

Management report for the period ended 31 March 2018.

The discussion contained herein is based on our reviewed interim financial information for the three-month periods ended 31 March 2018 and 31 March 2017.

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 2018, with the same quarter of last year and the prior quarter:

Net Sales of Paper

Products & Services (in EUR M)	Q1	Q1	Change		Q1	Q4	Change	
	2018	2017	absolute	%	2018	2017	absolute	%
Coated Woodfree	197	196	+2	+1%	197	199	-2	-1%
Specialties	112	111	+2	+1%	112	105	+7	+7%
Purchased products	46	44	+2	+6%	46	49	-3	-5%
Total	356	350	+6	+2%	356	353	+3	+1%

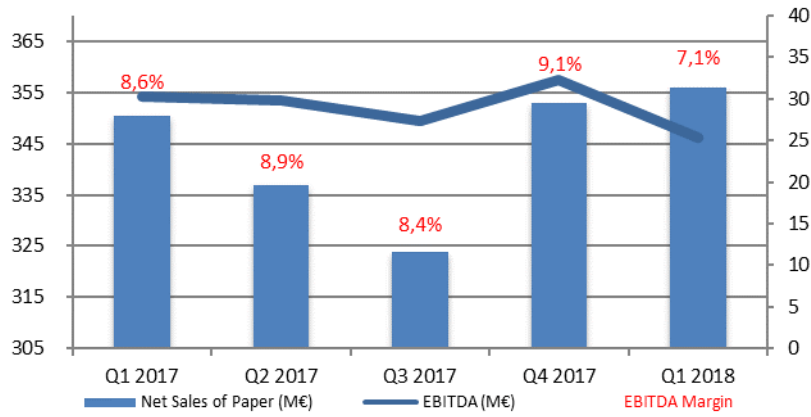
EBITDA

Products & Services (in EUR M)	Q1	Q1	Change		Q1	Q4	Change	
	2018	2017	absolute	%	2018	2017	absolute	%
Coated Woodfree	9	16	-6	-41%	9	16	-6	-40%
Specialties	15	13	+2	+16%	15	14	+1	+6%
Purchased products	2	2	-1	-28%	2	3	-1	-49%
Total	25	30	-5	-16%	25	32	-7	-22%

EBITDA Margin

Products & Services (in EUR M)	Q1	Q1	Change		Q1	Q4	Change	
	2018	2017	Percentage points		2018	2017	Percentage points	
Coated Woodfree	4,7%	8,0%	-3,3		4,7%	7,8%	-3,1	
Specialties	12,9%	11,3%	+1,6		12,9%	13,1%	-0,1	
Purchased products	3,3%	4,8%	-1,6		3,3%	6,1%	-2,8	
Total	7,1%	8,6%	-1,5		7,1%	9,1%	-2,0	

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 2018	Q1 2017	Change	Q1 2018	Q1 2017	Change
Coated Woodfree	55%	56%	-0pp	37%	51%	-15pp
Specialties	32%	32%	-0pp	57%	42%	+16pp
Purchased products	13%	13%	+1pp	6%	7%	-1pp
	100%	100%		100%	100%	

Net Sales of Paper

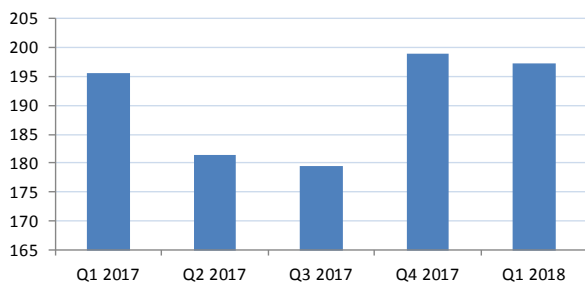
EBITDA

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

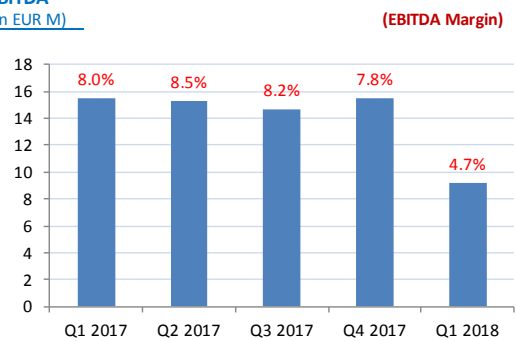


CWF

Net Sales of Paper
(in EUR M)



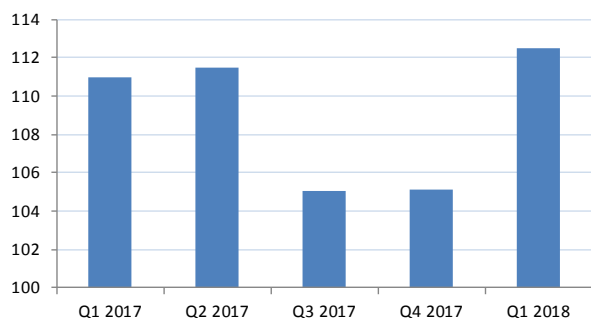
EBITDA
(in EUR M)



In 1Q2018, the net sales of Coated Woodfree were €197 million vs €196 million in 1Q2017, an increase of €2 million or +1%. The Ebitda at €9 million was lower than in 1Q2017 (€16 million). This decrease was mainly due to higher variable production costs and selling variable costs, partly offset by an increase of the average net sales price and a reduction in fixed costs.

Specialties

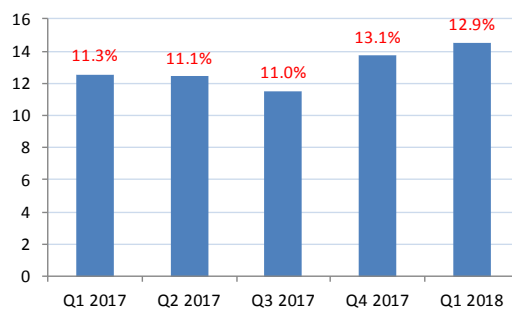
Net Sales of Paper (in EUR M)



EBITDA

(in EUR M)

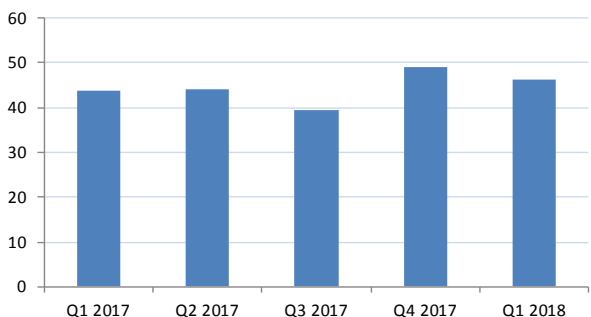
(EBITDA Margin)



In 1Q2018, the net sales of Specialties were €112million vs €111 million in 1Q2017, an increase of €1 million or +2%. The Ebitda at €15 million was higher than in 1Q2017 (€13 million). This increase was mainly thanks to an increase of the average net sales price and a reduction of fixed costs partly compensated by higher variable production costs

Purchased products

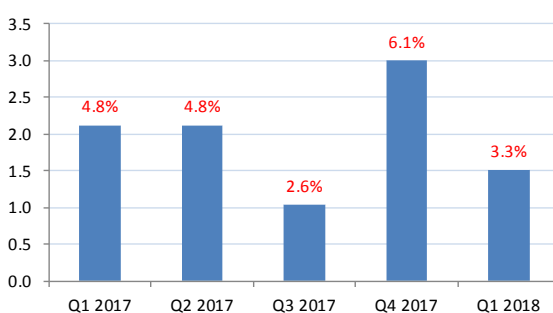
Net Sales of Paper (in EUR M)



EBITDA

(in EUR M)

(EBITDA Margin)



In 1Q2018, the net sales of Purchased products were €46million vs €44 million in 1Q2017, an increase of €2 million or +6%. The Ebitda at €1.5 million was lower vs 1Q2017 mainly because of a reduction of the sales margin.

Three Months Ended 31 March 2018 Compared to Three Months Ended 31 March 2017

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 2018 and 31 March 2017 and in the percentage change quarter over quarter:

(in millions of euro, except percentages)	Three months ended 31 March					
	2018	%	2017	%	Change	% change
	(unaudited)		(unaudited)			
Volume sold (in thousands of metric tonnes)	386,7		400,4		-13,7	-3,4%
Revenue	375,4	100,0	376,3	100,0	-0,9	-0,2%
Change in inventories of finished goods and work in progress	2,3	0,6	(5,4)	(1,4)	+7,7	-141,6%
Raw materials and consumables used	(200,6)	(53,4)	(186,6)	(49,6)	-14,0	+7,5%
Labor costs	(47,0)	(12,5)	(46,9)	(12,5)	-0,1	+0,2%
Other operating costs except non-recurring items	(104,8)	(27,9)	(107,1)	(28,5)	+2,3	-2,1%
EBITDA	25,3	6,7	30,2	8,0	-4,9	-16,4%
Depreciation	(12,5)	(3,3)	(13,4)	(3,6)	+0,8	-6,2%
Amortization	0,6	0,2	(0,1)	(0,0)	+0,8	-
Non-recurring items	(0,7)	(0,2)	4,5	1,2	-5,2	-114,8%
Profit from operations	12,7	3,4	21,2	5,6	-8,5	-40,1%
Net finance costs	(15,4)	(4,1)	(15,5)	(4,1)	+0,1	-0,9%
Profit (loss) before tax from continuing operations	(2,6)	(0,7)	5,7	1,5	-8,4	-145,9%
Income tax	(1,1)	(0,3)	(1,2)	(0,3)	+0,1	-11,2%
Profit (loss) after tax from continuing operations	(3,7)	(1,0)	4,5	1,2	-8,2	-183,0%
Profit (loss) after tax from discontinued operations	0,0	0,0	0,0	0,0	+0,0	-
Profit (loss) after tax	(3,7)	(1,0)	4,5	1,2	-8,2	-183,0%

Revenue

For the first quarter ended 31 March 2018, Lecta had revenue of €375.4 million versus €376.3 million in the first quarter ended 31 March 2017, a decrease of €0.9 million or -0%. This decrease was attributable to:

- Higher sales of CWF, Specialties and Purchased Products of €+5.6 million or +2%, from €350.4 million in 1Q2017 to €356.0 million in 1Q2018, resulting from lower sales volumes of 13,700 metric tons or -3%, 386,700 metric tons in 1Q2018 vs 400,400 metric tons in 1Q2017, but an increase in average net sales price of +46€/t or +5%, 921€/t in 1Q2018 vs 875€/t in 1Q2017; and
- Lower sales of energy of €-6.5 million or -25%, from €25.9 million in 1Q2017 to €19.4 million in 1Q2018, resulting from lower sales volumes of 52,700 MWh or -17%, 256,600 MWh in 1Q2018 vs 309,300 MWh in 1Q2017, and a decrease in average sales price of -8€/MWh or -10%, 76€/MWh in 1Q2018 vs 84€/MWh in 1Q2017. The lower sales volume in 1Q2018 was due to the planned downtime in Motril and Zaragoza cogeneration plants for the replacement of the gas turbines.

Raw Materials and Consumables Used

The costs of raw materials and consumables used increased by €14.0 million, or +8%, from €186.6 million in 1Q2017 to €200.6 million in 1Q2018, and as a percentage of revenues they increased from 49.6% in 1Q2017 to 53.4% in 1Q2018. The absolute increase was mainly attributable to higher purchased volumes, and an increase in the average consumption price of pulp of +116€/t from 1Q2017 to 1Q2018.

Labor Costs

Labor costs increased by €0.1 million, or +0%, from €46.9 million in 1Q2017 to €47.0 million in 1Q2018, and as a percentage of revenues they remained stable at 12.5% in 1Q2018 vs 1Q2017.

The headcount decreased by 24 heads, from 3,261 employees in 1Q2017 to 3,237 employees in 1Q2018.

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items decreased by €2.3 million, or -2%, from €107.1 million in 1Q2017 to €104.8 million in 1Q2018, and as a percentage of revenues they decreased from 28.5% in 1Q2017 to 27.9% in 1Q2018. The absolute decrease was essentially due to lower costs of energy, packaging materials, outsourcing and overhead costs, partly offset by an increase in distribution, selling variable, maintenance and production consumables costs.

EBITDA

EBITDA decreased by €4.9 million, or -16%, from €30.2 million in 1Q2017 to €25.3 million in 1Q2018. This decrease was the result of lower sales of paper in volume, higher net energy costs, distribution, selling variable costs, labor, maintenance and production consumables costs, partly offset by lower costs of packaging materials, outsourcing and overheads costs, in a context of higher unit gross margin.

Depreciation and Amortization

Depreciation and amortization decreased by €1.6 million, or -12%, from €13.5 million in 1Q2017 to €11.9 million in 1Q2018. The credit of €0.6 million in Amortization is due to the reverse of some Other intangible assets impairment in 1Q2018.

Non-recurring items

In 1Q2018, Lecta recorded a non-recurring charge of €-0.7 million mainly in relation with Organization efficiency program. In 1Q2017, Lecta recorded a non-recurring income of €+4.5 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, and €-0.8 million of Organization efficiency program.

Finance Costs

Finance costs decreased by €0.1 million or -1%, from €15.5 million in 1Q2017 to €15.4 million in 1Q2018.

Income Tax

Lecta recorded an income tax charge of €-1.1 million in 1Q2018 vs €-1.2 million in 1Q2017.

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 million RCF due 2022. €15 million were used at 31 March 2018.

Cash

At 31 March 2018 Lecta had €99.8 million of cash and cash equivalent.

Capital Resources

Lecta's total capital resources amounted to €106.2 million in Total equity and €605.7 million in Non-current interest-bearing borrowings as at 31 March 2018, compared to €122.9 million and €617.5 million, respectively, as at 31 March

2017. In addition, Current interest-bearing borrowings amounted to €25.1 million as at 31 March 2018, compared to €7.2 million as at 31 March 2017.

CASH FLOW

Three Months Ended 31 March 2018 Compared to Three Months Ended 31 March 2017

Lecta's cash flows for the three months ended 31 March 2018 and 31 March 2017 were as follows:

(in millions of euro)	Three months ended 31 March		
	2018 (unaudited)	2017 (unaudited)	Change
Cash flows from (used in) operating activities			
EBITDA	25.3	30.2	-4.9
Inventories	(6.2)	4.0	-10.2
Trade receivables	2.2	(3.4)	+5.6
Prepayments	(0.1)	(1.6)	+1.5
Trade payables	(17.9)	(4.5)	-13.3
Working capital	(22.0)	(5.5)	-16.5
Provisions	(0.0)	0.2	-0.2
Greenhouse gas emission rights	(0.0)	0.0	-0.0
Proceeds (payments) related to non-recurring items	(1.2)	(0.8)	-0.4
Income tax paid	(0.5)	(0.2)	-0.4
Net cash flow (used in) / from operating activities	1.6	23.9	-22.4
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(30.1)	(13.5)	-16.7
Proceeds from disposal of property, plant and equipment	0.1	6.0	-5.8
Receipt of grants	(0.8)	(2.2)	+1.4
Purchase of subsidiary, net of cash acquired	0.0	0.0	-0.0
Disposal of subsidiary, net of cash sold	0.0	0.0	+0.0
Purchase of other assets	(0.1)	(0.0)	-0.1
Proceeds from disposal of other assets	0.0	0.0	+0.0
Net cash flow (used in) / from investing activities	(30.9)	(9.7)	-21.2
Cash flows from (used in) financing activities			
Dividends paid to non-controlling interest	0.0	0.0	+0.0
Interest paid	(20.9)	(21.3)	+0.4
Issue costs of borrowings	(0.0)	(0.0)	+0.0
Proceeds from borrowings	30.1	15.1	+15.0
Repayment of borrowings	(18.4)	(16.4)	-2.0
Payments of finance lease liabilities	(0.1)	(0.1)	+0.0
Net cash flow (used in) / from financing activities	(9.3)	(22.7)	+13.4
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(38.6)	(8.5)	-30.1
Net foreign exchange difference	0.1	0.1	+0.0
Cash & cash equivalents net of Bank overdrafts at 1 January	126.4	114.8	+11.6
Cash & cash equivalents net of Bank overdrafts at period end	87.8	106.3	-18.5
Of which cash and cash equivalents	99.8	116.4	-16.6
Of which bank overdrafts	(12.0)	(10.1)	-2.0

During the three months ended 31 March 2018, Lecta's cash and cash equivalents decreased by €41.2 million or -29%, from €141.1 million at 1 January 2018 to €99.8 million at 31 March 2018. The principal uses of cash during the three months ended 31 Mar 2018 were for Working Capital of €-22.0 million, Payments related to non-recurring items of €-1.2 million, Income tax paid of €-0.5 million, Purchase of property plant and equipment of €-30.1 million, and Interest payments of €-20.9 million.

During the three months ended 31 March 2018, the cash flows from operating activities were €+1.6 million, €-22.4 million less than reported during the three months ended 31 March 2017. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+25.3 million;
- Increase in Working capital of €-22.0 million due to increases in inventories (impact of €-6.2 million) and in prepayments (impact of €-0.1 million) and decreases in trade receivables (impact of €+2.2 million) and in trade payables (impact of €-17.9 million);
- Payments related to non-recurring items of €-1.2 million, mainly in relation with the Organization efficiency program;
- Income tax payments of €-0.5 million, of which €-0.2 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 2018.

During the three months ended 31 March 2018, the cash flows used in investing activities were €-30.9 million, €-21.2 million more than the cash flows used in investing activities during the three months ended 31 March 2017. The principal uses and sources of cash in investing activities were from:

- Purchase of property, plant and equipment of €-30.1 million;
- Receipt of grant of €-0.8 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 during the three months ended 31 March 2018.

During the three months ended 31 March 2018, the cash flows used in financing activities were €-9.3 million, €13.4 million less than the cash flows used in financing activities during the three months ended 31 March 2017.

The principal uses and sources of cash in financing were for:

- Interest paid of €-20.9 million;
- Proceeds from borrowings net of Repayment of borrowings of €+11.7 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, and (iv) the identification of exit.

Capital Expenditures and Investments

In the three months ended 31 March 2018, capital expenditures were €30.4 million, i.e. €3.4 million for major paper machine rebuilds, €3.2 million for cost reduction and productivity improvement, €4.4 million for maintenance, €2.1 million for information technology, €4.2 million for environment and safety, and a reduction in capital payables of €13.2 million.

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.

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 2018 the restructuring cash cost associated to Lecta efficiency programs was €-0.6 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

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 23 April 2018. The Board is currently composed of twelve Directors:

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

The Board of Directors