LECTA SA and Subsidiaries

Management report for the period ended 31 March 2019.

The discussion contained herein is based on our reviewed interim financial information for the periods ended 31 March 2019 and 31 March 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 three-month period ended 31 March 2019, with the same period of last year and the prior quarter:

Net Sales of Paper

Products & Services (in EUR M)	Q1 2019	Q1 2018	Change absolute	Change %	Q1 2019	Q4 2018	Change absolute	Change %
Coated Woodfree	186	197	-12	-6%	186	185	+1	+0%
Specialties	130	112	+18	+16%	130	117	+14	+12%
Purchased products	44	46	-2	-5%	44	45	-1	-3%
Total	**360**	**356**	+4	+1%	**360**	**347**	+13	+4%

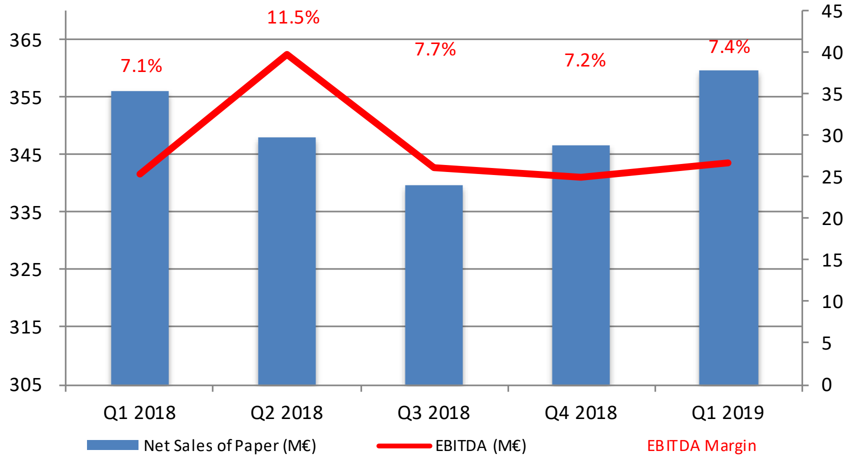
EBITDA

Products & Services (in EUR M)	Q1 2019	Q1 2018	Change absolute	Change %	Q1 2019	Q4 2018	Change absolute	Change %
Coated Woodfree	8	9	-2	-16%	8	8	-0	-2%
Specialties	17	15	+2	+16%	17	14	+2	+17%
Purchased products	2	2	+1	+48%	2	3	-0	-16%
Total	**27**	**25**	+1	+6%	**27**	**25**	+2	+7%

EBITDA Margin

Products & Services	Q1 2019	Q1 2018	Change Percentage points	Q1 2019	Q4 2018	Change Percentage points
Coated Woodfree	4,2%	4,7%	-0,5	4,2%	4,3%	-0,1
Specialties	12,9%	12,9%	-0,0	12,9%	12,4%	+0,5
Purchased products	5,1%	3,3%	+1,8	5,1%	5,9%	-0,8
Total	**7,4%**	**7,1%**	+0,3	**7,4%**	**7,2%**	+0,2

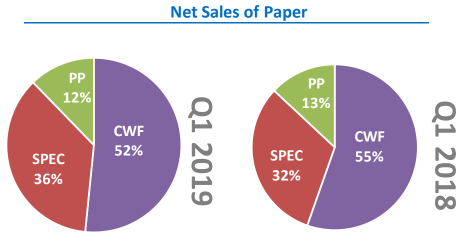
Evolution of Net Sales of Paper, EBITDA, and EBITDA Margin:

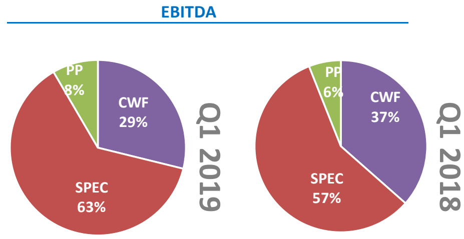


Breakdown of Net Sales of Paper and EBITDA by Product and Service:

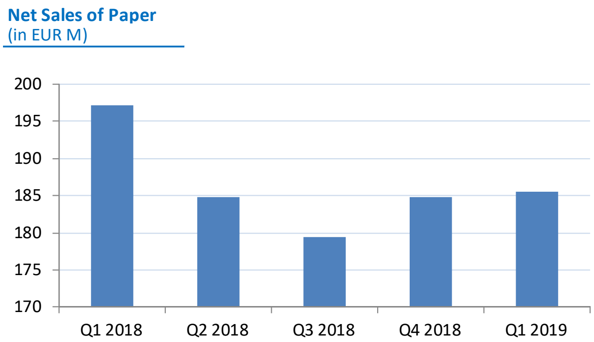
	Net Sales of Paper			EBITDA		
	Q1 2019	Q1 2018	Change	Q1 2019	Q1 2018	Change
Coated Woodfree	**52%**	55%	-4pp	**29%**	37%	-8pp
Specialties	**36%**	32%	+5pp	**63%**	57%	+5pp
Purchased products	**12%**	13%	-1pp	**8%**	6%	+2pp
	100%	100%		**100%**	100%	

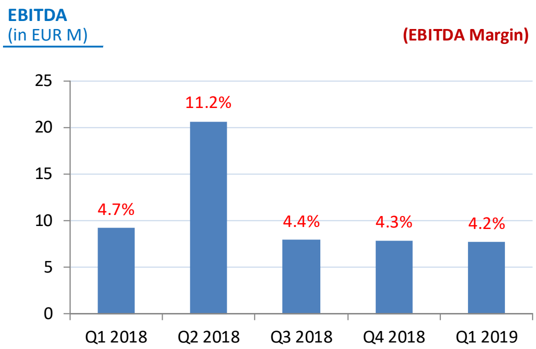
CWF: Coated WoodFree
SPEC.: Specialities
PP: Purchased products





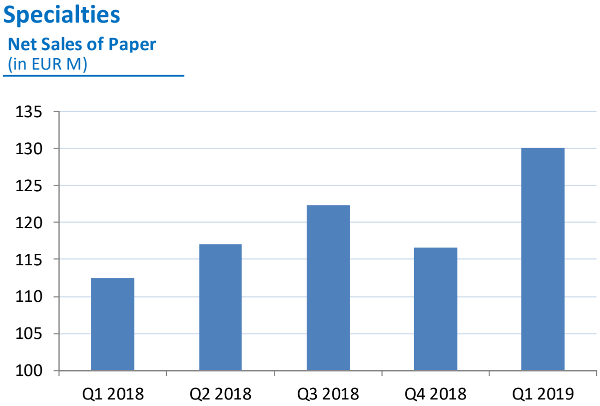
CWF

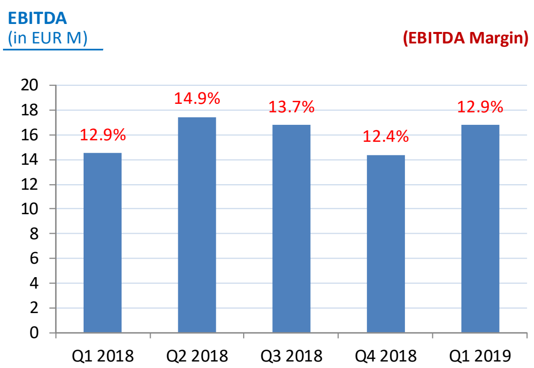




In 1Q2019, the net sales of Coated Woodfree were €186 million vs €197 million in 1Q2018, a decrease of €12 million or -6%. The Ebitda at €8 million was lower than in 1Q2018 (€9 million). This decrease was mainly due to a reduction in sales volume and an increase of pulp costs, net energy costs and distribution costs, partly offset by an increase of net sales price and a reduction of fixed expenses.

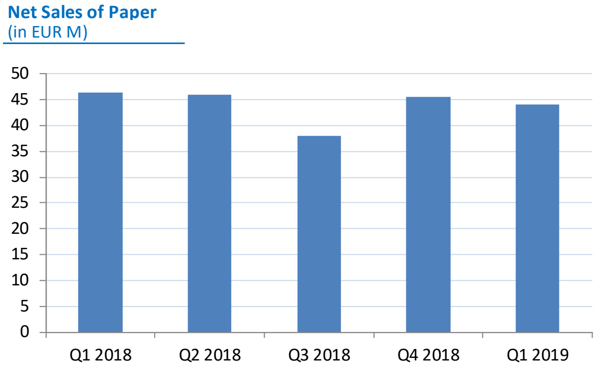
Specialties

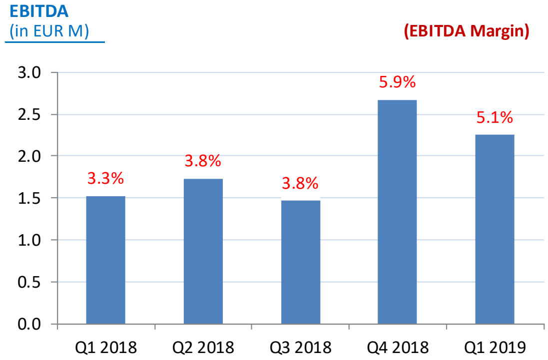




In 1Q2019, the net sales of Specialties were €130 million vs €112 million in1Q2018, an increase of €18 million or +16%. The Ebitda at €17million was higher than in 1Q2018 (€15 million). This increase was mainly thanks to higher sales volume, net sales price and less net energy costs, partly offset by an increase of pulp and other raw materials costs, and distribution costs.

Purchased products





In 1Q2019, the net sales of Purchased products were €44 million vs €46 million in 1Q2018, a decrease of €2 million or -5%. The Ebitda at €2.3 million was slightly higher than in 1Q2018.

Three Months Ended 31 March 2019 Compared to Three Months Ended 31 March 2018

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 2019 and 31 March 2018 and in the percentage change quarter over quarter:

	Three months ended 31 March					
(in millions of euro, except percentages)	2019 (unaudited)	%	2018 (unaudited)	%	Change	% change
Volume sold (in thousands of metric tonnes)	354.8		386.7		-31.9	-8.3%
Revenue	388.9	100.0	375.4	100.0	+13.5	+3.6%
Change in inventories of finished goods and work in progress	(13.8)	(3.5)	2.3	0.6	-16.1	-
Raw materials and consumables used	(191.7)	(49.3)	(200.6)	(53.4)	+8.9	-4.5%
Labor costs	(46.7)	(12.0)	(47.0)	(12.5)	+0.3	-0.6%
Other operating costs except non-recurring items	(110.0)	(28.3)	(104.8)	(27.9)	-5.2	+5.0%
EBITDA	26.8	6.9	25.3	6.7	+1.5	+5.8%
Depreciation	(14.5)	(3.7)	(12.5)	(3.3)	-1.9	+15.3%
Amortization	(0.0)	(0.0)	0.6	0.2	-0.7	-106.6%
Non-recurring items	(0.7)	(0.2)	(0.7)	(0.2)	-0.0	+5.3%
Profit from operations	11.5	3.0	12.7	3.4	-1.2	-9.2%
Net finance costs	(15.5)	(4.0)	(15.4)	(4.1)	-0.1	+0.8%
Profit (loss) before tax from continuing operations	(3.9)	(1.0)	(2.6)	(0.7)	-1.3	+49.0%
Income tax	(1.8)	(0.5)	(1.1)	(0.3)	-0.7	+66.3%
Profit (loss) after tax from continuing operations	(5.8)	(1.5)	(3.7)	(1.0)	-2.0	+54.1%
Profit (loss) after tax from discontinued operations	0.0	0.0	0.0	0.0	+0.0	-
Profit (loss) after tax	(5.8)	(1.5)	(3.7)	(1.0)	-2.0	+54.1%

Revenue

For the first quarter ended 31 March 2019, Lecta had revenue of €388.9 million versus €375.4 million in the first quarter ended 31 March 2018, an increase of €13.5 million or +3.6%. This increase was attributable to:

- Higher sales of CWF, Specialties and Purchased Products of €+3.6 million or +1%, from €356.0 million in 1Q2018 to €359.6 million in 1Q2019, resulting from lower sales volumes of 31,900 metric tons or -8.3%, 354,800 metric tons in 1Q2019 vs 386,700 metric tons in 1Q2018, but an increase in average net sales price of +93€/t or +10%, 1,014€/t in 1Q2019 vs 921€/t in 1Q2018; and
- Higher sales of energy of €+9.9 million or +51%, from €19.4 million in 1Q2018 to €29.3 million in 1Q2019, resulting from higher sales volumes of 64,700 MWh or +25%, 321,300 MWh in 1Q2019 vs 256,600 MWh in 1Q2018, and an increase in average sales price of +16€/MWh or +21%, 91€/MWh in 1Q2019 vs 76€/MWh in 1Q2018. 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 decreased by €8.9 million, or-4,%, from €200.6 million in 1Q2018 to €191.7 million in 1Q2019, and as a percentage of revenue they decreased from 53.4% in 1Q2018 to 49.3% in 1Q2019. The absolute decrease was mainly attributable to lower produced and purchased volumes, partly offset by an increase in the average consumption prices of pulp of +40€/t from 1Q2018 to 1Q2019.

Labor Costs

Labor costs decreased by €0.3 million, or -0.6%, from €47.0 million in 1Q2018 to €46.7 million in 1Q2019, and as a percentage of revenue they decreased from 12.5% in 1Q2018 to 12.0% in 1Q2019.
The headcount decreased by 68 heads, from 3,237 employees in 1Q2018 to 3,169 employees in 1Q2019.

Other Operating Costs Except Non-recurring items

Other operating costs except non-recurring items increased by €5.2 million, or +5%, from €104.8 million in 1Q2018 to €110.0 million in 1Q2019, and as a percentage of revenue they increased from 27.9% in 1Q2018 to 28.3% in 1Q2019. The absolute increase was essentially due to higher costs of energy, outsourcing, distribution, selling variable costs and production consumables, partly offset by a decrease in packaging materials, maintenance and overhead costs.

EBITDA

EBITDA increased by €1.5 million, or+6%, from €25.3 million in 1Q2018 to €26.8 million in 1Q2019. This increase was the result of lower sales of paper in volume, higher outsourcing, distribution, selling variable costs and production consumables, partly offset by lower net energy costs, packaging materials, maintenance and overhead costs, in a context of higher unit gross margin.
It has to be noted that because of the implementation of IFRS 16 “Leases” as of 1 January 2019 (see Note 1.2 to the Interim financial statements), in 1Q2019 the Other operating costs except non-recurring items have been reduced by circa €1.4 million, while the Depreciation and the Financial expense have been increased by circa €1.2 million and €0.2 million respectively.

Depreciation and Amortization

Depreciation and amortization increased by €2.6 million, from €11.9 million in 1Q2018 to €14.5 million in 1Q2019.

Non-recurring items

In 1Q2019, Lecta recorded a non-recurring charge of €0.7 million, including €0.8 million of Organization efficiency program. In 1Q2018, Lecta recorded a non-recurring charge of €0.7 million, including €0.6 million of Organization efficiency program.

Finance Costs

Finance costs increased by €0.1 million or +1%, from €15.4 million in 1Q2018 to €15.5 million in 1Q2019.

Income Tax

Lecta recorded income tax charges of €1.8 million in 1Q2019 and €1.1 million in 1Q2018.

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. €35 million were used at 31 March 2019.

Cash

At 31 March 2019 Lecta had €63.1 million of cash and cash equivalent.

Capital Resources

Lecta's total capital resources amounted to €95.7 million in Total equity and €626.5 million in Non-current interest-bearing borrowings as at 31 March 2019, compared to €106.2 million and €605.7 million, respectively, as at 31 March 2018. In addition, Current interest-bearing borrowings amounted to €50.1 million as at 31 March 2019, compared to €25.1 million as at 31 March 2018.

CASH FLOW

Three Months Ended 31 March 2019 Compared to Three Months Ended 31 March 2018

Lecta's cash flows for the three months ended 31 March 2019 and 31 March 2018 were as follows:

	Three months ended 31 March		
(in millions of euro)	2019 (unaudited)	2018 (unaudited)	Change
Cash flows from (used in) operating activities			
EBITDA	26.8	25.3	+1.5
Inventories	20.8	(6.2)	+27.0
Trade receivables	(20.5)	2.2	-22.6
Prepayments	0.4	(0.1)	+0.5
Trade payables	(61.3)	(17.9)	-43.5
Working capital	(60.6)	(22.0)	-38.6
Provisions	(0.3)	(0.0)	-0.3
Greenhouse gas emission rights	0.0	(0.0)	+0.0
Proceeds (payments) related to non-recurring items	(0.9)	(1.2)	+0.2
Income tax paid	(0.1)	(0.5)	+0.4
Net cash flow (used in) / from operating activities	(35.1)	1.6	-36.7
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment	(15.7)	(30.1)	+14.4
Proceeds from disposal of property, plant and equipment	0.0	0.1	-0.1
Receipt of grants	(0.6)	(0.8)	+0.3
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	(0.1)	+0.6
Net cash flow (used in) / from investing activities	(15.8)	(30.9)	+15.1
Cash flows from (used in) financing activities			
Dividends paid to non-controlling interest	0.0	0.0	+0.0
Interest paid	(21.1)	(20.9)	-0.2
Issue costs of borrowings	(0.0)	(0.0)	-0.0
Proceeds from borrowings	25.1	30.1	-10.0
Repayment of borrowings	(5.0)	(18.4)	+18.4
Payments of finance lease liabilities	(1.2)	(0.1)	-1.1
Net cash flow (used in) / from financing activities	(2.2)	(9.3)	+7.1
Net increase (decrease) in Cash & Cash equivalents net of banks overdrafts	(53.2)	(38.6)	-14.5
Net foreign exchange difference	0.0	0.1	-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	36.9	87.8	-50.9
Of which cash and cash equivalents	63.1	99.8	-36.7
Of which bank overdrafts	(26.2)	(12.0)	-14.2

During the three months ended 31 March 2019, Lecta's cash and cash equivalents decreased by €44.1 million or -41%, from €107.2 million at 1 Jan 2019 to €63.1 million at 31 March 2019. The principal uses of cash during the three months ended 31 March 2019 were for Working Capital of €-60.6 million, Purchase of property plant and equipment of €-15.7 million and Interest payments of €-21.1 million.

During the three months ended 31 March 2019, the cash flows used in operating activities were €-35.1 million, €36.7 million more than cash flow from operating activities during the three months ended 31 March 2018. The principal sources and uses of cash in operating activities were from:

- Ebitda of €+26.8 million;
- Increase in Working capital of €-60.6 million due to decreases in inventories (impact of €+20.8 million), in prepayments (impact of €+0.4 million) and in trade payables (impact of €-61.3 million), and an increase in trade receivables (impact of €-20.5 million);
- Payments related to non-recurring items of €-0.9 million, mainly in relation with the Organization efficiency program;

During the three months ended 31 March 2019, the cash flows used in investing activities were €-15.8 million, €15.1 million less than the cash flows used in investing activities during the three months ended 31 March 2018. The principal uses and sources of cash in investing activities were from:

- Purchase of property, plant and equipment of €-15.7 million;

During the three months ended 31 March 2019, the cash flows used in financing activities were €-2.2 million, €7.1 million less than the cash flows used in financing activities during the three months ended 31 March 2018. The principal uses and sources of cash in financing were for:

- Interest paid of €-21.1 million;
- Proceeds from borrowings net of Repayment from borrowings of €+20.1 million;
- Payments of finance lease liabilities of €-1.2 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.

Capital Expenditures and Investments

In the three months ended 31 March 2019, capital expenditures were €15.7 million, i.e. €1.8 million for major paper machine rebuilds, €6.9 million for cost reduction and productivity improvement, €4.6 million for maintenance, €1.5 million for information technology, €1.3 million for environment and safety, and an increase in capital payables of €-0.4 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 31 March 2018 the restructuring cash cost associated to Lecta efficiency programs was €-0.8 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

Lecta has announced the temporary shutdown of Line 8 production at its Condat’s mill from the end of April. The decision will be reevaluated in the following months depending on market developments.
The decrease in CWF demand over the last several years resulted in overcapacity in the industry. The worsening of this trend observed in the last months is the main reason for the temporary Line 8 shutdown at the Condat’s mill.
The Condat’s brand product range and service levels during this period are guaranteed due to efficiency improvements and streamlining on Condat’s Line 4 as well as through the contribution of the Group's other CWF paper mills.

Despite the temporary shutdown, meeting the overall demand of Lecta's CWF customers is assured, given the Group's total production capacity of more than 850,000 tons per year.
At the same time, Lecta continues working on a strategic transformation plan that will allow Condat to move forward with greater chances of success, although this project needs further definition over the next few months.
This plan would entail the transformation of production Line 8 from manufacturing two-side CWF to manufacturing specialty papers for labels and flexible packaging, a market in which Lecta has extensive experience given its manufacturing operations in Spain and business operations worldwide.

MANAGEMENT AND CORPORATE GOVERNANCE OF LECTA SA

Board of Directors

The Board of Directors was appointed at the Shareholders' meeting of 25 April 2019. The Board is currently composed of eleven Directors:

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

The Board of Directors