LECTA SA and Subsidiaries

Management report for the period ended 30 June 2017.

The discussion contained herein is based on our reviewed interim financial information for the periods ended 30 June 2017 and 30 June 2016.

CHANGES IN THE CONSOLIDATION PERIMETER

On 9 May 2017, Lecta – through its subsidiary Polyedra SpA - completed the acquisition of 100% shares in Plot Service SrL. This company, headquartered in Rozzano (Milan), is specialized in technical assistance for professional large format graphic peripherals, such as plotters, digital printers, scanners and digitizers. Plot Service SrL has service centers located throughout the country with highly qualified and specialized technicians. This service network will complement the already extensive presence of Polyedra SpA throughout Italy.
This acquisition reaffirms Lecta's desire to further strengthen its leading position in the Print & Communication, Sign & Display, and Packaging segments, progressively addressing the market more as a partner offering complete solutions to its customers' communication needs.
The impact of this acquisition is summarized in the Note 3.6 to the Interim financial statements.

RESULTS OF OPERATIONS

Presentation of Financial Data

Lecta consolidated financial statements are prepared in accordance with IFRS adopted by the European Union.

Segment reporting

Lecta Group's activity is analyzed through three lines of products and services
- Coated Woodfree;
- Specialties;
- Purchased Products.

Lecta's revenue consists of net sales of paper and sales of energy (see the section Revenue). The core activity of Lecta is to produce and sell paper. In this context, Lecta operates cogeneration plants that burn gas and biomass, and produce electricity, steam and hot water. The production of steam is internally consumed, while the production of electricity can be internally consumed or sold to the grid, and the production of hot water is supplied to a district heating company. For "Operating Segment" reporting, the sale of electricity and hot water to third parties is not considered as revenue but as reduction in energy cost to produce paper.

The following table compares sales and profit information of the products and services for the six-month period and the quarter ended 30 June 2017, with the same periods of last year and the prior quarter:

Net Sales of Paper

Products & Services (in EUR M)	30 Jun 2017	30 Jun 2016	Change absolute	Change %	Q2 2017	Q2 2016	Change absolute	Change %	Q2 2017	Q1 2017	Change absolute	Change %
Coated Woodfree	377	396	-19	-5%	181	192	-11	-5%	181	196	-14	-7%
Specialties	222	202	+21	+10%	111	105	+7	+7%	111	111	+1	+0%
Purchased products	88	88	+1	+1%	44	45	-1	-2%	44	44	+0	+1%
Total	**687**	**685**	+2	+0%	**337**	**342**	-5	-1%	**337**	**350**	-13	-4%

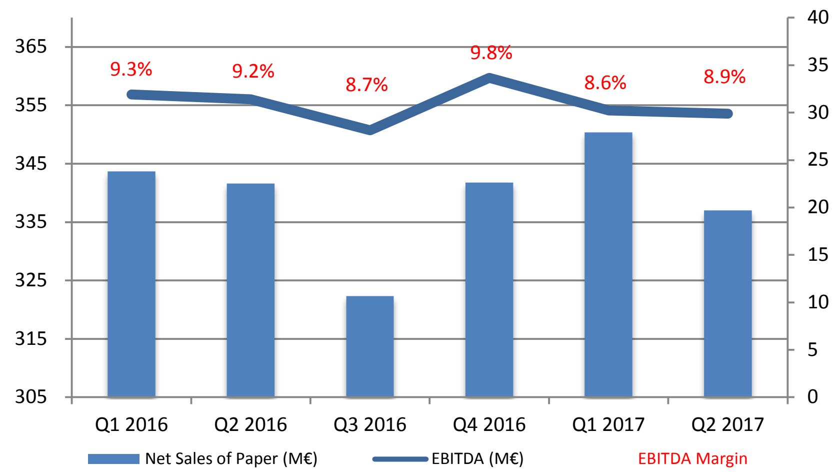
EBITDA

Products & Services (in EUR M)	30 Jun 2017	30 Jun 2016	Change absolute	Change %	Q2 2017	Q2 2016	Change absolute	Change %	Q2 2017	Q1 2017	Change absolute	Change %
Coated Woodfree	31	38	-7	-18%	15	18	-3	-15%	15	16	-0	-1%
Specialties	25	21	4	+17%	12	11	1	+9%	12	13	-0	-1%
Purchased products	4	4	0	+5%	2	2	0	+11%	2	2	0	+0%
Total	**60**	**63**	-3	-5%	**30**	**31**	-2	-5%	**30**	**30**	-0	-1%

EBITDA Margin

Products & Services (in EUR M)	30 Jun 2017	30 Jun 2016	Change Percentage points	Q2 2017	Q2 2016	Change Percentage points	Q2 2017	Q1 2017	Change Percentage points
Coated Woodfree	8.2%	9.6%	-1.4	8.5%	9.4%	-1.0	8.5%	8.0%	+0.5
Specialties	11.2%	10.6%	+0.6	11.1%	10.9%	+0.2	11.1%	11.3%	-0.2
Purchased products	4.8%	4.6%	+0.2	4.8%	4.2%	+0.6	4.8%	4.8%	-0.0
Total	**8.7%**	**9.2%**	-0.5	**8.9%**	**9.2%**	-0.3	**8.9%**	**8.6%**	+0.2

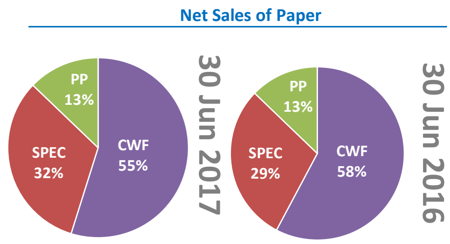
Evolution of Net Sales of Paper, EBITDA, and EBITDA Margin:

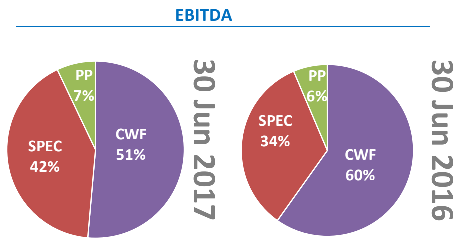


Breakdown of Net Sales of Paper and EBITDA by Product and Service:

	Net Sales of Paper 30 Jun 2017	Net Sales of Paper 30 Jun 2016	Change	EBITDA 30 Jun 2017	EBITDA 30 Jun 2016	Change
Coated Woodfree	**55%**	58%	-3pp	**51%**	60%	-8pp
Specialties	**32%**	29%	+3pp	**42%**	34%	+8pp
Purchased products	**13%**	13%	+0pp	**7%**	6%	+1pp
	100%	100%		**100%**	100%	

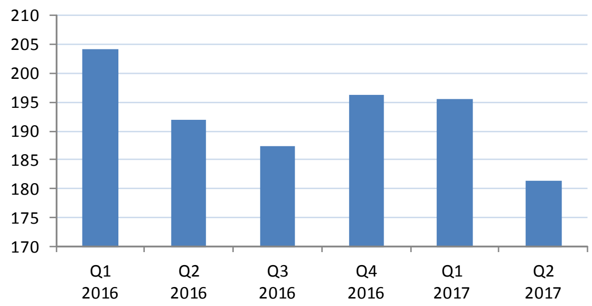
CWF: Coated WoodFree
SPEC.: Specialities
PP: Purchased products





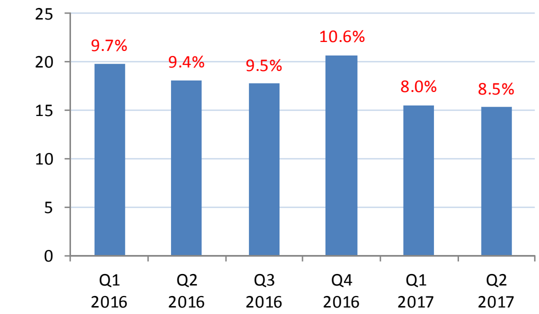
CWF

Net Sales of Paper
(in EUR M)



EBITDA
(in EUR M)

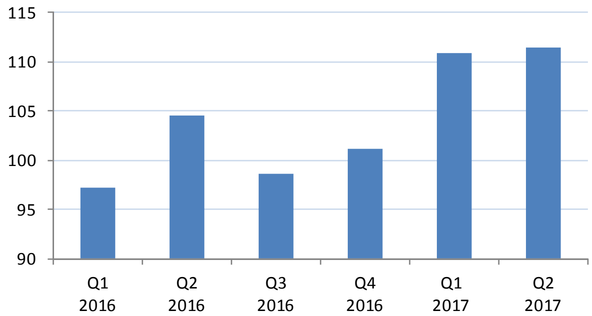
(EBITDA Margin)



In 2Q2017, the net sales of Coated Woodfree were €181 million vs €192 million in 2Q2016, a decrease of €11 million or -6%. The Ebitda at €15 million was lower than in 2Q2016 (€18 million). This decrease was mainly due to lower net sales price and an increase of raw materials price, partly offset by a reduction in fixed costs.

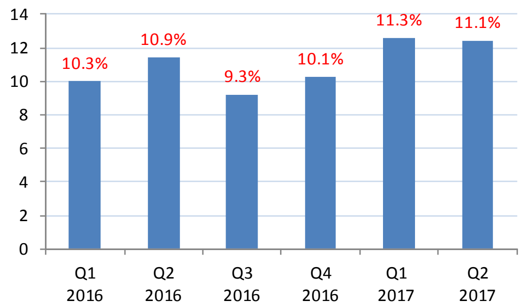
Specialties

Net Sales of Paper
(in EUR M)



EBITDA
(in EUR M)

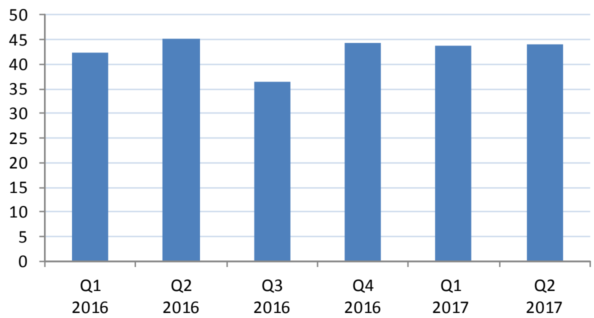
(EBITDA Margin)



In 2Q2017, the net sales of Specialties were €111 million vs €105 million in 2Q2016, an increase of €6 million or +6%. The Ebitda at €12 million was higher than in 2Q2016 (€11 million). This increase was mainly due to larger sales.

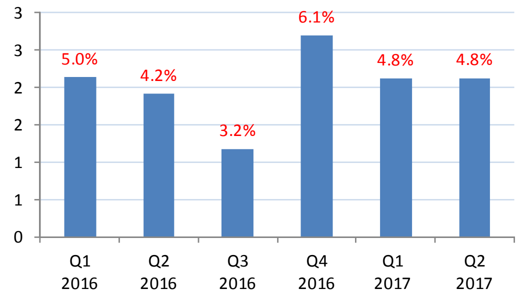
Purchased products

Net Sales of Paper
(in EUR M)



EBITDA
(in EUR M)

(EBITDA Margin)



In 2Q2017, the net sales of Purchased products were €44 million vs €45 million in 2Q2016, a decrease of €1 million or -2%. The Ebitda at €2 million was stable vs 2Q2016.

Three Months Ended 30 June 2017 Compared to Three Months Ended 30 June 2016

The following table sets forth Lecta's income statement line items in absolute numbers, as a percentage of revenue for the quarters ended 30 June 2017 and 30 June 2016 and in the percentage change quarter over quarter:

(in millions of euro, except percentages)	Three months ended 30 June 2017 (unaudited)	%	2016 (unaudited)	%	Change	% change
Volume sold (in thousands of metric tons)	377.0		377.5		-0.5	-0.1%
Revenue	360.7	100.0	357.6	100.0	+3.1	+0.9%
Change in inventories of finished goods and work in progress	8.7	2.4	0.8	0.2	+7.9	-
Raw materials and consumables used	(189.5)	(52.5)	(182.5)	(51.0)	-7.0	+3.9%
Labor costs	(48.8)	(13.5)	(48.5)	(13.5)	-0.4	+0.8%
Other operating costs except non-recurring items	(101.2)	(28.1)	(96.1)	(26.9)	-5.1	+5.3%
EBITDA	29.9	8.3	31.4	8.8	-1.5	-4.8%
Depreciation	(13.6)	(3.8)	(13.7)	(3.8)	+0.1	-1.1%
Amortization	(0.1)	(0.0)	(0.0)	(0.0)	-0.0	+32.3%
Non-recurring items	(7.5)	(2.1)	(1.8)	(0.5)	-5.7	-
Profit from operations	8.7	2.4	15.8	4.4	-7.1	-44.9%
Finance costs	(15.1)	(4.2)	(16.5)	(4.6)	+1.5	-8.9%
Profit (loss) before tax from continuing operations	(6.3)	(1.8)	(0.7)	(0.2)	-5.7	-
Income tax	(4.2)	(1.2)	(2.4)	(0.7)	-1.8	+75.2%
Profit (loss) after tax from continuing operations	(10.5)	(2.9)	(3.1)	(0.9)	-7.5	-
Profit (loss) after tax from discontinued operations	0.0	0.0	0.0	0.0	+0.0	-
Profit (loss) after tax	(10.5)	(2.9)	(3.1)	(0.9)	-7.5	-

Revenue

For the second quarter ended 30 June 2017, Lecta had revenue of €360.7 million versus €357.6 million in the second quarter ended 30 June 2016, an increase of €3.1 million or +1%. This increase was attributable to:

- Lower sales of CWF, Specialties and Purchased Products of €-4.6 million or -1%, from €341.6 million in 2Q2016 to €337.0 million in 2Q2017, resulting from lower sales volumes of 500 metric tons or -0%, 377,000 metric tons in 2Q2017 vs 377,500 metric tons in 2Q2016, and a decrease in average net sales price of -11€/t or -1%, 894€/t in 2Q2017 vs 905€/t in 2Q2016; and
- Higher sales of energy of €+7.7 million or +48%, from €16.0 million in 2Q2016 to €23.7 million in 2Q2017, resulting from higher sales volumes of 10,000 MWh or +4%, 271,500 MWh in 2Q2017 vs 261,500 MWh in 2Q2016, and an increase in average sales price of +26€/MWh or +42%, 87€/MWh in 2Q2017 vs 61€/MWh in 2Q2016.

Raw Materials and Consumables Used

The costs of raw materials and consumables used increased by €7.0 million, or +4%, from €182.5 million in 2Q2016 to €189.5 million in 2Q2017, and as a percentage of revenue they increased from 51.0% in 2Q2016 to 52.5% in 2Q2017. The absolute increase was mainly attributable to higher purchased volumes, and an increase in the average consumption prices of pulp of +38€/t and latex from 2Q2016 to 2Q2017.

Labor Costs

Labor costs increased by €0.4 million, or +1%, from €48.5 million in 2Q2016 to €48.8 million in 2Q2017, and as a percentage of revenue they were stable at 13.5%.
The headcount decreased by 4 heads, from 3,306 employees in 2Q2016 to 3,302 employees in 2Q2017, despite the consolidation of Plot Service SrL as of May 2017 (see the section Changes in the consolidation perimeter).

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items increased by €5.1 million, or +5%, from €96.1 million in 2Q2016 to €101.2 million in 2Q2017, and as a percentage of revenue they increased from 26.9% in 2Q2016 to 28.1% in 2Q2017. The absolute increase was essentially due to higher costs of energy, packaging materials, outsourcing, distribution selling variable costs and maintenance, partly offset by a decrease in production consumables and overhead costs.

EBITDA

EBITDA decreased by €1.5 million, or -5%, from €31.4 million in 2Q2016 to €29.9 million in 2Q2017. This decrease was the result of slightly lower sales of paper in volume, higher costs of packaging materials, outsourcing, distribution, selling variable, labor and maintenance, partly offset by lower net energy costs, production consumables costs and overheads costs, in a context of lower unit gross margin.

Depreciation and Amortization

Depreciation and amortization decreased by €0.1 million, or -1%, from €13.8 million in 2Q2016 to €13.6 million in 2Q2017.

Non-recurring items

In 2Q2017, Lecta recorded a non-recurring charge of €-7.5 million, including €-6.8 million associated to the attempt of private placement to institutional investors (see the section Projects and plans) and €-0.7 million of Organization efficiency program. In 2Q2016, Lecta recorded a non-recurring charge of €-1.8 million mainly in relation with its Organization efficiency program.

Finance Costs

Finance costs decreased by €1.5 million or -9%, from €16.5 million in 2Q2016 to €15.1 million in 2Q2017.

Income Tax

Lecta recorded an income tax charge of €-4.2 million in 2Q2017 and €-2.4 million in 2Q2016.

Six months Ended 30 June 2017 Compared to Six months Ended 30 June 2016

The following table sets forth Lecta's income statement line items in absolute numbers, as a percentage of revenue for the six months ended 30 June 2017 and 30 June 2016 and in the percentage change period over period:

	Six months ended 30 June					
(in millions of euro, except percentages)	2017 (unaudited)	%	2016 (unaudited)	%	Change	% change
Volume sold (in thousands of metric tons)	777.4		758.1		+19.4	+2.6%
Revenue	737.0	100.0	716.8	100.0	+20.1	+2.8%
Change in inventories of finished goods and work in progress	3.3	0.4	9.2	1.3	-5.9	-64.3%
Raw materials and consumables used	(376.1)	(51.0)	(371.2)	(51.8)	-4.9	+1.3%
Labor costs	(95.8)	(13.0)	(96.3)	(13.4)	+0.5	-0.5%
Other operating costs except non-recurring items	(208.3)	(28.3)	(195.3)	(27.2)	-13.0	+6.6%
EBITDA	60.1	8.2	63.3	8.8	-3.2	-5.1%
Depreciation	(26.9)	(3.7)	(27.3)	(3.8)	+0.3	-1.3%
Amortization	(0.2)	(0.0)	(0.1)	(0.0)	-0.1	+84.5%
Non-recurring items	(3.0)	(0.4)	(3.9)	(0.5)	+0.8	-21.0%
Profit from operations	30.0	4.1	32.1	4.5	-2.1	-6.6%
Finance costs	(30.5)	(4.1)	(33.3)	(4.6)	+2.8	-8.3%
Profit (loss) before tax from continuing operations	(0.6)	(0.1)	(1.2)	(0.2)	+0.6	-52.5%
Income tax	(5.4)	(0.7)	(1.4)	(0.2)	-4.0	-
Profit (loss) after tax from continuing operations	(6.0)	(0.8)	(2.6)	(0.4)	-3.4	+127.9%
Profit (loss) after tax from discontinued operations	0.0	0.0	0.0	0.0	+0.0	-
Profit (loss) after tax	(6.0)	(0.8)	(2.6)	(0.4)	-3.4	+127.9%

Revenue

For the six months ended 30 June 2017, Lecta had revenue of €737.0 million versus €716.8 million in the six months ended 30 June 2016, an increase of €20.1 million or +3%. This increase was attributable to:

- Higher sales of CWF, Specialties and Purchased Products of €+2.1 million or +0%, from €685.3 million in 1H2016 to €687.3 million in 1H2017, resulting from higher sales volumes of 19,400 metric tons or +3%, 777,400 metric tons in 1H2017 vs 758,100 metric tons in 1H2016, but a decrease in average net sales price of -20€/t or -2%, 884€/t in 1H2017 vs 904€/t in 1H2016; and
- Higher sales of energy of €+18.1 million or +57%, from €31.6 million in 1H2016 to €49.6 million in 1H2017, resulting from higher sales volumes of 15,200 MWh or +3%, 559,000 MWh in 1H2017 vs 543,800 MWh in 1H2016, and an increase in average sales price of +31€/MWh or +53%, 89€/MWh in 1H2017 vs 58€/MWh in 1H2016.

Raw Materials and Consumables Used

The costs of raw materials and consumables used increased by €4.9 million, or +1%, from €371.2 million in 1H2016 to €376.1 million in 1H2017, and as a percentage of revenue they decreased from 51.8% in 1H2016 to 51.0% in 1H2017. The absolute increase was mainly attributable to higher purchased volumes and an increase in the average consumption price of latex from 1H2016 to 1H2017.

Labor Costs

Labor costs decreased by €0.5 million, or -1%, from €96.3 million in 1H2016 to €95.8 million in 1H2017, and as a percentage of revenue they decreased from 13.4% in 1H2016 to 13.0% in 1H2017.
The headcount decreased by 29 heads, from 3,311 employees in 1H2016 to 3,281 employees in 1H2017, despite the consolidation of Plot Service SrL as of May 2017 (see the section Changes in the consolidation perimeter).

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items increased by €13.0 million, or +7%, from €195.3 million in 1H2016 to €208.3 million in 1H2017, and as a percentage of revenue they increased from 27.2% in 1H2016 to 28.3% in 1H2017. The absolute increase was essentially due to higher costs of energy, packaging materials, outsourcing, distribution, selling variable and overheads, partly offset by a decrease in maintenance, and production consumables costs.

EBITDA

EBITDA decreased by €3.2 million, or -5%, from €63.3 million in 1H2016 to €60.1 million in 1H2017. This decrease was the result of higher costs of packaging materials, outsourcing, distribution, selling variable and overheads, partly offset by higher sales of paper in volume, lower net energy costs, labor, maintenance, and production consumables costs, in a context of lower unit gross margin.

Depreciation and Amortization

Depreciation and amortization decreased by €0.3 million, or -1%, from €27.4 million in 1H2016 to €27.1 million in 1H2017.

Non-recurring items

In 1H2017, Lecta recorded a non-recurring charge of €-3.0 million, including €+5.3 million of capital gain on the disposal of a plot of land and a building of the mill in Sarrià de Ter, permanently closed in October 2014, €-6.8 million associated to the attempt of private placement to institutional investors (see the section Projects and plans), and €-1.6 million of Organization efficiency program. In 1H2016, Lecta recorded a non-recurring charge of €-3.9 million mainly in relation with its Organization efficiency program.

Finance Costs

Finance costs decreased by €2.8 million or -8%, from €33.3 million in 1H2016 to €30.5 million in 1H2017.

Income Tax

Lecta recorded an income tax charge of €-5.4 million in 1H2017 and €-1.4 million in 1H2016.

Liquidity and Capital Resources

Liquidity

Lecta's primary sources of liquidity are cash from operating activities and the RCF credit line.

Notes

On 27 July 2016, Lecta Group successfully completed its offering of €600 million new notes ("2016 notes"):
- €225 million of floating rate senior secured notes due 2022, bearing an interest rate of 3-month Euribor (with a floor at 0%) + 6.375%;
- €375 million of fixed rate senior secured notes due 2023, bearing an interest rate of 6.500%.

The 2016 notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market.

Credit Facilities

Lecta has been making timely payments on the debt outstanding under its Credit Facilities.
As part of the refinancing made on 27 July 2016, Lecta successfully completed the negotiation of a €65.0 million RCF due 2022, unused on 30 June 2017.

Cash

At 30 June 2017 Lecta had €107.8 million of cash and cash equivalent.

Capital Resources

Lecta's total capital resources amounted to €112.4 million in Total equity and €614.7 million in Non-current interest-bearing borrowings as at 30 June 2017, compared to €129.1 million and €613.5 million, respectively, as at 30 June 2016. In addition, Current interest-bearing borrowings amounted to €16.1 million as at 30 June 2017, compared to €4.6 million as at 30 June 2016.

CASH FLOW

Three Months Ended 30 June 2017 Compared to Three Months Ended 30 June 2016

Lecta's cash flows for the three months ended 30 June 2017 and 30 June 2016 were as follows:

	Three months ended 30 June		
(in millions of euro)	2017 (unaudited)	2016 (unaudited)	Change
Cash flows from (used in) operating activities			
EBITDA	29.9	31.4	-1.5
Inventories	(10.3)	0.9	-11.3
Trade receivables	(10.0)	7.7	-17.7
Prepayments	0.9	(1.2)	+2.0
Trade payables	5.8	(22.0)	+27.8
Working capital	(13.6)	(14.5)	+0.9
Provisions	0.1	1.0	-0.9
Greenhouse gas emission rights	(0.5)	0.0	-0.5
Proceeds (payments) related to non-recurring items	(2.7)	(2.1)	-0.6
Income tax paid	(2.8)	(1.8)	-1.0
Net cash flow (used in) / from operating activities	10.4	14.0	-3.6
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(8.9)	(10.5)	+1.6
Proceeds from disposal of property, plant and equipment	(0.1)	(0.8)	+0.8
Receipt of grants	(1.3)	(1.4)	+0.0
Purchase of other assets	0.0	(0.0)	+0.1
Proceeds from disposal of other assets	0.1	(0.0)	+0.1
Net cash flow (used in) / from investing activities	(10.2)	(13.0)	+2.8
Cash flows from (used in) financing activities			
Interest paid	(8.1)	(19.9)	+11.8
Issue costs of borrowings	(0.8)	(0.2)	-0.6
Proceeds from borrowings	1.0	16.0	-15.0
Repayment of borrowings	(1.8)	(22.4)	+20.6
Payments of finance lease liabilities	(0.2)	(0.0)	-0.1
Net cash flow (used in) / from financing activities	(9.8)	(26.5)	+16.7
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(9.6)	(25.6)	+16.0
Net foreign exchange difference	(0.0)	0.2	-0.2
Cash & cash equivalents net of Bank overdrafts at 1 April	106.3	120.8	-14.5
Cash & cash equivalents net of Bank overdrafts at period end	96.7	95.5	+1.3
Of which cash and cash equivalents	107.8	112.5	-4.6
Of which bank overdrafts	(11.1)	(17.0)	+5.9

During the three months ended 30 June 2017, Lecta's cash and cash equivalents decreased by €8.6 million or -7%, from €116.4 million at 1 April 2017 to €107.8 million at 30 June 2017. The principal uses of cash during the three months ended 30 June 2017 were for Working Capital of €-13.6 million, Payments related to non-recurring items of €-2.7 million, Income tax paid of €-2.8 million, Purchase of property plant and equipment of €-8.9 million, Interest payments of €-8.1 million, Repayment of borrowings net of Proceeds from borrowings of €-0.8 million.

During the three months ended 30 June 2017, the cash flows from operating activities were €+10.4 million, €-3.6 million less than reported during the three months ended 30 June 2016. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+29.9 million;
- Increase in Working capital of €-13.6 million due to increases in inventories (impact of €-10.3 million), in trade receivables (impact of €-10.0 million), and in trade payables (impact of €+5.8 million), and reduction in prepayments (impact of €+0.9 million);
- Provisions of €+0.1 million;
- Greenhouse gas emission rights of €-0.5 million consist in anticipated purchases of CO2 emission rights, reported in “Other intangible assets”;
- Payments related to non-recurring items of €-2.7 million in relation with the attempt of private placement to institutional investors (see the section Projects and plans), and the Organization efficiency program;
- Income tax payments of €-2.8 million, of which €-0.3 million in relation with CICE tax credits in order to neutralize the above Ebitda profit booked in “Labor costs”, as the cash was not collected during the three months ended 30 June 2017.

During the three months ended 30 June 2017, the cash flows used in investing activities were €-10.2 million, €+2.8 million less than the cash flows used in investing activities during the three months ended 30 June 2016. The principal uses and sources of cash in investing activities were from:

- Purchase of property, plant and equipment of €-8.9 million;
- Proceeds from disposal of property, plant and equipment of €-0.1 million;
- Receipt of grant of €-1.3 million in relation with White and Green certificates in order to neutralize the profit booked in “Other operating costs except non-recurring items” above Ebitda, as the cash was not collected as at 30 June 2017;
- Proceeds from disposal of other assets of €+0.1 million.

During the three months ended 30 June 2017, the cash flows used in financing activities were €-9.8 million, €+16.7 million less than the cash flows used in financing activities during the three months ended 30 June 2016. The principal uses of cash in financing were for:

- Interest paid of €-8.1 million;
- Issue costs on borrowings of €-0.8 million,
- Repayment of borrowings net of Proceeds from borrowings of €-0.8 million;
- Payments of finance lease liabilities of €-0.2 million.

Six months Ended 30 June 2017 Compared to Six months Ended 30 June 2016

Lecta's cash flows for the six months ended 30 June 2017 and 30 June 2016 were as follows:

(in millions of euro)	Six months ended 30 June 2017 (unaudited)	 2016 (unaudited)	 Change
Cash flows from (used in) operating activities			
EBITDA	60.1	63.3	-3.2
Inventories	(6.3)	(6.2)	-0.1
Trade receivables	(13.4)	15.8	-29.2
Prepayments	(0.7)	(0.9)	+0.2
Trade payables	1.3	(39.3)	+40.6
Working capital	(19.2)	(30.7)	+11.5
Provisions	0.3	1.6	-1.3
Greenhouse gas emission rights	(0.5)	(2.5)	+1.9
Proceeds (payments) related to non-recurring items	(3.5)	(3.5)	+0.0
Income tax paid	(2.9)	(2.2)	-0.8
Net cash flow (used in) / from operating activities	34.3	26.0	+8.3
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(22.4)	(21.9)	-0.4
Proceeds from disposal of property, plant and equipment	5.9	0.0	+5.9
Receipt of grants	(3.5)	(3.6)	+0.0
Purchase of other assets	0.0	(0.0)	+0.0
Proceeds from disposal of other assets	0.1	0.0	+0.1
Net cash flow (used in) / from investing activities	(19.9)	(25.7)	+5.8
Cash flows from (used in) financing activities			
Interest paid	(29.4)	(31.1)	+1.7
Issue costs of borrowings	(0.8)	(0.2)	-0.6
Proceeds from borrowings	16.2	26.0	-9.8
Repayment of borrowings	(18.2)	(32.4)	+14.2
Payments of finance lease liabilities	(0.3)	(0.2)	-0.1
Net cash flow (used in) / from financing activities	(32.5)	(37.9)	+5.4
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(18.1)	(37.5)	+19.4
Net foreign exchange difference	0.0	0.5	-0.5
Cash & cash equivalents net of Bank overdrafts at 1 January	114.8	132.5	-17.7
Cash & cash equivalents net of Bank overdrafts at period end	96.7	95.5	+1.3
Of which cash and cash equivalents	107.8	112.5	-4.6
Of which bank overdrafts	(11.1)	(17.0)	+5.9

During the six months ended 30 June 2017, Lecta's cash and cash equivalents decreased by €26.6 million or -20%, from €134.4 million at 1 January 2017 to €107.8 million at 30 June 2017. The principal uses of cash during the six months ended 30 June 2017 were for Working Capital of €-19.2 million, Payments related to non-recurring items of €-3.5 million, Income tax paid of €-2.9 million, Purchase of property plant and equipment of €-22.4 million, Interest payments of €-29.4 million, Repayment of borrowings net of Proceeds from borrowings of €-2.0 million.

During the six months ended 30 June 2017, the cash flows from operating activities were €+34.3 million, €+8.3 million more than reported during the six months ended 30 June 2016. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+60.1 million;
- Increase in Working capital of €-19.2 million due to increases in inventories (impact of €-6.3 million), in trade receivables (impact of €-13.4 million), in prepayments (impact of €-0.7 million), and in trade payables (impact of €+1.3 million);
- Provisions of €+0.3 million;
- Greenhouse gas emission rights of €-0.5 million consist in anticipated purchases of CO2 emission rights, reported in "Other intangible assets";
- Payments related to non-recurring items of €-3.5 million in relation with the attempt of private placement to institutional investors (see the section Projects and plans), and the Organization efficiency program;
- Income tax payments of €-2.9 million, of which €-0.6 million in relation with CICE tax credits in order to neutralize the above Ebitda profit booked in "Labor costs", as the cash was not collected during the six months ended 30 June 2017.

During the six months ended 30 June 2017, the cash flows used in investing activities were €-19.9 million, €+5.8 million less than the cash flows used in investing activities during the six months ended 30 June 2016. The principal uses and sources of cash in investing activities were from:

- Purchase of property, plant and equipment of €-22.4 million;
- Proceeds from disposal of property, plant and equipment of €+5.9 million, mainly thanks to the disposal of a plot of land and a building of the mill in Sarrià de Ter, permanently closed in October 2014;
- Receipt of grant of €-3.5 million in relation with White and Green certificates in order to neutralize the profit booked in "Other operating costs except non-recurring items" above Ebitda, as the cash was not collected as at 30 June 2017;
- Proceeds from disposal of other assets of €+0.1 million.

During the six months ended 30 June 2017, the cash flows used in financing activities were €-32.5 million, €+5.4 million less than the cash flows used in financing activities during the six months ended 30 June 2016. The principal uses of cash in financing were for:

- Interest paid of €-29.4 million;
- Issue costs on borrowings of €-0.8 million,
- Repayment of borrowings net of Proceeds from borrowings of €-2.0 million;
- Payments of finance lease liabilities of €-0.3 million.

Projects and Plans

The Management has Board authorization to explore projects aimed at (i) the simplification of the Group structure from a corporate and tax standpoint, (ii) the optimization of the operating organization, (iii) the strengthening of its specialty papers and merchanting operations, and (iv) the identification of exit opportunities.

On 26 May 2017, Lecta announced its intention to offer newly issued ordinary shares in a private placement to institutional investors. Certain of Lecta's shareholders also intended to sell part or all of their shares. The shares were expected to be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.
On 21 June 2017, Lecta Board has decided not to pursue a listing at this point despite the positive response shown by potential investors, and to continue assessing all options to optimize value for all stakeholders.

Capital Expenditures and Investments

In the three months ended 30 June 2017, capital expenditures were €8.9 million, i.e. €3.7 million for major paper machine rebuilds, €1.5 million for cost reduction and productivity improvement, €11.2 million for maintenance, €1.5 million for information technology, €0.5 million for environment and safety, and an increase in capital payables of €9.5 million.

In the six months ended 30 June 2017, capital expenditures were €22.4 million, i.e. €7.7 million for major paper machine rebuilds, €2.3 million for cost reduction and productivity improvement, €13.6 million for maintenance, €3.6 million for information technology, €1.2 million for environment and safety, and an increase in capital payables of €6.0 million.

Organization Efficiency Program

The integration process covers Lecta industrial operations in Italy, France and Spain, as well as the paper distribution ones in the same countries and, additionally, Portugal. Within the Organization efficiency program, Lecta planned several cost reduction projects.

For the six month period ended 30 June 2017 the restructuring cash cost associated to Lecta efficiency programs was €-1.4 million, reported in the line "Non-recurring items". After payments, as at 30 June 2017, the remaining provision for restructuring was €5.8 million.

Summary of the cost reduction initiatives since the end of 2012

The cost reduction initiatives included:

- Agreement with Cartiere del Garda employees to reduce labor cost through the conversion of part of fixed into variable salary linked to the performance of the company (February 2013);

- Reorganization of the Paper merchanting structure in Italy, Portugal, and Spain with total headcount reduction of 137 (until March 2013);
- Harmonization of the bonus scheme indexed to EBITDA performance (March 2013), cancellation of pension fund schemes (May 2013) and mill special agreements (July 2013) in Spain;
- Permanent closure of Condat production line n°6 (with a production capacity of 130,000 tons of CWF) with a job position reduction of 139 (June 2013)
- Denunciation of Progil pension regime to active employees in Condat (June 2013); this denunciation led to a one-off reduction of the provision for defined benefit post- employment plans of €8.0 million reported in the line "Labor costs" in September 2013;
- Curtailment of the provision for Retirement plan IFC following the implementation of the restructuring in Condat; the one-off reduction of the provision for defined benefit post-employment plans of €1.5 million was reported in the line "Labor costs" in September 2013, and €0.2 million in December 2013;
- Denunciation of labor side agreements in Condat (December 2013) related to the working time and the structure of the remuneration. Condat's management successfully negotiated with the unions a new set of labor side agreements designed to promote the company performance, and the individual and collective efforts. Additional negotiations in the same area are still in progress.
- Closure of a warehouse in UK with a job reduction position of 4 (September 2013).
- Reorganization of the Paper merchanting structure in Italy and France aiming at centralizing the management and administration activities, adapting the structure to the reduced size of the market, outsourcing the transportation activity, reorganizing the logistic services with the closure of 3 warehouses in December 2013 and 1 in August 2014, associated to a job position reduction of 78 (until August 2014);
- Permanent closure of Berrobi / Uranga paper mill (with a production capacity of 27,000 tons of base paper) (January 2014);
- Permanent closure of Sarrià de Ter paper mill (with a production capacity of 65,000 tons of base paper and UWF) and Cogeneración del Ter plant (with a power of 25MW), with a job position reduction of 132 (October 2014);
- Centralization of the group financial and IT activities in Barcelona with a job position reductions of 4 (October 2014) and 1 (March 2016);
- Outsourcing of non-core activities in Sant Joan mill associated with the transfer of 133 job positions (February 2015);
- And a general company-wide organization efficiency program with job position reductions of 127 (2013-2016) and 31 (2017).

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Alto Garda Power SrL, the Italian cogeneration plant of Lecta, was informed in a preliminary statement dated 14 July 2017 that the publicly owned company GSE SpA (Gestore dei Servizi Energetici) is challenging part of the Green certificates granted to it for the period 2010-2015. If confirmed the claim would lead to the recognition of a pre-tax loss of circa € (5) million. Under such circumstances, Alto Garda Power SrL reserves its rights to defend its own interests.

On 28 July 2017, Alto Garda Power SrL sold the White certificates granted to it for the year 2016 against the payment of € 9.9 million, leading to the recognition of a pre-tax gain of € 7.0 million.

MANAGEMENT AND CORPORATE GOVERNANCE OF LECTA SA

Board of Directors

The Board of Directors was appointed at the Shareholders' meeting of 13 April 2017:

- Santiago Ramírez Larrauri, Chairman;
- Eduardo Querol,
- Andrea Minguzzi,
- Emanuela Brero,
- Giorgio De Palma,
- Pierre Denis,
- Martine Gerber,
- Yann Hilpert,
- Stella Le Cras,
- Bruce Hardy McLain,
- Thomas Morana,
- François Pfister,
- Delphine Tempé.

The Board of Directors