progroup

ANNUAL REPORT

2019

KEY FIGURES

(in € thousands)

SALES 2019

886,722

Reported EBITDA 2018

275,478

Reported EBITDA 2019

223,232

Reported EBITDA margin 2019

25.2%

Net leverage 2019

3.0

Net financial debt 2019

670,980

Key operating figures

(in € thousands)

	2019	2018
Sales	886,722	966,118
Reported EBITDA [1]	223,232	275,478
Reported EBITDA margin (in % of net sales)	25.2%	28.5%
EBIT [2]	167,079	217,325
Consolidated net income for the period	98,073	126,965
Cash flows from operating activities	209,167	197,214
Cash flows from investing activities	-302,819	-158,949
Free cash flow [3]	-93,652	38,265

Key balance sheet figures

(in € thousands)

	31/12/2019	31/12/2018
Total assets	1,446,911	1,147,504
Equity	394,985	315,518
Cash in hand, bank balances	202,775	148,431
Financial liabilities (bonds, bank loans and accrued interest)	873,755	678,438

Key financial figures

(in € thousands)

	31/12/2019	31/12/2018
Net leverage [4]	3.0	1.9
LTM EBITDA	223,232	275,478
Net financial debt [5]	670,980	530,007

(1) Reported EBITDA (not a German GAAP measure) is calculated as sales, plus increase/decrease in finished goods and work in process, plus other own work capitalised, plus other operating income (excluding any extraordinary income), minus costs of materials, minus personnel expenses, minus other operating expenses (excluding any extraordinary expenses), minus other taxes.

(2) EBIT (not a German GAAP measure) is calculated as reported EBITDA minus amortisation and depreciation of fixed intangible and tangible assets.

(3) Free cash flow (not a German GAAP measure) is calculated as cash flows from operating activities plus cash flows from investing activities.

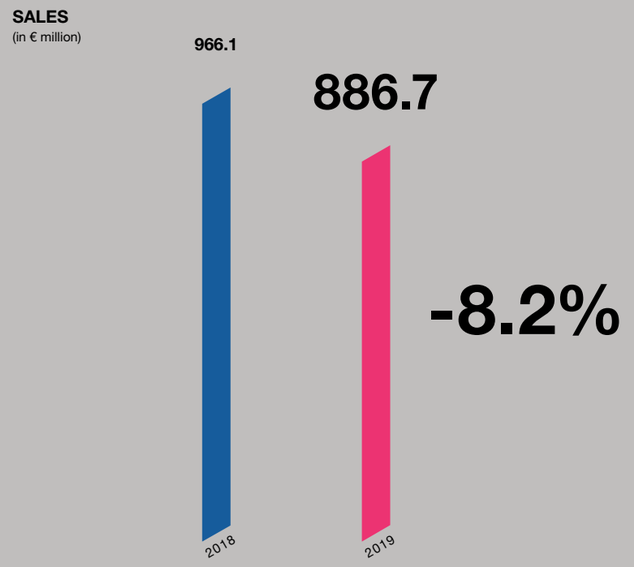
(4) Net leverage (not a German GAAP measure) is calculated by dividing net financial debt as at 31 December 2019 and 31 December 2018, respectively, by EBITDA for the last twelve months (LTM) ended on the relevant date.

(5) Net financial debt (not a German GAAP measure) is calculated as financial liabilities (bonds, bank loans and accrued interest) minus cash in hand, bank balances.

HIGHLIGHTS

01

In the financial year 2019, Progroup achieved substantial sales volume growth in both the corrugated sheetboard as well as the containerboard business. Due to a continuous normalisation in market conditions throughout the entire year after exceptionally favourable price levels in the previous year, overall sales declined.



02

Sales normalised in the financial year 2019, declining by 8.2% to €886.7 mn after €966.1 mn in the previous year. The continued sales volume growth could not entirely compensate for the normalisation in sales prices for both containerboard and corrugated sheetboard.

03

Sales volume in the corrugated sheetboard business increased by 7.1% in the financial year 2019 compared to 2018. Containerboard sales volume also grew by 7.0% in the same timeframe. The increase was driven by a higher capacity utilisation as well as the new corrugated sheetboard production site PW12, which operated at good capacity.

04

In the financial year 2019, integration between containerboard business and corrugated sheetboard business further increased, reaching a new annual peak at 96% including swap agreements with other board producers, after 93% in 2018. Without swaps, integration increased by 5 percentage points from 82% in the financial year 2018 to 87% in 2019.

05

After an exceptional year of very favourable market conditions, price levels for both key products corrugated sheetboard and containerboard experienced the anticipated ongoing readjustment and normalisation throughout the entire year. The downward price level development stabilised only during the third quarter. Simultaneously, purchase prices for the key resource recycled paper declined throughout the financial year, however starting from a lower price point and therefore declining comparably slower. For the upcoming quarters, price levels are expected to stabilise with a possible upward potential.

25.2%

EBITDA margin
January - December 2019

06

EBITDA normalised in line with a weaker pricing, reaching €223.2 mn in the financial year 2019, after €275.5 mn in the previous year. EBITDA margin reached a strong 25.2% in the financial year 2019, remaining well above the long-term five-year average. Due to the ongoing normalisation of market conditions and resulting weaker EBITDA performance, EBITDA margin decreased in comparison to the previous year by 3.3 percentage points.

07

In 2019, net financial debt increased from €530.0 mn on 31 December 2018 to €671.0 mn on 31 December 2019 as a result of drawing a facility of GBP 67 mn to finance the growth project PW12 in Ellesmere Port, UK, in the second quarter of 2019, as well as of drawing €30 mn and €95 mn of the €155 mn long-term bilateral bank loan facilities in the first and third quarter to finance the construction of PM3. Due to a lower LTM EBITDA and higher net financial debt, net leverage increased from 1.9 at the end of December 2018 to 3.0 as at 31 December 2019. Progroup expects to temporarily leave the long-term net leverage target corridor of 2.5 - 3.0 as a consequence of the ongoing investment activities in the new paper machine PM3. Progroup, however, remains committed to the long-term net leverage target corridor and aims to return to it in the mid-term.

08

Free cash flow remained well below previous year's €38.3 mn at €-93.7 mn in the financial year 2019. The decline is attributed to an increase in cash flows from investing activities related to the construction of PM3, PW12 and PW13, which was not entirely offset by the growing cash flows from operating activities.

09

In the financial year 2019, Progroup continued on its growth path, increasing sales volume in both key products and producing above average margins. In light of this good result, Progroup will continue to apply its successful and well-established greenfield strategy, operating state-of-the-art production sites in direct vicinity to key business partners, providing best-in-class corrugated sheetboard products. PW12 in Ellesmere Port, UK, which replaced the phased-out PW8 and launched production in the beginning of 2019, is operating well, adding considerable production capacity. Works on the new paper machine PM3 in Germany are continuing according to schedule with production expected to launch in the third quarter of 2020. PM3 will substantially increase containerboard production capacity by around 750,000 tons per year. The most recently added production site PW13 in Eisfeld, Germany launched test production at the beginning of the financial year 2020 and is scheduled to start commercial production within the first quarter of 2020. Throughout the financial year 2020, Progroup will continue to follow its growth path as leading provider of corrugated sheetboard solutions in Europe.

CONTENT

Progroup AG Annual Report 2019

A TO OUR INVESTORS

LETTER TO INVESTORS

Dear investors and business partners,

Welcome to our annual report for the financial year 2019.
Progroup is a leading European producer of corrugated sheetboard and containerboard products, specialised in small batch series for small- and medium-sized customers in a multitude of end markets. Progroup is headquartered in Landau, Germany and operates thirteen cutting-edge production sites in six countries with approximately 1,300 employees.

In 2019, we experienced the anticipated and continuous normalisation of price levels after a record-breaking financial year 2018, in which we saw sales and EBITDA soaring in light of exceptionally favourable market conditions. Consequently, price levels of both our key products corrugated sheetboard and containerboard decreased within the financial year, with price levels stabilising only during the third quarter. Starting from a lower level, purchasing prices for recycled paper did not decrease to an equivalent extent. For the upcoming year, we see a potential for slight upward price developments.

In January 2019, we launched production at our newest corrugated sheetboard production site PW12 in Ellesmere Port, UK, which replaced the phased-out PW8 with expanded production capacity. PW12 already added to our sales volume performance in 2019, which increased year-by-year by 7.1% in the corrugated sheetboard business. In our second key business, the containerboard business, we increased sales volume by 7.0% in the financial year 2019, after a decline in the previous year due to the build-up of stock towards the end of the year. The integration of both our businesses remains an integral part of our strategy and soared in the financial year 2019 to a new all-time annual high of 96% including swap agreements with other containerboard manufacturers, after 93% in the previous year. Excluding swap agreements, integration increased from 82% in 2018 to 87% in the financial year 2019.

As anticipated, our consolidated sales declined in the financial year 2019 due to normalising market conditions, after an exceptionally favourable year 2018. Consolidated sales declined by 8.2% to €886.7 mn, after €966.1 mn in the previous year. In light of normalised market conditions, our continuous growth in sales volume could not entirely compensate for weaker sales prices throughout the year.

from l.t.r.:
Maximilian Heindl, Chief Development Officer
Dr. Volker Metz, Chief Financial Officer
Philipp Kosloh, Chief Operating Officer
Jürgen Heindl, Chief Executive Officer

Against the backdrop of normalising market conditions and sales performance, our EBITDA equally normalised in the financial year 2019, reaching €223.2 mn after the previous record-breaking €275.5 mn in 2018. Despite the decrease by 3.3 percentage points in comparison to the previous year, our EBITDA margin remained at a strong level at 25.2% in the financial year 2019, well above our five-year average. Consolidated net income reached €98.1 mn, a decline by 22.8% compared to the all-time high of €127.0 mn in 2018.

In the financial year 2019, our free cash flow decreased substantially due to our ongoing investment activities related to our new paper machine PM3, as well as the new production sites PW12 in Ellesmere Port, UK, and PW13 in Eisfeld, Germany. The strong increase in cash outflows from investment activities for the abovementioned projects was not entirely offset by our increase in cash flows from operating activities. Consequently, free cash flow amounted to €-93.7 mn in the financial year 2019, thus remaining well below the previous year's €38.3 mn.

As a consequence of our continued expansion and investments into new production sites, our net financial debt increased from €530.0 mn on 31 December 2018 to €671.0 mn on 31 December 2019. Net financial debt increased as we drew a facility of GBP67 mn to finance our growth project PW12 in Ellesmere Port, UK, in the second quarter of 2019. Further, we drew €30 mn and €95 mn of our €155 mn long-term bilateral bank loan facilities in the first and third quarter of 2019 in order to finance the construction of our new paper machine PM3 in Germany. Resulting from our lower LTM EBITDA and the increased net financial debt, our net leverage increased from 1.9 on 31 December 2018 to 3.0 on 31 December 2019. In the near future, we anticipate to temporarily leave our long-term net leverage target corridor of 2.5 to 3.0 due to our ongoing investment activities in relation to PM3. However, we also want to highlight, that we remain fully committed to our long-term net leverage target corridor and aim to return to the range of 2.5 to 3.0 net leverage in the mid-term.

In the financial year 2019, we continued on our proven growth path, generating continuous sales volume growth. With our good performance in 2019 in light of normalising market conditions, the success of our greenfield strategy, operating state-of-the-art production sites and providing best-in-class corrugated sheetboard products in direct vicinity to our close business partners, was once more proven. Consequently, we will continue on this strategic growth path in Europe. The launch of commercial production at our new production site PW12 in Ellesmere Port, UK, which replaced the decommissioned PW8, showed good effects on sales volume growth in our corrugated sheetboard business. Further, constructions on our most recent new production site PW13 in Eisfeld, Germany were concluded by the end of 2019, with test production commencing since the beginning of November 2019. At PW13 commercial production starts in the first quarter of 2020. Constructions on our third paper machine PM3 in Germany are well within schedule. PM3 will substantially increase our containerboard production capacity by about 750,000 tons per year. Launch of production at PM3 is scheduled for the third quarter of 2020.

Since mid-March 2020, the corona crisis has reached Europe, resulting in far reaching tightening regulatory frameworks in the affected countries and a worldwide economic downturn, which we anticipate will exceed the impact of the financial crisis of 2008/2009. While this development will also certainly affect Progroup, our key product corrugated sheetboard is and will remain systemically relevant to safeguard the distribution of vital goods.

Currently, we are working hard on developing and implementing measures to cope with this crisis. Naturally, the health and safety of our employees and staff are of the highest importance to us. We have established clear-cut measures in line with the recommendations by the WHO and constantly monitor the situation at all our sites to guarantee the best possible well-being for all of our personnel.

In operating terms, we are addressing this crisis from a position of strength and as cost leader, maintaining the most modern and efficient production sites in the industry. After going through difficult times in the financial crisis 2008/2009, we have learned our lessons and taken countless measures to eradicate issues which led to problems in the past. Based on our insights, we have reached very good sales results in the past years. We have used this time of growth to establish a strong financial structure and build financial reserves. Consequently, we have a very solid financing situation and our credit contracts are designed in a crisis-proof manner. We possess sufficient liquidity reserves to remain well financed for a long time even in dire times. Additionally, we are assessing the possibility to make use of the governmental support systems. In summary, we are well equipped to master this crisis and will return stronger from the current situation.

In light of the current situation, we would like to give you a brief insight into our ongoing operational performance. So far, we had a good start into the year 2020 against the background of an economic recovery in the first months. With the beginning of the current crisis, customers undertook inventory build-up, resulting in a corresponding higher demand, which partially compensated for the decreasing demand in other industries.

Yours sincerely,

Jürgen Heindl
Chief Executive Officer

Dr. Volker Metz
Chief Financial Officer

Maximilian Heindl
Chief Development Officer

Philipp Kosloh
Chief Operating Officer

Landau, April 2020

EXECUTIVE BOARD

Member Appointed:

JÜRGEN HEINDL

Born: 1955
Member since: 2007
Appointed until: 28 August 2022
Responsibility: Chief Executive Officer

Other principal positions: Progroup Paper PM1 GmbH - Progroup Paper PM2 GmbH - Progroup Paper PM3 GmbH - Progroup Power 2 GmbH - Progroup Board GmbH - Progroup Board S.A.S. - Progroup Board s.r.o. - Progroup Board sp. z o.o. - Progroup Board Ltd. - Progroup Board S.r.l. - Prowell Verwaltungs GmbH - JH-Holding GmbH - Progroup Board Kft.

Jürgen Heindl is the CEO, founder and majority shareholder of Progroup AG. Since founding Progroup in December 1991, he has pursued a consistent growth strategy which, in addition to technological leadership, organisational leadership and cost leadership, is also based on the use of innovative and sustainable production technologies. Mr Heindl began his career at Zewawell GmbH & Co. KG (division of PWA/SCA), where he started working as an assistant to the general management in 1980, became plant manager in 1982 and joined the Executive Board in 1987. He was appointed as CTO and MD for all business units in South West Germany. Before embarking on his professional career, Mr Heindl graduated in electrical engineering and in business engineering.

DR. VOLKER METZ

1975
2016
31 October 2021
Chief Financial Officer

Progroup Paper PM1 GmbH - Progroup Paper PM2 GmbH - Progroup Paper PM3 GmbH - Progroup Power 2 GmbH - Progroup Board GmbH - Progroup Board S.A.S. - Progroup Board s.r.o. - Progroup Board sp. z o.o. - Progroup Board Ltd. - Progroup Board S.r.l. - Prowell Verwaltungs GmbH - Progroup Board Kft.

Dr. Volker Metz is the Chief Financial Officer of Progroup AG. He started his professional career in 2001 as consultant at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft in Mannheim, where he became project manager in the transaction advisory services department in 2005. From 2007 to 2009, he worked for EnBW Energie Baden-Wurttemberg AG, Karlsruhe, as senior manager controlling. From 2009 to 2016, Dr. Metz was head of controlling of Progroup AG. At the beginning of 2016, he became commercial division manager of GGEW, Gruppen-Gas- und Elektrizitätswerk Bergstrase Aktiengesellschaft, Bensheim. As at 1 November 2016, Dr. Metz returned to Progroup AG. Before beginning his professional career, Dr. Metz studied business economics at the University of Mannheim, where he obtained his Ph.D., and at the University of Wales.

PHILIPP KOSLOH

1973
2016
31 October 2021
Chief Operating Officer

Progroup Paper PM1 GmbH - Progroup Paper PM2 GmbH - Progroup Paper PM3 GmbH - Progroup Power 2 GmbH - Progroup Board GmbH - Progroup Board S.A.S. - Progroup Board s.r.o. - Progroup Board sp. z o.o. - Progroup Board Ltd. - Progroup Board S.r.l. - Progroup Board Kft.

Mr. Kosloh is the first Chief Operating Officer of Progroup AG. He began his professional career as production engineer at Kellogg's Company of Great Britain Limited, Manchester, in 1999. From 1998 to 2000, he was employed as consultant at Berndt & Partner GmbH, Berlin. From 2001 to 2009, Mr. Kosloh was member of the extended management board of Progroup AG and Progroup AG's predecessor PROWELL Papierverarbeitung GmbH and managing director of the logistics subsidiary Prologistik GmbH. In 2009, he was general manager for the region southwest Germany at Smurfit Kappa. As at 1 November 2016, Mr. Kosloh returned to Progroup AG. Before commencing his future career, Mr. Kosloh studied packaging engineering at the technical college of Berlin, followed by an MBA course at the Southbank University Business School, London.

MAXIMILIAN HEINDL

1983
2017
31 July 2022
Chief Development Officer

Progroup Paper PM1 GmbH - Progroup Paper PM2 GmbH - Progroup Paper PM3 GmbH - Progroup Power 2 GmbH - Progroup Board GmbH - Progroup Board s.r.o. - Progroup Board sp. z.o.o. - Progroup Board Ltd. - Progroup Board S.r.l. - Progroup Board Kft. - Progroup S.A.S.

Maximilian Heindl is Progroup's Chief Development Officer. In 2011, he started his professional career as an international trainee at Voith Paper Holding GmbH & Co. KG in Heidenheim. In 2013, Mr. Heindl was appointed as assistant to the Management Board of the Businessline P&S EMEA, where he was promoted to become Director of Production in 2015. In summer 2016, Maximilian Heindl took up his first position at Progroup as Head of Production and Technology Paper for Propapier. As at 1 August 2017, Mr. Heindl was appointed as deputy member of the Executive Board of Progroup AG for a period of five years. On 1 January 2019, he became Progroup's Chief Development Officer. Maximilian Heindl studied industrial engineering at the Karlsruhe Institute of Technology (KIT), before he commenced his professional career.

CAPITAL MARKET ACTIVITIES

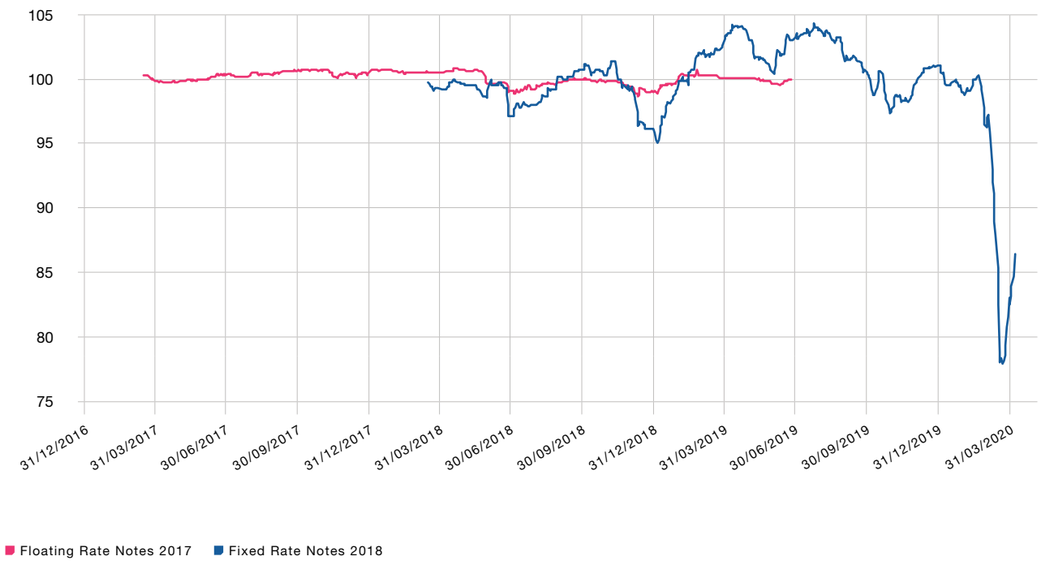
An overview of the features of our senior secured fixed rate notes and their market performance as at 31 December 2019 is presented below.

Capital market activities Progroup AG

ISIN	DE000A2G8WB1 (144A) / DE000A2YNWZ8 (144A temporary) / DE000A2G8WA3 (Reg S)
Issue	Senior Secured Fixed Rate Notes
Issuer	Progroup AG
Listing	The International Stock Exchange
Distribution	144A/Reg S
Amount issued	€600,000,000
Amount outstanding	€600,000,000
Currency	EUR
Issue date	27 March 2018 / 26 June 2019
Final maturity	31 March 2026
Optional redemption	from 31 March 2021: 101.500%
	from 31 March 2022: 100.750%
	from 31 March 2023 and thereafter: 100.000%
Issue price	100% of face amount/ 101.625% (tap)
Coupon	3.000%
Interest payments	Semi-annually on 31 Mar and 30 Sep, commencing on 30 Sep 2018
Paying agent	Deutsche Bank AG
Security agent	Wilmington Trust (London) Limited

Ratings	
S&P	BB-
Moody's	Ba3

Progroup Senior Secured Notes Prices



Source of price data: Deutsche Bank AG

In June 2019, Progroup successfully issued additional senior secured fixed rate notes in an amount of €150 mn, which increased the amount outstanding to €600 mn. The additional notes have the same terms as the existing senior secured fixed rate notes. The proceeds from the offering were used to redeem in full, on 26 June 2019, the €150 mn outstanding principal amount of existing floating rate notes due 2024.

B

PROGROUP FUNDAMENTALS

2019 – A YEAR OF GROWTH

JÜRGEN HEINDL

Sustainability, digitalization and e-commerce – three megatrends are fuelling our sales. The results achieved in recent years show that we are able to leverage these opportunities for growth better than our competitors and thus will further expand our leadership in Central Europe. In 2019, we continued to press ahead with our TWO25 Strategy at full speed. We seek to double our corrugated sheetboard capacities by 2025 compared to the 2015 level. The breathtaking speed of Progroup's continued growth is attributable to the high technical expertise, the extraordinary commitment and the outstanding teamwork of our employees and our strong partners. The figures speak for themselves: we significantly outperform the market with a growth rate of approximately 7 per cent.

Milestones in 2019

At our corrugated sheetboard plant PW06 in Offenbach/Queich, Germany, we finalised a traditional packaging park project which should strengthen the relationship with a key customer. The investment in the transport bridge and the expansion of the high-bay warehouse in our corrugated sheetboard plant PW06 at our location in Offenbach/Queich in July 2019 set the course for the future. With the new transport bridge, we create a direct delivery facility to our customer. This cooperation is a symbol for long-term collaboration, which is an integral part of our successful business strategy.

After a construction period of only seven months, we confidently completed another important milestone in August 2019 with the roofing ceremony for the paper mill PM3. With an investment volume of just under €500 million, this project currently is the largest investment project in the German federal state of Saxony-Anhalt and highlights our long-term involvement in the region. Around €100 million of the total amount is invested in climate protection and water savings. Thus, the project also exemplifies the sustainability strategy that we have been advancing for many years.

+7%
growth rate of sales volume

The tenth anniversary of the PW07 plant in September 2019 is another big success which represents an important foundation for our future growth at the Stryków site. We also follow ambitious plans for the future here: The PW14 plant, which is currently in the final planning phase, is another large growth project that is intended to turn Poland into one of Progroup's most significant production sites in Central Europe.

In addition, upon starting test operations at the PW13 site in Eisfeld on schedule, we completed the fifth corrugated sheetboard plant in only four years in November 2019. After the start of production at the beginning of 2020, the plant will manufacture corrugated sheetboard of around 175,000 tons per year, thus raising Progroup's total capacity to approximately 1.5 million tons. The current growth path is unparalleled and is a symbol for the extraordinary performance capacity of Progroup and its team spirit.

JÜRGEN HEINDL
Founder and CEO of Progroup AG

€500 mn
investment volume in the paper mill PM3 in Saxony-Anhalt

We also meet the needs of our fast growth by enlarging our administrative building in Landau. Approximately 100 additional state-of-the-art workplaces were created on a space of around 1,900 square metres, and have been in use since December 2019. This is an important step to provide the optimal organisational environment for our advancing expansion in the future.

PROGROUP AT A GLANCE

11

STATE-OF-THE-ART CORRUGATORS

+1 in the early implementation phase

1

RDF POWER PLANT

(APPROX.)

€887 MN

SALES 2019

2

STATE-OF-THE-ART PAPER MILLS

+1 under construction

1,293

EMPLOYEES

(as at 31/12/2019)

59

VEHICLES TRUCK FLEET

OUR BUSINESS

Progroup AG, located in Landau in the German state of Rhineland-Palatinate, Germany, is one of the leading manufacturers of containerboard and corrugated sheetboard in Europe. Since it was founded in 1991 in Offenbach/Queich, the company has been pursuing a consistent growth strategy which, in addition to technological leadership, is also based on the use of innovative and environmentally friendly production technologies. Progroup operates production sites in six countries in Central Europe, including two paper factories, eleven corrugated sheetfeeder plants, a logistics company and an RDF power plant.

One Group.
One Goal.
One Team.

Continuously successful for more than 28 years

Given our large scale, highly flexible production at a relatively low cost base, a high degree of vertical integration, cutting edge technology and highly qualified and dedicated employees, we believe we are well-positioned to benefit from major growth trends in our industry. We differentiate ourselves from other market participants (i.e., fully integrated paper and packaging producers) through our strategic focus on those elements of the value chain that bring added-value to our customers in the packaging industry, in particular on the automated and integrated production of containerboard and corrugated sheetboard. The increasing demand for lightweight and small-size packaging, both due to the further increase of e-commerce, as well as the general trend towards more efficient and sustainable use of raw materials and energy will drive our business. Progroup is determined to capture these growth opportunities.

Customised high-quality corrugated sheetboards

Progroup produces high-quality, customised corrugated sheetboards at eleven locations in Central Europe. One new mega plant is planned to be constructed by 2021. Our corrugated sheetboard plants are the fastest and most powerful high-tech plants worldwide with working widths of up to 3.35 metres and a cumulative total annual production capacity of approx. 1.3 million tons in 2019. Thanks to innovative technology and online networking of all production plants, Progroup is able to produce all corrugated cardboard qualities, including fine flutes such as E, F grades at high speed and high quality. Orders can be placed online around the clock, and are individually manufactured within 48 hours and delivered in a specific time window.

Quality check: corrugated sheetboard

Own paper supply
Progroup manufactures containerboard at two own paper mills in Germany with a total annual production capacity of approximately 1,100,000 tons. Both paper machines, PM1 and PM2, have complementary production layouts which allow to produce brown containerboard with grammages between 60 and 230g/m², using almost exclusively recycled paper. To cover the increasing demand for consistently high-quality containerboard, Progroup has begun the realisation of a further paper machine project in Germany: PM3. It will start production in the second half of 2020 and provide a further production capacity of around 750,000 tons of containerboard.

Next generation products
Sustainability has been part of Progroup's DNA since the company was founded. The circular economy is at the forefront of our production philosophy. Wastepaper is used for paper production, the use of fresh water is reduced as far as technically possible and on PM3 fossil fuels are partly replaced by biogas, which is generated in the production process. Our end product corrugated sheetboard is 100 percent recyclable.

To fully exploit all the potential of the recovered paper fibres and to produce high-quality papers economically using fewer resources, state-of-the-art paper machines are needed. With our high-tech paper machines, we produce lightweight containerboard with grammages of between 60 and 130 g/m², less use of fibres and high efficiency.

The production of these so called Next Fibre® papers reduces CO_2 emissions thus protecting the environment. The high-performance Next Fibre® papers are used to manufacture the Next Board® corrugated sheetboards. Thanks to newly developed corrugated sheetboard designs, Progroup has successfully managed to achieve higher ECT (Edge Crush Test) values as well as improved compressive strength with less use of materials. Only Next Board® corrugated sheetboard is used at our selected production partners throughout Europe to create Next Box® packaging. Companies that use this packaging have persuasive arguments to put to their eco-conscious consumers and point out that they handle precious resources in a sustainable way.

Progroup Paper plant PM3,
construction site Sandersdorf-Brehna, Germany

Highest technological standards of production facilities

OUR STRATEGY

TWO 25

Within the framework of the Two Twentyfive strategy, Progroup has defined a clear goal, namely to continue to expand its leadership in the market for corrugated sheetboard in Central Europe. Progroup wants to seize the opportunities for growth in the packaging business through innovations as well as cost and organisational leadership.

Specifically, Progroup is striving to double its sales volume of corrugated sheetboard by 2025 compared to 2015 and increase its own level of paper production by 75 percent. This means that by 2025 Progroup will cover almost all of its demand for paper used in the production of corrugated sheetboard from its own production and thus make itself largely independent of suppliers and their prices and quality.

In light of our continuous expansion, constructions on our newest paper machine PM3 in Germany are progressing within schedule. Further, test production of our newest production site PW13 in Germany started in November 2019. Lastly, we just recently announced our plans for a new additional production site PW14 in Stryków, Poland, where we expect construction work to commence during the second half of 2020.

Well-established greenfield strategy
Despite the ongoing normalisation of market conditions throughout 2019, we will continue expanding in line with our successful greenfield approach, operating state-of-the-art production facilities across Europe.

Since we commenced operations in 1992, we have carefully selected the locations of our production sites and have grown organically by pursuing a primarily greenfield strategy. This creates an optimal geographical set-up of our production sites without constructional limitations, providing best-in-class corrugated sheetboard products and services in the direct vicinity to our customers.

All of Progroup's activities are focused on achieving profitable growth. To be successful in the long run in a commodity business such as manufacturing corrugated sheetboard, technology leadership, organisational leadership and cost leadership are all essential requirements. This is the only way for the company to achieve the very best level of efficiency and productivity and earn the money to make further investments that will allow it to safeguard its position as a leading innovator.

Main building blocks of the Two Twentyfive strategy

GROWTH & INTEGRATION

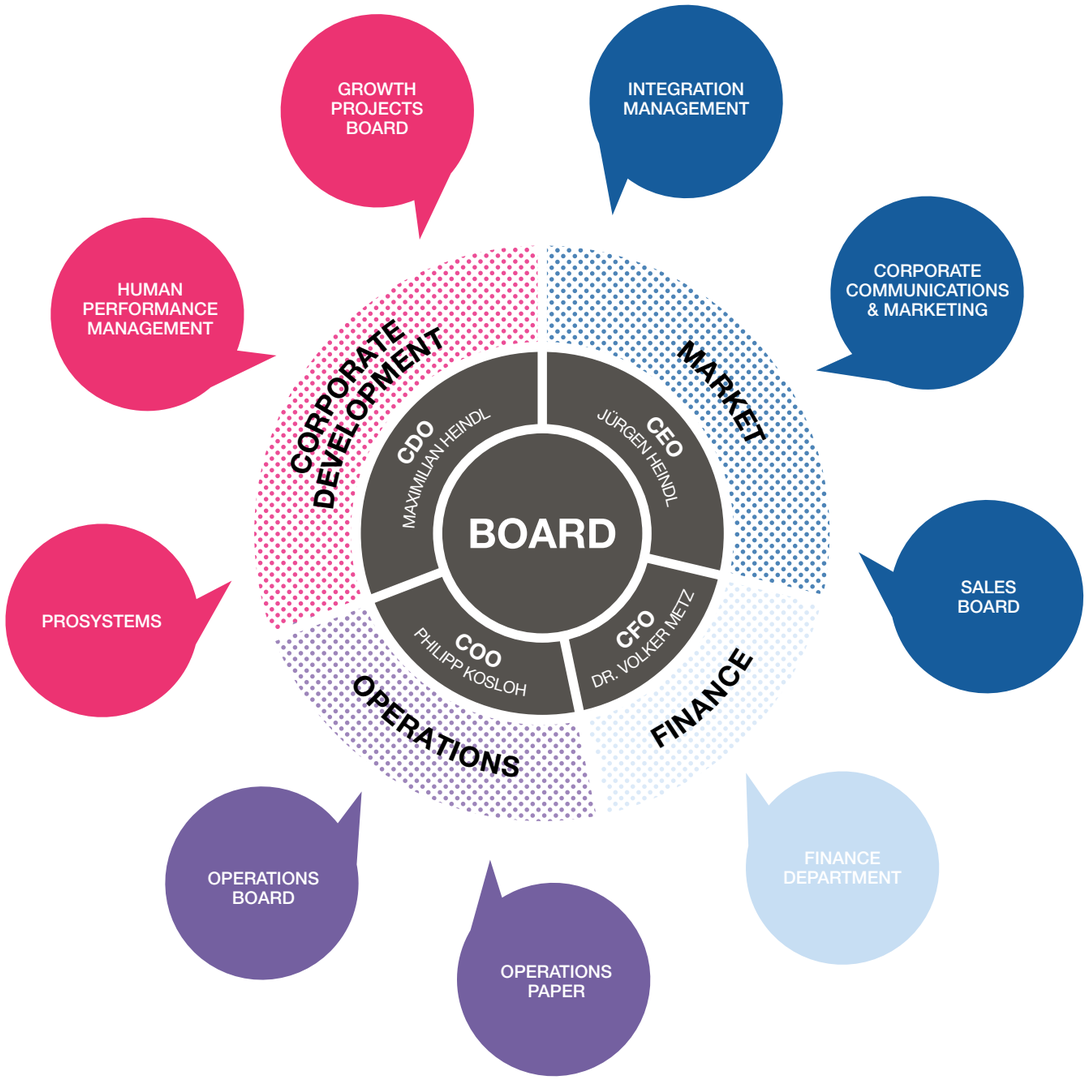
COST LEADERSHIP & PROFITABILITY

ORGANISATIONAL & PERSONNEL DEVELOPMENT

OUR STRUCTURE

Progroup is growing rapidly. The opening of four new corrugated sheetboard plants in five years promises strong business growth. This growth can only be managed successfully when the organisational structure is also developed further on a high level.

In order to put the company on a broad footing and at the same time to be able to respond flexibly and rapidly to the quick changes on the market, Progroup established a second operational management level. This second management level implements the company's strategy and develops it together with the Management Board to secure Progroup's future sustainability and capacity for growth.



CORPORATE SOCIAL RESPONSIBILITY AT PROGROUP

As a family-run company in the paper and packaging industry and as a market leader for corrugated sheetboard in Central Europe, Progroup is actively assuming its responsibility for the people, the environment and the community. Our commitment is to think with a long-term perspective and to act sustainably.

As a company with several locations, Progroup is part of numerous communities in Europe. The company benefits from the infrastructure existing in those communities and from many dedicated and well trained employees. As a good neighbour, Progroup wants to give these communities something in return. Therefore, the company is happy to participate in public affairs, is open to engage in dialog and stands up for the common good. Progroup is actively involved in projects for the support of children and young people. These projects can refer to the education sector or the area of sports, but can also serve the purpose of helping disadvantaged children and young people. Progroup strongly believes that this is the right thing to do, and it is also in line with the company's credo that sustainability as well as accountability and commitment are the corner stones of good social interaction.

12,000 Euro for the children and youth farm Landau, Germany

Sustainable perspectives for children and teens: Support for the sports club SG Union Sandersdorf, Germany

Progroup promotes creative project "People & Paper" of the Wi-Wa-Wunderland e.V. Eisenhüttenstadt, Germany

CIRCULAR ECONOMY AND ZERO WASTE: SUSTAINABILITY AT PROGROUP

The paper industry is a resource-intensive industry. Since the foundation of the company in 1991, Progroup therefore has followed a rigorous sustainability strategy which has become increasingly relevant over time. The demand for resources is constantly increasing, fuelled by the worldwide megatrends of globalisation and population growth. At the same time, CO_2 emissions are increasing as a result of economic growth around the world, leading to global warming and endangering our planet. Progroup recognised its responsibility already at an early stage and has based its entrepreneurial decisions on the objective to conserve natural resources and to reduce CO_2 output.

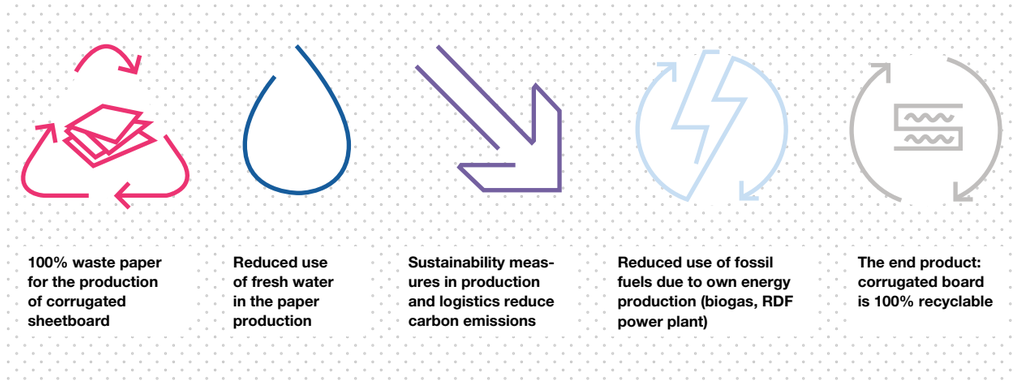
Sustainable management based on the recycling product corrugated sheetboard
In order to manufacture corrugated sheetboard, Progroup needs containerboard. The company runs two own paper mills (a third paper mill is currently under construction) where it manufactures this containerboard exclusively on the basis of recovered paper. The final product, corrugated sheetboard, can be re-used and can be re-added to the cycle thanks to waste separation by consumers. To limit the use of fossil raw materials, Progroup operates an alternative fuels plant that provides energy to the paper mill at that location. The impurities contained in the recovered paper as well as the sewage sludges from the neighbouring public-sector wastewater treatment plant can be utilised through thermal recycling. The process steam required for paper manufacturing as well as a major portion of the necessary electric power are generated by this method, resulting in a reduction of the use of fossil fuels.

Sustainability through innovative technologies
Progroup focuses its planning of new corrugated sheetboard plants on sustainable management. This starts with the construction phase by commissioning regional companies to minimise access routes and hence CO_2 output. More importantly, investments of millions of euros are made in innovative and sustainable technologies. This can be illustrated with the example of the PM3 paper mill at the Sandersdorf-Brehna location.

The core of the new machine is the new ProAqua Plus system which is used to recycle the utilised water. The plant works like a biological kidney and cleans the water which can be re-used afterwards. This results in savings of 3,750,000 cubic metres of fresh water. This corresponds to the annual water consumption of more than 80,000 people in Germany.

Moreover, this biological kidney also produces biogas which Progroup uses in the paper machine. This leads to a reduction of the consumption of fossil resources by ten per cent.

Sustainability through optimised plant logistics and continuous optimisation of existing plants
The technological development is progressing as rapidly as Progroup's growth. Existing processes and production methods are constantly scrutinised and optimised so that existing plants also benefit from technical innovations.



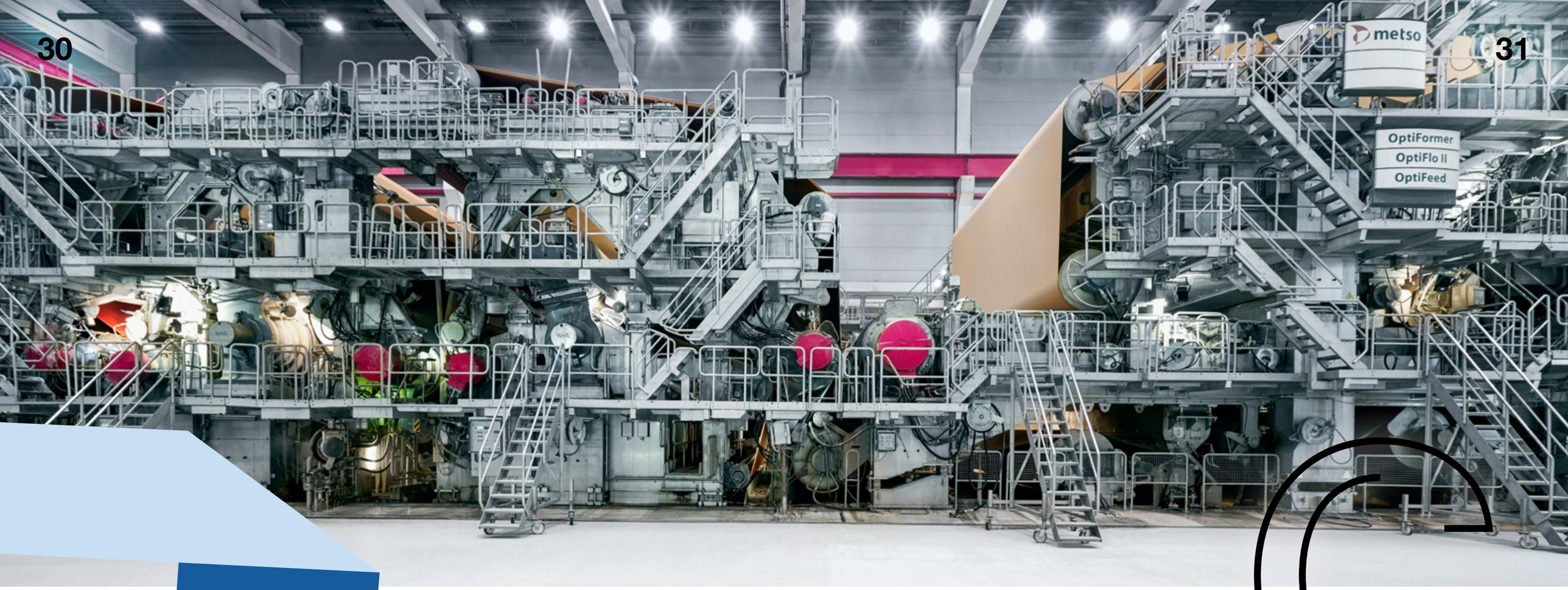
Example paper mill:
In 2018, the prototype of a new film press, a refinement component to improve the paper quality, was installed at Progroup's first paper mill PM1. This does not only save steam and starch. It is also more durable, the maintenance intervals are longer and, hence, it reduces transports to maintenance service providers.

Example corrugated sheetboard factory:
Via a newly constructed transport bridge at the location Offenbach/Queich, Germany, corrugated sheetboard can now be delivered directly to the new neighbouring partner K2 Verpackungen. Hence, 3,000 truck transports per year are no longer needed.

Sustainability through energy efficiency
Progroup focuses on maximum energy efficiency in the construction of new corrugated sheetboard plants and new paper mills and rigorously employs state-of-the-art technologies. Highly efficient combined heat and power (CHP) plants are already being used at Progroup's alternative fuels plant in Eisenhüttenstadt and the corrugated sheetboard plants in Plößberg and Eisfeld to generate electric power and steam in a resource-conserving manner. CHP plants to be installed at two further locations are currently in the planning stage. The existing plants are optimised on a continuous basis to save energy. For example, Progroup has replaced the lighting devices in the plants almost entirely by LEDs. This led to a significant reduction of the electric power consumption by more than 50 per cent.

Sustainable corrugated sheetboard types: Next Board®
As part of the sustainability strategy, Progroup developed a special type of corrugated sheetboard: the Next Board® corrugated sheetboard. This type of corrugated sheetboard is characterised by its low use of resources and, at the same time, by an identical durability compared with traditional corrugated sheetboard. This results in a decrease of the CO_2 output during production and transport.

Progroups sustainability strategy at a glance



C

COMBINED GROUP MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC AND MARKET SPECIFIC DEVELOPMENTS

Corrugated sheetboard stock

Demand for our products is generally driven by the level of economic growth and activity, since these factors typically result in higher per capita use of packaging materials through higher rates of consumption and transportation of goods. An increase in the use of packaging materials (including paper-based packaging materials) results in an increase in the demand for our recycled containerboard and corrugated sheetboard products. Therefore, the less favourable economic situation in Europe and the increasing economic and political risks impacted the packaging market.

Furthermore, market conditions and therefore prices for containerboard and corrugated sheetboard are usually influenced considerably by the balance of supply and demand, especially in the market for containerboard, since production capacity cannot readily be adapted to reflect changing market conditions. Hence, material market entries can heavily affect conditions and prices on the market for containerboard, leading to similar effects on the market for corrugated sheetboard with a slight time lag.

In general, prices for corrugated sheetboard usually follow the development of containerboard prices. Containerboard prices used to follow the price development of recycled paper, however during the past two to three years this price correlation was significantly weaker than in the past.

In 2019, the German economy grew for the tenth consecutive year. However, the economic momentum has slowed noticeably. The driving forces were especially good domestic demand based on a falling unemployment rate and growth of real disposable income. As at year end, the German Federal Statistical Office expected a calendar-adjusted GDP growth rate of 0.6% for Germany in 2019. The European Commission expected a calendar-adjusted GDP growth rate in the euro- zone of 1.2% in 2019.

With respect to the solid economic development in Germany and the eurozone throughout the financial year 2019, we saw broadly stable conditions in the markets for containerboard and corrugated sheetboard.

+1.9%

increase of the German containerboard market in 2019

The market volume of the German reference market for containerboard increased by approximately 1.9%, while the German corrugated sheetboard market decreased by approximately 0.8% in 2019, compared to 2018. Therefore, the development of the containerboard market was slightly above the general economic development and the development of the corrugated market lagged that of the general economy.

Concerning the externally sold volume of Progroup's recycled containerboard, the average price per ton decreased year-on-year by 20% (for the overall externally sold product portfolio mix). After price increases in the first quarter of 2018, prices for recycled containerboard remained stable in the second and third quarter of 2018. In the period from the fourth quarter of 2018 to the second quarter of 2019, prices declined in several steps. After a stable third quarter of 2019, prices for recycled containerboard showed another downward step in the fourth quarter of 2019. This development usually follows the price development of recycled paper. In 2018, we observed an opposite development since purchasing prices for recycled paper declined in the first and second quarter of 2018 and remained at a low level for the rest of the year 2018. Due to the good availability of recycled paper in Europe, prices declined from the beginning of the second quarter of 2019 until the end of the year.

-11%

price decrease per ton of Progroup's corrugated sheetboard 2019 vs. 2018

-20%

average price decrease per ton of externally sold volume of Progroup's recycled containerboard 2019 vs. 2018

Prices for corrugated sheetboard usually follow the development of containerboard prices. In the year 2019, Progroup's average price per ton for corrugated sheetboard decreased by 11%, compared to the average price for the year 2018. Following the containerboard market, prices for corrugated sheetboard increased during the first half of 2018 and started to decline in the fourth quarter of 2018.

Corrugated sheetboard

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

Corrugated sheetboard production site PW13
Eisfeld, Germany

Overall, we are proud of the achieved results and our continued strong sales volume growth in the financial year 2019 for Progroup. After a record-breaking year 2018, which was shaped by extraordinarily favourable market conditions, we experienced the anticipated normalisation of price levels throughout the entire financial year 2019. We successfully completed important strategic projects, such as the issuance of additional senior secured fixed rate notes in June, the launch of our corrugated sheetboard production site PW12 in Ellesmere Port, United Kingdom, and the start of trial production at our new corrugated sheetboard production site PW13 in Eisfeld, Germany.

Operationally, a strong increase in sales volume throughout the financial year 2019 could not entirely compensate for the normalisation of price levels in 2019, which led to declining price levels for containerboard and corrugated sheetboard. Due to the ongoing increase of integration between our containerboard and corrugated sheetboard businesses, we generated a lower external volume of containerboard sold. In total, our consolidated sales decreased in light of the normalisation by 8.2% to €886.7 mn in 2019. The normalised operational performance resulted in an EBITDA declining by 19.0% to €223.2 mn, while the EBITDA margin remained well above our long-term average. In line with this development, consolidated annual net income decreased by 22.8% to €98.1 mn.

Looking on our financial performance, the higher cash outflows from investment activities were not offset by increased cash flows from operating activities, resulting in a significant decrease of our free cash flow to €-93.7 mn. This is related to the ongoing construction works for our new paper machine project PM3 in Sandersdorf-Brehna, Germany, our new corrugated sheetboard plant PW12 in Ellesmere Port, United Kingdom, and our new corrugated sheetboard plant PW13 in Eisfeld, Germany. During 2019, net leverage increased from 1.9 as at 31 December 2018 to 3.0 as at 31 December 2019, due to the increased net financial debt in connection with our current accretive growth projects, as well as a normalised EBITDA performance over the last twelve months.

The following sections “results of operations”, “net asset position” and “financial position” will provide detailed information and analyses of the development of our business performance in 2019.

RESULTS OF OPERATIONS

The following table sets out certain information with respect to our consolidated income statement for the years ended 31 December 2019 and 2018:

Results of operations

(in € thousands)

	2019	2018	Change (%)
Sales	886,722	966,118	-8.2
Increase/decrease in finished goods and work in process	-16,008	23,361	-
Other own work capitalised	17,147	7,573	126.4
Other operating income	19,092	17,725	7.7
Total output [1]	**906,952**	**1,014,778**	**-10.6**
Costs of materials	-422,210	-493,641	-14.5
Gross profit [2]	**484,742**	**521,137**	**-7.0**
Personnel expenses	-84,596	-78,925	7.2
Other operating expenses	-178,782	-168,800	5.9
Reported EBITDA [3]	**223,232**	**275,478**	**-19.0**
Amortisation and depreciation of assets	-56,153	-58,153	-3.4
Other interest and similar income	1,754	86	1,940.5
Interest and similar expenses	-28,159	-32,062	-12.2
Taxes on income	-39,116	-54,865	-28.7
Earnings after taxes	**99,689**	**128,418**	**-22.4**
Other taxes	-1,616	-1,453	11.3
Consolidated net income for the year	**98,073**	**126,965**	**-22.8**
Consolidated unappropriated retained earnings brought forward	213,709	106,852	100.0
Consolidated net retained profits	**311,782**	**233,817**	**33.3**

(1) Total output (not a German GAAP measure) is calculated as the sum of sales, increase/decrease in finished goods and work in process, other own work capitalised and other operating income.

(2) Gross profit (not a German GAAP measure) is calculated by deducting costs of materials from total output.

(3) Reported EBITDA (not a German GAAP measure) is calculated as sales, plus increase/decrease in finished goods and work in process, plus other own work capitalised, plus other operating income (excluding any extraordinary income), minus costs of materials, minus personnel expenses, minus other operating expenses (excluding any extraordinary expenses), minus other taxes.

01

Sales volume

(in thousands of tons)

	2019	2018	Change (%)
Corrugated sheetboard	**1,232**	**1,151**	**7.1**
Containerboard	**1,056**	**987**	**7.0**
– thereof external	138	176	-21.5
– thereof internal	918	811	13.2

01

Total consolidated sales decreased by €79.4 mn or 8.2%, from €966.1 mn in 2018 to €886.7 mn in 2019. This decrease in sales was attributable to a decrease in both our businesses corrugated sheetboard and containerboard and is the result of extraordinarily favourable market conditions in 2018 and a normalisation of price levels in 2019. The decrease in corrugated sheetboard sales is primarily attributable to Germany, since the strong increase in corrugated sheetboard sales volume abroad could compensate for the normalisation of price levels. In the containerboard business the decline is attributable to a further decrease in external sales volume as well as the normalisation of price levels. Corrugated sheetboard sales volumes grew strongly by approximately 81 thousand tons, from approximately 1,151 thousand tons in 2018 to approximately 1,232 thousand tons in 2019. This significant increase in sales volume was attributable to (i) the successful ramp-up at our corrugated sheetboard production site (PW11) in Drizzona, Italy, following commencement of commercial production in March 2018, (ii) the successful (but ongoing) ramp-up at our corrugated sheetboard production site (PW12) in Ellesmere Port, United Kingdom, following commencement of commercial production in January 2019, (iii) our ongoing efforts to improve the effectiveness of our sales and marketing activities as part of our continuous improvement program as well as (iv) our continuing efforts to further optimise production of our corrugated sheetboard plants. Our total containerboard sales volume increased by approximately 69 thousand tons or 7.0%, from approximately 987 thousand tons in 2018 to approximately 1,056 thousand tons in 2019. External sales volume of containerboard significantly decreased by approximately 38 thousand tons or 21.5% from approximately 176 thousand tons in 2018 to approximately 138 thousand tons in 2019 as we managed to further increase the share of internal containerboard sales volume in corrugated sheetboard operations (integration). This was due to further improved utilisation of our existing corrugated sheetboard production sites, the successful ramp-up at our corrugated sheetboard production site (PW11) in Drizzona, Italy, as well as the successful (but ongoing) ramp-up at our corrugated sheetboard production site (PW12) in Ellesmere Port, United Kingdom. As a result, the average grade of integration between both businesses, including swap agreements, increased from 93% in 2018 to 96% in 2019. The average price of corrugated sheetboard in 2019 was significantly below the average price of 2018 (-10.9%). Since November 2018, corrugated sheetboard prices decreased, following the recycled containerboard´s price development. The average price per ton for externally sold containerboard in 2019 was significantly below the average price in 2018 (-20.3%). After price increases in the first quarter of 2018, prices for recycled containerboard remained stable in the second and third quarter of 2018. In the period from the fourth quarter of 2018 to the second quarter of 2019, prices declined in several steps. After a stable third quarter of 2019, prices for recycled containerboard showed another downward step in the fourth quarter of 2019.

01

Sales

(in € thousands)

	2019	2018	Change (%)
Sales in Germany (origin)	454,666	539,086	-15.7
Sales abroad (origin)	432,056	427,032	1.2
Total Sales	**886,722**	**966,118**	**-8.2**

01

In 2019, sales in Germany accounted for 51.3% of total sales compared to 55.8% of total sales in 2018. Sales in Germany decreased by €84.4 mn or 15.7%, from €539.1 mn in 2018 to €454.7 mn in 2019, primarily due to the normalisation of price levels and a decrease in external sales volume of containerboard. Sales abroad slightly increased by €5.0 mn or 1.2%, from €427.0 mn in 2018 to €432.1 mn in 2019 following strong growth of corrugated sheetboard as described above, but influenced by the normalisation of price levels.

02

Increase/decrease in finished goods and work in process

Primarily due to lower stocks of containerboard as work in process in 2019, our finished goods and work in process decreased by €39.4 mn in 2019.

03

Other own work capitalised

Other own work capitalised is related to our new corrugated sheetboard plant PW13 in Eisfeld, Germany, as well as the ongoing projects to build another corrugated sheetboard plant PW14 in Stryków, Poland, and the further paper machine PM3 in Sandersdorf-Brehna, Germany.

04

Other operating income

(in € thousands)

	2019	2018	Change (%)
Investment subsidies	394	251	56.9
Income from exchange rate differences	6,694	2,929	128.6
Income from other periods	10,630	8,995	18.2
Extraordinary income	0	3,973	-
Other income	1,373	1,577	-13.0
Other operating income	**19,092**	**17,725**	**7.7**

04

Other operating income increased by €1.4 mn or 7.7% from €17.7 mn in 2018 to €19.1 mn in 2019, primarily due to income from exchange rate differences which significantly increased by €3.8 mn or 128.6% from €2.9 mn in 2018 to €6.7 mn in 2019. Income from other periods also increased by €1.6 mn or 18.2% from €9.0 mn in 2018 to €10.6 mn in 2019, primarily in connection with a credit note for avoided grid charges and the reversal of provisions.

Contrary effects came from the absence of extraordinary income in 2019. Extraordinary income in 2018 which amounted to €4.0 mn included among others, a release of provisions for finance costs and receivables against EnBW ("Energie Baden-Württemberg AG"). Other income also decreased by €0.2 mn or 13.0% from €1.6 mn in 2018 to €1.4 mn in 2019.

05

Costs of materials

(in € thousands)

	2019	2018	Change (%)
Costs of raw materials, consumables and supplies	343,306	400,079	-14.2
Costs of purchased services	78,905	93,563	-15.7
Costs of materials	**422,210**	**493,641**	**-14.5**

05

Costs of materials decline significantly by €71.4 mn or 14.5%, from €493.6 mn in 2018 (51.1% of sales, or 48.6% of total output) to €422.2 mn in 2019 (47.6% of sales, or 46.6% of total output). This decline was due to the decrease of €56.8 mn or 14.2% in the costs of raw materials, consumables and supplies as a result of the lower consumption of external containerboard as well as lower price levels for containerboard. In addition, significantly lower prices for recycled paper had a positive effect on the costs of raw materials. With a reduction of 14.5%, costs of materials decreased stronger than the 8.2% reduction in total sales in 2019, but the decrease in the nominal amount could only partly cover the nominal decrease in total sales. The price of recycled paper declined since the beginning of the second quarter until the end of the year 2019. As a result, our own average costs per ton for the recycled paper grades we purchased during 2019 were significantly lower (17.0%) compared to 2018. These considerable lower recycled paper prices and the slightly higher production volume resulted in a decrease of recycled paper costs from €116.4 mn in 2018 to €100.9 mn in 2019. Costs of raw materials also include the costs of externally purchased containerboard as raw material for our corrugated sheetboard plants, which significantly declined from €235.4 mn in 2018 to €201.8 mn in 2019. This decrease was attributable to significantly lower average purchase prices for external containerboard and a lower quantity of externally sourced containerboard.

The costs of purchased services also decreased significantly by €14.7 mn or 15.7%, from €93.6 mn in 2018 to €78.9 mn in 2019, due to lower energy costs as well as lower costs for waste water treatment. Energy costs decreased significantly from €60.3 mn in 2018 to €49.5 mn in 2019. Costs of waste water treatment decreased significantly from €14.2 mn in 2018 to €6.7 mn in 2019, since 2018 was influenced by a provision for potential exceptional charges for waste water treatment.

06

Gross Profit

Gross profit decreased by €36.4 mn or 7.0%, from €521.1 mn (53.9% of sales, or 51.4% of total output) in 2018 to €484.7 mn (54.7% of sales, or 53.4% of total output) in 2019. This decline is primarily due to the normalisation of price levels and therefore lower gross profits in both our containerboard and corrugated sheetboard businesses.

07

Personnel expenses

(in € thousands)

	2019	2018	Change (%)
Wages and salaries	71,595	67,541	6.0
Social security and pensions	13,001	11,385	14.2
- thereof for pension expenses	423	266	58.6
Personnel expenses	**84,596**	**78,925**	**7.2**

07

Personnel expenses increased by €5.7 mn or 7.2%, from €78.9 mn in 2018 to €84.6 mn in 2019, reflecting a €4.1 mn or 6.0% rise in wages and salaries and a €1.6 mn or 14.2% increase in social security and pensions. These increases were due to (i) a 10.3% growth in the average number of employees (from 1,096 in 2018 to 1,209 in 2019), primarily as a result of the new corrugated sheetboard production site PW13 in Eisfeld, Germany, and our growth project of a further paper machine PM3 in Sandersdorf-Brehna, Germany, since the build-up of the workforces started in the first quarter of 2019, and an increase in the number of central functions according to our strong growth and (ii) regular annual salary and wage increases.

08

Average number of employees

	2019	2018	Change (%)
Average number of administrative employees	329	276	19.2
Average number of factory workers	880	820	7.3
Average number of employees	**1,209**	**1,096**	**10.3**

08

Both the average number of administrative employees and the average number of factory workers increased from 276 and 820, respectively, in 2018 to 329 and 880, respectively, in 2019. The higher number of administrative employees is due to structural changes we made in different departments according to our strong growth. The increase in the number of factory workers is related to our new corrugated sheetboard production site PW13 in Eisfeld, Germany, and the paper machine project PM3 in Sandersdorf-Brehna, Germany.

09 Other operating expenses

(in € thousands)

	2019	2018	Change (%)
Freight expenses	72,994	66,954	9.0
Maintenance and repair	43,293	45,239	-4.3
Paper machine clothings	6,087	6,344	-4.1
Rental and leasing costs	8,225	7,832	5.0
Legal and consulting fees	4,167	4,043	3.1
Expenses from exchange rate differences	4,306	4,566	-5.7
Expenses from other periods	1,648	1,369	20.4
Extraordinary expenses	3,486	7,492	-53.5
Others	34,578	24,961	38.5
Other operating expenses	**178,782**	**168,800**	**5.9**

09

Other operating expenses increased by €10.0 mn or 5.9%, from €168.8 mn in 2018 to €178.8 mn in 2019. Freight expenses increased by €6.0 mn or 9.0%, from €67.0 mn in 2018 to €73.0 mn in 2019, mainly due to the increased freight volume as a result of our increased sales volume of corrugated sheetboard and increased freight rates. Other expenses significantly increased by €9.6 mn or 38.5%, from €25.0 mn in 2018 to €34.6 mn in 2019, mainly due to the reclassification of personnel-related expenses from personnel expenses to other operating expenses in an amount of €4.9 mn. In 2018, these costs were included in personnel expenses.

Rental and leasing costs increased by €0.4 mn or 5.0%, from €7.8 mn in 2018 to €8.2 mn in 2019. Expenses from other periods increased by €0.3 mn or 20.4%, from €1.4 mn in 2018 to €1.6 mn in 2019. Legal and consulting fees increased by €0.1 mn or 3.1%, from €4.0 mn in 2018 to €4.2 mn in 2019.

These increases more than offset the decreases in extraordinary expenses, expenses for maintenance and repair, expenses from exchange rate differences and expenses for paper machine clothings. Extraordinary expenses decreased by €4.0 mn or 53.5%, from €7.5 mn in 2018 to €3.5 mn in 2019 and related to the senior secured fixed rate notes offering in June 2019 and financing agreements related to the coming corrugated sheetboard project. Expenses for maintenance and repair decreased by €1.9 mn or 4.3%, from €45.2 mn in 2018 to €43.3 mn in 2019, since the 2018 expenses were impacted by the replacement of the sizer at our paper machine PM1. Expenses from exchange rate differences decreased by €0.3 mn or 5.7%, from €4.6 mn in 2018 to €4.3 mn in 2019. Expenses for paper machine clothings decreased by €0.3 mn or 4.1%, from €6.3 mn in 2018 to €6.1 mn in 2019.

10 EBITDA

(in € thousands)

	2019	2018	Change (%)
EBITDA	**223,232**	**275,478**	**-19.0**

10

Our EBITDA decreased by €52.2 mn or 19.0%, from €275.5 mn in 2018 to €223.2 mn in 2019, as a result of the factors described above, following the strong operating performance but influenced by the normalisation of price levels.

11 Amortisation and depreciation of assets

(in € thousands)

	2019	2018	Change (%)
Amortisation on intangible assets	-2,837	-2,795	1.5
Depreciation on tangible fixed assets	-53,316	-48,957	8.9
Depreciation on current assets	0	-6,400	-
Amortisation and depreciation of assets	**-56,153**	**-58,153**	**-3.4**

11

Amortisation and depreciation expenses decreased by €2.0 mn or 3.4%, from €58.2 mn in 2018 to €56.2 mn in 2019. This decrease was primarily due to an exceptional write-down of slowly moving spare parts in 2018.

Contrary effects were especially related to the commencement of production at the beginning of 2019 in our new production site PW12 in Ellesmere Port, United Kingdom.

12 Interest income/expenses, net

(in € thousands)

	2019	2018	Change (%)
Other interest and similar income	1,754	86	1,940.5
Interest and similar expenses	-28,159	-32,062	-12.2
Interest income/expenses, net	**-26,405**	**-31,976**	**-17.4**

12

Our net interest income/expenses in 2019 improved by €5.6 mn or 17.4%, from a net expense of €32.0 mn in 2018 to a net expense of €26.4 mn in 2019. This is related to a decrease in interest and similar expenses by €3.9 mn or 12.2%, from €32.1 mn in 2018 to €28.2 mn in 2019, mainly as a result of the early redemption fee in connection with the redemption of the €345 mn fixed rate notes in May 2018. In addition, other interest and similar income increased by €1.7 mn, from €0.1 mn in 2018 to €1.8 mn in 2019, in connection with the bond transaction in June 2019. Contrary effects related to an increased credit volume in the context of our strategic green field projects like PW12, PW13 and PM3.

13

Taxes

(in € thousands)

	2019	2018	Change (%)
Taxes on income	-39,116	-54,865	-28.7
Other taxes	-1,616	-1,453	11.3
Total taxes	**-40,732**	**-56,318**	**-27.7**

13

Total taxes decreased significantly by €15.6 mn or 27.7%, from €56.3 mn in 2018 to €40.7 mn in 2019. Total taxes mainly include trade tax and corporate income tax for the current financial year. Furthermore, total taxes include refunds of trade tax and corporate income tax for previous years, which amounted to €0.3 mn in 2019 and income arising from adjustment of deferred tax assets, which amounted to €2.4 mn in 2019.

14

Consolidated net income for the year

(in € thousands)

	2019	2018	Change (%)
Consolidated net income for the year	**98,073**	**126,965**	**-22.8**
Consolidated unappropriated retained earnings brought forward	213,709	106,852	100.0
Consolidated net retained profits	**311,782**	**233,817**	**33.3**

14

Consolidated net income for the year decreased by €28.9 mn or 22.8%, from a profit of €127.0 mn in 2018 to a profit of €98.1 mn in 2019. This was the result of the factors described above.

NET ASSET POSITION

The following paragraphs explain the main changes in the balance sheet as at 31 December 2019 compared to 31 December 2018. For detailed information on our balance sheet items, please refer to section D "Consolidated Financial Statements".

Assets

(in € thousands)

		31/12/2019	31/12/2018
A.	Fixed assets	1,001,034	742,184
B.	Current assets	427,497	385,916
I.	Inventories	100,176	110,512
II.	Receivables and other assets	124,547	126,973
III.	Cash in hand, bank balances	202,775	148,431
C.	Prepaid expenses and deferred charges	15,936	19,367
D.	Deferred tax assets	2,444	36
	Total assets	**1,446,911**	**1,147,504**

Equity and liabilities

(in € thousands)

		31/12/2019	31/12/2018
A.	Shareholder´s equity	394,985	315,518
B.	Investment grants for fixed assets	6,605	3,779
C.	Provisions	97,613	91,746
D.	Liabilities	945,433	736,378
I.	Bonds	600,000	600,000
II.	Bank loans	269,255	74,033
III.	Trade payables	60,932	49,787
IV.	Liabilities from affiliated companies	6	0
V.	Other liabilities	15,242	12,558
E.	Deferred income	2,274	83
	Total equity and liabilities	**1,446,911**	**1,147,504**

As at 31 December 2019, **fixed assets** amounted to €1,001.0 mn, reflecting a significant increase of €258.9 mn or 34.9% compared to 31 December 2018. Additions to fixed assets (€310.4 mn) and exchange rate differences (€5.8 mn) were partly offset by amortisation and depreciation amounting to €56.2 mn. Additions during 2019 were mainly related to the ongoing construction works for our new paper machine PM3 (€224.9 mn) in Sandersdorf-Brehna, Germany, our new production site PW12 in Ellesmere Port, United Kingdom as well as our new production site PW13 in Eisfeld, Germany. Furthermore, we had additions for several smaller maintenance investments concerning our existing plants.

The decrease of €10.3 mn or 9.4% in **inventories** to €100.2 mn is mainly driven by a decrease in work in process by € 13.5 mn as a result of the normalisation of price levels, which compensated for the higher stocks of internal purchased containerboard at our corrugated sheetboard plants. In contrast, a higher amount of spare parts led to an increase in raw materials, consumables and supplies.

Trade receivables decreased by €14.5 mn or 13.3% to €94.3 mn following our significant sales decline as a result of lower prices for containerboard and corrugated sheetboard.

Other assets increased by €12.1 mn or 66.3% to €30.3 mn as at 31 December 2019, mainly in connection with tax payments.

Cash in hand, bank balances amounted to €202.8 mn as at 31 December 2019 compared to €148.4 mn as at 31 December 2018. Negative free cash flow was more than offset by cash inflows from financing activities. For more detailed information, please refer to section C "Financial Position".

Prepaid expenses and deferred charges decreased by €3.4 mn to €15.9 mn, primarily due to the release of lump sum fees.

The increase in **deferred tax assets** by €2.4 mn to €2.4 mn is mainly due to the changed depreciation of the CHP plant as determined during the tax audit, netted against deferred tax liabilities.

Shareholder's equity increased by €79.5 mn from €315.5 mn as at 31 December 2018 to €395.0 mn as at 31 December 2019. The increase is primarily based on a positive net income (€98.1 mn) and the dividends distributed to our shareholders (€20.1 mn). As at 31 December 2019, consolidated net retained profits amounted to €311.8 mn, after €233.8 mn as at 31 December 2018.

Investment grants for fixed assets increased from €3.8 mn as at 31 December 2018 to €6.6 mn as at 31 December 2019, driven by grants received in connection with our new plant PW13 in Eisfeld, Germany.

Tax provisions increased by €8.5 mn to €42.5 mn due to the positive result in the current financial year.

Other provisions decreased by €2.9 mn to €54.6 mn, mainly due to lower provisions for bonuses yet to be granted.

The amount of **bonds** was unchanged at €600 mn as at 31 December 2019. A further senior secured notes offering of €150 mn in June 2019 was used to redeem in full the €150 mn outstanding principal amount of existing floating rate notes.

Bank loans increased by €195.2 mn or 263.7%, from €74.0 mn as at 31 December 2018 to €269.3 mn as at 31 December 2019. This was attributable to a bank loan associated with the investment in our new corrugated sheetboard plant PW12 (GBP67.0 mn) in Ellesmere Port, United Kingdom and a drawdown of €125 mn from the €155 mn long-term bilateral bank loan to finance the ongoing construction of our PM3 project.

The slight increase in **trade payables** by €11.1 mn or 22.4% to €60.9 mn as at 31 December 2019 is mainly due to our current growth projects.

The increase in **other liabilities** from €12.6 mn as at 31 December 2018 to €15.2 mn as at 31 December 2019 was mainly related to higher sales taxes liabilities.

Deferred income increased from €83 thousand as at 31 December 2018 to €2.3 mn as at 31 December 2019. This increase is due to the premium in connection with the issuance of additional senior secured fixed rate notes in June 2019.

FINANCIAL POSITION

The following table sets out a summary of our cash flows for the years ended 31 December 2019 and 2018. For detailed information on our cash flows, please refer to section D "Consolidated Financial Statements".

Summary of cash flows

(in € thousands)

	2019	2018
Cash flows from operating activities	209,167	197,214
Cash flows from investing activities	-302,819	-158,949
Free cash flow [1]	**-93,652**	**38,265**
Cash flows from financing activities	147,016	-6,267

(1) Free cash flow (not a German GAAP measure) is calculated as cash flows from operating activities plus cash flows from investing activities.

Cash flows from operating activities

In 2019, our cash flows from operating activities increased by €12.0 mn from €197.2 mn in 2018 to €209.2 mn in 2019. This increase is mainly attributable to a €36.0 mn decrease in our trade working capital from €169.5 mn as at 31 December 2018 to €133.5 mn as at 31 December 2019. Contrary effects resulted from the lower EBITDA.

The decrease in our trade working capital is attributable to a significant decrease in our trade receivables (€14.5 mn), a decrease in our inventories (€10.3 mn) and an increase in our trade payables (€11.1 mn). For further details about the development of the single positions included in our trade working capital, please refer to section C "Net Asset Position".

Trade working capital

(in € thousands)

	2019	2018
Inventories	100,176	110,512
Trade receivables	94,260	108,756
Trade payables	-60,932	-49,787
Trade working capital [2]	**133,504**	**169,481**

(2) Trade working capital (not a German GAAP measure) is calculated as inventories plus trade receivables, minus trade payables.

Cash flows from investing activities

Cash flows from investing activities generally consist of cash outflows for investments in tangible and intangible fixed assets as well as cash inflows from the disposal of fixed assets and interest received concerning financial assets and cash in hand.

In 2019, our cash outflows from investing activities significantly increased by €143.9 mn from €158.9 mn in 2018 to €302.8 mn in 2019. Cash outflows related to the start of construction works for our new paper machine project PM3 (€216.5 mn) in Sandersdorf-Brehna, Germany, our new corrugated sheetboard plant PW13 (€53.3 mn) in Eisfeld, Germany, our new corrugated sheetboard project PW12 (€12.8 mn) in Ellesmere Port, United Kingdom and our new corrugated sheetboard project PW14 (€2.1 mn) in Stryków, Poland. Furthermore, we made several smaller investments in our existing production sites as part of our continuous maintenance capital expenditures. As a result, investments in tangible fixed assets significantly increased by €144.5 mn from €159.0 mn in 2018 to €303.4 mn in 2019.

Free cash flow

We define free cash flow as cash flows from operating activities plus cash flows from investing activities. Free cash flow comprises the cash surplus or deficit after expenditure on investments and taxes, but before net cash used/provided by financing activities, and before taking into account cash proceeds and payments relating to shareholders` equity and financial liabilities. The reasons for changes in the free cash flow are therefore the same as explained above. In 2019, our free cash flow significantly decreased by €131.9 mn, from a free cash inflow of €38.3 mn in 2018 to a free cash outflow of €93.7 mn in 2019.

Cash flows from financing activities

In 2019, cash flows from financing activities amounted to €147.0 mn of cash inflows, compared to €6.3 mn of cash outflows in 2018.

In the year ended 31 December 2019, we reported a cash inflow from financing activities of €147.0 mn, mainly as a result of proceeds of bonds and borrowings in the amount of €351.9 mn, containing €150 mn from the offering of the senior secured notes due 2026 in June 2019, €125 mn of bank loans in connection with the ongoing construction in our PM3 project and €76.9 mn from a GBP loan in association with the investment in our new corrugated sheetboard plant PW12 in Ellesmere Port, United Kingdom. These cash inflows from financing activities more than offset the cash outflows for (i) the €159.0 mn repayment of bonds and borrowings, which related to the €150 mn redemption of our existing senior secured floating rate notes due 2024 on 26 June 2019, scheduled repayments of the Senior Secured PLN Facilities (€8.7 mn) and scheduled repayments of the EUR Facility (€0.3 mn), (ii) €22.8 mn of interest paid containing interest for our senior secured notes as well as bank loans, (iii) a €20.1 mn dividend payment to our shareholders, as well as (iv) the €3.0 mn cash outflows for payments relating to expenditure of exceptional size or incidence due to extraordinary expenses in connection with the senior secured notes offering (transaction costs, advisory and professional fees and others) and the completion of new facilities to finance our PW14 project.

In the year ended 31 December 2018, we reported a cash outflow from financing activities of €6.3 mn, mainly as a result of (i) the €352.9 mn repayment of bonds and borrowings, which related to the €345 mn redemption of our existing senior secured fixed rate notes due 2022 on 1 May 2018 and scheduled repayments of the Senior Secured PLN Facilities (€7.9 mn), (ii) a €86.5 mn special dividend payment to JH-Holding and our minority shareholders for the purpose of enabling JH-Holding to redeem all of the remaining €81.1 mn outstanding principal amount of the PIK toggle notes on 1 June 2018, (iii) €50.1 mn of interest paid containing interest for our senior secured notes as well as bank loans and lump sum fee payments (€19.3 mn) to JH-Holding and our minority shareholders in return for granting security over their shares in Progroup AG to secure our obligations under the Super Senior Revolving Credit Facility, the Senior Secured PLN Facilities, the Senior Secured EUR Facility, the Senior Secured GBP Facility and the Senior Secured Notes, as well as (iv) the €8.7 mn cash outflows for payments relating to expenditure of exceptional size or incidence due to extraordinary expenses in connection with the senior secured notes offering (transaction costs, advisory and professional fees and others) and the completion of new facilities to finance our PM3 project. These cash outflows from financing activities more than offset the cash inflows (i) for proceeds of bonds and borrowings in the amount of €490.6 mn, containing €450 mn from the offering of the senior secured notes due 2026 in March 2018, €37.2 mn of bank loans in connection with the refinancing of the group and €3.4 mn from a GBP loan in association with the investment in our new corrugated sheetboard plant PW12 in Ellesmere Port, United Kingdom and (ii) €1.3 mn proceeds from grants received in connection with the replacement of the sizer at our paper machine PM1 in Burg, Germany.

Financial liabilities and leverage

(in € thousands)

	2019	2018
Financial liabilities (bonds, bank loans and accrued interest)	873,755	678,438
Cash in hand, bank balances	202,775	148,431
Net financial debt	670,980	530,007
LTM EBITDA	223,232	275,478
Leverage	**3.0**	**1.9**

In 2019, our financial liabilities, including bonds (€600 mn), bank loans (€269.3 mn) and accrued interest (€4.5 mn), increased by €195.3 mn from €678.4 mn as at 31 December 2018 to €873.8 mn as at 31 December 2019. This increase is mainly attributable to drawing facilities of €125 mn of the €155 mn long-term bilateral bank loan facilities to finance the construction of PM3 and €78.9 mn from a GBP loan in association with the investment in our new corrugated sheetboard plant PW12 in Ellesmere Port, United Kingdom.

Cash in hand, bank balances amounted to €202.8 mn as at 31 December 2019 compared to €148.4 mn as at 31 December 2018, since cash inflows from financing activities increased significantly.

As a result of the above described developments, net financial debt, calculated as financial liabilities minus cash in hand, bank balances, increased by €141.0 mn, from €530.0 mn as at 31 December 2018 to €671.0 mn as at 31 December 2019.

Our leverage, calculated by dividing net financial debt by EBITDA for the last twelve months, increased from 1.9 as at 31 December 2018 to 3.0 as at 31 December 2019. Net leverage rose due to the increased net financial debt as well as a normalised EBITDA.

D

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets

(in € thousands)

		31/12/2019	31/12/2018
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	15,685	17,415
		15,685	**17,415**
II.	**Tangible assets**		
1.	Land and buildings including buildings on leasehold land	224,659	187,652
2.	Technical equipment and machinery	399,921	388,189
3.	Other equipment, factory and office equipment	9,585	7,872
4.	Prepayments and construction in process	351,184	141,056
		985,349	**724,769**
		1,001,034	**742,184**
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials, consumables and supplies	60,028	54,352
2.	Work in process	36,663	50,136
3.	Finished goods	3,422	5,957
4.	Prepayments	62	67
		100,176	**110,512**
II.	**Receivables and other assets**		
1.	Trade receivables	94,260	108,756
2.	Receivables from affiliated companies	0	3
3.	Other assets	30,287	18,214
		124,547	**126,973**
III.	**Cash in hand, bank balances**	**202,775**	**148,431**
		427,497	**385,916**
C.	**Prepaid expenses and deferred charges**	**15,936**	**19,367**
D.	**Deferred tax assets**	**2,444**	**36**
	Total assets	**1,446,911**	**1,147,504**

Equity and liabilities

(in € thousands)

		31/12/2019	31/12/2018
A.	**Shareholder´s equity**		
1.	Subscribed capital	7,588	7,588
2.	Capital reserve	75,414	75,414
3.	Revenue reserves	1,408	1,408
4.	Currency translation adjustment	-1,207	-2,709
5.	Consolidated net retained profits	311,782	233,817
		394,985	**315,518**
B.	**Investment grants for fixed assets**	**6,605**	**3,779**
C.	**Provisions**		
1.	Provisions for pensions	501	280
2.	Tax provisions	42,483	33,951
3.	Other Provisions	54,629	57,514
		97,613	**91,746**
D.	**Liabilities**		
1.	Bonds	600,000	600,000
2.	Bank loans	269,255	74,033
3.	Trade payables	60,932	49,787
4.	Liabilities from affiliated companies	6	0
5.	Other liabilities	15,242	12,558
		945,433	**736,378**
E.	**Deferred income**	**2,274**	**83**
	Total equity and liabilities	**1,446,911**	**1,147,504**

CONSOLIDATED INCOME STATEMENT

(in € thousands)

		2019	2018
1.	Sales	886,722	966,118
2.	Increase/decrease in finished goods and work in process	-16,008	23,361
3.	Other own work capitalised	17,147	7,573
4.	Other operating income	19,092	17,725
5.	Costs of materials		
a)	Costs of raw materials, consumables and supplies	-343,306	-400,079
b)	Costs of purchased services	-78,905	-93,563
		-422,210	-493,641
6.	Personnel expenses		
a)	Wages and salaries	-71,595	-67,541
b)	Social security and pensions	-13,001	-11,385
		-84,596	-78,925
7.	Amortisation and depreciation		
a)	of fixed intangible and tangible assets	-56,153	-51,753
b)	exceptional write-downs on current assets	0	-6,400
		-56,153	-58,153
8.	Other operating expenses	-178,782	-168,800
9.	Other interest and similar income	1,754	86
10.	Interest and similar expenses	-28,159	-32,062
11.	Taxes on income	-39,116	-54,865
12.	**Earnings after taxes**	**99,689**	**128,418**
13.	Other taxes	-1,616	-1,453
14.	**Consolidated net income for the period**	**98,073**	**126,965**
15.	Consolidated unappropriated retained earnings brought forward	213,709	106,852
16.	**Consolidated net retained profits**	**311,782**	**233,817**

CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)

		2019	2018
1.	**Cash flows from operating activities**		
	Consolidated net income for the period	98,073	126,965
	Amortisation and depreciation of fixed assets	56,153	51,753
	Increase (+)/decrease (-) in provisions	-5,967	13,102
	Other non-cash expenses (+)/income (-)	-1,729	-830
	Increase (-)/decrease (+) in inventories, trade receivables and other assets [1]	13,386	-53,407
	Increase (+)/decrease (-) in trade payables and other liabilities [1]	9,935	3,307
	Gain (-)/loss (+) on disposal of fixed assets	0	166
	Interest expenses (+)/income (-)	26,405	31,976
	Expenditure (+)/income (-) of exceptional size or incidence	3,485	3,519
	Income tax expenses (+)/income (-)	39,116	54,865
	Income taxes paid (-)	-29,690	-34,202
	Cash flows from operating activities	**209,167**	**197,214**
2.	**Cash flows from investing activities**		
	Proceeds (+) from disposal of intangible and tangible fixed assets	6	375
	Payments (-) to acquire intangible fixed assets	-1,107	-407
	Payments (-) to acquire tangible fixed assets	-303,439	-158,965
	Interest received (+)	1,721	48
	Cash flows from investing activities	**-302,819**	**-158,949**
3.	**Cash flows from financing activities**		
	Proceeds (+) from the issuance of bonds and borrowings	351,861	490,575
	Cash repayments (-) of bonds and borrowings	-158,972	-352,867
	Proceeds (+) from grants received	0	1,345
	Cash payments (-) relating to expenditure of exceptional size or incidence	-2,996	-8,702
	Interest paid (-)	-22,768	-50,112
	Dividends paid to shareholders of the parent entity (-)	-20,109	-86,506
	Cash flows from financing activities	**147,016**	**-6,267**
4.	**Cash funds at end of period**		
	Net change in cash funds	**53,364**	**31,998**
	Effect on cash funds of exchange rate movements	980	-1,513
	Cash funds at beginning of period	148,431	117,946
	Cash funds at end of period	**202,775**	**148,431**
5.	**Composition of cash funds**		
	Cash and cash equivalents	202,775	148,431
	Cash funds at end of period	202,775	148,431

(1) not attributable to investing or financing activities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € thousands)

	Subscribed capital	Capital reserve	Consolidated equity generated		Currency translation adjustment	Group equity
			Revenue reserves	Consolidated net retained profits [2]		
01 January 2018	**7,588**	**75,414**	**1,408**	**193,358**	**-454**	**277,314**
Distribution of profit	0	0	0	-86,506	0	-86,506
Consolidated net profit for the year	0	0	0	126,965	0	126,965
Other changes	0	0	0	0	-2,255	-2,255
31 December 2018	**7,588**	**75,414**	**1,408**	**233,817**	**-2,709**	**315,518**
01 January 2019	**7,588**	**75,414**	**1,408**	**233,817**	**-2,709**	**315,518**
Distribution of profit	0	0	0	-20,109	0	-20,109
Consolidated net profit for the year	0	0	0	98,073	0	98,073
Other changes	0	0	0	0	1,502	1,502
31 December 2019	**7,588**	**75,414**	**1,408**	**311,782**	**-1,207**	**394,985**

(2) The consolidated net retained profits in the amount of the deferred tax assets recognised in Progroup AG's annual financial statements as well as from the measurement of pension obligations are subject to a distribution restriction (2019: €3.7 mn; 2018: €1.1 mn). As at 31 December 2019, €285.7 mn (31 December 2018: €209.2 mn) are available for distribution to the shareholders from the annual financial statements of Progroup AG.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PROGROUP AG, Offenbach a. d. Queich,
Commercial Register Landau, HRB No. 2268

A. GENERAL INFORMATION

The consolidated financial statements of Progroup AG, comprising the consolidated balance sheet, consolidated income statement, notes to the consolidated financial statements, the consolidated cash flow statement and the consolidated statement of changes in equity, have been prepared in accordance with the applicable provisions of Parts One and Two of the Third Book of the Handelsgesetzbuch (HGB—German Commercial Code) and the supplementary provisions of the Aktiengesetz (AktG—German Stock Corporation Act). The previous year's figures are stated for comparative purposes.

In the interest of greater clarity and transparency, below-the-line items to be reported for consolidated balance sheet or consolidated income statement line items pursuant to the statutory provisions, as well as disclosures and below-the-line items which may be reported either in the consolidated balance sheet and consolidated income statement or in the notes to the consolidated financial statements have all been reported in the notes to the consolidated financial statements.

Insofar as individual consolidated balance sheet items and/or consolidated income statement items have been combined as part of the statutory regulations so as to provide better transparency, the composition of these line items is presented in the notes to the consolidated financial statements.

B. SIGNIFICANT BUSINESS TRANSACTIONS

I. Investments in a new Progroup Board plant in the United Kingdom

On 18 April 2017, Progroup AG announced its plan to establish a new corrugated sheetboard production site in the United Kingdom. Within the context of the Two Twentyfive strategy concept, a new corrugated sheetboard plant was constructed by Progroup Board Ltd. at Ellesmere Port, with an investment volume of approximately GBP75 mn to GBP80 mn. Construction activities commenced in the fourth quarter of 2017. Production operations were commenced in January 2019.

II. Investments in a new paper machine in Germany

On 16 February 2018, Progroup AG announced its plan to establish a new paper machine in Germany. Within the framework of the Two Twentyfive strategy concept, a new paper machine will be constructed at the Sandersdorf-Brehna location until 2020. Preparation and planning work for the construction of the site was started in the second quarter of 2018. Construction activities commenced in the first quarter of 2019. Operations are planned to commence during the second half of 2020.

III. Investments in a new Progroup Board plant in Germany

On 10 September 2018, Progroup AG announced its plan to establish a new corrugated sheetboard production site in Germany. Within the context of the Two Twentyfive strategy concept, a new corrugated sheetboard plant is being constructed at the Eisfeld site by Progroup Board GmbH. Construction activities commenced in the fourth quarter of 2018. Trial production started at the end of 2019.

IV. Dividend distribution to Progroup AG shareholders

The Annual General Meeting held on 2 May 2019 resolved the payment of a gross dividend of €2.65 per share entitled to dividends from the net retained profits reported in the annual financial statements for the 2018 financial year in an amount of €210,329,798.99. Thus, the total amount of the distribution made on 2 May 2019 amounted to €20,108,825.40.

V. New issue of notes amounting to €150 mn

On 26 June 2019, Progroup AG successfully issued Senior Secured Fixed Rate Notes in an amount of €150 mn at an interest rate of 3.0%. Also on 26 June 2019, Progroup used the proceeds from the issue of Senior Secured Fixed Rate Notes for the early full redemption of the €150 mn outstanding Senior Secured Floating Rate Notes due in 2024. The note issued on 27 March 2018 in the amount of €450 mn is increased through the new issuance to a total of €600 mn. The note is secured, amongst other things, by pledging all shares in Progroup AG and the company shares in the main subsidiaries, by pledging the bank deposits of the holding company Progroup AG, by assigning tangible fixed assets of the subsidiaries and by granting real estate liens. Furthermore, certain covenants apply with regard to the loans.

C. BASIS OF CONSOLIDATION

The subsidiaries which are included in the consolidated financial statements are presented in section F. III. 3 and 4 of the notes to the consolidated financial statements.

With effect from 19 February 2019, Progroup Board GmbH founded the subsidiary Progroup Board Kft. with its registered office in Budapest, Hungary, and with a share capital of €25,000.00. The assets and liabilities of the subsidiary are consolidated for the first time. Accordingly, the contributions to earnings attributable to this company are contained in the consolidated income statement for the period from 1 January to 31 December 2019 for the first time.

D. PRINCIPLES OF CONSOLIDATION

Acquisitions made until 31 December 2009 continue to be accounted for in accordance with section 66(3) of the Einführungsgesetz zum Handelsgesetzbuch (EGHGB—Introductory Act to the German Commercial Code), using the carrying amount method under section 301(1) no. 1 of the HGB (former version) by eliminating the cost of the equity investments against the proportionate amount that these shares represent in the equity of the subsidiaries.

Acquisitions made after 31 December 2009 are accounted for in accordance with section 301(1) no. 1 of the HGB (as amended) using the purchase method. With this method, the acquisition cost of the investments is eliminated against the equity reflecting the fair value of the assets, liabilities, prepaid expenses and deferred income as well as special items to be included in the consolidated financial statements at the acquisition date.

Receivables and liabilities between consolidated companies have been eliminated, with receivables and liabilities of €971,858 thousand having been eliminated outside profit or loss.

In the financial year 2019, intercompany profits from Progroup Paper PM1 GmbH's and Progroup Paper PM2 GmbH's paper deliveries to affiliated companies decreased to €334 thousand; they were eliminated through profit or loss. Intragroup sales, intragroup other operating income and interest income have been eliminated against corresponding expenses, with expenses and income of €493,243 thousand having been eliminated.

Deferred taxes are generally recognised for consolidation adjustments recognised outside profit or loss as well as for consolidation adjustments recognised through profit or loss. In 2019, consolidation adjustments recognised through profit or loss related exclusively to the elimination of intercompany profits. Deferred tax assets of €1,702 thousand (previous year: €1,801 thousand) were recognised on eliminated intercompany profits of €5,703 thousand (previous year: €6,038 thousand).

E. SIGNIFICANT ACCOUNTING POLICIES

I. Disclosure of accounting policies applied

Intangible assets are measured at cost less amortisation. Amortisation is calculated on a straight-line basis over the standard useful lives. The intangible assets are amortised over a useful life of 3 to 10 years. To the extent that the fair values of individual intangible fixed assets fall below their carrying amounts, additional impairment losses are recorded in case of an expected permanent impairment.

Tangible fixed assets are measured at purchase and production cost less depreciation. Depreciation on additions to tangible fixed assets is generally recorded pro rata temporis. To the extent that the fair values of individual assets fall below their carrying amounts, additional impairment losses are recorded in case of an expected permanent impairment.

The purchase costs comprise expenses incurred to acquire an asset and to bring it to its working condition to the extent that such costs can be allocated individually to such asset. Production cost comprises, if applicable, direct material costs, direct labour costs and special costs of production, appropriate indirect material costs and indirect labour costs, general and administrative costs and expenses for social amenities, for voluntary social benefits and for occupational pensions. Borrowing costs have also been included in production cost to the extent that they were attributable to the period of production.

Depreciation is calculated on a straight-line basis over the standard useful lives. Tangible fixed assets and buildings are depreciated over the period of 3 to 33 years.

Prepayments made are presented in the balance sheet at their nominal amount.

Investment grants are reported separately at their nominal amount on the liabilities side under the special item "Investment grants for fixed assets" and are reversed in accordance with the useful lives of the fixed assets for which the grants were awarded.

Low-value assets costing up to €250.00 each are fully written off in the year of acquisition. Assets which are capable of being used independently and which cost between €250.00 and €1,000.00 are posted to a collective item in the year of acquisition; this collective item is reversed as a charge to profit or loss over 5 years.

Financial assets are measured at cost or, in the event of an expected permanent impairment, at their lower fair value as at the balance sheet date.

Inventories are measured at cost, taking account of the lower of cost or market value. Appropriate valuation allowances are recorded for any identifiable risks resulting from above-average storage periods, reduced recoverability and/or lower replacement costs. In all cases, fair value measurement was applied, i. e. write-downs are recognised to the extent that the expected selling prices less costs incurred prior to disposal result in a lower fair value.

Raw materials, consumables and supplies are measured at actual cost or, taking account of the principle of lower of cost or market value, at lower market values as at the reporting date. Replacement parts for machines are also recognised under raw materials, consumables and supplies. Appropriate valuation allowances are applied to inventories which are obsolete, second-hand, damaged or slow-moving. Lump-sum valuation allowances amounting to €10,156 thousand (previous year: €8,681 thousand) were applied to replacement parts which are obsolete, second-hand or slow-moving.

Work in process and finished goods are measured at production cost. Production cost comprises, if applicable, direct material costs, direct labour costs and special costs of production, appropriate and necessary indirect material costs, indirect labour costs, depreciation and amortisation of fixed assets that is attributable to the production process and general and administrative costs and costs of occupational pensions. Borrowing costs are not included in production cost.

Receivables and other assets as well as the remaining assets are recognised at their principal amount or at their lower fair value as at the balance sheet date.

Appropriate valuation allowances are applied to receivables whose recoverability is associated with identifiable risks; irrecoverable receivables are written off in full.

To cover the general risk from trade receivables, a global valuation allowance of 1% is recognised on domestic and foreign receivables (net of value added tax) which are not subject to a specific valuation allowance.

Cash in hand and bank balances are measured at their nominal amounts.

Payments before the balance sheet date are recognised as **prepaid expenses** to the extent that they represent an expense for a specific period of time after this date.

Deferred taxes are recognised at their calculated amount. For further explanations, please refer to Chapter F of the notes to the consolidated financial statements.

Subscribed capital is recognised at calculated amount.

Provisions are recognised at the settlement amount dictated by prudent business judgment. Provisions are recognised for liabilities of uncertain timing and/or amount as well as for losses from onerous contracts. All risks arising up to the balance sheet date and identifiable up to the date of the preparation of the financial statements have been taken into account. Provisions with a remaining term of more than one year have to be discounted using the average market interest rate of the last seven years applicable for their remaining term, while pension provisions are discounted using the average market interest rate of the past ten years.

Liabilities are carried at their settlement amount.

Payments received before the reporting date are recognised as **deferred income** to the extent that they represent income for a specific time period after this date.

II. Currency translation disclosures

Receivables, other assets, cash and cash equivalents and provisions and liabilities denominated in foreign currencies are translated during the year into euros. Measurement as at the balance sheet date is at the average spot exchange rate on 31 December 2019, with the principle of lower of cost or market value, or higher settlement amount, as appropriate, being taken into account for receivables and liabilities with a maturity of over one year in accordance with section 256a of the HGB.

Foreign exchange gains or losses arising from currency translation are recognised in other operating income or expenses.

Translation of foreign subsidiary annual financial statements is carried out using the modified closing rate method in accordance with section 308a HGB.

Currency translation differences from the consolidation of intercompany balances are recognised directly in currency translation adjustments in equity. The foreign currency loan, which existed as at the last reporting date 31 December 2018 and which was passed on by Progroup AG to its subsidiary in the amount of GBP41.2 mn, was repaid in the course of the financial year 2019. Subsequently, Progroup Board Ltd. took out a loan directly from Goldman Sachs.

F. DISCLOSURES AND EXPLANATIONS ON INDIVIDUAL LINE ITEMS IN THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED INCOME STATEMENT

The financial year of all companies included in the consolidated financial statements corresponds to the calendar year.

I. Consolidated balance sheet

1. Fixed assets

In connection with the acquisition of Progroup Power 1 GmbH in 2015 and related revaluation of acquired fixed assets in correspondence with the capital consolidation, an operating license at acquisition cost of €23,894 thousand has been acquired. Subsequently, the operating license is amortised since 2015 over a remaining useful life of 10 years. As at the balance sheet date, the carrying amount is €14,443 thousand with a remaining term of 6 years.

The classification and movement in the financial year of the fixed asset accounts recognised in the consolidated financial statements are separately presented as an appendix to the notes to the financial statements in the fixed asset movement schedule.

Fixed asset production cost includes capitalised borrowing costs of €5,943 thousand which were attributable to the period of production. The capitalised borrowing costs were recognised in fixed assets in the line item "Construction in process". Interest capitalised in previous years was capitalised in tangible fixed assets, primarily in buildings and technical equipment and machinery.

The value of construction in process as at 31 December 2019 is €351.2 mn (previous year: €141.1 mn), mainly resulting from the Progroup Board plant in Eisfeld, Germany, as well as the Progroup Paper plant PM3 in Sandersdorf-Brehna, Germany. This includes own work capitalised in the amount of €10.7 mn.

2. Receivables and other assets

As in the previous year, receivables and other assets do not include receivables due in more than one year.

There were no receivables from affiliated companies as at the balance sheet date. In the previous year, receivables from affiliated companies exclusively referred to sales and services with JH-Holding GmbH.

Furthermore, other assets include input tax refund claims in an amount of €1,554 thousand (previous year: €821 thousand), which in accordance with tax law provisions come into existence only after the balance sheet date.

3. Prepaid expenses

Prepaid expenses for the financial year total €15,936 thousand (previous year: €19,367 thousand)

As a result of the pledging of shares of the shareholders, these shareholders were granted a liability compensation. This liability compensation is reported as prepaid expenses in the financial statements of Progroup AG and is reversed ratably over the term of the financings. The amount attributable to this transaction amounts to €14,007 thousand.

04 Deferred taxes

(in € thousands)

Balance sheet account	Deferred tax assets 31/12/2019	Deferred tax assets 31/12/2018	Deferred tax liabilities 31/12/2019	Deferred tax liabilities 31/12/2018
Tax loss carryforwards/eligible interest carried forward	3,370	1,106	0	0
Elimination of intercompany profits	1,702	1,801	0	0
Assets				
Intangible fixed assets	0	0	4,004	4,671
Tangible fixed assets/financial assets	3,802	1,591	2,887	343
Inventories, receivables and other assets	226	604	170	355
Liabilities				
Provisions	471	396	0	35
Liabilities	0	5	65	63
Total deferred tax (gross)	**9,571**	**5,503**	**7,126**	**5,467**
Deferred tax disclosed (net and rounded)	**2,445**	**36**	**0**	**0**

To determine deferred taxes based on temporary differences between the financial statement carrying amounts for assets, liabilities, prepaid expenses and deferred charges and deferred income, and their tax bases, or based on tax loss carryforwards and interest carried forward, the amounts of the resulting tax liability and benefit were measured at the individual companies' tax rates (17 % - 31 %) at the point in time when the differences are reversed; they were not discounted. Deferred tax assets relating to loss carryforwards were taken into account if it was probable that the loss would be offset within the next five years. Today's assessment may change in accordance with the companies' income positions and tax legislation in future years and may require to be adjusted. In addition, deferred tax assets were recognised in financial year 2019 on consolidation adjustments for the elimination of intercompany profits in accordance with section 306 HGB as well as from initial consolidation of Progroup Power 1 GmbH acquired in 2015.

Deferred tax assets on tax loss carryforwards of €3,370 thousand (previous year: €1,106 thousand) were fully recognised because the underlying tax planning confirms that the amounts recognised could actually be utilised to reduce tax liabilities in the next 5 years. Eligible interest carried forward from the German earnings stripping rule or from other comparable rules in foreign countries did not exist as at the balance sheet date. Deferred tax assets and deferred tax liabilities are reported net.

5. Subscribed capital

The share capital of the parent company is €7,588,236.00 and is divided into 7,588,236 no-par value shares with a calculated amount of subscribed capital of one euro each.

Distribution potential is based on the annual financial statements of Progroup AG. The articles of association do not contain any restrictions on distributions. There is a statutory restriction on distributions equivalent to the deferred tax assets in the annual financial statements of Progroup AG pursuant to section 268(8) of the HGB in the amount of €3.5 mn as well as from the measurement of the pension liabilities pursuant to section 253(6) of the HGB in the amount of €0.2 mn.

6. Investment grants for fixed assets

Investment grants as well as redemption subsidies for fixed assets are reported as a special reserve and are reversed on a pro rata basis in accordance with the useful lives of the fixed assets for which the grants were awarded.

7. Pension provisions

As at 31 December 2019, the balance amounts to €501 thousand (previous year: €280 thousand).

This amount mainly includes pension provisions which were measured in accordance with the PUC method using Prof. Dr. Klaus Heubeck's 2018 G mortality tables.

The provisions were discounted at the market interest rate of the preceding ten years published by Deutsche Bundesbank (10-year average interest rate) assuming that all liabilities have a remaining maturity of 15 years (section 253(2) sent. 2 of the HGB).

Measurement of pension provisions is based on the following assumptions:

- Pension increase: 2.00 % (previous year: 0 %)
- Salary increase: 0% (unchanged from 2018)
- Interest rate (10-year average): 2.75 %
- Interest rate (7-year average): 2.00 %

Pension obligations for which provisions were required to be recognised amounted to €1,579 thousand as at the balance sheet date (10-year average rate). These obligations are offset against assets that serve exclusively to settle liabilities from post-employment benefit obligations and are exempt from attachment by third parties (so-called plan assets). A pledged pension liability insurance policy was classified as a plan asset. Plan assets that serve a specific purpose, have been pledged and are protected against insolvency were measured based on information from the insurer as at 31 December 2019, at the asset value (€1,302 thousand; this corresponds to the fair value). The balance remaining after the offset with the carrying amount of the pension provision (€277 thousand) is reported under "provisions for pensions".

Effect on profit in 2019:

- Interest expense from pension provision: €44 thousand
- Interest income from plan assets: €34 thousand

The balance of interest expenses from the measurement of the pension provision (including the effect from changes in interest) and interest income from the measurement of the plan assets was reported net in the financial result. For the financial year, the balance between the measurement of the pension provision with the 7-year average interest rate and the 10-year average interest rate amounts to €163 thousand and is subject to a distribution restriction at the level of the individual financial statements of Progroup AG.

In addition, there are pension obligations within Progroup Board S.A.S, Douvrin, France, in the amount of approximately €225 thousand as at the balance sheet date.

08 Tax provisions

(in € thousands)

Tax provisions	2019	2018
Corporate income tax	18,201	13,212
Trade tax	24,024	20,674
Other tax	258	65
	42,483	**33,951**

9. Other provisions

This item comprises the following provisions:

09 Other provisions

(in € thousands)

Provision for	2019	2018
Outstanding invoices	28,020	26,330
Personnel expenses (bonuses, special payments, severance payments, holiday obligations, overtime)	12,991	12,854
Customer bonuses still to be granted	8,742	11,018
Costs of preparing the annual financial statements, legal and consulting costs, storage	2,416	3,732
Maintenance not undertaken, expected to be undertaken in Q1 2020	1,559	2,858
Berufsgenossenschaft (Employer's Liability Insurance Association), Schwerbehindertenabgabe (levy for not employing disabled persons)	901	722
	54,629	**57,514**

10 Liabilities

(in € thousands)

	Remaining Term				
	less than 1 year	more than 1 year	thereof more than 5 years	Total	thereof secured
Notes	0	600,000	600,000	600,000	600,000
Previous year	0	600,000	600,000	600,000	600,000
Bank loans	17,977	251,278	154,634	269,255	269,255
Previous year	8,960	65,073	20,993	74,033	74,033
Trade payables	60,932	0	0	60,932	0
Previous year	49,787	0	0	49,787	0
Payables to shareholders	6	0	0	6	0
Previous year	0	0	0	0	0
Other liabilities	15,242	0	0	15,242	4,500
Previous year	12,558	0	0	12,558	4,405
Total liabilities	**94,157**	**851,278**	**754,634**	**945,434**	**873,755**
Previous year	71,305	665,073	620,993	736,378	678,438

The full amount of liabilities to shareholders refers to sales and services.

Of the liabilities reported, a total of €873,755 thousand is mainly secured as follows:

- Pledges of shares in Progroup AG and company shares in its main subsidiaries included in the consolidated financial statements of Progroup AG (Progroup Board GmbH, Progroup Paper PM1 GmbH, Progroup Paper PM2 GmbH, Progroup Paper PM3 GmbH, Progroup Power 1 GmbH, Progroup Logistics GmbH, Progroup Board sp. z o.o., Progroup Board s.r.o., Progroup Board S.A.S, Progroup Board Ltd.)

- Pledging of bank deposits of Progroup AG in Germany

- Real estate liens (i. e. land charges or mortgages) on substantial land and buildings of Progroup Board GmbH, Progroup Paper PM1 GmbH, Progroup Paper PM2 GmbH, Progroup Power 1 GmbH, Progroup Board sp. z o.o., and Progroup Board s.r.o.

- Assignment by way of security/pledge of technical equipment and machinery as well as other office equipment of Progroup Board GmbH, Progroup Paper PM1 GmbH, Progroup Paper PM2 GmbH, Progroup Power 1 GmbH, Progroup Board sp. z o.o., Progroup Board s.r.o. and Progroup Board Ltd.

Collateral in the form of real estate liens as well as in the form of assignment by way of security/pledge will be provided in future by Progroup Paper PM3 GmbH.

In addition to the issuance of the note (amount as at 31 December 2019: €600 mn), there still is a revolving credit facility in the amount of €50 mn which was granted by a syndicate of banks (Super Senior Revolving Credit Facility). As at 31 December 2019, the revolving credit facility was not utilised by the company or any of its subsidiaries.

Moreover, as at 31 December 2019, there are two PLN loans granted by Commerzbank AG to Progroup Board sp. z o.o. with an original amount of PLN214 mn. The loan balance was reduced through scheduled repayments to a total of PLN106.8 mn as at 31 December 2019. As at 31 December 2019, the loan taken out by Progroup Board Ltd. in 2017 in the amount of GBP 70 mn from Goldman Sachs Bank USA was fully utilised. The two loans taken out by Progroup AG in 2017 in the amount of €37.2 mn (original total loan principal: €38.5 mn, reduced by a redemption subsidy) from IKB Deutsche Industriebank AG has a reduced loan balance totalling €36.9 mn as at 31 December 2019 as a result of scheduled repayments in the reporting year. As at 13 July 2018, Progroup Paper PM3 GmbH took out a loan in the amount of €25 mn at Landesbank Saar, a loan in the amount of €25 mn at IKB Deutsche Industriebank AG and three loans in a total amount of €75 mn at Commerzbank AG. Progroup Paper PM3 GmbH fully utilised the abovementioned five loans as at 31 December 2019. As at 6 August 2018, Progroup Paper PM3 GmbH took out a further loan in the amount of €30 mn at HSBC Trinkaus & Burkhardt AG. This loan had not been utilised as at 31 December 2019. As at 31 May 2019, Progroup AG took out a loan in the amount of €15 mn at Landesbank Saar, a loan in the amount of €30 mn at Erste Group Bank AG and two loans in a total amount of €30 mn at Landesbank Baden-Württemberg. These loans had not been utilised as at 31 December 2019.

The notes, the Super Senior Revolving Credit Facility, the PLN loans, the GBP loan and the € loans are secured pari passu as mentioned above. In an Intercreditor Agreement the creditors under the Super Senior Revolving Credit Facility were granted priority satisfaction from possible proceeds of sale.

Trade payables are also secured under the customary retention of title.

€6,505 thousand of other liabilities was attributable to tax liabilities (previous year: €5,044 thousand) and €530 thousand to social security liabilities (previous year: €750 thousand).

11. Deferred income
As at 31 December 2019, this item amounts to €2,274 thousand (previous year: €83 thousand), mainly comprising the difference between the settlement value and the payment amount of the note issued in 2019, which is released as adjustment to interest expenses through profit or loss over the term of the note until 2026. This figure was €2,252 thousand as at the balance sheet date.

II. Consolidated income statement

The consolidated income statement has been prepared under the total cost (nature of expense) method. The company Progroup Board Kft., Hungary, which was newly established in 2019, was included in the consolidated financial statements for the first time. Accordingly, the contributions to earnings attributable to this company are contained in the consolidated income statement for the period from 1 January to 31 December 2019 for the first time.

01 **Sales breakdown by country of origin**

(in € thousands)

		2019	2018
Domestic	Corrugated sheetboard Containerboard Other	369,543 52,829 32,294	412,940 84,456 41,690
Other European countries	Corrugated sheetboard Other	432,049 7	427,026 6
Total		886,722	966,118

2. Own work capitalised
Own work capitalised in the amount of €17,147 thousand (previous year: €7,573 thousand) in the financial year results from large-scale construction projects PW13 (Eisfeld) and PM3 (Sanders-dorf-Brehna). In the year under review, the item includes capitalised construction period interest of €5,961 thousand.

3. Other operating income
This account includes income from the proportionate reversal of investment grants and allowances for fixed assets amounting to €394 thousand (previous year: €251 thousand).

Other operating income also includes prior-period income of €10,630 thousand (previous year: €13,268 thousand). This mainly comprises income from the reversal of provisions in the amount of €4,839 thousand (previous year: €3,148 thousand) as well as income and compensation in connection with the supply of energy amounting to €2,970 thousand (previous year: €4,952 thousand). Moreover, revenue from the decrease of loss allowances for receivables in the amount of €820 thousand were incurred.

Furthermore, insurance recovery income was incurred in the amount of €654 thousand (previous year: €248 thousand).

In addition, income from currency translation amounting to €6,694 thousand (previous year: €2,929 thousand) are recognised in other operating income.

4. Cost of materials
The cost of materials for the financial year declined to €422,210 thousand (previous year: €493,641 thousand).

5. Personnel expenses
The personnel expenses for the financial year total €84,596 thousand (previous year: €78,925 thousand). They include expenses for pensions amounting to €423 thousand in the financial year (previous year: €266 thousand).

6. Amortisation and depreciation
This account includes amortisation of intangible assets and depreciation of tangible assets amounting to €56,153 thousand (previous year: €51,753 thousand).

There were no write-downs on current assets exceeding the usual amount of write-downs (previous year: €6,400 thousand).

7. Other operating expenses
This account includes prior-period expenses amounting to €1,587 thousand (previous year: €1,352 thousand).

It also comprises expenses of exceptional size amounting to €3,486 thousand (previous year: €7,492 thousand), largely consisting of bank charges and consulting fees arising in connection with the issue of notes and the financing agreements in relation to the financing of a further corrugated sheetboard plant.

Furthermore, the item contains rental and leasing expenses of €8,225 thousand (previous year: €7,832 thousand) as well as expenses from currency translation of €4,306 thousand (previous year: €4,566 thousand).

8. Other interest and similar income
This item in the amount of €1,754 thousand (previous year: €86 thousand) mainly comprises interest income of €1,075 thousand resulting from the increase in the fixed-interest note from €450 mn to €600 mn. Progroup AG issued a new note on 26 June 2019, i.e. theoretically, the Company would have to pay interest only for the period beginning on 26 June 2019 (€4.3 mn for the entire year). However, Progroup AG had to pay interest starting on 31 March 2019 for the half-year period (€2.15 mn). Since interest is actually incurred only upon the issue of the note on 26 June 2019, half of the amount of €2.15 mn (for the period from March to June) was reimbursed to PG as upfront payment. This corresponds to €1.08 mn.

In addition, refund interest received in connection with tax refunds for previous years in the amount of €465 thousand at Progroup Board s.r.o. have to be mentioned here. This account does not include income from the discounting of provisions.

9. Interest and similar expenses
Overall, the amount of interest paid in financial year 2019 was €25,205 thousand.

The expenses from discount unwinding of discounted pension provisions amounted to €44 thousand as at 31 December 2019, unchanged from the previous year.

Interest includes expenses similar to interest due to shareholders in an amount of €2,587 thousand (previous year: €249 thousand).

This account also includes interest from bank loans amounting to €3,088 thousand (previous year: €1,904 thousand).

Interest expenses resulting from the financing of the note in the financial year amounted to €18,413 thousand (previous year: €16,718 thousand). Moreover, expenses similar to interest from commitment fees were incurred in the amount of €1,638 thousand in the reporting year.

10. Taxes on income
This account mainly includes trade tax and corporate income tax expense for the current financial year in the amount of €41,576 thousand (previous year: €51,060 thousand) and refunds from taxes on income for previous years in the amount of €-266 thousand (previous year: €2,999 thousand). It also includes income arising from the adjustment of deferred tax assets in the amount of €-2,391 thousand (previous year: €807 thousand). In the financial year 2019, the total amount of tax paid was €29,690 thousand.

III. Other disclosures

1. Contingent liabilities, off-balance sheet transactions and other financial commitments

The notes outstanding on the balance sheet date and the Super Senior Revolving Credit Facility, which can also be utilised by subsidiaries of Progroup AG, as well as the two loans in a total amount of PLN106.8 mn granted to Progroup Board sp. z o. o. by Commerzbank AG, the loan in a total amount of GBP70 mn granted to Progroup Board Ltd. by Goldman Sachs Bank USA, the loans in the total amount of €36.9 mn granted to Progroup AG by IKB Deutsche Industriebank AG, the loan in the amount of €25 mn granted to Progroup Paper PM3 GmbH by Landesbank Saar, the loan in the amount of €25 mn granted to Progroup Paper PM3 GmbH by IKB Deutsche Industriebank AG, the three loans in the total amount of €75 mn granted to Progroup Paper PM3 GmbH by Commerzbank AG, the loan in the amount of €30 mn granted to Progroup Paper PM3 GmbH by HSBC Trinkaus & Burkhardt AG, the loan in the amount of €15 mn granted to Progroup AG by Landesbank Saar, the loan in the amount of €30 mn granted to Progroup AG by Erste Group Bank AG and the two loans in the total amount of €30 mn granted to Progroup AG by Landesbank Baden-Württemberg are primarily secured by pledging all shares in Progroup AG and the company shares in main subsidiaries, by pledging the bank deposits of the parent company, by assigning tangible fixed assets of the subsidiaries and by granting real estate liens. Furthermore, certain covenants apply with regard to the loans and/or bonds.

The notes, the Super Senior Revolving Credit Facility, the two loans in a total amount of PLN106.8 mn granted to Progroup Board sp. z o. o. by Commerzbank AG, the loan in the amount of GBP70 mn granted to Progroup Board Ltd. by Goldman Sachs Bank USA, the two loans in the total amount of €36.9 mn granted to Progroup AG by IKB Deutsche Industriebank AG, the loan in the amount of €25 mn granted to Progroup Paper PM3 GmbH by Landesbank Saar, the loan in the amount of €25 mn granted to Progroup Paper PM3 GmbH by IKB Deutsche Industriebank AG, the three loans in the total amount of €75 mn granted to Progroup Paper PM3 GmbH by Commerzbank AG, the loan in the amount of €30 mn granted to Progroup Paper PM3 GmbH by HSBC Trinkaus & Burkhardt AG, the loan in the amount of €15 mn granted to Progroup AG by Landesbank Saar, the loan in the amount of €30 mn granted to Progroup AG by Erste Group Bank AG and the two loans in the total amount of €30 mn granted to Progroup AG by Landesbank Baden-Württemberg are generally secured pari passu as mentioned above. However, in an Intercreditor Agreement the creditors were granted a priority satisfaction from any proceeds from realisation.

Furthermore, the parent company has provided letters of comfort and guarantees for a total amount of €51,950 thousand to various suppliers of subsidiaries. The parent company also has assumed joint and several co-liability vis-à-vis CommerzFactoring GmbH for obligations of Progroup Board GmbH from a forfaiting framework agreement.

The risk of enforcement should be regarded as low as none of the affiliates have a strained liquidity position.

The companies lease forklifts and trucks under operating lease agreements so that these assets are not recognised in the companies' financial statements. As at 31 December 2019, the remaining obligations from the lease agreements were €14,699 thousand.

In addition, there were rental and lease agreements for movable assets as well as for the rental of factory buildings and areas as at the balance sheet date. As at 31 December 2019, the remaining obligations from these rental/lease agreements for subsequent years were €16,262 thousand (nominal amount). The advantage of these agreements is that a lower amount of capital is tied up in the beginning than with a purchase and there is an absence of realisation risk. Risks could arise from the lease agreement periods if the assets can no longer be fully utilised, although there are currently no indications of this.

As at the balance sheet date, there were steam supply contracts in place for the reliable supply of energy at fixed prices which did not lead, however, to a recognition of a provision for contingent losses. These agreements have terms of up to 3 years (31 December 2022).

Due to specific contractual agreements entered into as at the balance sheet date, total obligations for the following year 2020 amount to €23,062 thousand (31 December 2018: €8,149 thousand).

In addition, as at the balance sheet date there were contractual purchase commitments for waste paper and corrugated sheetboard base paper supplies; respective commitments for the following year are €31,406 thousand (31 December 2018: €46,326 thousand). Furthermore, there are outstanding purchase commitments for other services in the amount of €240,718 thousand (31 December 2018: €216,980 thousand).

2. Employees

The average number of employees during the financial year changed as follows:

02 **Employees**

	2019	2018
Salaried employees	329	276
Wage earners	880	820
Total	**1,209**	**1,096**

The disclosure only includes employees of consolidated companies.

03

List of companies included in the consolidated financial statements

Consolidated companies

(in %)	Percentage shareholding as at 31/12/2019
Progroup Paper PM1 GmbH, Burg, Germany	100.00
Progroup Paper PM2 GmbH, Eisenhüttenstadt, Germany (1)	100.00
Progroup Paper PM3 GmbH, Burg, Germany (1)	100.00
Progroup Logistics GmbH, Burg, Germany	100.00
Progroup Power 1 GmbH, Eisenhüttenstadt, Germany	100.00
Progroup Power 2 GmbH, Burg, Germany	100.00
Progroup Board GmbH, Offenbach a. d. Queich, Germany	100.00
Progroup Board s.r.o., Rokycany, Czech Republic (1)	100.00
Progroup Board Sp. z o.o., Stryków, Poland (1)	100.00
Progroup Board Limited, Ellesmere Port, England (1)	100.00
Progroup Board S.A.S., Douvrin, France (1)	100.00
Progroup Board s.r.l. Milan, Italy (1)	100.00
Progroup Board Kft., Budapest, Hungary (1)	100.00
Prowell Verwaltungs GmbH, Offenbach a. d. Queich, Germany	100.00

(1) indirect equity interest

4. Parent company

The holding company of the largest and, at the same time, smallest consolidation group is JH-Holding GmbH, Neustadt a. d. Weinstrasse, Germany. The consolidated financial statements of JH-Holding GmbH are submitted to the operator of the Bundesanzeiger (Federal Gazette) for publication.

5. Subsidiaries

Progroup Paper PM1 GmbH, Burg, Germany, Progroup Paper PM2 GmbH, Eisenhüttenstadt, Germany, Progroup Power 1 GmbH, Eisenhüttenstadt, Germany, Progroup Board GmbH, Offenbach a. d. Queich, Germany, Progroup Power 2 GmbH, Burg, Germany, as well as Progroup Paper PM3 GmbH, Burg, Germany, will make use of the exemption pursuant to section 264 (3) of the HGB for the financial year 2019 within the context of the disclosure.

6. Emission allowances

As at the balance sheet date, the Group held 746,164 CO_2 emission allowances (allocation for 2019: 173,205 CO_2 emission allowances). These were acquired free of charge as part of a public allocation. The allowances are recognised at their reminder value. The quoted market price as at the balance sheet date was approximately €24.21 per certificate (31 December 2018: approximately €23.40 per certificate). The fair value of the allowances recognised at a carrying amount of €0 thousand therefore amounted to around €18.1 mn (31 December 2018: €15.5 mn).

7. Cash flow statement

The cash flow statement has been prepared in accordance with the provisions of DRS 21 (German Accounting Standard—GAS 21) using the indirect method. Cash funds have been exclusively defined as cash and cash equivalents.

8. Proposal for the appropriation of profits

The Management Board proposes to the General Meeting to carry forward to new account the full net retained profits of €289,374,142.73 reported for the financial year 2019.

9. Management Board

The following were members of the Management Board in the financial year:

Jürgen Heindl, Dipl.-Wirt.-Ing., Neustadt a. d. Weinstrasse, Germany (Chairman of the Management Board)

Dr. Volker Metz, Dipl.-Kfm., Hochdorf-Assenheim, Germany (CFO – Chief Financial Officer)

Philipp Kosloh, Dipl.-Ing., Speyer am Rhein, Germany (COO – Chief Operating Officer)

Maximilian Heindl, Dipl.-Wirt.-Ing., Neustadt a. d. Weinstrasse, Germany (CDO – Chief Development Officer)

10. Supervisory Board

The Supervisory Board was composed of as follows during the financial year:

Rainer Dietmann, Lawyer, Partner of Rittershaus Rechtsanwälte Partnerschaftsgesellschaft mbB, Mannheim, Germany (Chairman)

Prof. Dr. Rudolf Wimmer, Vice President of Witten/Herdecke University, Vienna, Austria (Vice Chairman)

Prof. Dr. Hermut Kormann, Honorary Professor at Leipzig University and at Zeppelin University Friedrichshafen, Germany, until 24 January 2019

Christian Buchel, member of the Management Board of ENEDIS Paris, France, since 24 January 2019

11. Total remuneration

The Management Board's total remuneration in the financial year for exercising its responsibilities in the holding company and the subsidiaries was €10,336 thousand (2018: €8,153 thousand).

Supervisory Board remuneration in 2019 amounted to €119 thousand, unchanged from the previous year.

12. Auditors' fees

The group auditor's fees recognised as an expense in the financial year amounted to €223 thousand (2018: €295 thousand) for audit services and €12 thousand (2018: €33 thousand) for other assurance services.

Furthermore, expenses for voluntary assurance services amounted to €285 thousand (previous year: €260 thousand).

IV. Report on subsequent events

No further operating or structural changes or business matters have occurred after the balance sheet date that have a material effect on the net assets, financial position and results of operations of Progroup AG.

Offenbach a. d. Queich, Germany, 21 February 2020

Management Board

Jürgen Heindl	Dr. Volker Metz	Maximilian Heindl	Philipp Kosloh
Chief Executive Officer	Chief Financial Officer	Chief Development Officer	Chief Operating Officer

CONSOLIDATED FIXED ASSET MOVEMENT SCHEDULE

Appendix to the Notes to the Consolidated Financial Statements

Consolidated Fixed Asset Movement Schedule 2019 [1]

(in € thousands)	Acquisition or manufacturing cost							Amortisation/depreciation					Net book values	
	01/01/2019	Exchange differences	Additions	Disposals		Transfers	31/12/2019	01/01/2019	Exchange differences	Additions	Disposals	31/12/2019	31/12/2019	31/12/2018
A. Fixed assets														
I. Intangible assets														
Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	31,758	4	1,107	72		0	32,796	14,343	3	2,837	71	17,112	15,685	17,415
II. Tangible assets	31,758	4	1,107	72		0	32,796	14,343	3	2,837	71	17,112	15,685	17,415
1. Land and buildings including buildings on leasehold land	307,553	2,311	14,164	0		30,771	354,800	119,900	324	9,916	0	130,141	224,659	187,652
2. Technical equipment and machinery [2]	882,327	2,074	19,401	8,783		32,245	927,265	494,139	698	41,241	8,733	527,344	399,921	388,189
3. Other equipment, factory and office equipment	23,157	61	2,960	592		967	26,552	15,285	29	2,159	507	16,966	9,585	7,872
4. Prepayments and construction in process	142,598	1,334	272,794	16		-63,983	352,725	1,542	0	0	0	1,542	351,184	141,056
	1,355,635	5,780	309,319	9,391		0	1,661,342	630,866	1,051	53,316	9,240	675,992	985,349	724,769
	1,387,393	**5,783**	**310,425**	**9,463**		**0**	**1,694,138**	**645,208**	**1,054**	**56,153**	**9,311**	**693,104**	**1,001,034**	**742,184**

(1) Certain numerical figures included in the consolidated fixed asset movement schedule have been rounded. Discrepancies between totals and the sums of the amounts listed may occur due to such rounding.

(2) Additions include €1,572,750 from the post-capitalisation of construction costs from a tax audit.

INDEPENDENT AUDITOR'S REPORT

To Progroup AG, Offenbach/Queich, Germany

Audit Opinions

We have audited the consolidated financial statements of Progroup AG, Offenbach/Queich, Germany, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of Progroup AG for the financial year from 1 January to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 paragraph 3 sentence 1 of the German Commercial Code (Handelsgesetzbuch, HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent from the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Other Information

The executive directors are responsible for the other information.

The annual report is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable

the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Mannheim, 21 February 2020

PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft

Dr. Ralf Worster
(German Public Auditor)

ppa. Martin Knoll
(German Public Auditor)

5

SUPERVISORY BOARD

OVERVIEW

The Supervisory Board currently consists of three members, which are elected by the Issuer's shareholders at the general shareholders' meeting by a simple majority of the votes cast.

The Supervisory Board members elect one of the members as Chairman (Vorsitzender) and another one as Vice Chairman (Stellvertreter) by a simple majority of the votes cast.

Unless the general shareholder's meeting elects the member for a shorter period, the term of a member of the Supervisory Board elected by the shareholders generally expires at the end of the shareholders' meeting which formally approves the actions of the Supervisory Board's members for the fourth full financial year following their (re-)election. If a member of the Supervisory Board retires, or is removed from office prior to the end of its term of office, the substitute member's term of office expires at the end of the term of the resigning or removed board member, unless the general shareholders' meeting decides otherwise. There is no compulsory retirement age for the members of the Supervisory Board. No former Executive Board members of Progroup AG are currently serving on the Supervisory Board.

Unless otherwise required by applicable law, resolutions of the Supervisory Board are passed by a simple majority of the votes cast. In order to constitute a quorum, all members of the Supervisory Board must participate in the voting.

The Supervisory Board is required to meet at least twice in each half of every calendar year.

Members of the Supervisory Board from left to right: Christian Buchel, RA Rainer Dietmann, Prof. Dr. Rudolf Wimmer

MEMBERS OF THE SUPERVISORY BOARD

Member Appointed:

RA RAINER DIETMANN

(Chairman)

Born: 1956
Member since: 2007
Appointed until: 2022

Other principal positions:

Chairman of the supervisory board of Global Vermögensberatung AG, Wiesbaden - Member of the supervisory board of SSP Deutschland GmbH, Frankfurt am Main - Chairman of the foundation board of Heinrich-Vetter-Stiftung, Ilvesheim

Mr. Dietmann studied law at the University of Mannheim and the London School of Economics. He began his career as attorney-at-law in Munich in 1985. In 1986, he joined Rittershaus Wissmann & von Rosenstiel, predecessor of today's Rittershaus Rechtsanwälte Partnerschaftsgesellschaft mbB, where he became partner in 1988 and has, since then, placed a particular focus on corporate law including advisory work for directors and officers, mergers & acquisitions and financing transactions.

PROF. DR. RUDOLF WIMMER

(Vice Chairman)

1946
2008
2022

Vice Chairman of the supervisory board of PBS-Holding AG, Wels/Austria - Chairman of the advisory board of Diagramm Halbach GmbH & Co. KG, Schwerte - Member of the advisory board of Karl Wörwag Lack- und Farbenfabrik GmbH & Co. KG, Stuttgart - Member of the supervisory board of Hermes Europe GmbH, Hamburg

Prof. Dr. Wimmer studied law and political science at the University of Wien. From 1970 to 1975, he was active as assistant professor at the Institute for Constitutional and Administrative Law at the University of Wien. In the years 1975 to 1977, he enjoyed a research grant at the University of Klagenfurt. Since 1977, Prof. Dr. Wimmer has been active as an independent trainer and advisor for organisational development. In 1990, Prof. Dr. Wimmer wrote his professional thesis on group dynamics and organisation at the University of Klagenfurt. In 1999, he assumed the professorship for management and organisation at the newly established Institute for Family-Owned Enterprises at the University of Witten/Herdecke.

CHRISTIAN BUCHEL

1963
2019
2022

Member of the board, Director for Customers, Markets, Territories and Europe of Enedis, Paris - Chairman of EDSO for Smart Grids Brussels

Christian Buchel holds an engineering degree from Ecole Supérieure d'Electricité (Supélec, Paris) and was a research fellow at CERN, Geneva. During his early career, he held both managerial and operational responsibilities, covering the entire value chain of the electricity industry. After serving as an advisor to EDF's CEO in the late 1990s, he held various top-management positions within the EDF Group. He was notably a Member of the Board and COO of Energie Baden-Württemberg (EnBW) in Germany as well as CEO of Electricité de Strasbourg. As Chief Digital Officer of Enedis he managed the digital and big data transformation of the company during three years. Today, Christian Buchel is a Member of the Board of Enedis (turnover of 13 billion euros), the distribution system operator in charge of operating, developing and maintaining the medium-voltage and low-voltage power grids across 95% of mainland France. Since May 2018, he has been Director for Customer, Markets, Territories and Europe of Enedis. He is also Chairman of EDSO for Smart grids, the European association representing leading electricity distribution system companies that are cooperating to make the European smart grid vision a reality.

SUPERVISORY BOARD REPORT

pursuant to §§ 171 (2), 314 (2) German Stock Corporation Act (Aktiengesetz)

I.
The Supervisory Board of Progroup AG was composed of the following members in the past financial year from 01 January 2019 to 31 December 2019 ("Reporting Period"):

- RA Rainer Dietmann, Chairman
- Prof. Dr. Rudolf Wimmer, Vice Chairman
- Prof. Dr. Hermut Kormann (until 24 January 2019)
- Dipl.-Ing. Christian Buchel (since 24 January 2019)

As the requirements pursuant to the One-Third Participation Act (Drittelbeteiligungsgesetz) and the Co-Determination Act (Mitbestimmungsgesetz) are not fulfilled, no employee representatives were members of the Supervisory Board during the Reporting Period.

II.
After the Supervisory Board received the report of the Management Board regarding the Reporting Period at the meeting on 5 March 2020 and also the reports presented to the Supervisory Board on 5 March 2020 by the Management Board regarding the annual financial statements (individual financial statements) and the consolidated financial statements of Progroup AG as per 31 December 2019, regarding the situation of the company and the group and also regarding the relationship between the company and affiliated companies, and finally the Auditors Report regarding the audit of the annual financial statements as per 31 December 2019, including the management report, the consolidated financial statements as per 31 December 2019, including the group management report and the dependency report for the 2019 financial year, and taking into account the subsequent discussion of the reports of the Management Board and the auditor, the Supervisory Board unanimously resolved in its meeting on 5 March 2020 to report to the Shareholders Meeting on its activities during the Reporting Period and on the result of its assessment pursuant to §§ 171 (2), 314 (2) AktG as follows:

1. During the Reporting Period, formal Supervisory Board meetings took place on 22 March 2019, 2 May 2019, 12/13 September 2019, and 29 November 2019. Furthermore, one Supervisory Board conference call was held on 30 May 2019.

   In its meeting on 22 March 2019 ("Accounts Review Meeting") in Landau, the Management Board's reports on the 2018 financial year and also the auditor's reports were presented. The auditing procedures incumbent on the Supervisory Board were conducted at that meeting and the annual and consolidated financial statements as per 31 December 2018 were approved. During the Accounts Review Meeting, the Supervisory Board also prepared the ordinary Shareholders' Meeting 2019 and dealt with the Management Board's reports regarding the current assets, income and liquidity situation of the company and the group, including the risk report, with strategic projects, with the group financing as well as with matters relating to human resources and the Management Board.

   The meeting on 2 May 2019 again focused on the group's current economic situation and outlook, risk management, strategic projects, group financing and management measures requiring approval.

   The conference call held on 30 May 2019 by the Supervisory Board and the Management Board served the purpose of discussing and resolving on financing measures, personnel matters and management matters requiring approval.

   The subject matter of the meeting on 12/13 September 2019 included the Management Board's reports on the current economic situation and the forecast for the end of the financial year, strategic investment projects, corporate governance and matters relating to human resources.

   At the meeting on 29 November 2019, the Supervisory Board, after dealing again with the current economic situation of the company and of the group, the year-end forecast and risk management, again addressed the company strategy including growth projects. In addition, at this meeting the Supervisory Board dealt with the budget for the 2020 financial year, with the organisational development in the group and with matters relating to human resources and the Management Board.

   In addition to the foregoing, the Chairman of the Supervisory Board and the other members of the Supervisory Board and the Management Board were in constant contact, either in person or by telephone, to keep the members of the Supervisory Board updated on the then prevailing economic situation of the group and on the current business, and also to discuss significant or far-reaching matters. Finally, the Management Board kept the Supervisory Board informed by sending monthly reports regarding the then prevailing assets, earnings and financial situation and also regularly updated forecasts regarding the expected development of the earnings situation of the group.

2. The reviews of the annual financial statements and the consolidated financial statements of the company as per 31 December 2019, of the management reports and also of the dependency report have not raised any concerns. The Supervisory Board found that the provisions of the Articles of Association of the company and the pertinent provisions of commercial and company law were all duly complied with.

   The result of the audit of the annual financial statements and the consolidated financial statements as per 31 December 2019, and also the result of the audit of the dependency report for the 2019 financial year were discussed in depth at the Supervisory Board meeting on 5 March 2020 with the Management Board and the auditor, based on the audit reports submitted. Any questions asked during this Supervisory Board meeting regarding individual items from the balance sheet or income statement or the management reports or the dependency report were answered convincingly by the Management Board and the auditor.
   Based on its review, the Supervisory Board found that the annual financial state-

ments and the consolidated financial statements of the company as per 31 December 2019 render a true and fair view of the assets, financial and earnings situation of the company and of the group. Based on the results of the review by the Supervisory Board, the management reports accurately and comprehensively present the risks and opportunities expected to arise from the development of business in the past year and from future developments. Based on the results of its review of the dependency report, the Supervisory Board found that the relationships with affiliated companies were also accurately described therein.

3. The review and discussion of the reports issued by the auditor of the company on 21 February 2020 regarding the audit of the annual financial statements and the consolidated financial statements as per 31 December 2019 and the management reports, for which the auditor issued an unqualified audit opinion, did not give cause for any objections, either. The same is true for the report on the audit of the dependency report for the 2019 financial year which was also presented on 21 February 2020 and for which the auditor issued the following audit opinion: "Upon completion of our audit and assessment in accordance with professional standards, we confirm that (1) the factual information contained in the report is correct, and (2) the company's consideration regarding the legal transactions described in the report was not unreasonably high." The audit reports fulfil all requirements for the auditing of the company and the group as provided for by law and the Articles.

4. After its own examination, the Supervisory Board also approved the proposal of the Management Board to carry forward to new account the full net retained profits reported in the annual financial statements for the 2019 financial year.

5. Final declarations

   a) According to the final result of the review by the Supervisory Board, there are no objections to be raised with regard to the annual financial statements and the consolidated financial statements against the accounting, the management reports, the management in the financial year from 1 January 2019 to 31 December 2019 or against the auditor's reports.

      The Supervisory Board approved the annual financial statements prepared by the Management Board and the consolidated financial statements prepared by the Management Board as per 31 December 2019; hence the annual financial statements of Progroup AG as per 31 December 2019 are deemed adopted.

   b) According to the final result of the review by the Supervisory Board, there are no objections to be raised against the declaration by the Management Board at the end of the dependency report for the 2019 financial year.

Mannheim, 5 March 2020

Rainer Dietmann
Chairman of the Supervisory Board

ADDITIONAL INFORMATION

DISCLAIMER

Financial information
The consolidated financial information of Progroup AG ("Progroup") as at and for the period ended 31 December 2019 included in this report, has been prepared in accordance with generally accepted accounting principles (Grundsätze ordnungsgemässer Buchführung) in the Federal Republic of Germany as in effect from time to time ("German GAAP"), which differ in certain respects from International Financial Reporting Standards as adopted by the European Union. Certain numerical figures included in this report have been rounded. Discrepancies or apparent inconsistencies between different amounts included in this report may occur due to such rounding.

Forward-looking statements
This report may contain forward-looking statements. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this report, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets in which we participate or are seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this report. Accordingly, prospective investors should not place undue reliance on these forward-looking statements, which speak only as at the date on which the statements were made (and in any case no later than the date of this report). We undertake no obligation, and do not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or developments or otherwise.

Industry and market data
This report may contain information, data and predictions about our markets and our competitive position. We operate in an industry for which it is difficult to obtain precise industry and market information. Any market data and/or economic and industry data and forecasts used, and statements regarding our position in the industry made in this report are based upon market research, government and other publicly available information, reports prepared by independent industry consultants and independent industry publications. Any such information in this report that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. While we believe the statements included in such third party publications to be reliable, they have not been independently verified, and we do not make any representation or warranties as to the accuracy or completeness of such information set forth in this report. In addition, certain market share information and other statements in this report regarding our industry and our position relative to competitors reflect our management's best estimates, based on our experience and knowledge of our industry. We cannot assure you that these statements and information are accurate or that they correctly reflect the state and development of our position in the industry.

Non-GAAP financial measures
In this report, we present certain non-GAAP measures and ratios, including EBITDA, EBITDA margin, EBIT, free cash flow, net financial debt, net leverage and certain other financial data that are not required by, or presented in accordance with, German GAAP. Our management believes that the presentation of these non-GAAP measures is helpful for investors because these and other similar measures are widely used by certain investors, security analysts and other interested parties as supplemental measures of performance and financial position. However, you should not construe these non-GAAP measures as an alternative to net income determined in accordance with German GAAP or to cash flows from operating activities, investing activities or financing activities. In addition, the non-GAAP measures and ratios, including EBITDA, EBITDA margin, EBIT, free cash flow, net financial debt and net leverage presented by us may not be comparable to similarly titled measures used by other companies.

FINANCIAL CALENDAR

01

2020

28

MAY

Interim Financial Report
First Quarter 2020

02

2020

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AUGUST

Interim Financial Report
Second Quarter 2020

03

2020

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NOVEMBER

Interim Financial Report
Third Quarter 2020

04

2021

25

FEBRUARY

Condensed Interim Report
Fourth Quarter 2020

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Board:
Jürgen Heindl (CEO, Chairman)
Dr. Volker Metz (CFO)
Maximilian Heindl (CDO)
Philipp Kosloh (COO)

Issue date of this report:
29/04/2020