Management report

For the period ended 30 September 2019

The discussion contained herein is based on our reviewed interim financial information for the periods ended 30 September 2019 and 30 September 2018.

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 in the Interim Financial statements). The core activity of Lecta is to produce and sell paper. In this context, Lecta operates cogeneration plants that burn gas and produce electricity and steam. The production of steam is internally consumed, while the production of electricity can be internally consumed or sold to the grid. For the segment reporting, the sale of electricity to the grid 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 periods ended 30 September 2019, with the same period of last year and the prior quarter:

Net Sales of Paper

Products & Services	Jan to Sept	Jan to Sept	Change		Q3	Q3	Change		Q3	Q2	Change	
(in EUR M)	2019	2018	absolute	%	2019	2018	absolute	%	2019	2019	absolute	%
Coated Woodfree	485	561	-76	-14%	143	180	-37	-20%	143	156	-13	-8%
Specialties	365	352	+13	+4%	114	122	-8	-7%	114	122	-8	-7%
Purchased products	124	130	-6	-5%	37	38	-1	-3%	37	43	-6	-15%
Total	**974**	**1,044**	-69	-7%	**294**	**340**	-46	-14%	**294**	**321**	-28	-9%

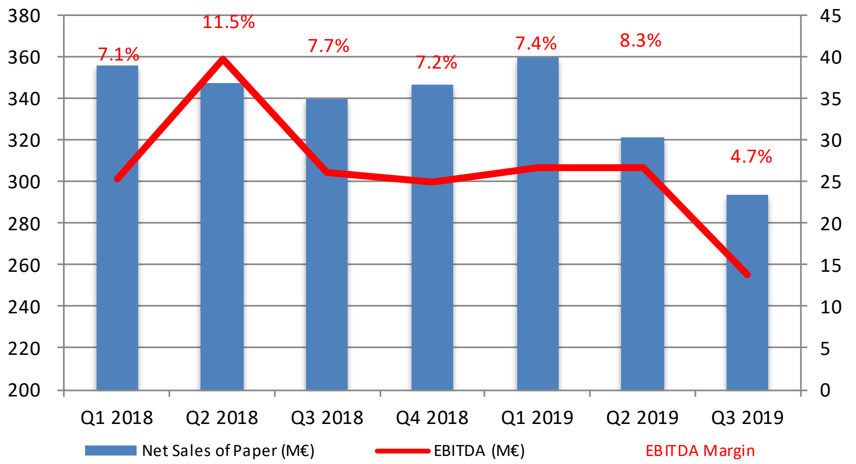
EBITDA

Products & Services	Jan to Sept	Jan to Sept	Change		Q3	Q3	Change		Q3	Q2	Change	
(in EUR M)	2019	2018	absolute	%	2019	2018	absolute	%	2019	2019	absolute	%
Coated Woodfree	23	38	-15	-39%	4	8	-4	-49%	4	11	-7	-64%
Specialties	38	49	-11	-22%	8	17	-9	-51%	8	13	-5	-38%
Purchased products	6	5	+1	+31%	2	1	+0	+9%	2	2	-1	-31%
Total	**67**	**91**	-24	-26%	**14**	**26**	-12	-47%	**14**	**27**	-13	-48%

EBITDA Margin

Products & Services	Jan to Sept	Jan to Sept	Change	Q3	Q3	Change	Q3	Q2	Change
	2019	2018	Percentage points	2019	2018	Percentage points	2019	2019	Percentage points
Coated Woodfree	4.8%	6.7%	-2.0	2.8%	4.4%	-1.6	2.8%	7.2%	-4.4
Specialties	10.5%	13.9%	-3.4	7.2%	13.7%	-6.5	7.2%	10.8%	-3.6
Purchased products	5.0%	3.6%	+1.4	4.3%	3.8%	+0.5	4.3%	5.4%	-1.0
Total	**6.9%**	**8.8%**	-1.8	**4.7%**	**7.7%**	-3.0	**4.7%**	**8.3%**	-3.6

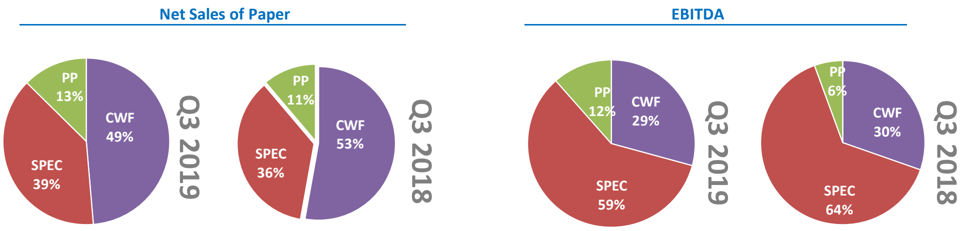
Evolution of Net Sales of Paper, EBITDA, and EBITDA Margin:



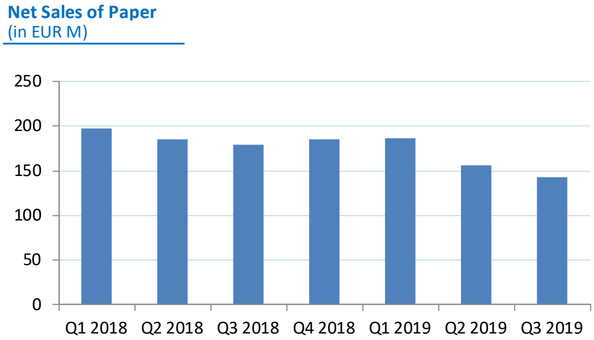
Breakdown of Net Sales of Paper and EBITDA by Product and Service:

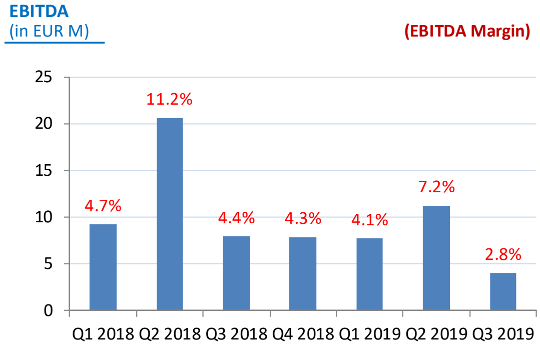
	Net Sales of Paper			EBITDA		
	Q3 2019	Q3 2018	Change	Q3 2019	Q3 2018	Change
Coated Woodfree	**49%**	53%	-4pp	**29%**	30%	-1pp
Specialties	**39%**	36%	+3pp	**59%**	64%	-5pp
Purchased products	**13%**	11%	+1pp	**12%**	6%	+6pp
	100%	100%		**100%**	100%	

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



CWF





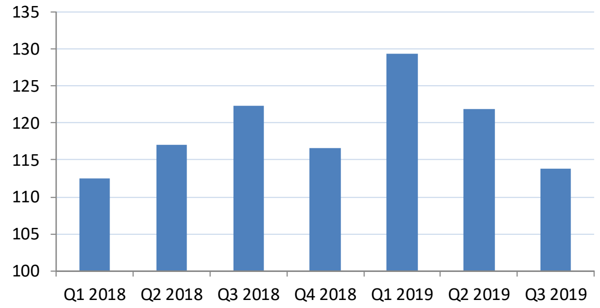
In 3Q2019, the net sales of Coated Woodfree were €143 million vs €180 million in 3Q2018, a decrease of €37 million or -20%. The Ebitda at €4 million was lower than in 3Q2018 (€8 million). This decrease was mainly due to a reduction in sales volume and an increase in distribution costs, partly offset by an increase of net sales price and reductions in variable production costs and fixed expenses.

A new Enterprise Resource Planning system was implemented in June 2019 in Riva del Garda paper mill. The implementation was more challenging than expected, and resulted in a loss of production and deliveries of CWF from the mill, as well as extra cost. The estimated and accounted for EBITDA impact in 3Q 2019 was negative €(5.9) million. The mill is operating normally since the month of October.

Because of the implementation of IFRS 16 "Leases" as of 1 January 2019 (see Note 1.2 to the Interim financial statements), in 3Q2019 the Other operating costs except non-recurring items have been reduced by circa €1.0 million, while the Depreciation and the Finance costs have been increased.

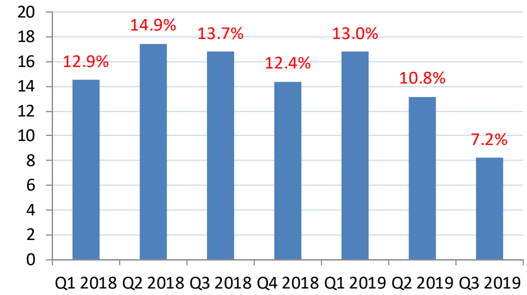
Specialties

Net Sales of Paper
(in EUR M)



EBITDA
(in EUR M)

(EBITDA Margin)



In 3Q2019, the net sales of Specialties were €114 million vs €122 million in 3Q2018, a decrease of €8 million or -7%. The Ebitda at €8 million was lower than in 3Q2018 (€17 million). This decrease was mainly due to reductions in sales volume and net sales price, an increase in variable production costs, partly offset by decreases in distribution costs and fixed expenses.

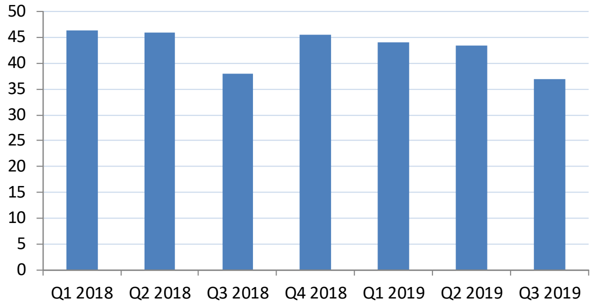
During 3Q2019 the volume suffered due to:

- Uncertainties prior to the announcement of the Lock-Up Agreement (see section Events after the statement of financial position);
- The necessity to divert some UWF production capacity to replace the temporary CWF production shortfall, consequence of Garda's ERP implementation issues;
- Continued decline of Carbonless demand.

Because of the implementation of IFRS 16 "Leases" as of 1 January 2019 (see Note 1.2 to the Interim financial statements), in 3Q2019 the Other operating costs except non-recurring items have been reduced by circa €0.3 million, while the Depreciation and the Finance costs have been increased.

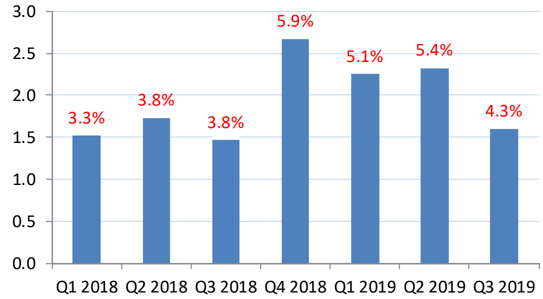
Purchased products

Net Sales of Paper
(in EUR M)



EBITDA
(in EUR M)

(EBITDA Margin)



In 3Q2019, the net sales of Purchased products were €37 million vs €38 million in 3Q2018, a decrease of €1 million or 3%. The Ebitda at €1.6 million was slightly higher than in 3Q2018 (€1.5 million).

Three Months Ended 30 September 2019 Compared to Three Months Ended 30 September 2018

The following table sets forth Lecta's income statement line items in absolute numbers, as a percentage of revenue for the quarters ended 30 September 2019 and 30 September 2018 and in the percentage change quarter over quarter:

	Three months ended 30 September					
(in millions of euro, except percentages)	2019 (unaudited)	%	2018 (unaudited)	%	Change	% change
Volume sold (in thousands of metric tonnes)	286.5		339.4		-52.9	-15.6%
Revenues	316.5	100.0	366.7	100.0	-50.1	-13.7%
Change in inventories of finished goods and work in progress	(2.9)	(0.9)	3.9	1.1	-6.8	-173.9%
Raw materials and consumables used	(160.8)	(50.8)	(187.3)	(51.1)	+26.5	-14.2%
Labor costs	(45.7)	(14.4)	(47.7)	(13.0)	+2.0	-4.2%
Other operating costs except non-recurring items	(93.3)	(29.5)	(109.3)	(29.8)	+16.0	-14.7%
EBITDA	13.9	4.4	26.2	7.1	-12.3	-47.0%
Depreciation	(14.1)	(4.5)	(13.5)	(3.7)	-0.6	+4.4%
Amortization	(0.0)	(0.0)	(0.0)	(0.0)	+0.0	-13.4%
Non-recurring items	(3.4)	(1.1)	(0.4)	(0.1)	-3.0	-
Profit from operations	(3.7)	(1.2)	12.2	3.3	-15.9	-129.8%
Finance costs	(15.3)	(4.8)	(14.8)	(4.0)	-0.5	+3.6%
Profit (loss) before tax from continuing operations	(19.0)	(6.0)	(2.6)	(0.7)	-16.4	-
Income tax	(0.5)	(0.2)	(1.1)	(0.3)	+0.6	-51.7%
Profit (loss) after tax from continuing operations	(19.5)	(6.2)	(3.7)	(1.0)	-15.9	-
Profit (loss) after tax from discontinued operations	0.0	0.0	0.0	0.0	+0.0	-
Profit (loss) after tax	(19.5)	(6.2)	(3.7)	(1.0)	-15.9	-

Revenue

For the third quarter ended 30 September 2019, Lecta had revenue of €316.5 million versus €366.7 million in the third quarter ended 30 September 2018, a decrease of €50.1 million or -13.7%. This decrease was attributable to:

- Lower sales of CWF, Specialties and Purchased Products of €-46.2 million or -13.6%, from €339.8 million in 3Q2018 to €293.6 million in 3Q2019, resulting from lower sales volumes of 52,900 metric tons or -15.6%, 286,500 metric tons in 3Q2019 vs 339,400 metric tons in 3Q2018, but an increase in average net sales price of +24€/t or +2.4%, 1,025€/t in 3Q2019 vs 1,001€/t in 3Q2018.
  The reduction in sales volume was mainly due to the implementation of a new Enterprise Resource Planning system in June 2019 in Riva del Garda paper mill (see EBITDA).
- Lower sales of energy of €-3.9 million or -14.6%, from €26.9 million in 3Q2018 to €23.0 million in 3Q2019, resulting from higher sales volumes of 14,300 MWh or +5.3%, 284,000 MWh in 3Q2019 vs 269,700 MWh in 3Q2018, and a decrease in average sales price of -19€/MWh or -19%, 81€/MWh in 3Q2019 vs 100€/MWh in 3Q2018.

Raw Materials and Consumables Used

The costs of raw materials and consumables used decreased by €26.5 million, or-14.2%, from €187.3 million in 3Q2018 to €160.8 million in 3Q2019, and as a percentage of revenue they decreased from 51.1% in 3Q2018 to 50.8% in 3Q2019. The absolute decrease was mainly attributable to lower produced and purchased volumes, and a decrease in the average consumption prices of pulp of -115€/t from 3Q2018 to 3Q2019.

Labor Costs

Labor costs decreased by €2.0 million, or -4.2%, from €47.7 million in 3Q2018 to €45.7 million in 3Q2019, but as a percentage of revenue they increased from 13.0% in32Q2018 to 14.4% in 3Q2019.
The headcount decreased by 92 heads, from 3,258 employees in 3Q2018 to 3,166 employees in 3Q2019.

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items decreased by €16.0 million, or -14.7%, from €109.3 million in 3Q2018 to €93.3 million in 3Q2019, and as a percentage of revenue they decreased from 29.8% in 3Q2018 to 29.5% in

3Q2019. The absolute decrease was essentially due to lower costs of energy, packaging, distribution, selling variable, maintenance, and production consumables, partly offset by higher costs of outsourcing and overhead.

EBITDA

EBITDA decreased by €12.3 million, or -47%, from €26.2 million in 3Q2018 to €13.9 million in 3Q2019. This decrease was the result of lower sales of paper in volume, higher outsourcing, and overhead costs, partly offset by lower net energy cost, costs of packaging, distribution, selling variable, labor, maintenance, and production consumables, in a context of higher unit gross margin.

A new Enterprise Resource Planning system was implemented in June 2019 in Riva del Garda paper mill. The implementation was more challenging than expected, and resulted in a loss of production and deliveries of CWF from the mill, as well as extra cost. The estimated and accounted for EBITDA impact in 3Q 2019 was negative €(5.9) million. The mill is operating normally since the month of October.

Because of the implementation of IFRS 16 “Leases” as of 1 January 2019 (see Note 1.2 to the Interim financial statements), in 3Q2019 the Other operating costs except non-recurring items have been reduced by circa €1.4 million, while the Depreciation and the Finance costs have been increased.

Depreciation and Amortization

Depreciation and amortization increased by €0.6 million, from €13.6 million in 3Q2018 to €14.1 million in 3Q2019, of which €1.2 million due to the implementation of IFRS 6 “Leases” (see EBITDA).

Non-recurring items

In 3Q2019, Lecta recorded a non-recurring charge of €3.4 million, including €1.7 million of Organization efficiency program and €1.8 million in relation with the recapitalization of the Group (see also the sections Projects and plans, and Events after the the Statement of Financial Position Date). In 3Q2018, Lecta recorded a non-recurring charge of €0.4 million, including €1.0 million of Organization efficiency program.

Finance Costs

Finance costs increased by €0.5 million or +3.6%, from €14.8 million in 3Q2018 to €15.3 million in 3Q2019, of which €0.2 million due to the implementation of IFRS 16 “Leases” (see EBITDA).

Income Tax

Lecta recorded income tax charges of €0.5 million in 3Q2019 and €1.1 million in 3Q2018.

Nine Months Ended 30 September 2019 Compared to Nine Months Ended 30 September 2018

The following table sets forth Lecta's income statement line items in absolute numbers, as a percentage of revenue for the nine months ended 30 September 2019 and 30 September 2018 and in the percentage change period over period:

(in millions of euro, except percentages)	Nine months ended 30 September 2019 (unaudited)	%	2018 (unaudited)	%	Change	% change
Volume sold (in thousands of metric tonnes)	953.2		1,084.3		-131.2	-12.1%
Revenues	1,051.1	100.0	1,113.8	100.0	-62.6	-5.6%
Change in inventories of finished goods and work in progress	(14.2)	(1.4)	22.9	2.1	-37.2	-161.9%
Raw materials and consumables used	(534.6)	(50.9)	(591.4)	(53.1)	+56.8	-9.6%
Labor costs	(139.2)	(13.2)	(144.3)	(13.0)	+5.1	-3.5%
Other operating costs except non-recurring items	(295.7)	(28.1)	(309.7)	(27.8)	+14.0	-4.5%
EBITDA	67.4	6.4	91.3	8.2	-23.9	-26.2%
Depreciation	(43.4)	(4.1)	(38.7)	(3.5)	-4.7	+12.1%
Amortization	(0.1)	(0.0)	0.5	0.0	-0.7	-123.5%
Non-recurring items	(5.1)	(0.5)	(2.4)	(0.2)	-2.7	+112.5%
Profit from operations	18.9	1.8	50.8	4.6	-32.0	-62.9%
Finance costs	(46.2)	(4.4)	(46.3)	(4.2)	+0.1	-0.2%
Profit (loss) before tax from continuing operations	(27.3)	(2.6)	4.5	0.4	-31.9	-
Income tax	(4.8)	(0.5)	(6.3)	(0.6)	+1.4	-23.0%
Profit (loss) after tax from continuing operations	(32.2)	(3.1)	(1.7)	(0.2)	-30.4	-
Profit (loss) after tax from discontinued operations	0.0	0.0	0.0	0.0	+0.0	-
Profit (loss) after tax	(32.2)	(3.1)	(1.7)	(0.2)	-30.4	-

Revenue

For the nine months ended 30 September 2019, Lecta had revenue of €1,051.1 million versus €1,113.8 million in the nine months ended 30 September 2018, a decrease of €62.6 million or -5.6%. This decrease was attributable to:

- Lower sales of CWF, Specialties and Purchased Products of €69.3 million or -6.6%, from €1.043.7 million in September 2018 YTD to €974.4 million in September 2019 YTD, resulting from lower sales volumes of 131,200 metric tons or -12.1%, 953,200 metric tons in September 2019 YTD vs 1,084,300 metric tons in September 2018 YTD, but an increase in average net sales price of +60€/t or +6%, 1,022€/t in September 2019 YTD vs 963€/t in September 2019 YTD.
  The reduction in sales volume was partly due to the implementation of a new Enterprise Resource Planning system in June 2019 in Riva del Garda paper mill (see EBITDA).
- Higher sales of energy of €6.7 million or +10%, from €70.1 million in September 2018 YTD to €76.8 million in September 2019 YTD, resulting from higher sales volumes of 90,500 MWh or +11%, 899,700 MWh in September 2019 YTD vs 809,100 MWh in September 2018 YTD, and a decrease in average sales price of 1€/MWh or -2%, 85€/MWh in September 2019 YTD vs 87€/MWh in September 2018 YTD.

Raw Materials and Consumables Used

The costs of raw materials and consumables used decreased by €56.8 million, or-9.6,%, from €591.4 million in September 2018 YTD to €534.6 million in September 2019 YTD, and as a percentage of revenue they decreased from 53.1% in September 2018 YTD to 50.9% in September 2019 YTD. The absolute decrease was mainly attributable to lower produced and purchased volumes, and a decrease in the average consumption prices of pulp of -30€/t from September 2018 YTD to September 2019 YTD.

Labor Costs

Labor costs decreased by €5.1 million, or -3.5%, from €144.3 million in September 2018 YTD to €139.2 million in September 2019 YTD, and as a percentage of revenue they increased from 13.0% in September 2018 YTD to 13.2% in September 2019 YTD.

The headcount decreased by 81 heads, from 3,249 employees in September 2018 YTD to 3,168 employees in September 2019 YTD.

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items decreased by €14.0 million, or -4.5%, from €309.7 million in September 2018 YTD to €295.7 million in September 2019 YTD, and as a percentage of revenue they increased from 27.8% in September 2018 YTD to 28.1% in September 2019 YTD. The absolute decrease was essentially due to lower costs of energy, packaging, distribution, selling variable, maintenance, and production consumables, partly offset by higher costs of outsourcing and overhead.

EBITDA

EBITDA decreased by €23.9 million, or -26.2%, from €91.3 million in September 2018 YTD to €67.4 million in September 2019 YTD. This decrease was the result of lower sales of paper in volume, higher net energy, outsourcing and overhead costs, partly offset by lower costs of packaging, distribution, selling variable, labor, maintenance, production consumables, in a context of higher unit gross margin.

A new Enterprise Resource Planning system was implemented in June 2019 in Riva del Garda paper mill. The implementation was more challenging than expected, and resulted in a loss of production and deliveries of CWF from the mill, as well as extra cost. The estimated and accounted for EBITDA impact in September 2019 YTD was negative €(7.7) million. The mill is operating normally since the month of October.

Because of the implementation of IFRS 16 "Leases" as of 1 January 2019 (see Note 1.2 to the Interim financial statements), in September 2019 YTD the Other operating costs except non-recurring items have been reduced by circa €4.1 million, while the Depreciation and the Finance costs have been increased.

Depreciation and Amortization

Depreciation and amortization increased by €5.4 million, from €38.1 million in September 2018 YTD to €43.5 million in September 2019 YTD, of which €3.7 million due to the implementation of IFRS 16 "Leases" (see EBITDA)..

Non-recurring items

In September 2019 YTD, Lecta recorded a non-recurring charge of €5.1 million, including €3.1 million of Organization efficiency program and €1.8 million in relation with the recapitalization of the Group (see also the sections Projects and plans, and Events after the the Statement of Financial Position Date). In September 2018 YTD, Lecta recorded a non-recurring charge of €2.4 million, including €2.5 million of Organization efficiency program.

Finance Costs

Finance costs decreased by €0.1 million or -0.2%, from €46.3 million in September 2018 YTD to €46.2 million in September 2019 YTD, despite an increase of €0.7 million due to the implementation of IFRS 16 "Leases" (see EBITDA)..

Income Tax

Lecta recorded income tax charges of €4.8 million in September 2019 YTD and €6.3 million in September 2018 YTD.

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.
See also the sections Projects and plans, and Events after the the Statement of Financial Position Date.

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 million RCF due 2022. €65 million were fully used at 30 September 2019.
See also the sections Projects and plans, and Events after the the Statement of Financial Position Date.

Cash

At 30 September 2019 Lecta had €70.0 million of cash and cash equivalent.

Capital Resources

Lecta's total capital resources amounted to €67.7 million in Total equity and €626.6 million in Non-current interest-bearing borrowings as at 30 September 2019, compared to €108.0 million and €607.0 million, respectively, as at 30 September 2018. In addition, Current interest-bearing borrowings amounted to €80.6 million as at 30 September 2019, compared to €28.8 million as at 30 September 2018.

Cash Flow

Three Months Ended 30 September 2019 Compared to Three Months Ended 30 September 2018

Lecta's cash flows for the three months ended 30 September 2019 and 30 September 2018 were as follows:

	Three months ended 30 September		
(in millions of euro)	2019 (unaudited)	2018 (unaudited)	Change
Cash flows from (used in) operating activities			
EBITDA	13.9	26.2	-12.3
Inventories	13.9	(10.6)	+24.6
Trade receivables	6.4	(12.0)	+18.4
Prepayments	0.9	(0.6)	+1.4
Trade payables	(35.5)	(0.4)	-35.1
Working capital	(14.3)	(23.5)	+9.3
Provisions	3.1	1.3	+1.8
Greenhouse gas emission rights	0.0	(1.5)	+1.5
Proceeds (payments) related to non-recurring items	(3.6)	(0.4)	-3.1
Income tax paid	(1.1)	(3.3)	+2.2
Net cash flow (used in) / from operating activities	(2.0)	(1.3)	-0.6
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(10.6)	(13.2)	+2.6
Proceeds from disposal of property, plant and equipment	0.0	0.0	-0.0
Receipt of grants	(0.8)	1.9	-2.6
Purchase of subsidiary, net of cash acquired	(0.0)	0.0	-0.0
Purchase of other assets	0.0	(0.1)	+0.1
Proceeds from disposal of other assets	0.0	0.1	-0.1
Net cash flow (used in) / from investing activities	(11.4)	(11.3)	-0.1
Cash flows from (used in) financing activities			
Dividends paid to non-controlling interest	(1.4)	0.0	-1.4
Interest paid	(20.4)	(20.5)	+0.2
Issue costs of borrowings	(0.0)	(0.0)	-0.0
Proceeds from borrowings	33.1	12.3	+20.8
Repayment of borrowings	(1.9)	(14.0)	+12.1
Payments of finance lease liabilities	(1.2)	(0.1)	-1.1
Net cash flow (used in) / from financing activities	8.1	(22.3)	+30.5
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(5.2)	(34.9)	+29.7
Net foreign exchange difference	0.1	0.0	+0.0
Cash & cash equivalents net of Bank overdrafts at 1 July	51.6	80.5	-28.9
Cash & cash equivalents net of Bank overdrafts at period end	46.5	45.6	+0.9
Of which cash and cash equivalents	70.0	68.1	+1.9
Of which bank overdrafts	(23.5)	(22.5)	-1.0

During the three months ended 30 September 2019, Lecta's cash and cash equivalents decreased by €8.9 million or -11%, from €78.9 million at 1 July 2019 to €70.0 million at 30 September 2019. The principal uses of cash during the three months ended 30 September 2019 were for Working Capital of €-14.3 million, Payments related to non-recuring items of €-3.6 million, Purchase of property plant and equipment of €-10.6 million and Interest payments of €-20.4 million.

During the three months ended 30 September 2019, the cash flows used in operating activities were €-2.0 million, €-0.7 million more than cash flow used in operating activities during the three months ended 30 September 2018. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+13.9 million;
- Increase in Working capital of €-14.3 million due to
  - A decrease in inventories (impact of €+13.9 million),
  - A decrease in trade receivables (impact of €+6.4 million) mainly due to lower revenue partly offset by a slight increase in DSO,

- A decrease in prepayments (impact of €+0.9 million), and

- A decrease in trade payables (impact of €-35.5 million) mainly due to decreases in DPO and in consumption of purchased products, raw materials (wood, base paper, pulp and ORM), energy and other variable costs;

- Provisions increase of €+3.1 million;
- Payments related to non-recurring items of €-3.6 million, mainly in relation with the Organization efficiency program and the recapitalization of the group (see also the sections Projects and plans, and Events after the Statement of Financial Position Date);
- Income Tax payments of €-1.1 million;

During the three months ended 30 September 2019, the cash flows used in investing activities were €-11.4 million, €-0.1 million more than the cash flows used in investing activities during the three months ended 30 September 2018. The principal uses and sources of cash in investing activities were from:

- Purchase of property, plant and equipment of €-10.6 million;
- Receipt of Grants of €-0.8 million in relation with White certificates in order to neutralize the profit booked in "Other operating costs except non-recurring items" above Ebitda, as the cash was not collected during the three months ended 30 September 2019.

During the three months ended 30 September 2019, the cash flows from financing activities were €+8.1 million, €30.5 million more than the cash flows used in financing activities during the three months ended 30 September 2018. The principal uses and sources of cash in financing activities were for:

- Dividends paid to non-controlling interest of €-1.4 million;
- Interest paid of €-20.4 million;
- Proceeds from borrowings net of Repayment of borrowings of €+31.2 million;
- Payments of finance lease liabilities of €-1.2 million.

Nine Months Ended 30 September 2019 Compared to Nine Months Ended 30 September 2018

Lecta’s cash flows for the nine months ended 30 September 2019 and 30September 2018 were as follows:

(in millions of euro)	Nine months ended 30 September 2019 (unaudited)	2018 (unaudited)	Change
Cash flows from (used in) operating activities			
EBITDA	67.4	91.3	-23.9
Inventories	28.4	(35.6)	+64.1
Trade receivables	(1.4)	(13.6)	+12.2
Prepayments	0.4	(1.4)	+1.8
Trade payables	(88.7)	(17.6)	-71.1
Working capital	(61.3)	(68.2)	+6.9
Provisions	2.4	1.3	+1.2
Greenhouse gas emission rights	(1.9)	(3.6)	+1.7
Proceeds (payments) related to non-recurring items	(5.6)	(3.1)	-2.4
Income tax paid	(0.6)	(3.8)	+3.2
Net cash flow (used in) / from operating activities	0.5	13.9	-13.4
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(42.1)	(63.9)	+21.8
Proceeds from disposal of property, plant and equipment	0.1	0.2	-0.1
Receipt of grants	2.1	4.1	-2.0
Purchase of subsidiary, net of cash acquired	0.0	0.0	+0.0
Purchase of other assets	(0.0)	(0.0)	-0.0
Proceeds from disposal of other assets	0.5	0.2	+0.3
Net cash flow (used in) / from investing activities	(39.4)	(59.5)	+20.1
Cash flows from (used in) financing activities			
Dividends paid to non-controlling interest	(1.4)	(0.2)	-1.2
Interest paid	(50.0)	(50.9)	+1.0
Issue costs of borrowings	(0.1)	(0.0)	-0.0
Proceeds from borrowings	68.1	66.8	+1.3
Repayment of borrowings	(17.8)	(50.6)	+32.8
Payments of finance lease liabilities	(3.7)	(0.5)	-3.2
Net cash flow (used in) / from financing activities	(4.7)	(35.4)	+30.6
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(43.7)	(81.0)	+37.3
Net foreign exchange difference	0.1	0.2	-0.1
Cash & cash equivalents net of Bank overdrafts at 1 January	90.0	126.4	-36.3
Cash & cash equivalents net of Bank overdrafts at period end	46.5	45.6	+0.9
Of which cash and cash equivalents	70.0	68.1	+1.9
Of which bank overdrafts	(23.5)	(22.5)	-1.0

During the nine months ended 30 September 2019, Lecta’s cash and cash equivalents decreased by €37.3 million or -35%, from €107.2 million at 1 Jan 2019 to €70.0 million at 30 September 2019. The principal uses of cash during the nine months ended 30 September 2019 were for Working Capital of €-61.3 million, Payments related to non-recurring items of €-5.6 million, Purchase of property plant and equipment of €-42.1 million and Interest payments of €-50.0 million.

During the nine months ended 30 September 2019, the cash flows from operating activities were €+0.5 million, €13.4 million less than cash flow from operating activities during the nine months ended 30 September 2018. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+67.4 million;
- Increase in Working capital of €-61.3 million due to
  - A decrease in inventories (impact of €+28.4 million),
  - An increase in trade receivables (impact of €-1.4 million) mainly due to a slight increase in DSO partly offset by lower revenue,
  - A decrease in prepayments (impact of €+0.4 million),
  - A decrease in trade payables (impact of €-88.7 million) mainly due to a decrease in DPO and to a decrease in

consumption of purchased products, raw materials (wood, base paper, pulp and ORM), energy and other variable costs;
- Provisions of €+2.4 million;
- Payments related to the purchase of Greenhouse gas emission rights of €-1.9 million;
- Payments related to non-recurring items of €-5.6 million, mainly in relation with the Organization efficiency program and the recapitalization of the Group (see also the sections Projects and plans, and Events after the Statement of Financial Position Date);
- Income tax payments of €-0.6 million.

During the nine months ended 30 September 2019, the cash flows used in investing activities were €-39.4 million, €20.2 million less than the cash flows used in investing activities during the nine months ended 30 September 2018.
The principal uses and sources of cash in investing activities were from:
- Purchase of property, plant and equipment of €-42.1 million;
- Receipt of Grants of €2.1 million in relation with White certificates.

During the nine months ended 30 September 2019, the cash flows used in financing activities were €-4.7 million, €30.6 million less than the cash flows used in financing activities during the nine months ended 30 September 2018.
The principal uses and sources of cash in financing activities were for:
- Dividends paid to non-controlling interests of € -1.4 million;
- Interest paid of €-50.0 million;
- Proceeds from borrowings net of Repayment of borrowings of €+50.3 million;
- Payments of finance lease liabilities of €-3.7 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, (iv) the identification of exit opportunities, and (v) the recapitalization of the Group (see also the section Events after the statement of financial position).

Capital Expenditures and Investments

In the three months ended 30 September 2019, capital expenditures were €10.6 million, i.e. €1.7 million for major paper machine rebuilds, €1.8 million for cost reduction and productivity improvement, €3.5 million for maintenance, €2.1 million for information technology, €1.1 million for environment and safety, and a decrease in capital payables of €0.4 million.
In the nine months ended 30 September 2019, capital expenditures were €43.0 million, i.e. €6.0 million for major paper machine rebuilds, €19.4 million for cost reduction and productivity improvement, €6.6 million for maintenance, €5.4 million for information technology, €4.0 million for environment and safety, and a decrease in capital payables of €1.7 million.
As at 1 January 2019, following the implementation of IFRS 16 "Leases", Property, plant and equipment included €24.8 million of Right-Of-Use assets (see Note 1.2 to the Interim Financial statements).

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 three-month period ended 30 September 2019 the restructuring cash cost associated to Lecta efficiency programs was €1.6 million, reported in the line "Non-recurring items".
For the nine-month period ended 30 September 2019 the restructuring cash cost associated to Lecta efficiency programs was €3.1 million, reported in the line "Non-recurring items".
Organization Efficiency Program allows Lecta to maintain the labor costs in spite of salary increases and new job positions in relation with the investments in Specialties.

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 1 November 2019, Lecta SA ("**Lecta**") announced that a Lock-Up Agreement ("**LUA**") was entered into by Lecta, certain of its subsidiaries, a majority of holders of its existing senior secured fixed rate notes ("**Fixed Rate Notes**") and senior secured floating rate notes ("**Floating Rate Notes**") (together the "**Existing Notes**") (see Note 3.1) and holders of the majority in value of the existing debt under the Group's revolving credit facility ("**RCF**"), pursuant to which the parties thereto agreed, among other things, to take all actions which are reasonably requested and necessary in order to support, implement and facilitate the implementation of a comprehensive recapitalization transaction ("**Recapitalization**").

Execution of the LUA marked an important step in Lecta's efforts to implement the Recapitalization, which will materially strengthen and deleverage the Group's balance sheet and enhance its liquidity position to allow it to continue its transformation into a specialty paper group of companies. It is intended that the restructured Group will be controlled by the holders of the Existing Notes following the completion of the Recapitalization (the "**Effective Date**").

On 27 November 2019, Lecta announced that:
(i) 83% of the aggregate outstanding principal under the Existing Notes; and
(ii) 69% of the outstanding principal amount under the RCF,
have entered into or acceded to the LUA. Accordingly, sufficient holders of the Existing Notes have signed-up for the purpose of the Group being proposing the Scheme (as described below).

In addition, the Group is improving its working capital facilities. The Group:
(i) Has entered into a receivables factoring financing in France with La Banque Postale in an amount up to € 50 million;
(ii) Is in an advanced stage of negotiation to implement a receivables securitization in Spain in an amount exceeding €40 million.

Furthermore, further to the constructive discussions between the Group and certain French authorities, the Group received comfort letters regarding the support of the group's operations in France and expects to obtain further commitments by the relevant authorities around the Effective Date.

Lecta has engaged Lucid Issuer Services Limited to act as calculation agent under the LUA ("**Calculation Agent**"). The noteholders are encouraged to contact the Calculation Agent at lecta@lucid-is.com to access further information relating to the Recapitalization and for details of how to accede to the LUA.

The LUA

The parties to the LUA have, broadly, agreed to support the implementation of the Recapitalization on the basis of the agreed terms set out below. In particular, it is worth noting that:

- The holders of Floating Rate Notes agreed to forbear from exercising any rights arising from Lecta's non-payment of interest in respect of those notes which would otherwise have been payable on 1 November 2019;
- The holders of the Existing Notes have agreed to forbear from taking any enforcement action that they would otherwise be entitled to take as a result of any default.

Key Terms of Recapitalization

1. The existing €65 million RCF is fully repaid, and a new super senior multicurrency RCF in an amount of €115 million ("**New RCF**") is made available to the Group on or around the Effective Date. It is contemplated that the New RCF will mature two years from the Effective Date, subject to a one-year extension at the new Group's election. The New RCF will rank senior to the New Senior Notes (which are described below).
2. The Existing Notes will be released by the holders of those notes in consideration for:
   (i) €200 million of new senior secured notes ("**New Senior Notes**") which will bear cash interest at a rate of EURIBOR (subject to a zero floor) plus a margin equal to 6.00% per annum, and mature five years from the Effective Date. The New Senior Notes will be secured, listed on the Official List of the Luxembourg Stock Exchange, have standard protections and are expected to be rated. The New Senior Notes will be structurally and contractually subordinated to the New RCF;
   (ii) €95 million of new junior unsecured notes ("**Junior Notes**"), which will bear cash interest at the rate of EURIBOR (subject to a zero floor) plus a margin equal to 0.25% per annum and a capitalized PIK interest

at a rate of 7.00%, and mature eight years from the Effective Date. The Junior Notes are expected to be rated and will (i) sit outside the Consolidation Perimeter of the operating group, (ii) be structurally and contractually subordinated to the New Senior Notes and the New RCF (iii) have no security or guarantees; and

(iii) Ordinary shares representing 95% of the share capital of a newly incorporated entity ("**Topco**"), which will be the top company in the restructured Group on a fully diluted basis and contractually stapled to the Junior Notes (the "**New Equity**"), representing equity ownership in the Group.

3. The holders of Fixed Rate Notes and Floating Rate Notes who have acceded to the LUA on or before 29 November 2019 (and who do not breach the LUA in any material way) will receive a consent fee, pursuant to the issuance (i) of €5 million of Junior Notes and (ii) of 5% of shares in Topco.

Implementation

An English scheme of arrangement ("**Scheme**") is being proposed to facilitate the implementation of the broader Recapitalization. The Scheme will only become effective and legally binding following
(1) Approval by a majority in number representing 75% in value of the Existing Notes present and voting,
(2) The Court making an order sanctioning the Scheme; and
(3) A copy of such order being filed at Companies House.
In order to launch the Scheme, certain other condition will need to have been achieved.

Projected Financial Information

A summary of the Group's projected financial information is set out below:

In € million	2019	2020	2021	2022	2023
Net Sales	1,294	1,375	1,408	1,451	1,429
EBITDA	93[(1)]	122	134	152	151
Capex	60	99	80	42	30
Unlevered Free Cash Flow	(59)	15	43	93	108

(1) Includes €19m of non-recurring items, of which €10m are non-cash items relating to valuation adjustments to inventories

The Group's EBITDA for the financial year 2019 is projected at €93 million. The projected figure takes into account €19 million of non-recurrent but operating charges, predominantly comprising:

- Losses related to the challenging implementation of the ERP system in Riva del Garda Italy paper mill (circa €8 million); and
- Expenses relating to valuation adjustments to WIP and Finished Goods inventories (a non-cash impact of circa €10 million).

The segmental split of the projected EBITDA for the financial year 2019 is set out below:

- Specialties: €55 million *(59%);*
- CWF: €29 million *(32%);*
- Purchased Products: €9 million *(10%).*

EBITDA is projected to increase from €93 million in 2019 (€112 million excluding non-recurrent but operating charges) to €151 million in 2023. This increase is primarily driven by growth in the Specialties segment, particularly as a result of
(i) The ramp up of investments in thermal and self-adhesive paper products (which have largely been incurred); and
(ii) New capital expenditure in Condat for the transformation of Line 8 to Glassine paper and power / energy improvements.

Next Steps

The Group will continue working with its financial stakeholders to implement the Recapitalization and expects to complete the Recapitalization in Q1 2020.

Questions about the Recapitalization and details of how to accede to the LUA have to be directed to Lucid at the telephone numbers and addresses listed below. All holders of the Existing Notes are eligible to participate in the LUA.

All documentation relating to LUA, together with any updates, will be available on the dedicated website: https://www.lucid-is.com/lecta/

Calculation agent contact details

Lucid Issuer Services Limited
Tankerton Works 12 Argyle Walk
London WC1H 8HA
E-mail: lecta@lucid-is.com
Consent Website: https://www.lucid-is.com/lecta/
Tel: +44 207 704 0880
Attention: Oliver Slyfield and Victor Parzyjagla

MANAGEMENT AND CORPORATE GOVERNANCE OF LECTA SA

Board of Directors

The Board of Directors was appointed at the Shareholders' meeting of 25 April 2019. Following the resignation of Santiago Ramirez and the appointment of Andrea Minguzzi as Executive Chairman on 25 July 2019, the Board is currently composed of ten Directors:

- Andrea Minguzzi, Executive Chairman;
- Eduardo Querol,
- Emanuela Brero,
- Giorgio De Palma,
- Pierre Denis,
- Martine Gerber,
- Stella Le Cras,
- Thomas Morana,
- François Pfister,
- Delphine Tempé.

The Board of Directors