50
Share price on the date of allocation *(in euros)*	17.88	22.40
Risk-free interest rate	-0.31%	-0.17%
Dividend payout rate	2.67%	1.84%
Volatility	31.70%	24.60%
Duration of options	4 years	4 years
Fair value of one option *(in euros)*	3.27	3.36

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.

For part of the 2020 plan (described in note 17.5.6), the new granting, made as a counterpart to the renunciation by beneficiaries of the options granted in 2017, 2018 and/or 2019 still vesting, was treated according to the provisions of IFRS 2.28c (cancellation/granting of new instruments as replacement). This included the calculation of an incremental fair value for the new options, depending on the year during which the replaced options were granted, as follows:

	2017	2018	2019
Incremental fair value of one option *(in euros)*	3.22	2.11	1.64

Total fair value of the options granted on June 9, 2020 amounts to 1,926 thousand euros. It was reduced to 1,839 thousand euros following the cancellation of options after the departure of six beneficiaries in 2020.

An expense of 955 thousand euros was recognized in the 2020 financial statements, including 245 thousand euros in respect of the grants made in 2020, and 710 thousand euros in respect of options granted previously. Charges for the year are recognized under personnel expenses.

Plans in force at December 31, 2020 will impact the years 2021, 2022 and 2023 alone in the estimated amounts of 906, 686 and 431 thousand euros respectively.

The Group paid a 400 thousand euros employer's contribution based on the fair value of the options granted in 2020, fully expensed in personnel costs for 2020.

Note 17.5.1 *Stock options outstanding: options granted, exercised and canceled during the period*

	2020		2019	
	Number of stock options	Average exercise price *(in euros)*	Number of stock options	Average exercise price *(in euros)*
Stock options outstanding at January 1	**1,615,683**	**17.84**	**1,677,887**	**15.71**
Stock options granted during the year	837,236	18.00	364,662	22.50
Stock options exercised during the year	(412,551)	9.69	(252,343)	8.76
Stock options expired/canceled during the year	(852,689)	23.65	(174,523)	20.21
Stock options outstanding at December 31	**1,187,679**	**16.61**	**1,615,683**	**17.84**
- of which fully vested	379,715	13.43	785,408	11.25
- for which exercise rights remain to be acquired	807,964	18.11	830,275	24.08

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, 2020, the terms relating to the vesting of options were determined on an annual basis over a period of four years since January 1 of the year they were granted, and depended on whether the beneficiary was a Group employee at December 31 of the elapsed fiscal year.

Note 17.5.2 *Breakdown of stock options outstanding at December 31, 2020, by category of beneficiaries*

	2020				
	Number of beneficiaries	Number of stock options	%	Of which fully vested	Of which exercise rights remain to be acquired
Executive Committee[1]	10	455,720	38%	163,899	291,821
Group management	22	179,583	15%	58,229	121,354
Other employees	263	538,520	45%	143,731	394,789
Persons having left the company and still holding unexercised options	2	13,856	1%	13,856	-
Total	**297**	**1,187,679**	**100%**	**379,715**	**807,964**

(1) The sole beneficiaries are the members of the Executive Committee, excluding Daniel Harari, Chairman and Chief Executive Officer, who does not hold any option.

Note 17.5.3 *Breakdown of stock options at December 31, 2020, by expiration date and exercise price*

Grant date	Expiration date	Number of stock options	Exercise price *(in euros)*
June 13, 2013	June 13, 2021	33,760	6.25
June 16, 2014	June 16, 2022	54,198	8.50
June 12, 2015	June 12, 2023	75,130	13.75
June 9, 2016	June 9, 2024	195,331	14.50
June 8, 2017	June 8, 2025	14,449	28.25
June 12, 2018	June 12, 2026	17,101	22.25
June 12, 2019	June 12, 2027	9,799	22.50
June 9, 2020	June 9, 2028	787,911	18.00
Total		**1,187,679**	**16.61**

The 13,856 options held by people having left the Group and still holding unexercised options, are broken down by expiration date as follows: 5,675 options will expire in 2021, 6,293 options in 2022 and 1,888 options in 2023.

Note 17.5.4 Breakdown of stock options for which exercise rights remain to be acquired after December 31, 2020 by the beneficiaries

Year of vesting	Number of stock options
2021	10,808
2022	9,245
2023	787,911
Total	**807,964**

Note 17.5.5 Absence of stock option plans for the company officer

No stock option was 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 option, and holds none.

Note 17.5.6 Stock options granted in 2020

The 2020 stock option plan was prepared taking into account the decline in stock markets in general, and in the Lectra share in particular, due to the health crisis. A solution was sought that would allow the beneficiaries concerned to envisage a gain on the options granted in previous years, with an exercise price close to Lectra's current share price, but without increasing dilution for Lectra's shareholders.

The plan, for all beneficiaries of stock options in 2017, 2018 and 2019 who were still employees on June 1, 2020, was based on granting the same number of new stock options as those obtained in respect of the three earlier years, subject to their renunciation of all stock options for those three years. No further stock options were offered to them in 2020, except for ten employees who were promoted or whose 2019 performance was considered exceptional.

For many beneficiaries, the definitive number of stock options granted each year is adjusted with reference to their performance. Because the stock options received under the 2017, 2018 and 2019 plans were already adjusted in those years, the stock options granted under the 2020 plan are not subject to a performance criterion.

Beneficiaries of stock options granted in 2017, 2018 and 2019 who decided not to renounce all options received during those years could keep them and, as a result, did not benefit from any stock options under the 2020 stock option plan.

Accordingly, the Board of Directors at its meeting on June 9, 2020 granted, in respect of the 2020 stock option plan, at an exercise price of €18.00 per share:

- 807,140 options to 258 beneficiaries, granted subject to the condition precedent of their renunciation of all options they had been granted in 2017, 2018 and 2019 and, in the event this plan is accepted, an additional grant of 2,228 options to be divided among ten of those beneficiaries;
- 10,629 options to 13 first-time beneficiaries; and
- 17,239 options to the 25 winners of the 2019 Lectra Worldwide Championship, including 15 first-time beneficiaries.

17 of the 258 holders eligible for the grant subject to the condition precedent of their renunciation of the options granted in 2017, 2018 and 2019 preferred to keep their options; this amounted to a total of 37,569 options.

Therefore, under the 2020 stock option plan, a total of 799,667 options were granted to 269 beneficiaries, at an exercise price of €18.00 per share, as follows:

- 771,799 options to 241 beneficiaries who renounced all options they had been granted in 2017, 2018 and 2019;
- 10,629 options to 13 first-time beneficiaries; and
- 17,239 options to the 25 winners of the 2019 Lectra Worldwide Championship, including 15 first-time beneficiaries.

Moreover, 769,571 stock options from the 2017, 2018 and 2019 stock option plans have been cancelled following renunciation by the holders in connection with the grant made under the 2020 stock option plan.

Finally, 11,756 options granted in 2020 have ceased to be valid mainly due to the departure of six beneficiaries.

As a result, the total number of options at December 31, 2020 initially granted (837,235 options to 286 beneficiaries) has been reduced to 787,911 and the number of beneficiaries to 263. The options representing the difference between those initially granted and those actually granted are available to be used again by the Board of Directors.

The ten Group employees to whom the largest number of options was granted in the course of fiscal 2020 were granted a total of 298,325 options.

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 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, 2023 (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 15g, 15h, and 15i, between January 1, 2021 and December 31, 2023) the right to exercise options shall be maintained in full.

Moreover, 33,793 options granted prior to 2020 have ceased to be valid due to the departure of the beneficiaries or because they have not been exercised.

Note 17.5.7 Stock options exercised in 2020

412,551 options pertaining to the different option plans in force at December 31, 2019 were exercised in 2020.

	2020	
Grant date	Number of stock options exercised	Exercise price *(in euros)*
September 4, 2012	147,364	6.25
June 13, 2013	51,411	6.25
June 16, 2014	50,009	8.50
June 12, 2015	59,274	13.75
June 9, 2016	104,493	14.50
Total	**412,551**	**9.69**

NOTE 18 Currency translation adjustments

Analysis of changes recorded in 2020 and 2019:

	2020	2019
Cumulative translation adjustments at January 1	**(9,481)**	**(9,554)**
Differences on translation of subsidiaries' income statements	(140)	(10)
Adjustments required to maintain subsidiaries' retained earning at historical exchange rate	(1,753)	422
Other movements	80	(338)
Cumulative translation adjustments at December 31	**(11,293)**	**(9,481)**

NOTE 19 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:

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**

2020	France	Italy	Japan	Others	Total
Retirement benefits at January 1, 2020	**8,867**	**1,035**	**932**	**273**	**11,107**
Expense/(income) of the year	600	3	70	103	776
Benefits paid	(84)	(24)	-	(7)	(116)
Contributions paid	-	-	-	(17)	(17)
Actuarial losses (gains)	278	28	20	(1)	324
Exchange rate differences	-	-	(37)	(41)	(78)
Retirement benefits at December 31, 2020	**9,661**	**1,041**	**985**	**309**	**11,995**

Breakdown of net annual charge:

2019	France	Italy	Japan	Others	Total
Service cost provided in the year	472	-	68	70	610
Past service cost	-	-	-	-	-
Net interest cost	119	11	2	24	156
Expense/(income) of the year	**591**	**11**	**70**	**94**	**766**

2020	France	Italy	Japan	Others	Total
Service cost provided in the year	537	-	68	81	686
Past service cost	-	-	-	-	-
Net interest cost	63	3	2	22	89
Expense/(income) of the year	**600**	**3**	**70**	**103**	**776**

Main actuarial assumptions used in 2020:

	France	Italy	Japan
Discount rate	0.35%	-0.10%	0.20%
Average rate of salary increase, including inflation	2.85%	2.25%	1.30%
Personnel turnover rate	5.68%/9.59%	3.00%	14.75%

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 2.5%.

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 5.68% for non-managerial grade personnel, and 9.59% for managerial grade personnel. It was 0% over 50 years of age.

NOTE 20 Lease liabilities

Statement of changes in lease liabilities

2019	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**

2020	Long term lease liabilities	Short term lease liabilities	Total
Assessed value at January 1, 2020	**13,407**	**5,675**	**19,082**
New contracts and renewals	2,547	1,402	3,949
Reimbursement	-	(5,844)	(5,844)
Reclassificaiton	(4,952)	4,952	-
Others	(322)	(617)	(939)
Exchange rate differences	(246)	(157)	(403)
Book value at December 31, 2020	**10,434**	**5,411**	**15,845**

Maturity schedule of lease liabilities at December 31, 2020

	Until 2021	Between 2022 and 2026	Beyond 2026	Total
Lease liabilities	5,411	9,758	676	**15,845**

The number of contracts entering the low-value or short-term scope exception of IFRS 16 is very limited for the Group. As a consequence, the information relating to these contracts is shown together with the other Group commitments in note 27.

Moreover, the Group is not concerned by future cash-outs that would not be taken into account when evaluating the lease liability (such as variable leases, extension options not considered in the duration of the lease, or leasing agreements that are not effective yet).

NOTE 21 Commitment to purchase minorities' shares

In 2019, as part of the acquisition of 70% of the capital and voting rights of the Belgian company Retviews SA and its Romanian subsidiary Retviews Bucharest SRL, the Group had 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 was then estimated to a total 6,500 thousand euros.

As initially planned, Lectra acquired in July 2020 an additional 10% of capital and voting rights of Retviews, for an amount of 1,045 thousand euros (878 thousand euros paid out in July 2020 and the remainder in January 2021). Following this acquisition, the debt corresponding to the minority shares purchase commitment was reduced (by 1,124 thousand euros), and amounted to 4,497 thousand euros, of which 2,332 thousand euros classified as current liabilities and 2,165 thousand euros as non-current liabilities.

NOTE 22 Borrowings and financial debts

Note 22.1 Net cash

	2020	2019
Available cash	99,626	90,558
Cash equivalents	35,000	30,000
Borrowings and financial debts	-	-
Net cash	**134,626**	**120,558**

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.

Net cash was equal to cash and cash equivalents, and amounted to 134,626 thousand euros at December 31, 2020. The major part of cash is invested in interest-bearing sight accounts and time deposits.

Cash equivalents solely consist in a term deposit with a one-month maturity and a blocked account with a 32-day maturity.

Note 22.2 Borrowings by category and by maturity

The Group has been debt-free since 2015.

Note 22.3 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 22.4 Financial instruments: currency hedges

In 2020 and 2019, 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, 2020 and 2019 are analyzed below:

	2020				2019			
	In foreign currency[1] *(in thousands)*	Value[2] *(in thousands of euros)*	Difference in value[3]	Expiration date	In foreign currency[1] *(in thousands)*	Value[2] *(in thousands of euros)*	Difference in value[3]	Expiration date
USD	1,938	1,579	15	January 7, 2021	83	74	4	January 7, 2020
CAD	1,297	829	(4)	January 7, 2021	1,899	1,301	(2)	January 7, 2020
CNH	31,957	4,008	(13)	January 7, 2021	10,699	1,371	(7)	January 7, 2020
GBP	(1,538)	(1,711)	4	January 7, 2021	(1,829)	(2,149)	7	January 7, 2020
JPY	(214,933)	(1,699)	4	January 7, 2021	(180,462)	(1,480)	(14)	January 7 and 8, 2020
Other currencies	na	(1,261)	19	January 7, 2021	na	(912)	(17)	January 7, 2020
Total		**1,745**	**25**			**(1,796)**	**(28)**	

(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, 2020 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, Turkey and Vietnam (individually representing less than 8% and together less than 14% 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, 2020 and December 31, 2019:

	2019					
(in thousands of currencies)	USD	BRL	CAD	GBP	HKD	JPY
Carrying position to be hedged:						
Trade account receivables	7,524	10,645	1,759	51	3,134	3,361
Cash	408	-	-	-	-	-
Trade payables	(7,689)	(9,205)	(12)	(1,769)	(589)	(169,107)
Total	243	1,441	1,747	(1,718)	2,545	(165,746)
Net nominal of hedges	(83)	-	(1,899)	1,829	(3,609)	180,462
Net residual position	160	1,441	(152)	111	(1,064)	14,716
Equivalent value in euros at closing rate	142	319	(104)	130	(122)	121
Analysis of sensitivity to currency fluctuations						
Closing rate	1.12	4.52	1.46	0.85	8.75	121.94
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.18	4.74	1.53	0.89	9.18	128.04
Foreign exchange impact in P&L	(7)	(15)	5	(6)	6	(6)
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.07	4.29	1.39	0.81	8.31	115.84
Foreign exchange impact in P&L	7	17	(5)	7	(6)	6

	2020					
(in thousands of currencies)	USD	BRL	CAD	GBP	HKD	JPY
Carrying position to be hedged:						
Trade account receivables	9,685	10,435	1,297	1	1,797	(10,082)
Cash	445	-	-	-	-	-
Trade payables	(7,821)	(12,258)	-	(1,530)	-	(204,785)
Total	2,309	(1,823)	1,297	(1,529)	1,797	(214,867)
Net nominal of hedges	(1,938)	-	(1,297)	1,538	(2,057)	214,933
Net residual position	371	(1,823)	-	10	(260)	66
Equivalent value in euros at closing rate	303	(286)	0	11	(27)	1
Analysis of sensitivity to currency fluctuations						
Closing rate	1.23	6.37	1.56	0.90	9.51	126.49
5% currency depreciation relative to closing rate						
Closing rates parity depreciated by 5%	1.29	6.69	1.64	0.94	9.99	132.81
Foreign exchange impact in P&L	(14)	14	-	(1)	1	-
5% currency appreciation relative to closing rate						
Closing rates parity appreciated by 5%	1.17	6.05	1.49	0.85	9.04	120.17
Foreign exchange impact in P&L	16	(15)	-	1	(1)	-

NOTE 23 Trade and other payables

	2020	2019
Trade payables	22,221	24,046
Social debts	17,492	20,936
Fiscal debts	3,522	4,385
Down-payments from customers	9,706	8,608
Other current payables	715	921
Total	**53,657**	**58,896**

NOTE 24 Deferred revenues

	2020	2019
Deferred revenues on recurring contracts	53,441	55,346
Other deferred revenues[1]	3,248	3,113
Total	**56,690**	**58,459**

(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 15).

For the Group, deferred revenues correspond to contract liabilities as defined by IFRS 15.

Bridge for main contract liabilities

	2020	2019
Contract liabilities at January 1	55,346	51,983
Revenue booked during the period	(99,337)	(97,901)
Invoicing during the period	99,225	100,628
Change in scope of consolidation[1]	-	88
Exchange rate differences	(1,793)	548
Contract liabilities at December 31	**53,441**	**55,346**

(1) Integration of Retviews in 2019, see note 2.29.

NOTE 25 Provisions for other liabilities and charges

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	92	25	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**	**1,532**	**404**	**491**	**3,004**

2020	Provisions for employee-related claims	Provisions for tax litigations	Provisions for other litigations	Provisions for warranty and technical risks	Total
Provisions at January 1, 2020	578	1,532	404	491	3,004
Additional provisions	560	105	67	832	1,563
Used amounts reversed	(77)	-	-	(836)	(913)
Unused amounts reversed	(4)	-	-	(144)	(148)
Exchange rate differences	-	(454)	(5)	-	(459)
Provisions at December 31, 2020	**1,056**	**1,182**	**465**	**342**	**3,046**

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, 2020.

To the Group's knowledge, there were no proceedings pending at December 31, 2020, 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 26 Additional disclosure concerning financial instruments

The Group has designated the following main categories of financial assets and liabilities:

At December 31, 2019	IFRS 9 classification: Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI	Carrying amount	Fair value
Non-consolidated shares		■		1,030	1,030
Loans, deposits and guarantees	■			1,469	1,469
Trades account receivables	■			56,933	56,933
Other financial assets	■			1,145	1,145
Derivatives not designated as hedges		■		28	28
Cash and cash equivalents		■		120,558	120,558
Total financial assets				**181,163**	**181,163**
Derivatives not designated as hedges		■		-	-
Trade payables and other current liabilities	■			54,511	54,511
Total financial liabilities				**54,511**	**54,511**

At December 31, 2020	IFRS 9 classification: Carried at amortized cost	Carried at fair value through profit or loss	Carried at fair value through OCI	Carrying amount	Fair value
Non-consolidated shares		■		930	930
Loans, deposits and guarantees	■			2,075	2,075
Trades account receivables	■			43,009	43,009
Other financial assets	■			564	564
Derivatives not designated as hedges		■		-	-
Cash and cash equivalents		■		134,626	134,626
Total financial assets				**181,203**	**181,203**
Derivatives not designated as hedges		■		25	25
Trade payables and other current liabilities	■			50,134	50,134
Total financial liabilities				**50,159**	**50,159**

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 27 Additional disclosures

Commitments given

Since January 1, 2019, commitments given in respect to leasing agreements are accounted for under IFRS 16.

Thus, at December 31, 2020, the commitments relating to leasing agreements not entering the scope of IFRS 16, service contracts 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)]	4,498	2,992	9	**7,499**
Other guarantees: sureties[(2)]	1,652	90	279	**2,021**

(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 2020 amounted to 6,327 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 2019 acquisition had a non-material impact on the Group's financial statements, there is no need for a restatement of the financial statements in 2019.

NOTE 28 Revenues

In 2020, no single customer represented more than 4% of consolidated revenues, the ten largest customers combined accounted for less than 20% of revenues, and the 20 largest customers for less than 25%.

Note 28.1 Revenues by geographic region

In 2020, as in 2019, more than 45% of total revenues were generated in 5 countries: the United States (13%), Italy (11%), Mexico (8%), China (8%) and France (7%). These percentages were 11%, 11%, 9%, 9% and 6% respectively in 2019.

The share of revenues generated in the United-Kingdom was less than 3%.

	2020		2019		Changes
	Actual	%	Actual	%	2020/2019
Europe, of which:	100,770	43%	113,452	41%	-11%
- France	16,512	7%	17,223	6%	-4%
Americas	63,455	27%	67,503	24%	-6%
Asia-Pacific	55,088	23%	76,426	27%	-28%
Other countries	16,870	7%	22,642	8%	-25%
Total	**236,182**	**100%**	**280,023**	**100%**	**-16%,**
€/$ average parity	*1.14*		*1.12*		

Note 28.2 Revenues by type of business

	2020		2019		Changes
	Actual	%	Actual	%	2020/2019
Revenues from perpetual software licenses, equipment and accompanying software, and non-recurring services, of which:	77,681	33%	110,239	39%	-30%
- Perpetual software licenses	8,418	4%	13,493	5%	-38%
- Equipment and accompanying software	57,742	24%	82,077	29%	-30%
- Training and consulting services	9,927	4%	12,236	4%	-19%
- Miscellaneous	1,594	1%	2,434	1%	-34%
Recurring revenues, of which:	158,501	67%	169,784	61%	-7%
- Software subscriptions	3,669	2%	1,562	ns	+135%
- Software maintenance contracts	37,463	16%	38,485	14%	-3%
- Equipment and accompanying software maintenance contracts	58,205	25%	57,854	21%	+1%
- Consumables and parts	59,164	25%	71,883	26%	-18%
Total	**236,182**	**100%**	**280,023**	**100%**	**-16%**
€/$ average parity	*1.14*		*1.12*		

Note 28.3 Breakdown of revenues by currency

	2020	2019
Euro	42%	43%
US dollar	32%	31%
Chinese yuan	8%	8%
Japanese yen	2%	2%
British pound	2%	2%
Brazilian real	2%	2%
Other currencies[1]	12%	11%
Total	**100%**	**100%**

(1) No other single currency represents more than 2% of total revenues.

Note 28.4 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, automated cutting 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 29 Cost of goods sold and gross profit

	2020	2019
Revenues	236,182	280,023
Cost of goods sold, of which:	(59,696)	(74,808)
Purchases and freight-in costs	(51,043)	(63,129)
Inventory movement, net	(791)	(3,095)
Industrial added value	(7,862)	(8,585)
Gross profit	**176,486**	**205,214**
(in % of revenues)	74.7%	73.3%

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 30 Research and development

	2020	2019
Fixed personnel costs	(26,025)	(25,928)
Variable personnel costs	(234)	(919)
Other operating expenses	(3,874)	(3,549)
Depreciation expenses	(1,389)	(1,434)
Total before research tax credit and grants	(31,522)	(31,830)
(in % of revenues)	13.3%	11.4%
Research tax credit and government grants	8,833	9,811
Total	**(22,689)**	**(22,019)**

NOTE 31 Selling, general and administrative expenses

	2020	2019
Fixed personnel costs	(88,834)	(86,091)
Variable personnel costs	(5,794)	(9,759)
Other operating expenses	(23,122)	(36,662)
Depreciation and amortization (tangible and intangible assets)	(3,454)	(3,301)
Depreciation of right-of-use assets	(6,196)	(6,170)
Net provisions	(757)	(323)
Total (1)	**(128,157)**	**(142,306)**
(in % of revenues)	54.3%	50.8%

(1) 'Selling, general and administrative expenses' do not include the expenses comprised in 'Industrial added value' (see note 29), which amounted to 7,862 thousand euros in 2020 and 8,585 thousand euros in 2019..

The decrease in selling, general and administrative expenses in 2020 is mainly due to lower variable salaries and a decrease in travel expenses, following the health crisis.

Fees paid to Group auditors and companies in their networks

In 2020, other operating expenses comprised 828 thousand euros in respect of the audit of all Group companies, of which 475 thousand euros for PwC, 260 thousand euros for KPMG and 93 thousand euros for other audit firms, excluding non-audit services. The corresponding amount in 2019 was 847 thousand euros.

Fees paid by the Group in 2020 to the Statutory Auditors in respect of the audit and non-audit services performed by their networks to consolidated entities were 793 thousand euros, of which 522 thousand euros for PwC and 271 thousand euros for KPMG:

	PwC				KPMG			
	Amount		%		Amount		%	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Audit								
Statutory audits, certification and examination of individuals and consolidated financial statements								
- Issuer (Lectra SA)	153	155	29%	26%	147	148	54%	46%
- Fully-consolidated subsidiaries	321	329	62%	56%	113	134	42%	42%
Non-audit services								
- Issuer (Lectra SA) (1)	18	-	3%	0%	-	23	0%	7%
- Fully-consolidated subsidiaries	-	-	0%	0%	-	-	0%	0%
Sub-total	493	484	94%	82%	260	305	96%	96%
Other services to consolidated entities								
- Legal, tax and social reviews(2)	29	104	6%	18%	11	14	4%	4%
Sub-total	29	104	6%	18%	11	14	4%	4%
Total	**522**	**588**	**100%**	**100%**	**271**	**319**	**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 32 Staff

Note 32.1 Total personnel expenses

The table below combines all fixed and variable personnel costs for the Group.

	2020	2019
Research and development	(26,259)	(26,847)
Selling, general and administrative	(94,628)	(95,850)
Manufacturing, logistics and purchasing(1)	(5,837)	(6,298)
Total	**(126,724)**	**(128,996)**

(1) 'Manufacturing, logistics and purchasing' personnel expenses are included in the cost of goods sold, in 'Industrial added value' (see note 29).

Note 32.2 Active headcount at December 31

Since 2019, the Group presents the active headcount.

	2020	2019
Parent company(1)	901	914
Subsidiaries(2), of which:	834	879
Europe	373	363
Americas	173	191
Asia-Pacific	237	252
Other countries	51	73
Total	**1,735**	**1,793**

(1) In 2020 as in 2019, expatriates are attached to the economic entities for which they work.

(2) Refers to all consolidated and non-consolidated Group companies.

Analysis of active headcount by function

	2020	2019
Marketing, Sales	368	356
Services (Business Consultants and Solutions Experts, Call Centers, Technical Maintenance)	528	587
Research and Development	374	368
Purchasing, Production, Logistics	144	152
Administration, Finance, Human Resources, Information Systems	321	330
Total	**1,735**	**1,793**

Note 32.3 Contributions to pension plans

Contributions to compulsory or contractual pension plans are expensed in the year in which they are paid.

In 2020, Group companies subject to defined-contribution pension plans booked a sum of 5,662 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 32.4 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 2021, no profit-sharing payment will be made, in respect of fiscal year 2020 (790 thousand euros paid in 2020, in respect of fiscal year 2019).

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 2020 covers the period 2020–2022.

The incentive amount in respect of fiscal 2020 equals 462 thousand euros (1,079 thousand euros in respect of 2019).

Note 32.5 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 Digital Officer, the Chief Customer Success Officer, the President Asia-Pacific, the President Americas, the President Southern Europe and North Africa, the President Northern and Eastern Europe, Middle East and the Chief Marketing and Communications Officer.

Personnel expenses related to the Group management team, accounted for in 2020, amounted to 3,379 thousand euros (4,188 thousand euros in 2019) and broke down as follows:

	2020	2019
Fixed compensation	2,460	2,481
Variable compensation	297	1,022
Other short-term benefits	222	363
Post-employment benefits(1)	20	46
Other long-term benefits	-	-
Severance compensation	-	-
Granting of stock options(1)	380	276
Personnel expenses related to the Group management team	**3,379**	**4,188**

(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 32.6 Directors' fees

Conditional upon approval by the Shareholders' Meeting on April 30, 2021, 210 thousand euros in Directors' fees will be allocated to the members of the Board with respect to fiscal 2020 (239 thousand euros for fiscal 2019).

Compensation paid to the three Directors still holding office and who are not company officers consists exclusively of Directors' fees.

NOTE 33 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:

	2020	2019
Research and development(1)	(1,389)	(1,434)
Selling, general and administrative	(3,454)	(3,301)
Manufacturing, logistics and purchasing(2)	(814)	(739)
Depreciation of right-of-use assets	(6,196)	(6,170)
Total	**(11,853)**	**(11,644)**

(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 29).*

NOTE 34 Financial income and expenses

	2020	2019
Financial income, of which:	94	461
Gains on sales of cash equivalents	14	62
Other interest income	80	374
Reversal of provisions for depreciation of investments and loans	-	25
Financial expenses, of which:	(541)	(556)
Bank charges	(336)	(351)
Interest expense on bank loans and financial debts	-	-
Interest on lease liabilities (IFRS 16)	(150)	(184)
Other financial expenses	(55)	(21)
Total	**(447)**	**(95)**

NOTE 35 Foreign exchange income

A foreign exchange translation loss of 699 thousand euros was recognized in 2020 (719 thousand euros in 2019).

At December 31, 2020, as at December 31, 2019, the Company held no currency options (see note 22.4).

NOTE 36 Shares used to compute earnings per share

At December 31, 2020 and 2019, the Company had not issued any dilutive instrument other than the stock options detailed in note 17.5.

Basic earnings (Group share) per share	**2020**	2019
Net income, Group share (in thousands of euros)	17,529	29,305
Weighted average number of shares outstanding during the period(1)	32,256,568	32,000,871
Weighted average number of treasury shares held during the period	(28,574)	(23,634)
Weighted average number of shares used to compute basic earnings per share	32,227,995	31,977,237
Basic earnings per share (in euros)	**0.54**	**0.92**

Diluted earnings (Group share) per share	**2020**	2019
Net income, Group share (in thousands of euros)	17,529	29,305
Weighted average number of shares outstanding during the period(1)	32,256,568	32,000,871
Weighted average number of treasury shares held during the period	(28,574)	(23,634)
Dilutive effect of stock options, under the share repurchase method(2)	262,558	417,846
Weighted average number of shares used to compute diluted earnings per share	32,490,553	32,395,083
Diluted earnings per share (in euros)	**0.54**	**0.90**

(1) *In 2020, 412,551 stock options were exercised, giving rise to the creation of 412,551 new shares. In 2019, 252,343 stock options were exercised, giving rise to the creation of 252,343 new shares (see note 17).*

(2) *In 2020, due to an average share price of €19.05 during the period, the dilutive effect of stock options under the share repurchase method resulted in 262,558 theoretical additional shares (417,846 theoretical additional shares in 2019 due to an average share price of €20.48).*

NOTE 37 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 2019 and 2020 decrease 2020 Group revenues by 4,379 thousand euros and income from operations before non-recurring items by 2,313 thousand euros.

The US dollar (average parity versus the euro of $1.14/€1 in 2020, compared to $1.12/€1 in 2019) accounted for a decrease of 1,656 thousand euros in revenues and of 1,221 thousand euros in income from operations before non-recurring items in the 2020 figures at actual exchange rates, relative to the 2020 figures at 2019 exchange rates.

In 2020, 42% of the Group's consolidated revenues, 83% of its cost of sales, and 70% of its overhead expenses were denominated in euros. These percentages were respectively 32%, 10%, 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), 2% and 4% 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 before non-recurring items to a change in currencies exchange rates

The sensitivity of revenues and income from operations before non-recurring items to a change in exchange rates was based on the December 31, 2020 exchange rates for the relevant currencies, in particular $1.23/€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 $1.18/€1) would mechanically increase 2021 annual revenues by approximately 3.4 million euros and annual income from operations before non-recurring items by 2.2 million euros. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.28/€1) would mechanically reduce annual revenues and income from operations before non-recurring items 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 38 Operating segments information

2020	Northern Europe(1)	Southern Europe(2)	Americas	Asia-Pacific	Corporate	Total
Revenues	51,240	63,531	63,455	57,957	-	236,182
Income (loss) from operations before non-recurring items	7,577	12,111	11,332	5,434	(10,814)	25,640

2019	Northern Europe(1)	Southern Europe(2)	Americas	Asia-Pacific	Corporate	Total
Revenues	59,083	72,571	67,503	80,866	-	280,023
Income (loss) from operations before non-recurring items	8,005	13,472	9,772	8,044	1,595	40,889

(1) This segment covers the following regions: Germany and Eastern Europe, United Kingdom, Benelux, Scandinavia, Baltic countries, Turkey and the Middle East.

(2) This segment covers the following regions: France, Italy, Spain, Portugal and North Africa.

Income from operations before non-recurring items, which is obtained by adding together the income for each segment, is identical to consolidated income from operations before non-recurring items shown in the Group's consolidated financial statements and therefore does not require reconciliation.

Notes to the statement of cash flows

consolidated

NOTE 39 Non-cash operating expenses

In 2020, as in 2019, '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.

In addition, it includes for 2020 the impacts of rent concessions obtained in relation to the health crisis for some of the Group's operating leases, and eligible to the IFRS 16 amendment.

NOTE 40 Changes in working capital requirement

In 2020, the main changes in the working capital requirement broke down as follows:

- −12,204 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);
- +1,082 thousand euros corresponding to the increase in inventories;
- −2,598 thousand euros arising from the reimbursement in Q3 2020 of the outstanding balance of the 2016 research tax credit;
- +3,568 thousand euros arising from the difference between the variable portion of salaries for the Group in respect of fiscal year 2019 paid mainly in 2020, and the one recognized in 2020 that will be paid in 2021;
- +361 thousand euros arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

In 2019, the main changes in the working capital requirement broke down as follows:

- −3,604 thousand euros corresponded to the decrease in trade accounts receivable;
- −2,419 thousand euros corresponded to the decrease in inventories;
- −5,663 thousand euros arose from the balance outstanding relating to the 2015 research tax credit received in Q4 2019;
- +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 was paid in 2020;
- −607 thousand euros arose from the change in other current assets and liabilities; taken individually, these changes are all immaterial.

At December 31, 2020, as at December 31, 2019, 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 41 Repayment of long-term and short-term borrowings

In 2020 as in 2019, the Group did not contract any financial debts.

NOTE 42 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 repayment of lease liabilities recognized in accordance with IFRS 16.

	2020	2019
Net cash (used in)/provided by operating activities	36,030	48,961
Net cash (used in)/provided by investing activities, excluding cash used for acquisition of companies	(5,035)	(6,612)
Repayment of lease liabilities	(5,844)	(6,162)
Free cash flow	25,151	36,187

In 2020, net cash provided by operating activities of 36,030 thousand euros (48,961 thousand euros in 2019) comprised a 9,791 thousand euros decrease in working capital requirement (decrease of 10,631 thousand euros in 2019) and an increase in other operating non-current assets of 7,776 thousand euros, corresponding to the part of the 2020 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA (increase of 5,167 thousand euros in 2019).

Details of changes in working capital requirement are provided in note 40 above.

Free cash flow was 25,151 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 is deducted in the free cash flow analysis above. In 2019, free cash flow was 36,187 thousand euros and there were no non-recurring items.

6. Statutory Auditors' report on the Consolidated Financial Statements

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.

Year ended December 31, 2020

LECTRA S.A.
16-18, rue Chalgrin
75016 PARIS

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 S.A. for the year ended December 31, 2020.

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, 2020 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 provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors, for the period from January 1, 2020 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.

Justification of assessments – Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code 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 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 2020, the Group's revenues amounted to €236 million. Most sales of automatic cutting equipment and related software are made outside France, by Lectra S.A. directly or by its subsidiaries.

The terms and conditions for the transfer of the risks and benefits 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 at the year-end.

Accordingly, we deemed the recognition of revenues from year-end equipment sales be a key audit matter, in light of the following factors:

- the significant impact on the Group's financial statements;
- the importance and large number of Incoterms for estimating the risk and benefit transfer dates, as determined pursuant to the sales contracts;
- transportation times that can vary from several days to several weeks depending on the destination.

How our audit addressed this risk

Our audit approach for year-end equipment 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 computerized and manual 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 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 7)

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 €46.5 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 7 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, in particular in the context of the health crisis.

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 7 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 and by adapting the Group's three-year business plan due to the impacts of the health crisis;
- 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 7 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.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the consolidated financial statements to be included in the annual financial report

Pursuant to paragraph III of Article 222-3 of the AMF's General Regulations, the Company's management informed us of its decision to postpone the application of the single electronic reporting format, as defined by European Delegated Regulation No. 2019/815 of December 17, 2018, to reporting periods beginning on or after January 1, 2021. Accordingly, this report does not contain a conclusion on the compliance of the presentation of the consolidated financial statements to be included in the annual financial report referred to in paragraph I of Article L. 451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) with this format.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Lectra S.A. 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, 2020, PricewaterhouseCoopers Audit S.A. and KPMG S.A. were in the thirty-first and the twenty-fifth 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 24, 2021

The Statutory Auditors

KPMG S.A.	PricewaterhouseCoopers Audit
Anne Jallet-Auguste	Matthieu Moussy

05

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

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

1. CERTIFICATION BY THE PEOPLE RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT 174

2. PEOPLE RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS 174

1. 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 40 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 29, 2021

Daniel Harari
Chairman and Chief Executive Officer

Olivier du Chesnay
Chief Financial Officer

2. People responsible for auditing the financial statements

Acting Statutory Auditors

PricewaterhouseCoopers Audit	**KPMG SA**
Represented by Matthieu Moussy Crystal Park 63, rue de Villiers 92208 – Neuilly sur Seine Cedex	Represented by Anne Jallet-Auguste Domaine de Pelus 11, rue Archimède 33692 Mérignac Cedex
Term expires at the end of the Shareholders’ Meeting convened to approve the 2025 financial statements	Term expires at the end of the Shareholders’ Meeting convened to approve the 2025 financial statements

LECTRA

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