LECTA SA and Subsidiaries

Management report for the period ended 31 March 2017.

The discussion contained herein is based on our reviewed interim financial information for the three-month periods ended 31 March 2017 and 31 March 2016.

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 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 quarter ended 31 March 2017, with the same quarter of last year and the prior quarter:

Net Sales of Paper

Products & Services	Q1	Q1	Change		Q1	Q4	Change	
(in EUR M)	2017	2016	absolute	%	2017	2016	absolute	%
Coated Woodfree	196	204	-8	-4%	196	196	-1	-0%
Specialties	111	97	+14	+14%	111	101	+10	+10%
Purchased products	44	42	+2	+4%	44	44	-0	-1%
Total	**350**	**344**	+7	+2%	**350**	**342**	+9	+3%

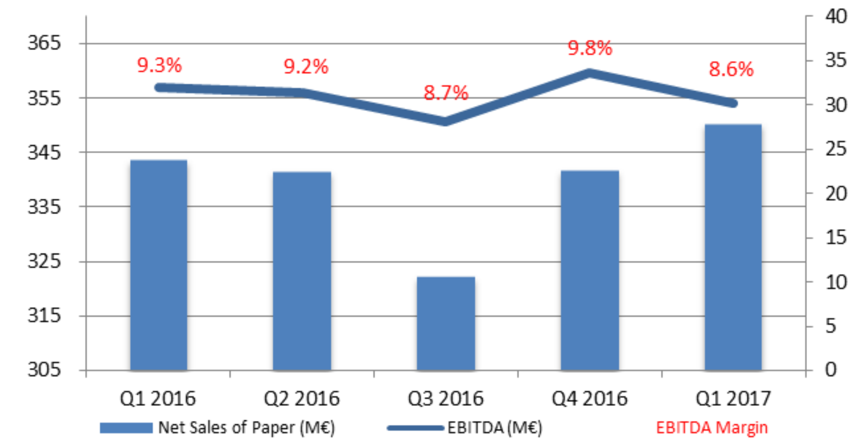
EBITDA

Products & Services	Q1	Q1	Change		Q1	Q4	Change	
(in EUR M)	2017	2016	absolute	%	2017	2016	absolute	%
Coated Woodfree	16	20	-4	-21%	16	21	-5	-25%
Specialties	13	10	3	+26%	13	10	2	+23%
Purchased products	2	2	-0	-1%	2	3	-1	-21%
Total	**30**	**32**	-2	-5%	**30**	**34**	-3	-10%

EBITDA Margin

Products & Services	Q1	Q1	Change	Q1	Q4	Change
(in EUR M)	2017	2016	Percentage points	2017	2016	Percentage points
Coated Woodfree	8.0%	9.7%	-1.7	8.0%	10.6%	-2.6
Specialties	11.3%	10.3%	+1.1	11.3%	10.1%	+1.2
Purchased products	4.8%	5.0%	-0.2	4.8%	6.1%	-1.3
Total	**8.6%**	**9.3%**	-0.7	**8.6%**	**9.8%**	-1.2

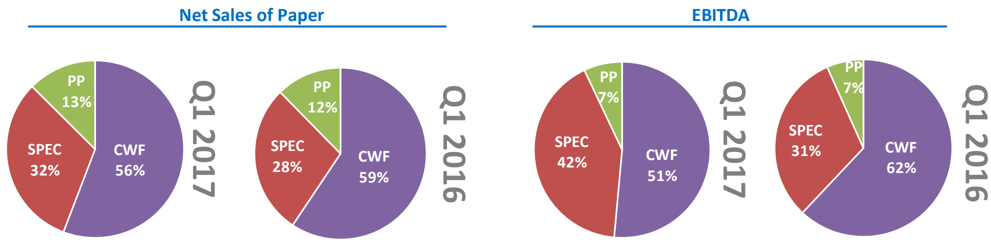
Evolution of Net Sales of Paper, EBITDA, and EBITDA Margin:



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

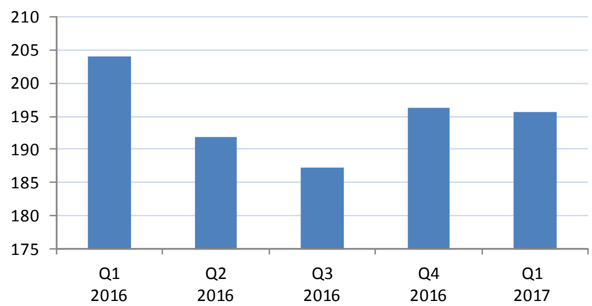
	Net Sales of Paper			EBITDA		
	Q1 2017	Q1 2016	Change	Q1 2017	Q1 2016	Change
Coated Woodfree	**56%**	59%	-4pp	**51%**	62%	-11pp
Specialties	**32%**	28%	+3pp	**42%**	31%	+10pp
Purchased products	**13%**	12%	+0pp	**7%**	7%	+0pp
	100%	100%		**100%**	100%	

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



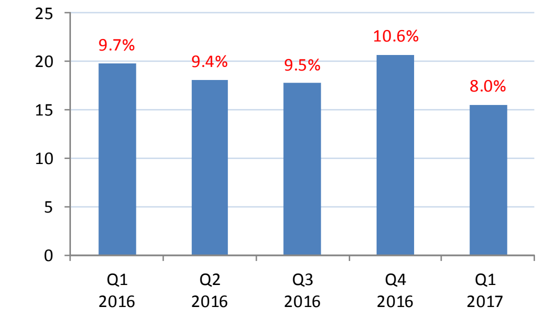
CWF

Net Sales of Paper
(in EUR M)



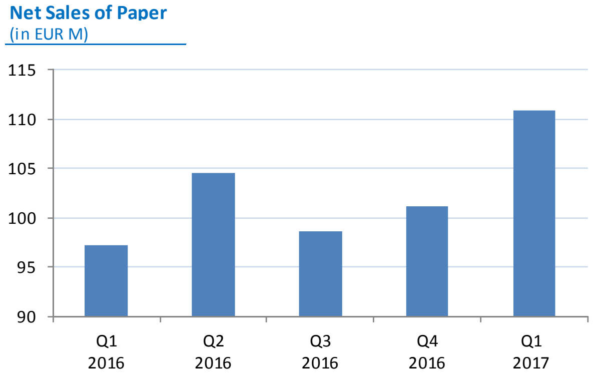
EBITDA
(in EUR M)

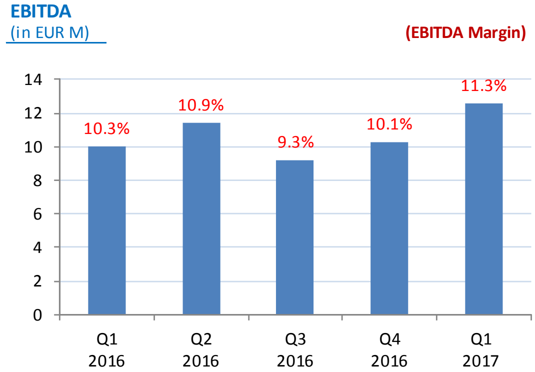
(EBITDA Margin)



In 1Q2017, the net sales of Coated Woodfree were €196 million vs €204 million in 1Q2016, a decrease of €8 million or -4%. The Ebitda at €16 million was lower than in 1Q2016 (€20 million). This decrease was mainly due to lower sales, partly offset by a reduction in fixed costs.

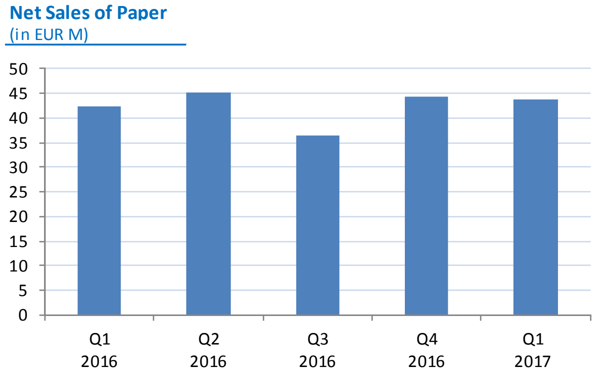
Specialties

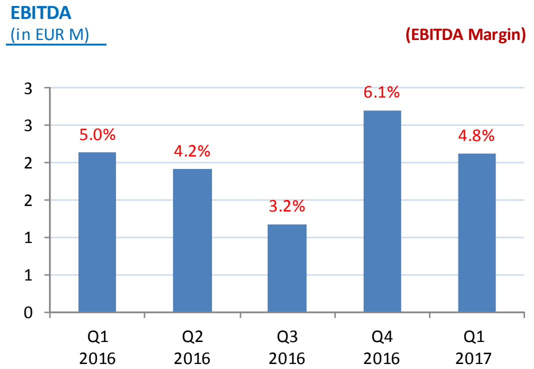




In 1Q2017, the net sales of Specialties were €111 million vs €97 million in 1Q2016, an increase of €14 million or +14%. The Ebitda at €13 million was higher than in 1Q2016 (€10 million). This increase was mainly due to larger sales.

Purchased products





In 1Q2017, the net sales of Purchased products were €44 million vs €42 million in 1Q2016, an increase of €2 million or +4%. The Ebitda at €2 million was stable vs 1Q2016

Three Months Ended 31 March 2017 Compared to Three Months Ended 31 March 2016

The following table sets forth Lecta's income statement line items in absolute numbers, as a percentage of revenue for the quarters ended 31 March 2017 and 31 March 2016 and in the percentage change quarter over quarter:

	Three months ended 31 March					
(in millions of euro, except percentages)	2017 (reviewed)	%	2016 (reviewed)	%	Change	% change
Volume sold (in thousands of metric tons)	400.4		380.6		+19.9	+5.2%
Revenue	376.3	100.0	359.2	100.0	+17.1	+4.8%
Change in inventories of finished goods and work in progress	(5.4)	(1.4)	8.4	2.3	-13.9	-164.5%
Raw materials and consumables used	(186.6)	(49.6)	(188.7)	(52.5)	+2.1	-1.1%
Labor costs	(46.9)	(12.5)	(47.8)	(13.3)	+0.9	-1.8%
Other operating costs except non-recurring items	(107.1)	(28.5)	(99.2)	(27.6)	-7.9	+8.0%
EBITDA	30.2	8.0	31.9	8.9	-1.7	-5.3%
Depreciation	(13.4)	(3.6)	(13.6)	(3.8)	+0.2	-1.4%
Amortization	(0.1)	(0.0)	(0.0)	(0.0)	-0.1	+136.8%
Non-recurring items	4.5	1.2	(2.1)	(0.6)	+6.5	-
Profit from operations	21.2	5.6	16.2	4.5	+5.0	+30.7%
Net finance costs	(15.5)	(4.1)	(16.8)	(4.7)	+1.3	-7.7%
Profit (loss) before tax from continuing operations	5.7	1.5	(0.5)	(0.2)	+6.3	-
Income tax	(1.2)	(0.3)	1.0	0.3	-2.2	-
Profit (loss) after tax from continuing operations	4.5	1.2	0.4	0.1	+4.1	-
Profit (loss) after tax from discontinued operations	0.0	0.0	0.0	0.0	+0.0	-
Profit (loss) after tax	4.5	1.2	0.4	0.1	+4.1	-

Revenue

For the first quarter ended 31 March 2017, Lecta had revenue of €376.3 million versus €359.2 million in the first quarter ended 31 March 2016, an increase of €17.1 million or +5%. This increase was attributable to:

- Higher sales of CWF, Specialties and Purchased Products of €+6.7million or +2%, from €343.7 million in 1Q2016 to €350.4 million in 1Q2017, resulting from higher sales volumes of 19.900 metric tons or +5%, 400,400 metric tons in 1Q2017 vs 380,600 metric tons in 1Q2016, but a decrease in average net sales price of -28€/t or -3%, 875€/t in 1Q2017 vs 903€/t in 1Q2016; and
- Higher sales of energy of €+10.4 million or +67%, from €15.5 million in 1Q2016 to €25.9 million in 1Q2017, resulting from higher sales volumes of 5,200 MWh or +2%, 287,500 MWh in 1Q2017 vs 282,300 MWh in 1Q2016, and an increase in average ~~net~~ sales price of +35€/MWh or +64%, 90€/MWh in 1Q2017 vs 55€/MWh in 1Q2016.

Raw Materials and Consumables Used

The costs of raw materials and consumables used decreased by €2.1 million, or -1%, from €188.7 million in 1Q2016 to €186.6 million in 1Q2017, and as a percentage of revenues they decreased from 52.5% in 1Q2016 to 49.6% in 1Q2017. The absolute decrease was mainly attributable to lower purchased volumes, and a decrease in the average consumption price of pulp of -41€/t from 1Q2016 to 1Q2017.

Labor Costs

Labor costs decreased by €0.9 million, or -2%, from €47.8 million in 1Q2016 to €46.9 million in 1Q2017, and as a percentage of revenues they decreased from 13.3% in 1Q2016 to 12.5% in 1Q2017.
The headcount decreased by 54 heads, from 3,315 employees in 1Q2016 to 3,261 employees in 1Q2017.

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items increased by €7.9 million, or +8%, from €99.2 million in 1Q2016 to €107.1 million in 1Q2017, and as a percentage of revenues they increased from 27.6% in 1Q2016 to 28.5% in 1Q2017. The absolute increase was essentially due to higher costs of energy, packaging materials, distribution and overhead costs, partly offset by a decrease in outsourcing, selling variable cost, maintenance and production consumables costs.

EBITDA

EBITDA decreased by €1.7 million, or -5%, from €31.9 million in 1Q2016 to €30.2 million in 1Q2017. This decrease was the result of higher costs of packaging materials, distribution and overheads costs, partly offset by higher sales of paper in volume, lower net energy costs, outsourcing, selling variable costs, labor, maintenance and production consumables costs, in a context of lower unit gross margin.

Depreciation and Amortization

Depreciation and amortization decreased by €0.1 million, or -1%, from €13.6 million in 1Q2016 to €13.5 million in 1Q2017.

Non-recurring items

In 1Q2017, Lecta recorded a non-recurring income of €+4.5million, 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, and €-0.8 million of Organization efficiency program. In 1Q2016, Lecta recorded a non-recurring charge of €-2.1 million mainly in relation with its Organization efficiency program.

Finance Costs

Finance costs decreased by €1.3 million or -8%, from €16.8 million in 1Q2016 to €15.5 million in 1Q2017.

Income Tax

Lecta recorded an income tax charge of €-1.2 million in 1Q2017 and an income tax profit of €1.0 million in 1Q2016.

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 31 March 2017.

Cash

At 31 March 2017 Lecta had €116.4 million of cash and cash equivalent.

Capital Resources

Lecta's total capital resources amounted to €122.9 million in Total equity and €617.5 million in Non-current interest-bearing borrowings as at 31 March 2017, compared to €132.0 million and €608.0 million, respectively, as at 31 March 2016. In addition, Current interest-bearing borrowings amounted to €7.2 million as at 31 March 2017, compared to €20.0 million as at 31March 2016.

CASH FLOW

Three Months Ended 31 March 2017 Compared to Three Months Ended 31 March 2016

Lecta's cash flows for the three months ended 31 March 2017 and 31 March 2016 were as follows:

	Three months ended 31 March		
(in millions of euro)	2017 (reviewed)	2016 (reviewed)	Change
Cash flows from (used in) operating activities			
EBITDA	30.2	31.9	-1.7
Inventories	4.0	(7.1)	+11.2
Trade receivables	(3.4)	8.1	-11.5
Prepayments	(1.6)	0.3	-1.9
Trade payables	(4.5)	(17.3)	+12.8
Working capital	(5.5)	(16.1)	+10.6
Provisions	0.2	0.6	-0.4
Greenhouse gas emission rights	0.0	(2.5)	+2.5
Proceeds (payments) related to non-recurring items	(0.8)	(1.4)	+0.7
Income tax paid	(0.2)	(0.4)	+0.2
Net cash flow (used in) / from operating activities	23.9	12.1	+11.9
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(13.5)	(11.4)	-2.1
Proceeds from disposal of property, plant and equipment	6.0	0.8	+5.1
Receipt of grants	(2.2)	(2.2)	-0.0
Purchase of other assets	(0.0)	(0.0)	-0.0
Proceeds from disposal of other assets	0.0	0.0	-0.0
Net cash flow (used in) / from investing activities	(9.7)	(12.7)	+3.0
Cash flows from (used in) financing activities			
Interest paid	(21.3)	(11.2)	-10.1
Issue costs of borrowings	(0.0)	(0.0)	+0.0
Proceeds from borrowings	15.1	10.0	+5.1
Repayment of borrowings	(16.4)	(10.0)	-6.4
Payments of finance lease liabilities	(0.1)	(0.1)	-0.0
Net cash flow (used in) / from financing activities	(22.7)	(11.3)	-11.4
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(8.5)	(12.0)	+3.5
Net foreign exchange difference	0.1	0.3	-0.2
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	106.3	120.8	-14.5
Of which cash and cash equivalents	116.4	136.7	-20.2
Of which bank overdrafts	(10.1)	(15.9)	+5.8

During the three months ended 31 March 2017, Lecta's cash and cash equivalents decreased by €18.0 million or -13%, from €134.4 million at 1 January 2017 to €116.4 million at 31 March 2017. The principal uses of cash during the three months ended 31 December 2017 were for were for Working Capital of €-5.5 million, Payments related to non-recurring items of €-0.8 million, Income tax paid of €-0.2 million, Purchase of property plant and equipment of €-13.5 million, Interest payments of €-21.3 million, Repayment of borrowings net of Proceeds from borrowings of €-1.3 million.

During the three months ended 31 March 2017, the cash flows from operating activities were €+23.9 million, €11.9 million more than reported during the three months ended 31 March 2016. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+30.2 million;
- Increase in Working capital of €-5.5 million due to reductions in inventories (impact of €+4.0 million) and in trade payables (impact of €-4.5 million), and increases in trade receivables (impact of €+3.4 million) and in prepayments (impact of €-1.6 million);
- Provisions of €+0.2 million;
- Payments related to non-recurring items of €-0.8 million, mainly in relation with the Organization efficiency program;
- Income tax payments of €-0.2 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 31 March 2017.

During the three months ended 31 March 2017, the cash flows used in investing activities were €-9.7 million, €+3.0 million less than the cash flows used in investing activities during the three months ended 31 March 2016. The principal uses and sources of cash in investing activities were from:

- Purchase of property, plant and equipment of €-13.5 million;
- Proceeds from disposal of property, plant and equipment of €+6.0 million;
- Receipt of grant of €-2.2 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 31 March 2017.

During the three months ended 31 March 2017, the cash flows used in financing activities were €-22.7 million, €11.4 million more than the cash flows used in financing activities during the three months ended 31 March 2016. The principal uses of cash in financing were for:

- Interest paid of €-21.3 million;
- Repayment of borrowings net of Proceeds from borrowings of €-1.3 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.

Capital Expenditures and Investments

In the three months ended 31 March 2017, capital expenditures were €13.5 million, i.e. €4.0 million for major paper machine rebuilds, €0.8 million for cost reduction and productivity improvement, €2.4 million for maintenance, €2.2 million for information technology, €0.6 million for environment and safety, and a reduction in capital payables of €3.6 million.

In the three months ended 31 March 2016, capital expenditures were €11.5 million, i.e. €4.1 million for major paper machine rebuilds, €1.6 million for cost reduction and productivity improvement, €3.1 million for maintenance, €1.2 million for information technology, €0.5 million for environment and safety, and a reduction in capital payables of €1.0 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 three-month period ended 31 March 2017 the restructuring cash cost associated to Lecta efficiency programs was €-0.8 million, reported in the line "Non-recurring items". After payments, as at 31 March 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 9 (2017).

Events After the Statement of Financial Position Date

Nothing to be reported

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