Mimizan, 28 March 2018

Full-year 2017 results

At its 28 March 2018 meeting chaired by Dominique Coutière, Gascogne's Board of Directors examined the accounts for fiscal year 2017. The annual consolidated financial statements were audited. The certification reports will be issued after finalisation of the requisite procedures for the purposes of the publication of the annual financial report.

In operational terms, the Group continued the restructuring and investments provided for in its recovery plan.
The year was mainly marked by the following events:

- Wood Division: a series of short-term measures were initiated and the preparation of a Wood plan was announced in June in order to restore the profitability of this division.
- Packaging Division: Gascogne Papier was selected through the CRE5 biomass call for tenders for the implementation of a co-generation unit (electricity produced from steam) with electric power of 19.38 MW.

In financial terms, the year was marked by renegotiations on the existing financial debt and negotiations on new financing. It was concluded in late December with the approval of loans amounting to €110m from a group of seven major banks, conveying the confidence of the financial partners in Gascogne's recovery, in place since late 2014. In three years, EBITDA was multiplied by 2.5, going from €11m in 2014 to €27.5m in 2017.
This €110m loan is to be paid back over 5 years and is broken down into 3 parts:

- A €50m loan earmarked for the refinancing of current bank debt, which in turn has allowed the arrival of new financial partners
- A €50m capital investment loan, to be channelled into investments planned for the 2018-2020 period
- A €10m revolving loan to provide working capital

This operation will enable Gascogne to pursue its investment programme designed to reinforce its industrial infrastructure: building on an initial investment of just over €90m over the 2014-2017 period, Gascogne is set to invest a further €110m over the 2018-2020 period, bringing the total amount of investments to €200m over seven years.

As previously mentioned, to support this plan, the Group will use the 2018 Annual Shareholder General Meeting, convened to approve the annual and consolidated accounts for the 2017 tax year, to propose a draft resolution for a capital increase of €10m, with preemptive subscription rights maintained, supported by the shareholder Attis 2, and to be concluded before the end of 2018.

Income statement

In €m	2017	2016
Sales	406.4	406.8
EBITDA	27.5	22.0
Underlying operating profit	16.1	11.6
Operating profit	11.6	10.5
Net financial items	-3.1	-3.1
Pre-tax profit	8.7	7.7
Consolidated net profit	8.2	7.4

Sales were stable at €406.4m. The slight improvement in the Packaging Division (+€2.7m) was offset by a reduction in the Wood Division (-€3m).

EBITDA[1] grew by 25% from €22.0m in 2016 to €27.5m in 2017

This €5.5m increase is mainly the result of:

- a stable gross margin,
- continued savings of €1.7m (-8.2%) in the energy entry thanks to the year-round operation of the Mimizan biomass boiler (commissioned in mid 2016),
- controlled staff costs: falling by €2.1m (-2.4%), mainly due to less frequent use of temporary workers.
- savings in overheads of €1.7m (-4.6%).

The **underlying operating profit** increased from €11.6m to €16.1m.
The increase in underlying operating profit is less than the increase in EBITDA because the depreciations rose mechanically by €1.5m due to the major investments made (€90m in 4 years).

The **operating profit** is €11.6m and integrates other non-operating income and expenses for a total of -€4.5m.

This amount mainly includes:

- the cost of the Planned Redundancy Programme for the Wood Division for €4.7m and a redundancy plan in the German subsidiary of the Flexible branch for €1.3m.
- using unused provisions relating to settled disputes for €2.4m,
- borrowing costs corresponding to refinancing for €1m.

The **net financial items** amounted to–€3.1m (stable with respect to 2016).

Corporate tax totalled -€0.5m in 2017 compared to -€0.3m in 2016.

The **net income for all consolidated accounts** was positive for the third consecutive year and is improving (€8.2m, compared to €7.4m in 2016).

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[1] EBITDA: Underlying operating profit + net additions to depreciation + net operating provisions and impairments

The **results per division** are broken down in the table below:

In €m	WOOD Division		PACKAGING Division		Paper Branch		Sack Branch		Flexible Branch	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Sales	68.9	72.9	336.1	333.8	105.2	106.1	110.3	108.7	120.6	119.0
EBITDA	1.0	-1.5	26.5	23.5	10.2	8.4	7.3	6.6	8.8	8.1
Underlying operating profit	0.2	-2.6	15.9	14.2	6.8	6.9	3.7	2.2	5.7	5.4

The **Wood Division** improved its EBITDA by €2.5m in 2017 thanks to a first series of measures taken from the start of the year, notably including the suspension of the Escource smallwood sawmill, the sale of the timber frame walls business, the ending of the use of temporary workers, greater productivity at the Saint Symphorien cutting-jointing unit and continued development in the North American market.

A Wood plan was announced in June, comprised of the following items:

- A new business sales strategy: rationalisation of the decoration line conveyed leading to a focus on profitable products and a gradual opting out of products generating losses, and continued growth of machined woods,
- A new industrial strategy: beginning of rationalisation of the industrial tool, which is too scattered and unproductive, by increasing production at the Saint Symphorien sawmill and stopping production on the Belvès and Marmande sites,
- Rationalisation of the Division structures.

The creation of this plan required a Planned Redundancy Programme, which was implemented at the end of the year and plans to eliminate 92 positions, with a provisioned cost.

To date, the Belvès and Marmande sites have been closed (November 2017). However, production at the Saint Symphorien sawmill has not yet been increased, taking account of supply issues.

For a little over a year, the Wood Division has been hit by the very high price of timber, which has been constantly rising, as well as a shortage of the material.

The **Packaging Division** met its expectations with an EBITDA[1] improving by €3m

- The **Paper Branch** increased its EBITDA by €1.8m in 2017 (+21%), despite a very low level of production, due to the regulatory shut-down in October on the one hand and various failures on the other, which affected production. The slight decrease in sales was explained by the decrease in the quantities produced, partly limited by rising sales prices in the context of key markets.
  The improvement in profitability, which has been continuous for 3 years, was mainly due to cost management: continuous decrease in energy costs (year-round effect of the biomass boiler), payroll and overheads.
  The paper plant also benefited from a decrease in its wood supply costs in 2017 compared to 2016, which do however remain a lot higher than previous prices and are significantly rising in the first quarter of 2018.

- The **Sack Branch** saw its EBITDA increase by €0.7m (+11%).
  This increase was due to the Mimizan site improving its EBITDA (+€0.7m, i.e., +26%) thanks to the increase in sales and a better mix of sacks sold.

The Nantes site is progressing slightly due to improved productivity in the second half of the year. The EBITDA of the three foreign sack plants (Germany, Tunisia and Greece) was stable overall.

- The **Flexible Branch** improved its EBITDA by €0.7m (9%).

  The Dax site is still benefiting from its development strategy for the segments with highest added value and its industrial efficiency; it improved its EBIDTA by €1.3m (+19%) to reach €8.1m. Conversely, the German subsidiary demonstrated under-performance, reducing its EBITDA by €0.6m (-46%). Industrial reorganisation was set up and an initial plan was approved at the end of the year (earmarked in the accounts) to restore the company's competitive edge and enable it to commercially redeploy.

Financial position

Balance sheet	**2017**	**2016**
Shareholders’ equity (€m)	108.1	100.4
Shareholders’ equity per share (€)	5.3	4.9
Net debt (€m)	90.3	98.4
Working capital requirement (€m)	84.2	87.9

Flows	**2017**	**2016**
Operating cash flow (€m)	23.6	18.7
Investments (€m)	-18.4	-21.4
Proceeds from sales of assets	1.4	0.1
Financing cash flow (€m)	12.4	8.4
Variation in cash flow (€m)	19.2	6.2

Variation in cash flow improved very noticeably in 2017.

The operating cash flow improved by €4.8m (+26%) thanks to the improved EBITDA.

The investment cash flow amounted to -€16.8m: -€18.4m in investment expenditure and €1.6m in proceeds from sales of assets, mainly from the sale of assets from the timber frame walls business.

In 2017, the operating cash flow mainly covered investments, with a positive balance of €6.8m.

The financing cash flow amounted to €12.4m:

Reimbursement of existing lines	**-7.5**
Refinancing operation	**13.0**
Attis 2 advance on current account	**7.1**
Other	**-0.2**
	12.4

The refinancing operation includes the establishment of a new €50m loan to refinance €35.6m of existing loans and €15.6m of overdraft lines of credit not drawn upon at the date of refinancing, generating a positive net cash flow (for costs of setting up new financing) of €13m.

The main Attis 2 shareholder agreed to an advance on current account of €7.1m in light of the capital increase scheduled for 2018.

Financial information manager

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About the Gascogne Group:

The Gascogne Group is the leading player in the French wood industry, operating at every stage of forest resource processing. It is the only French player that is totally integrated across the entire Wood-Paper-Processing chain. With its four close-fitting activities, the Gascogne Group is the leading multi-specialised operator in the wood industry in France, the world's leading producer of machine-glazed natural Kraft paper, the No. 3 European producer of industrial and consumer sacks and one of the world's leading producers of packaging and protection laminates.

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