2015

Progroup AG
Annual Report

The Power of Innovation

pro group

The Power of Innovation

Content

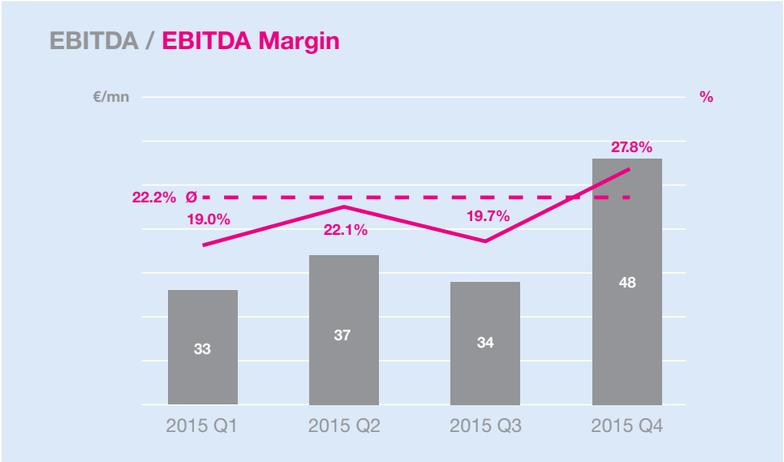
Key Figures

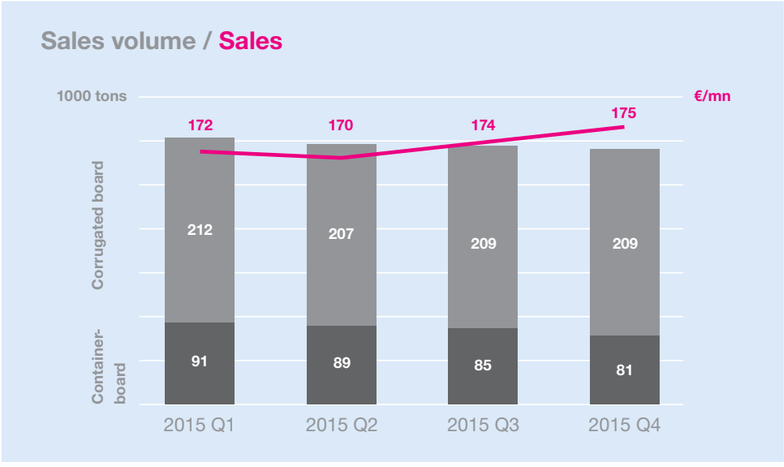
Key operating figures (in € thousands)	2015	2014
Sales	689,940	661,287
EBITDA [1]	152,861	125,117
EBITDA margin (in % of net sales)	22.2%	18.9%
EBIT [2]	123,443	96,609
EBT [3]	101,711	69,227
Consolidated net income for the period	54,405	56,307
Cash flows from operating activities [4]	133,525	115,279
Cash flows from investing activities [4]	-206,778	-11,535
Free cash flow [4] [5]	-73,253	103,744

Key balance sheet figures (in € thousands)	31/12/2015	31/12/2014
Total assets	842,355	661,578
Equity	208,604	173,677
Cash in hand, bank balances	20,762	18,758
Financial liabilities (bank loans, bonds and accrued interest)	535,263	394,851

Key financial figures (in € thousands)	31/12/2015	31/12/2014
Leverage [6]	3.4	3.0
LTM EBITDA	152,861	125,117
Net financial debt [7]	514,501	376,093

(1) 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, minus cost of materials, minus personnel expenses, minus other operating expenses, minus other taxes.
(2) EBIT (not a German GAAP measure) is calculated as EBITDA minus amortisation and depreciation of fixed intangible and tangible assets.
(3) EBT (not a German GAAP measure) is calculated as EBIT plus other interest and similar income, minus interest and similar expenses.
(4) As at 31 December 2015, we present our statement of cash flows in accordance with DRS 21 (German Accounting Standard - GAS 21), including the comparative figures for 2014.
(5) Free cash flow is calculated as cash flows from operating activities plus cash flows from investing activities.
(6) Leverage (not a German GAAP measure) is calculated by dividing net financial debt as at 31 December 2015 and 2014, respectively, by EBITDA for the last twelve months (LTM) ended on the relevant date.
(7) Net financial debt (not a German GAAP measure) is calculated as financial liabilities (bank loans, bonds and accrued interest) minus cash in hand, bank balances.





Highlights

- Favourable market conditions characterised the financial year 2015. We steadily generated growth in sales of corrugated board, our key external growth driver. The ongoing integration between our corrugated board business and our containerboard business was deliberately extended over the course of 2015 as one of our key strategic measures.

- The annual 2015 EBITDA rose to €152.9 mn, an increase by 22.2% in comparison to the previous financial year's €125.1 mn. Hence, our EBITDA margin further improved throughout the financial year to 22.2% (18.9%), exceeding our annual long-term average and marking an all-time high.

- In 2015, sales volume of corrugated board grew by 6.0% while the annual average price level per ton was 1.5% above the previous year. This resulted in an increase in sales of corrugated board by 7.6%. External sales volume of containerboard decreased by 11.9% due to the higher integration which in turn, although based on a 5.2% higher price level per ton, led to lower sales of containerboard of 7.3%. Overall, we were successful in maintaining growth. Total consolidated sales throughout the financial year 2015 increased by 4.3% to €689.9 mn (€661.3 mn).

- On 30 April, we gave our debut on the international bond market and successfully completed our offerings of €250 mn Senior Secured Fixed Rate Notes and €150 mn Senior Secured Floating Rate Notes, both due in 2022. We used the proceeds to refinance existing credit facilities. As at 31 December 2015, the price for the Fixed Rate Notes traded primarily at 104.8, compared to 102.1 as at the issue date (30 April 2015).

- At the end of 2015, we were delighted to report the successful completion of two important projects. Firstly, we acquired the combined heat and power plant "CHP"* adjacent to our paper mill PM2 in Eisenhüttenstadt from EnBW. The CHP will improve our performance through optimised energy cost by lowering the fixed cost base. Secondly, we successfully launched our newest corrugated board production site (PW9) in Plössberg, Germany, which started production in the fourth quarter.

- In order to finance the CHP Acquisition, we successfully completed a €95 mn tap offering of our Senior Secured Fixed Rate Notes in December with net proceeds of roughly €100 mn and decreased our cash in hand position by €70.5 mn compared to 30 September 2015. Including our Senior Secured Floating Rate Notes of €150 mn, outstanding bonds amounted to €495 mn as at 31 December 2015. In addition, we successfully raised a PLN107 mn term loan facility in order to improve the foreign exchange profile of our Polish subsidiary.

- Free cash flow in the financial year 2015 reached €-73.3 mn, compared to €103.7 mn in 2014. This was mainly caused by the CHP Acquisition. Excluding the effects of the acquisition, we would have achieved a free cash flow of approximately €114 mn for the entire financial year, due to our strong operating performance.

* In this report, the term "CHP" means the combined heat and power plant of EnBW Propower GmbH and the term "CHP Acquisition" means the acquisition of EnBW Propower GmbH and the connected network access ports.

A. TO OUR INVESTORS

I. Letter to Investors

Dear investors and business partners,

We are delighted to share with you our first annual report since we successfully made our debut on the bond market with two issuances in late April 2015. It was a successful and important year in the development of Progroup in many regards. Beside our debut on the bond market, we made significant progress both strategically and operationally.

On 30 April, we successfully completed our offerings of €250 mn Senior Secured Fixed Rate Notes and €150 mn Senior Secured Floating Rate Notes, both due in 2022. The proceeds were primarily used to refinance existing credit facilities and bank loans. In December 2015, we increased the nominal amount in Senior Secured Fixed Rate Notes by €95 mn to fund a portion of the purchase price for the CHP Acquisition. Net proceeds from the tap were roughly €100 mn. Taking these transactions into consideration and as a result of other strategic measures, we continued our path of building an adequate financial structure at best possible conditions. As a result, we were able to cut interest expenses by 21.2% to €21.9 mn in 2015, compared to €27.8 mn in 2014.

Strategically, we successfully completed the important CHP Acquisition adjacent to PM2 in Eisenhüttenstadt for a total amount of €185.5 mn, excluding fees. As a result of the CHP Acquisition, we significantly extended our balance sheet and expect an improvement of our performance through optimised energy cost by lowering the fixed cost base. The acquisition has been positively taken into account by rating agencies Standard & Poor's and Moody's, each giving a stable outlook for 2016.

Finally, in the fourth quarter of 2015 we successfully launched our new corrugated board plant (PW9) in Plössberg, which started production according to plan.

Operationally, market conditions were broadly favourable for us. Our good business performance in the first three quarters further accelerated in the fourth quarter of 2015. The continuous growth in sales was driven by a strong performance of corrugated board, our main external sales driver. Sales volume of corrugated board increased by 6.0%, while average prices rose by 1.5%. Our containerboard business generated a lower external sales volume by 11.9% (2015 compared to 2014), due to an increased integration level between our corrugated board business and our containerboard business. An increased price level of 5.2% in our

containerboard business partly compensated for the lower volume resulting in 7.3% lower sales in 2015. Integration between our containerboard and our corrugated board businesses reached a new annual high at 66% in 2015, compared to 62% in 2014. Consolidated sales rose by 4.3% throughout the financial year to €689.9 mn, compared to €661.3 mn in 2014. The positive business development underlines the success of our strategic aim to further drive integration between our key businesses.

The strong sales performance resulted in an increase in EBITDA by 22.2% compared to 2014 to an annual all-time high of €152.9 mn. The EBITDA margin of 22.2% exceeded our annual long-term average as well as previous year's EBITDA margin of 18.9%. In contrast to this development, consolidated annual net income slightly decreased by 3.4% to €54.4 mn in 2015, compared to €56.3 mn in 2014. This development is almost exclusively attributable to a strong increase in extraordinary expenses to €38.3 mn from €3.7 mn in 2014 and mainly related to our bond issuances and the CHP Acquisition.

In 2015, free cash flow decreased to €-73.3 mn, after €103.7 mn in 2014. This decrease is almost exclusively related to the CHP Acquisition, resulting in cash flows from investing activities of €-206.8 mn in 2015. Excluding the effects of the CHP Acquisition, free cash flow would have amounted to approximately €114 mn for 2015.

We continuously decreased our leverage from 3.0 as at 31 December 2014 to 2.4 at the end of September 2015. As at 31 December 2015, leverage increased to 3.4 due to the CHP Acquisition and its financing. Excluding the effects from the CHP Acquisition, our leverage as at 31 December 2015 would have reached approximately 2.1.

Underlined by the success in 2015, we are keen to continue our greenfield strategy in the future. Building on this particular approach, we benefit from a well-invested asset base and production sites with high technological standards enabling us to realise significant economies of scale. As a result, we benefit from a relatively low cost base compared to many of our competitors and of relatively low requirements for additional capital expenditures in the short to medium term.

In 2016, we plan to continue our successful greenfield strategy, operating state-of-the-art facilities and providing adequate solutions in close proximity to our key customers and business partners. For 2016, we expect a sustainable sales growth on the current level. This is also, but not exclusively, attributable to our new site in Plössberg (PW9). Further, we continue our commitment to growth by means of a new fully automated corrugated board production facility PW10 in Trzcinica, Poland. This new state-of-the-art facility in close proximity to our customers is constructed as part of a strategic partnership with local business partners. PW10 is expected to be launched in the fourth quarter of 2016.

As a first time borrower on the international financial market, we are encouraged by the positive reception and look forward to an ongoing dialogue with our bondholders. It is our clear goal to build on the excellent relations with our customers and to extend this approach with the same level of attitude and passion to our investors.

Yours sincerely,

Jürgen Heindl
Chief Executive Officer

Frank Gumbinger
Chief Financial Officer

Landau, April 2016

II. Executive Board

Member Appointed

Name:	Jürgen Heindl
Born:	1955
Member since:	2007
Appointed until:	28 August 2017
Responsibility:	Chief Executive Officer
Other principal positions:	Propapier PM1 GmbH Propapier PM2 GmbH Prowell GmbH Proservice GmbH PROfund GmbH Prowell S.A.S. PROWELL s.r.o. Prowell sp. z o.o. Prowell Ltd. Prowell Verwaltungs GmbH JH-Holding GmbH

Jürgen Heindl:

Mr. Heindl studied electrical engineering at the University of Applied Science Dieburg and business engineering at the University of Applied Science Esslingen. He began his career in 1980 at Zewawell GmbH & Co. KG, as assistant of the general management. From 1982 to 1987, he was plant manager conducting a restructuring program and from 1987 to 1991 he was division manager and member of the board of Zewawell GmbH & Co. KG. In 1991, Mr. Heindl founded PROWELL Papierverarbeitung GmbH, predecessor of today's Progroup AG, and from 1991 to 2007, he was active as sole Managing Director of PROWELL Papierverarbeitung GmbH. Since establishing Progroup AG in 2007, Mr. Heindl has been a member of the Executive Board. Since 2008, he has served as Chairman of the Executive Board.

Member Appointed

Name:	Frank Gumbinger
Born:	1968
Member since:	2009
Appointed until:	31 December 2016
Responsibility:	Chief Financial Officer
Other principal positions:	Propapier PM1 GmbH Propapier PM2 GmbH Prowell GmbH Proservice GmbH PROfund GmbH Prowell S.A.S. PROWELL s.r.o. Prowell sp. z o.o. Prowell Ltd. Prowell Verwaltungs GmbH

Frank Gumbinger:

Mr. Gumbinger studied business economics at the Goethe University in Frankfurt/Main. He started his professional career in 1996 as an associate consultant at PwC Deutsche Revision in Frankfurt/Main. From 1999 to 2008, he was active in different functions in the Delton AG group, from 1999 to 2001 as member of the controlling team, from 2001 to 2004 as director of controlling of ERGO-PHARM Beteiligungsgesellschaft mbH, from 2005 to 2006 as director of strategy and business development of ERGO-PHARM Beteiligungsgesellschaft mbH and from 2006 to 2008 as Chief Financial Officer and a member of the Executive Board of CEAG AG, a listed company. Since 2009, Mr. Gumbinger is a member of the Executive Board and Chief Financial Officer of Progroup AG.

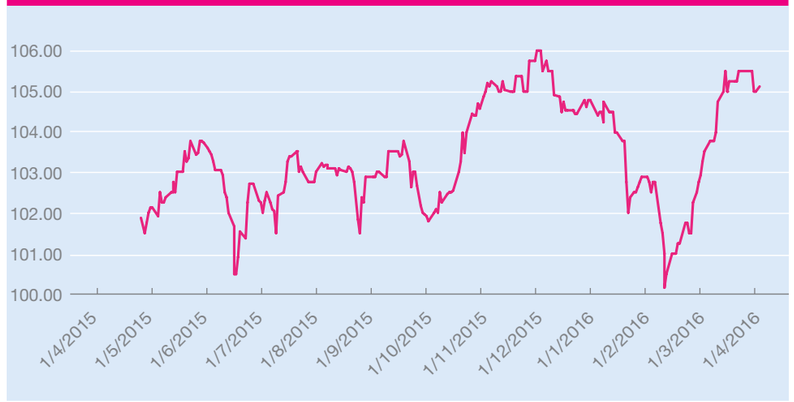
III. Capital Market Activities

Progroup's capital market activities relate to the "Senior Secured Notes Offering" on 30 April 2015 (€400 mn) and the increase (€95 mn) in December 2015.

An overview of the features of our Senior Secured Fixed Rate Notes and our Senior Secured Floating Rate Notes and their market performance is presented below.

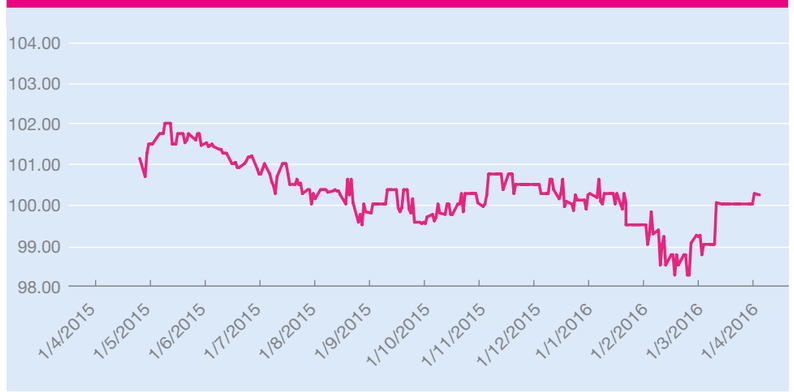
Capital market activities Progroup AG		
ISIN	DE000A161GDI (144A)/ DE000A161GC3 (Reg S) DE000A1687M5 (144A)/ DE000A1687L7 (Reg S)	DE000A161GF6 (144A)/ DE000A161GE9 (Reg S)
Issue	Senior Secured Fixed Rate Notes	Senior Secured Floating Rate Notes
Issuer	Progroup AG	Progroup AG
Listing	Luxembourg EURO MTF	Luxembourg EURO MTF
Distribution	144A/Reg S	144A/Reg S
Amount issued	€345,000,000	€150,000,000
Currency	EUR	EUR
Issue date	30 April 2015/8 December 2015	30 April 2015
Final maturity	1 May 2022	1 May 2022
Optional redemption	from 1 May 2018: 102.563%	from 1 May 2016: 101.000%
	from 1 May 2019: 101.281%	from 1 May 2017 and thereafter: 100.000%
	from 1 May 2020 and thereafter: 100.000%	
Issue price	100% of face amount/105% (tap)	100% of face amount
Coupon	5.125%	Three-month EURIBOR plus 4.50%
Interest payments	Semi-annually on 1 May and 1 Nov, commencing 1 Nov 2015	Quarterly on 1 Feb, 1 May, 1 Aug and 1 Nov, commencing 1 Aug 2015
Paying Agent	Deutsche Bank AG	Deutsche Bank AG
Security Agent	Wilmington Trust (London) Limited	Wilmington Trust (London) Limited
Ratings		
S&P	B+	B+
Moody's	B1	B1

Progroup Senior Secured Fixed Rate Notes



Source of price data: Deutsche Bank AG

Progroup Senior Secured Floating Rate Notes



Source of price data: Deutsche Bank AG

B. PROGROUP FUNDAMENTALS

I. Our Profile

Facts and figures Progroup AG*

956 employees

5 countries in Europe

1 CHP

2 paper machines for containerboard

8 corrugated board plants

1 logistics provider with 57 trucks

proservice

profund

2 service providers

* As at year-end 2015

II. Our History

Our group was founded in 1991, when Jürgen Heindl, our controlling shareholder and Chief Executive Officer, established Prowell Papierverarbeitung GmbH and launched our first plant (PW1) for the production of corrugated board in Offenbach a. d. Queich, Germany, in the following year. From the beginning, we intended to focus on the highly-efficient production of small batch sizes of sheet board for small and medium-sized customers based on high technological standards.

In 1996, a second corrugated board production site (PW2) was established in Douvrin, France, and, in 1998, a third corrugated board production site (PW3) was launched in Burg, Germany. In the same year Proservice, which provides marketing, communication and IT services in support of Propapier and Prowell, was founded.

Another key milestone in the development of our group was the establishment of our first paper mill in Burg with our paper machine PM1 for the production of medium- to heavy-weight containerboard with grammages of 100–230 g/m² (2001). At the time, PM1 introduced a number of new technological features, including a “2 gap former”, a “drum pulper”, a “speed sizer” and a closed water loop that minimises the creation of waste water. PM1 represented a significant intermediate step towards the high-speed production of lighter containerboard.

In 2002, Prologistik was founded, which encompasses our own logistics operations, including a fleet of trucks we operate primarily to service the business operations of Propapier and Prowell.

In 2002 and 2005, respectively, we further expanded our corrugated board capacity by launching our fourth and fifth corrugated board production sites in Rokycany, Czech Republic (PW4) and in Schüttorf, Germany (PW5). The corrugators at those two production sites have a width of 3.3 meters, which represented a new technology standard for the industry at the time and resulted in significant productivity gains. In 2003, Profund was founded. Profund, at times, supported Prowell customers in obtaining funding for their own expansion projects.

In 2007, we established Europe’s largest corrugated board production site in Offenbach a. d. Queich, Germany (PW6), replacing the original PW1 facility at the same site.

At the same time, we reorganised our corporate structure in order to streamline our organisation and to better align our corporate structure with our business activities. Since then, Progroup AG has been the management holding company for our group, responsible for centrally managing our business operations.

In 2009, we realised another two greenfield projects with the construction of our corrugated board production sites in Stryków, Poland (PW7) and Ellesmere Port, United Kingdom (PW8). Also in 2009, we commenced construction of our second paper mill in Eisenhüttenstadt, Germany, with our paper machine PM2 commencing production of super-light-weight to medium-weight containerboard in March 2010.

In 2008, we entered into certain framework and ancillary agreements with EnBW Propower GmbH and EnBW Energy Solutions GmbH (later Sales & Solutions GmbH) for the construction and operation of the CHP adjacent to our paper mill in Eisenhüttenstadt to secure a reliable supply of energy. The CHP commenced operation in 2011.

At the end of October 2015, we commenced operations of our latest corrugated board production site (PW9) in Plössberg, Germany adjacent to and connected with a packaging plant of our customer Liebensteiner Kartonagenwerk GmbH. In the proceeding years, some of our customers had established their own production sites in close proximity to, or even on, our production sites in Burg, Offenbach/Queich and Schüttorf. With PW9 we are following our customer and setting up our facility at the existing site of a customer.

On 31 December 2015, we closed the strategically important CHP Acquisition in Eisenhüttenstadt from EnBW.

3 December 1991: Foundation of Prowell
2 November 1992: Launch of corrugated board production at Site PW1 in Offenbach/Queich, Germany
Jürgen Heindl founded Prowell and shortly thereafter launched production with PW1 in Offenbach/Queich. Already at that time, a CIM system, connected to an online ordering service, hinted at the ideas of Industry 4.0.

24 May 1996: Launch of corrugated board production at Site PW2 in Douvrin, France
The second corrugated board plant enabled Prowell to supply the EU countries France, Belgium, the Netherlands and also Denmark. The new plant with an annual capacity of 80,000 tons was integrated cross-nationally in the online system, business units for logistics and CIM technology began to take form.

29 January 1998: Foundation of Proservice
The network integration of the plants and the connection to the customers required a continuously increasing scope of consulting and technical support by a competent IT service department. At the same time, there was an increasing demand for marketing support. Both functions were assigned to the new company Proservice.

1 October 1998: Launch of corrugated board production at Site PW3 in Burg, Germany
The EU expansion opened new markets with strong growth potentials in the east. In Burg, the first plant with a working width of 2.80 metres commenced production. By continuous further development of the control technology, an annual capacity of 130,000 tons could be achieved – a significant increase in productivity.

3 July 1998: Foundation of Propapier
17 February 2001: Launch of containerboard production at Site PM1 in Burg, Germany
To become more independent from the paper market, Propapier established the then fastest liner machine in the world. With several productivity world records, the high-tech machine with a production capacity of 400,000 tons of containerboard impressively proved its technological leadership.

3 June 2002: Launch of corrugated board production at Site PW4 in Rokycany, Czech Republic
The plant in Rokycany, which was then the largest corrugated board plant in the world, was the first step on the way to highly efficient corrugated board plants. With a working width of 3.30 metres, 140,000 tons per year could be produced.
By supplying the markets in eastern Europe, Prowell now had expanded its business activities over the whole of Central Europe.

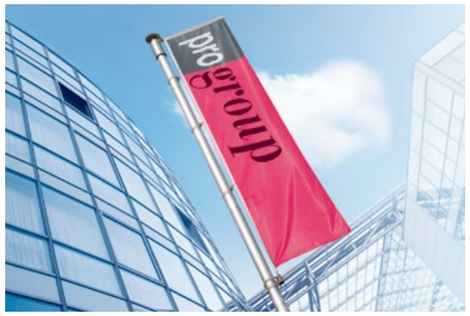
3 July 2002: Foundation of Prologistik
Prologistik was established in order to secure the intralogistics between Propapier, Prowell and their respective customers, with its own vehicle fleet, being operationally integrated into the IT structure of Prowell.

7 July 2003: Foundation of Profund
The company was established to support, from time to time, Prowell customers in obtaining funding for their own expansion projects.

25 January 2006: Launch of corrugated board production at Site PW5 in Schüttorf, Germany
Once more, world records proved the technological leadership of Prowell group. At the time of its commissioning, PW5 in Schüttorf was the largest corrugated board plant in Europe with an annual capacity of 140,000 tons. Besides, it was unique in Europe with the first fully automatic high-rack storage area with 13,000 pallet storage spaces as buffer between production and logistics.

11 May 2007: Launch of corrugated board production at Site PW6 in Offenbach/Queich, Germany
After a cycle of 15 years, the first Prowell plant in Offenbach/Queich was decommissioned. In close proximity, the then largest plant for heavy-duty corrugated board in Europe and a fully automatic high-rack storage area had commenced production, with an annual capacity of 170,000 tons. Even with heavy-duty corrugated board, the working width of 3.35 metres could be realised.

28 August 2007: Reorganisation of the group under the holding company Progroup AG
Strong growth needs a broad basis. The reorganisation of the operations in separate entities and a holding company provided new opportunities. With increased capital markets capability, access to alternative financing instruments and a tight organisation, more productivity and more service for the customers became possible.



29 September 2009: Launch of corrugated board production at Site PW7 in Stryków, Poland
The third step towards the east: In Stryków, the then largest corrugated board plant in Poland and one of the highest-performing in Europe launched production – with a working width of 3.35 metres, an operating speed of 400 m/min, a fully automatic high-rack storage area with 13,000 pallet storage spaces and an annual capacity of 155,000 tons.

29 January 2010: Launch of corrugated board production at Site PW8 in Ellesmere Port, United Kingdom
Complementing the activities in continental Europe, Progroup made the step across the channel to the United Kingdom. In Ellesmere Port near Liverpool, a corrugated board plant was established with a width of 2.50 metres and a capacity of 85,000 tons per year for the English market.

15 March 2010: Launch of containerboard production at Site PM2 in Eisenhüttenstadt, Germany
An entirely new machine concept made the profitable manufacturing of lightweight containerboard possible for the first time. The manufacturing of the Next Fibre® Lightweights, which minimises resource input, became the basis for a new generation of corrugated board and packaging – Next Board® and Next Box®. Propapier's total capacity was increased to 1,050,000 tons of containerboard.

26 October 2015: Launch of corrugated board production at Site PW9 in Plössberg, Germany
On the premises of its customer, Liebensteiner Kartonagen GmbH, a variation of the so-called packaging park model Prowell established another corrugated board plant with an annual capacity of 90,000 tons, achieving a win-win situation for both sides.

31 December 2015: Acquisition of the CHP from EnBW
With the acquisition of EnBW Propower GmbH, which operates the CHP that produces a significant portion of the energy required for the operation of our paper machine PM2, we are able to significantly reduce PM2's energy costs.

III. Our Structure

Questioning the existing, developing completely new approaches and bringing trend-setting concepts to market readiness. That is what Progroup AG stands for. The successful development of the group is based on technological leadership, network management and an advanced supply chain strategy. With two paper mills (Propapier), eight corrugated board plants (Prowell), supported by a power plant (Propower) and several service companies (Prologistik, Proservice and Profund), we produce containerboard and corrugated board in our core business.

Progroup
Progroup provides the centralised management and administration of the group from our headquarters in Landau, Germany.

Propapier
Propapier comprises our containerboard production at our two mills in Burg and Eisenhüttenstadt (both located in Germany).

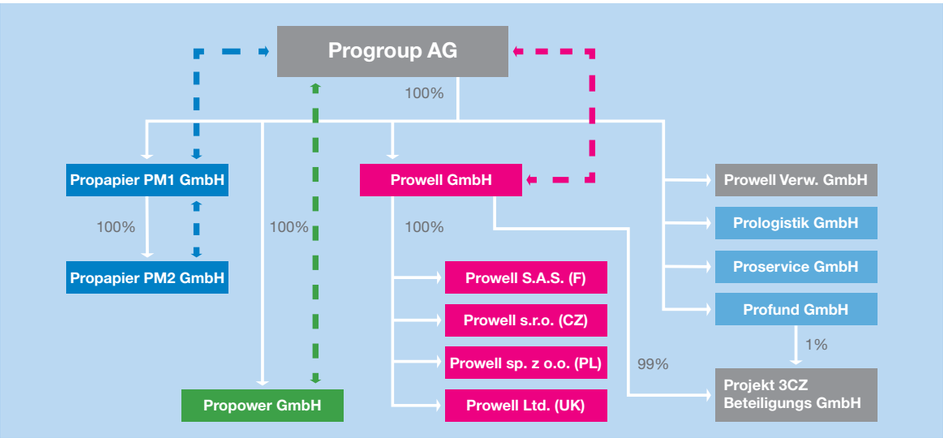
Prowell
Prowell comprises our corrugated board production at our eight production sites in the Czech Republic, France, Germany, Poland and the United Kingdom.

Propower
Propower produces a significant portion of the energy required for the operation of our paper machine PM2.

Prologistik
Prologistik comprises our own logistics operations, including a fleet of trucks we operate primarily to service the business operations of Propapier and Prowell.

Proservice
Proservice provides marketing, communication and IT services in support of Propapier and Prowell.

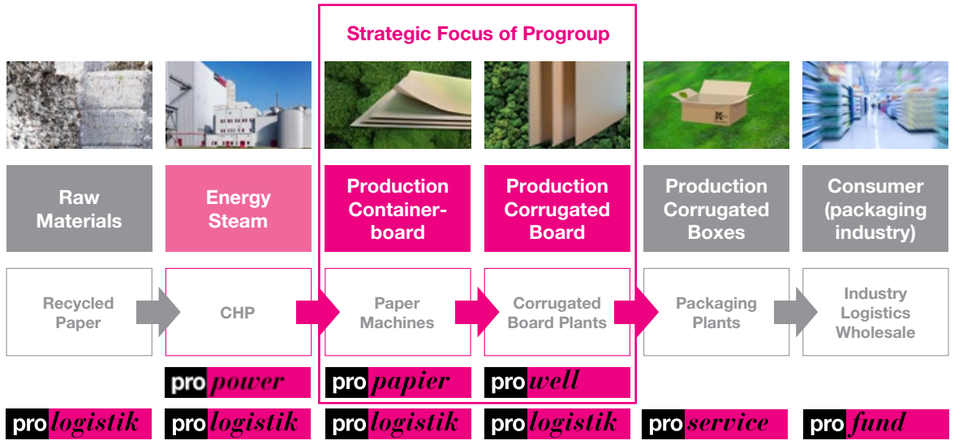
Profund
Profund has, at times, supported Prowell customers in obtaining funding for their own expansion projects.



IV. Our Strategic Focus

We are a leading, family-owned producer and supplier of containerboard and corrugated board in Central Europe headquartered in Landau, Germany. By production capacity we are the fourth largest producer of corrugated board in Europe through our Prowell business ("Prowell") and the sixth largest producer of recycled containerboard in Europe through our Propapier business ("Propapier"). We focus on the highly efficient production and processing of standardised grades and customised small batch series of corrugated board sheets for our mostly family-owned box manufacturing customers. In this core market segment, we believe we are the market leader in Germany, Austria, Belgium, the Netherlands and the Czech Republic. We believe 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 board.

Our customers serve various end markets, including industrial/manufacturing, consumer durables, processed foods, non-food manufactured consumer goods and fresh food. Unlike many fully integrated market players, we do not compete with our box manufacturing customers but instead focus solely on the production of containerboard and corrugated board.

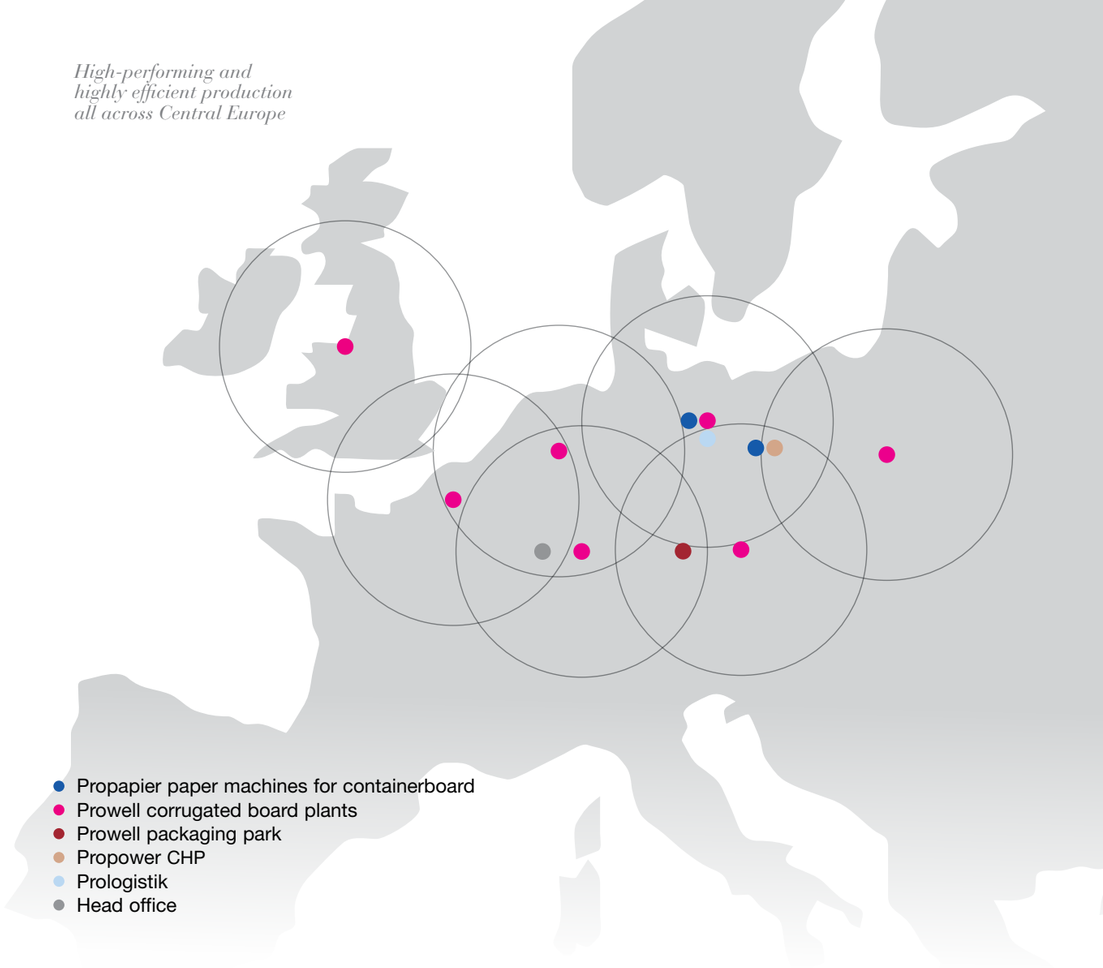


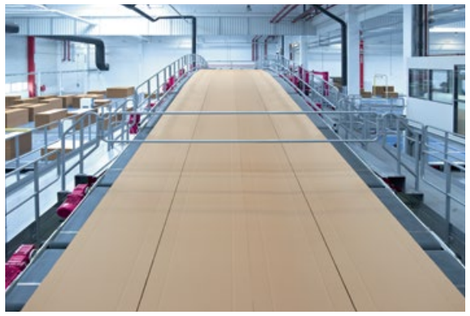
Through our large scale and highly flexible production, built up via a greenfield approach, we are able to realise significant economies of scale. Since we commenced operations in 1992, we have carefully selected the locations of our production sites and have grown organically by pursuing a pure greenfield strategy to create an optimal geographic set-up of our production sites across the markets in which we operate. As a result, we benefit from a well-invested asset base and production sites with high technological standards, resulting in a relatively low cost base compared to many of our competitors and relatively low requirements for additional capital expenditures in the short- to medium-term. Given the high technological standards of our production facilities, we believe we are well-positioned to benefit from major growth trends in our industry, such as (i) increasing demand for light-weight packaging, (ii) the increasing importance of small-size packaging due to the growing importance of e-commerce, and (iii) the general trend towards a more efficient and sustainable use of raw materials and energy, which can help reduce both costs and CO_2 emissions.

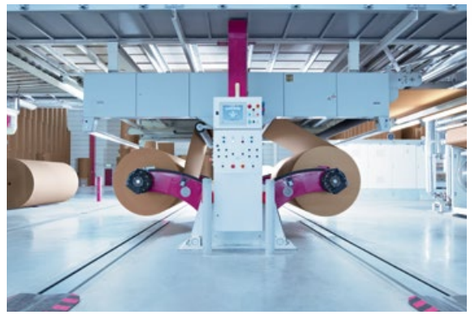
Our core business comprises Propapier and Prowell. The focus of Propapier's operations is highly flexible containerboard production using almost exclusively recycled paper, with high output volumes to increase cost efficiency and short delivery times. In 2015, containerboard produced by Propapier accounted for most of the containerboard sourcing requirements of our corrugated board production within Prowell. We believe that a high degree of vertical integration and the ability of Prowell to internally source consistently high quality containerboard in a cost-efficient and highly flexible manner creates significant synergies for our business. In addition, our customers benefit from our integrated approach through short lead times, just-in-time delivery, online ordering and tracking options.

Propapier manufactures containerboard at our two paper mills in Germany, with an envisaged total annual production capacity of approximately 1,050,000 tons of containerboard. Our two paper machines, PM1 in Burg and PM2 in Eisenhüttenstadt, have complementary production layouts which allow us to produce brown containerboard with grammages between 60 and 230g/m² using almost exclusively recycled paper. This, in turn, allows us to internally source consistently high quality containerboard with the appropriate widths for Prowell's eight corrugated board production sites in the Czech Republic, France, Germany, Poland and the United Kingdom, with a total annual production capacity of approximately 990,000 tons of corrugated board. Our greenfield location strategy ensures close customer proximity and high production flexibility.

High-performing and highly efficient production all across Central Europe







V. Our Customers

Strong, diversified and long-standing customer base

We have long-standing relationships with many of our customers, some of which date back to the start of our operations in 1992. We have grown with our large customers and have successfully entered into new relationships with key customers outside of Germany. We currently supply 350 to 400 different Prowell customers, with a strategic focus on family-owned, small and medium-sized companies.

We believe that our ability to provide reliable delivery of high-quality, cost-effective and tailor-made products and being a family-owned business have enabled us to foster strong partnerships of mutual dependence with our mostly family-owned customers, operating as a fundamental part of their supply chains by improving inventory management, security of supply and customer service. Our strong customer relationships are reinforced through a combination of our geographic reach, our manufacturing and logistics excellence, and the limited availability of alternative suppliers with the capacity and geographic proximity to provide a competitive offering.

Packaging park models

At some of our corrugated board production sites, certain long-standing customers have established their own box manufacturing plants in immediate proximity to our site, either on our own land or on land adjacent to our site (so-called “packaging park”). As a variation of this traditional packaging park model, we have established our newest corrugated board production site (PW9) in Plössberg, Germany, in immediate proximity to an existing packaging plant of our customer, Liebensteiner Kartonagenwerk, on land owned by our customer. Both versions of the packaging park model help us to further strengthen our relationships with key customers and benefit both us and the relevant customers. The high level of integration between our own corrugated board production and the box production of our customers also made possible through the packaging park model creates a number of efficiencies and largely eliminates freight and other logistics costs between Prowell and our packaging park customers. Our packaging park customers also typically purchase a very high percentage (up to 100%) of their corrugated board requirements for the relevant box plant from us, which means predictable, high volume orders and consistently high utilisation levels for the relevant corrugated board production sites. Index pricing arrangements with our packaging park customers ensure a predictable pricing mechanism for all parties.

The “classic” model – trucks maintain the link

The traditional packaging park model with delivery facility

Variation of the traditional packaging park model – corrugated board plant at customer’s site

C. COMBINED GROUP MANAGEMENT DISCUSSION AND ANALYSIS

I. Economic and Market Specific Developments

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. Increases in usage of packaging materials result in increasing demand for our recycled containerboard and corrugated board products.

Furthermore, market conditions and therefore prices for containerboard and corrugated board 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 board with a slight time lag.

In general, prices for corrugated board usually follow the development of containerboard prices, which usually follow the price development of recycled paper.

In 2015, the German economy continued to be on a moderate, solid growth path. The driving factors were especially good domestic demand based on a stable employment situation and considerable growth of real disposable incomes. As at the year end, the German Central Bank expected a calendar-adjusted GDP growth rate of 1.5% for Germany in 2015. The economic recovery in the eurozone continued throughout 2015, leading to an expected calendar-adjusted growth rate of 1.5% (excluding Germany). Main drivers were growth of general demand as well as a stronger competitiveness of European exporters, benefitting from the weaker euro.

With respect to the solid economic development of Germany and the eurozone throughout the financial year of 2015, we saw broadly stable conditions with favourable trends in the markets for containerboard and corrugated board.

The market volume of the German reference market for containerboard increased by approximately 2.0%, while the German corrugated board market increased by approximately 2.2% in 2015, compared to 2014. Therefore, the developments of both markets were slightly above the general economic development.

Concerning the externally sold volume of Propapier's recycled containerboard, the average price was approximately €383 per ton, after an average of approximately €364 per ton in 2014 (for the overall externally sold product portfolio mix). In the third quarter of 2015, prices for containerboard increased in all major European markets following price increases for recycled paper during the second and third quarter. Therefore, Propapier on average could reach a 5.2% higher price level in 2015, compared to 2014.

Prices for corrugated board usually follow the development of containerboard prices. In 2015, Prowell's average price for corrugated board was approximately €654 per ton, after approximately €644 per ton in 2014. This corresponds to a 1.5% higher price level. Since containerboard prices for the main grades increased during the third quarter of 2015, prices for corrugated board products of Prowell followed towards the end of this quarter since we were able to pass on the increased prices for containerboard to our customers.

II. Overall Assessment of Business Performance

Overall, we certainly can look back on a very successful financial year 2015 for Progroup. On the one hand, we further improved operational performance through ongoing strong growth in corrugated board, our main external sales driver, and a related increase of integration of our containerboard business. On the other hand, we successfully completed important strategic projects, such as the refinancing in April 2015, the CHP Acquisition adjacent to our paper mill PM2 and the launch of our newest Prowell production site (PW9) in Plössberg.

Operationally, market conditions were broadly favourable for us, which led to comparably good price levels for containerboard and corrugated board as well as to continuous growth in sales volume of our main external sales driver corrugated board. Due to the ongoing increase of integration between our containerboard and corrugated board businesses, we generated a lower external volume of containerboard sold. In total, we were able to increase our consolidated sales by 4.3% to €689.9 mn in 2015. The strong operational performance resulted in an increase in EBITDA by 22.2% to an annual all-time high of €152.9 mn, while the EBITDA margin exceeded our long-term average. In contrast to this development, consolidated annual net income slightly decreased by 3.4% to €54.4 mn, mainly resulting from extraordinary expenses related to our refinancing and CHP Acquisition.

Looking on our financial performance, our free cash flow significantly decreased to €-73.3 mn in 2015, which is almost exclusively related to the CHP Acquisition. Excluding the effects of the CHP Acquisition our free cash flow would have amounted to approximately €114 mn and would therefore also reflect our strong operating performance. During 2015, we also continuously decreased our leverage from 3.0 as at 31 December 2014 to 2.4 at the end of September 2015. Leverage increased again to 3.4 as at 31 December 2015 following the CHP Acquisition. Excluding the effects of the acquisition, leverage as at 31 December 2015 would have amounted to approximately 2.1.

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 2015.

III. Results of Operations

The following table sets out certain information with respect to our consolidated income statement for the years ended 31 December 2015 and 2014:

Result of operations (in € thousands)	2015	2014	Change (%)
Sales	689,940	661,287	4.3
Increase/decrease in finished goods and work in process	3,812	-5,066	–
Other own work capitalised	930	0	
Other operating income	40,679	33,509	21.4
Total output (1)	**735,361**	**689,730**	**6.6**
Costs of materials	-385,454	-373,039	3.3
Gross profit (2)	**349,907**	**316,691**	**10.5**
Personnel expenses	-56,838	-53,107	7.0
Other operating expenses	-138,459	-137,005	1.1
EBITDA (3)	**152,861**	**125,117**	**22.2**
Amortisation and depreciation of fixed intangible and tangible assets	-29,419	-28,509	3.2
Other interest and similar income	150	376	-60.2
Interest and similar expenses	-21,881	-27,757	-21.2
Profit/loss on ordinary activities	**103,460**	**70,688**	**46.4**
Extraordinary income	2,810	93	2,937.5
Extraordinary expenses	-38,341	-3,707	934.3
Extraordinary net income/loss	**-35,531**	**-3,614**	**883.1**
Taxes on income	-11,775	-9,110	29.3
Other taxes	-1,749	-1,461	19.8
Profit transfer on the basis of partial profit transfer agreement	0	-197	-100.0
Consolidated net income for the year	**54,405**	**56,307**	**-3.4**
Consolidated unappropriated retained earnings brought forward	68,879	31,763	116.9
Consolidated net retained profits	**123,284**	**88,069**	**40.0**

(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) 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, minus cost of materials, minus personnel expenses, minus other operating expenses, minus other taxes.

Sales

Sales volume (in thousands of tons)	2015	2014	Change (%)
Corrugated board	**837**	**789**	**6.0**
Containerboard	**1,026**	**1,035**	**-0.8**
– thereof external	346	392	-11.9
– thereof internal	680	642	5.9

Sales (in € thousands)	2015	2014	Change (%)
Corrugated board	547,260	508,660	7.6
Containerboard	132,367	142,766	-7.3
Other	10,313	9,861	4.6
Total sales	**689,940**	**661,287**	**4.3**

Total consolidated sales increased by €28.7 mn or 4.3%, from €661.3 mn in 2014 to €689.9 mn in 2015. This increase in sales was primarily attributable to a significant increase in corrugated board sales, both in Germany and abroad, which significantly exceeded general market growth. Corrugated board sales volumes rose by approximately 48 thousand tons, from approximately 789 thousand tons in 2014 to approximately 837 thousand tons in 2015. The sales volume increase in excess of general market growth was attributable to our ongoing efforts to improve the effectiveness of our sales and marketing activities as part of our Continuous Improvement Program as well as the capacity growth from our new Prowell plant in Plössberg (PW9) and continuing efforts to further optimise production of our established Prowell plants. At the same time, our total containerboard production slightly decreased by approximately 9 thousand tons or 0.8%, from approximately 1,035 thousand tons in 2014 to approximately 1,026 thousand tons in 2015, reflecting among others the trend towards lighter containerboard. External sales of containerboard significantly decreased by approximately

46 thousand tons or 11.9% from approximately 392 thousand tons in 2014 to approximately 346 thousand tons in 2015 as we managed to further increase the share of internal containerboard sales to Prowell (integration) through further improved utilisation of our existing corrugated board production sites and the ramp up of our new site PW9. As a result, the average grade of integration could be increased from 62% in 2014 to 66% in 2015. The average price of corrugated board during 2015 was slightly above the average price during 2014 (+1.5%). In September 2015, corrugated board prices increased in most of our markets, as corrugated board producers were able to pass on to their customers an increase in the price of containerboard that occurred in the third quarter of 2015. The average price per ton for externally sold containerboard in 2015 was above the average price in 2014 (+5.2%). In the third quarter of 2015, prices for containerboard increased in all major European markets following price increases for recycled paper during the second and third quarter.

Total corrugated board sales increased by €38.6 mn or 7.6% in 2015 compared to 2014, due to a €19.3 mn increase in sales in Germany and a €19.3 mn increase in sales abroad. External sales of containerboard decreased by €10.4 mn or 7.3%, from €142.8 mn in 2014 to €132.4 mn in 2015, while other sales increased by €0.4 mn or 4.6%, from €9.9 mn in 2014 to €10.3 mn in 2015. As a result, corrugated board sales as a percentage of total sales increased from 76.9% in 2014 to 79.3% in 2015, while containerboard sales as a percentage of total sales decreased from 21.6% in 2014 to 19.2% in 2015.

Increase/decrease in finished goods and work in process

Our inventories of corrugated board and containerboard increased to €3.8 mn in 2015, primarily due to an increase in our corrugated board production and lower sales of containerboard in 2015.

Other own work capitalised

Other own work capitalised is related to our new corrugated board production site PW9 in Plössberg, Germany.

Other operating income

Other operating income (in € thousands)	2015	2014	Change (%)
Investment subsidies	383	428	-10.5
Income from passing through the cost of gas to Sales & Solution GmbH	10,887	10,947	-0.5
Income from sales of refuse-derived fuel and fuel oil to EnBW Propower	5,334	5,732	-6.9
Income from exchange rate differences	5,521	1,363	305.2
Income from other periods	15,216	13,160	15.6
Other income	3,338	1,879	77.6
Other operating income	**40,679**	**33,509**	**21.4**

Other operating income increased by €7.2 mn or 21.4% from €33.5 mn in 2014 to €40.7 mn in 2015, mainly due to a €4.1 mn increase in exchange rate gains, from €1.4 mn in 2014 to €5.5 mn in 2015. Income from other accounting periods also increased by €2.0 mn or 15.6%, from €13.2 mn in 2014 to €15.2 mn in 2015 mainly due to release of provisions and energy cost related refunds, while other income increased by €1.4 mn or 77.6% from €1.9 mn in 2014 to €3.3 mn in 2015, mainly due to an insurance compensation.

These increases more than offset the decrease by €0.4 mn or 6.9% in income from sales of refuse-derived fuel and fuel oil to EnBW Propower GmbH in 2015 compared to 2014. This decrease resulted from longer scheduled and unscheduled shutdowns of the CHP, leading to a slightly lower consumption of refuse-derived fuel.

Income from sales of gas resulted from passing through to Sales & Solutions GmbH the costs of gas for the production of steam for our paper machine PM1. The costs of steam as well as the original costs of gas were included in costs of purchased services under costs of materials.

The income from other periods increased by €2.0 mn or 15.6% in 2015 and includes, among others, mainly a €7.6 mn release of provisions, income from prior-year energy tax refunds amounting to €3.6 mn as well as €1.9 mn of income from additional charges for the supply of refuse-derived fuel and income from prior-year energy costs of €1.1 mn. The release of provisions mentioned above mainly relates to provisions for maintenance, legal cases, energy cost related topics, personnel expenses and others.

Costs of materials

Costs of materials (in € thousands)	2015	2014	Change (%)
Costs of raw materials, consumables and supplies	275,326	262,424	4.9
Costs of purchased services	110,128	110,615	-0.4
Costs of materials	**385,454**	**373,039**	**3.3**

Costs of materials slightly increased by €12.5 mn or 3.3%, from €373.0 mn in 2014 (56.4% of sales, or 54.1% of total output) to €385.5 mn in 2015 (55.9% of sales, or 52.4% of total output). This increase was due to the increase of €12.9 mn or 4.9% in the costs of raw materials, consumables and supplies as a result of the significant increase in our corrugated board production as described under "Sales". The increase in costs of materials was moderate in view of the 4.3% increase in total sales in 2015. The price of recycled paper generally remained stable throughout the first quarter of 2015 and increased in the second and third quarter. However, our own average costs per ton for the recycled paper grades we purchased during 2015 was €119 and therefore slightly higher (1.3%) compared to 2014 (€117). These slightly higher recycled paper prices and the slightly lower production volumes resulted in broadly unchanged recycled paper costs of €127.3 mn in 2015 compared to €127.5 mn in 2014. Costs of raw materials also include the costs of externally purchased containerboard as raw material for our Prowell plants, which significantly rose from €94.7 mn in 2014 to €106.4 mn in 2015. This increase was attributable to higher production and sales volumes of corrugated board, slightly higher average purchase prices for external containerboard and a slightly higher quantity of externally sourced containerboard.

The costs of purchased services slightly decreased by €0.5 m or 0.4%, from €110.6 mn in 2014 to €110.1 mn in 2015. Higher costs for freight brokerage at Prologistik (€7.0 mn in 2015 compared to €5.5 mn in 2014) were more than offset by lower energy costs (i.e. electricity, gas and steam), which amounted to €101.7 mn in 2015 compared to €103.5 mn in 2014, and lower other external services purchased (€1.3 mn in 2015 compared to €1.6 mn in 2014).

Gross profit

Gross profit increased by €33.2 mn or 10.5%, from €316.7 mn (47.9% of sales, or 45.9% of total output) in 2014 to €349.9 mn (50.7% of sales, or 47.6% of total output) in 2015. This growth is primarily due to the increased sales volume of corrugated board and higher average prices for both corrugated board and containerboard and further supported by lower energy costs.

Personnel expenses

Personnel expenses (in € thousands)	2015	2014	Change (%)
Wages and salaries	48,161	44,717	7.7
Social security and pensions	8,677	8,391	3.4
- thereof for pension expenses	239	189	26.1
Personnel expenses	**56,838**	**53,107**	**7.0**

Personnel expenses in 2015 increased by €3.7 mn or 7.0%, from €53.1 mn in 2014 to €56.8 mn in 2015, reflecting a €3.4 mn or 7.7% increase in wages and salaries and a €0.3 mn or 3.4% increase in social security and pensions. These increases were due to a 6.7% increase in the average number of employees (from 853 in 2014 to 910 in 2015), salary and wage increases, and higher variable payments for all employees (incl. management) paid as a result of our strong overall results in 2015.

Average number of employees	2015	2014	Change (%)
Average number of administrative employees	220	208	5.8
Average number of factory workers	690	645	7.0
Average number of employees	**910**	**853**	**6.7**

Both the average number of administrative employees and the average number of factory workers increased slightly from 208 and 645 in 2014 to 220 and 690 in 2015. The increase in the number of factory workers related primarily to the launch of our new production site in Plössberg, Germany. The higher number of administrative employees is due to the filling of vacancies as well as certain structural changes we made in different departments.

Other operating expenses

Other operating expenses (in € thousands)	2015	2014	Change (%)
Maintenance and repair	34,127	31,854	7.1
Freight expenses	60,339	57,249	5.4
Paper machine clothings	6,048	6,741	-10.3
Rental and leasing costs	5,816	5,202	11.8
Water and waste water treatment	5,143	4,967	3.5
Legal and consulting fees	1,590	3,947	-59.7
Expenses from exchange rate differences	4,165	2,466	68.9
Expenses from other periods	2,020	5,561	-63.7
Others	19,211	19,019	1.0
Other operating expenses	**138,459**	**137,005**	**1.1**

Other operating expenses slightly increased by €1.5 mn or 1.1%, from €137.0 mn in 2014 to €138.5 mn in 2015. Expenses from exchange rate differences increased by €1.7 mn, from €2.5 mn in 2014 to €4.2 mn in 2015. In addition, expenses for maintenance and repair increased by €2.2 mn or 7.1%, from €31.9 mn in 2014 to €34.1 mn in 2015, primarily due to additional maintenance costs at PM2 in Eisenhüttenstadt. Freight expenses also increased by €3.1 mn or 5.4%, from €57.2 mn in 2014 to €60.3 mn in 2015, mainly due to the increased freight volume as a result of our increased sales of corrugated board. Rental and leasing costs increased by €0.6 mn or 11.8%, from €5.2 mn in 2014 to €5.8 mn in 2015. This was primarily due to additional rental costs for the building of our new plant in Plössberg since the launch in the fourth quarter, higher rental costs for our headquarter office building and higher leasing costs for our trucks. Other expenses remained almost stable with a marginal increase of 1.0%, from €19.0 mn in 2014 to €19.2 mn in 2015. This slight increase is primarily due to specific valuation allowances on receivables and fees related to the financing of our new corrugated board production site in Plössberg (PW9). Water and waste water treatment expenses slightly increased by 3.5%, from €5.0 mn in 2014 to €5.1 mn in 2015, mainly due to slightly higher prices.

These increases more than offset decreases in expenses from other periods, expenses for replacing paper machine clothings as well as legal and consulting fees. Expenses from other periods decreased by €3.5 mn or 63.7%, mainly due to a provision for higher waste water treatment costs of €4.2 mn recorded in 2014. Expenses from other periods in 2015 mainly include €1.1 mn in gas invoices at PM1 related to December 2014 and other delayed invoices concerning electricity and other energy costs. Expenses for replacing paper machine clothings decreased by €0.7 mn or 10.3%, from €6.7 mn in 2014 to €6.0 mn in 2015, due to reduced wear and tear. Legal and consulting fees decreased by €2.4 mn or 59.7% from €4.0 mn in 2014 to €1.6 mn in 2015.

EBITDA

Our EBITDA increased by €27.8 mn or 22.2% from €125.1 mn in 2014 (18.9% of sales) to €152.9 mn in 2015 (22.2% of sales), as a result of the factors described above.

Result of operations (in € thousands)	2015	2014	Change (%)
EBITDA	**152,861**	**125,117**	**22.2**
Amortisation and depreciation of fixed intangible and tangible assets	-29,419	-28,509	3.2
Interest result	-21,732	-27,381	-20.6
Extraordinary net income/loss	-35,531	-3,614	883.1
Taxes on income	-11,775	-9,110	29.3
Profit transfer on the basis of partial profit transfer agreement	0	-197	-100.0
Consolidated net income for the year	**54,405**	**56,307**	**-3.4**

Amortisation and depreciation of fixed intangible and tangible assets

Amortisation and depreciation expenses increased by €0.9 mn or 3.2% from €28.5 mn in 2014 to €29.4 mn in 2015. This slight increase was primarily due to capital expenditure during 2015, especially the investment in our new production site PW9 in Plössberg.

Interest income/expenses, net

Our interest income/expenses, net in 2015 improved by €5.7 mn or 20.6%, from a net expense of €27.4 mn in 2014 to a net expense of €21.7 mn in 2015. This decrease is entirely due to a decrease in interest and similar expenses by €5.9 mn or 21.2% from €27.8 mn in 2014 to €21.9 mn in 2015, mainly resulting from a reduction in the annual average amount of our financial liabilities as well as lower market interest rate levels during the period leading up to the refinancing at the end of April 2015. Liabilities under our Senior Secured Notes were €495 mn and under bank loans were €36.2 mn, respectively, as at 31 December 2015 compared to liabilities under bank loans of €394.9 mn as at 31 December 2014 (starting with €470.2 mn as at 1 January 2014).

Extraordinary net income/loss

Extraordinary net loss increased significantly by €31.9 mn, from a net loss of €3.6 mn in 2014 to a net loss of €35.5 mn in 2015. The €3.7 mn in extraordinary expenses in 2014 reflect restructuring expenses related to the financial restructuring of our former financing arrangements prior to our refinancing in April 2015. The €38.3 mn in extraordinary expenses in 2015 are primarily related to extraordinary expenses recorded in connection with the refinancing (€31.3 mn), including transaction costs, advisory and professional fees and others. Furthermore, expenses related to the termination of interest rate swaps by certain of our subsidiaries and expenses from the reversal of accrued transaction costs (prepaid expenses) of our former credit facility are included. Extraordinary expenses amounting to €6.9 mn are related to the CHP Acquisition and the associated tap offering of an additional €95 mn Senior Secured Fixed Rate Notes, including advisory and professional fees for the acquisition as well as transaction costs for the tap.

Taxes on income

Total taxes increased by €2.7 mn or 29.3%, from €9.1 mn in 2014 to €11.8 mn in 2015. Total taxes mainly include trade tax and corporate income tax for the current financial year and increased by €3.2 mn or 36.0% from €8.8 mn in 2014 to €11.9 mn in 2015. Furthermore, total taxes include refunds of trade tax and corporate income tax for previous years, which amounted to €0.2 mn in 2015 and expenses arising from the adjustment of deferred tax assets, which amounted to €0.1 mn.

Consolidated net income for the year

Consolidated net income for the year decreased by €1.9 mn from a profit of €56.3 mn in 2014 to a profit of €54.4 mn in 2015. This was the result of the factors described above. Expenses subject to profit transfer agreements in 2014 are related to two partial profit and loss transfer agreements entered into under two silent participations and terminated upon completion of the refinancing in April 2015.

IV. Net Asset Position

The following statements describe the main changes in the balance sheet as at 31 December 2015 compared to 31 December 2014. For detailed information on our balance sheet items, please refer to the section D.II. “Consolidated Financial Statements”.

As at 31 December 2015, **fixed assets** amounted to €657.5 mn, reflecting a significant increase of €180.9 mn or 37.9% compared to 31 December 2014. Additions to fixed assets (€209.9 mn) and exchange rate differences (€0.4 mn) were partly offset by the amortisation and depreciation amounting to €29.4 mn. Additions during 2015 are mainly related to the CHP Acquisition (€186.9 mn), including an operating license valued at €23.9 mn, intangible fixed assets valued at €0.1 mn, land and buildings valued at €10.3 mn, technical equipment and machinery valued at €147.7 mn, factory and office equipment valued at €0.5 mn as well as network access ports of €4.4 mn. Additions with respect to our new production site PW9 in Plössberg amounted to €13.8 mn. Furthermore, we had additions for several smaller maintenance investments concerning our established plants.

The increase of €11.3 mn or 17.7% in **inventories** to €75.0 mn is primarily a result of a higher quantity of raw materials and supplies of spare parts, also including €2.6 mn in spare parts we acquired in connection with the CHP Acquisition. Furthermore, work in process increased by €3.9 mn as a result of higher stocks of containerboard at our Prowell plants, due to the increased production volumes.

Trade receivables increased by €2.3 mn or 4.2% to €57.6 mn following the positive sales development.

The decrease of €0.9 mn or 3.6% in **other assets** to €24.8 mn is mainly attributable to the settlement of receivables related to refunding of network fees and energy tax concerning prior years.

Cash in hand, bank balances amounted to €20.8 mn as at 31 December 2015 compared to €18.8 mn as at 31 December 2014. Negative free cash flow was more than offset by cash inflows from financing activities, leading to a slightly higher amount of cash in hand. For more detailed information, please refer to the section C.V. “Financial Position”.

Prepaid expenses and deferred charges declined from €8.5 mn as at 31 December 2014 to €0.9 mn as at 31 December 2015, which is mainly due to the reversal of prepaid expenses concerning transaction fees that represent income similar to interest (31 December 2014: €6.0 mn) in relation to our former senior credit facility, which was repaid as part of the refinancing in April 2015.

The decrease in **deferred tax assets** from €12.8 mn as at 31 December 2014 to €5.7 mn is mainly due to a €7.1 mn offset of deferred tax liabilities resulting from the purchase price allocation for the CHP Acquisition.

Shareholders’ equity increased from €173.7 mn as at 31 December 2014 to €208.6 mn as at 31 December 2015. The positive net income (€54.4 mn) was partly offset by dividends distributed to shareholders (€19.2 mn). As at 31 December 2015, consolidated net retained profits amounted to €123.3 mn, after €88.1 mn as at 31 December 2014.

Investment grants for fixed assets increased from €2.0 mn as at 31 December 2014 to €2.5 mn as at 31 December 2015, driven by grants received in connection with our new plant in Plössberg.

The decrease in **other provisions** from €51.5 mn as at 31 December 2014 to €46.8 mn as at 31 December 2015 was primarily driven by lower provisions for outstanding invoices, mainly as a result of reporting date factors and lower provisions for maintenance.

Bank loans decreased by 90.8%, from €394.9 mn as at 31 December 2014 to €36.2 mn as at 31 December 2015, as a result of the refinancing undertaken in April 2015. Liabilities as at 31 December 2015 mainly concern a bank loan associated with the investment in our new Prowell plant PW9 in Plössberg (€10.7 mn) and a PLN term loan amounting to €25.1 mn (PLN107 mn), raised in order to improve the foreign exchange profile of our Polish subsidiary.

As part of our refinancing in April 2015, we issued Senior Secured Fixed Rate Notes (€250 mn) and Senior Secured Floating Rate Notes (€150 mn) with a total value of €400 mn. In order to finance a portion of the purchase price for the CHP Acquisition, the Senior Secured Fixed Rate Notes were increased by an amount of €95 mn in December 2015. Therefore, a total value of €495 mn is reported under the balance sheet item of **bonds**.

The significant increase in **trade payables,** from €22.0 mn as at 31 December 2014 to €32.8 mn as at 31 December 2015, is due to working capital management as well as one-off effects as a result of reporting date factors.

The increase in **other liabilities** from €10.2 mn as at 31 December 2014 to €12.3 mn as at 31 December 2015 is mainly related to accrued interest for the Senior Secured Notes.

Deferred income increased from €1.3 mn as at 31 December 2014 to €5.7 mn as at 31 December 2015. Net proceeds of the tap offering in December 2015 (€95 mn increase in Senior Secured Fixed Rate Notes) were roughly €100 mn. The premium of €4.7 mn was recognised as deferred income and will be released ratably over the term of the underlying notes.

V. Financial Position

The following table sets out a summary of our cash flows for the years ended 31 December 2015 and 2014. For detailed information on our cash flows, please refer to section D.II. “Consolidated Financial Statements”.

Summary of cash flows (in € thousands)	2015	2014
Cash flows from operating activities	133,525	115,279
Cash flows from investing activities	-206,778	-11,535
Free cash flow [1]	**-73,253**	**103,744**
Cash flows from financing activities	74,936	-104,573

(1) Free cash flow is calculated as cash flows from operating activities plus cash flows from investing activities.

The statement of cash flows as at 31 December 2015 is prepared in accordance with DRS 21 for the first time, including the comparative figures for 2014.

Cash flows from operating activities

In 2015, our cash flows from operating activities increased by €18.2 mn, from €115.3 mn in 2014 to €133.5 mn in 2015. This increase is mainly attributable to our improved EBITDA as a result of our stronger operational performance. Contrary impacts resulted from a €2.8 mn increase in our trade working capital, from €97.0 mn as at 31 December 2014 to €99.8 mn as at 31 December 2015, following the increase of our total output as well as a higher amount of income taxes paid.

The increase in our trade working capital is attributable to a significant increase in our inventories (€11.3 mn) and a slight increase in our trade receivables (€2.3 mn), which are partly offset by a significant increase in our trade payables (€10.7 mn). For further details about the development of the single positions included in our trade working capital, please refer to the section C. IV. “Net Asset Position”.

Trade working capital (in € thousands)	2015	2014
Inventories	75,025	63,746
Trade receivables	57,593	55,289
Trade payables	32,784	22,050
Trade working capital [2]	**99,834**	**96,985**

(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 as well as interest received concerning financial assets and cash in hand.

In 2015, our cash outflows from investing activities significantly increased by €195.3 mn, from €11.5 mn in 2014 to €206.8 mn in 2015. This increase was due to higher capital expenditures, mainly related to the CHP Acquisition. In 2015, we had cash outflows for the CHP Acquisition totalling €183.9 mn, including €179.5 mn for the CHP as an addition to the consolidated group and €4.4 mn for the related network access ports as a tangible fixed asset. Cash outflows related to the establishment of our newest corrugated board production site PW9 in Plössberg, Germany, amounted to €13.8 mn. Furthermore, we made several smaller investments in our existing production sites as part of our continuous maintenance capital expenditures and in connection with the extension of our headquarter office building. As a result, investments in tangible fixed assets increased by €15.0 mn from €11.8 mn in 2014 to €26.8 mn in 2015.

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 2015, our free cash flow significantly decreased by €177.0 mn, from a cash inflow of €103.7 mn in 2014 to a cash outflow of €73.3 mn in 2015, mainly due to the CHP Acquisition.

Adjusted free cash flow (adjusted for the effects of the CHP Acquisition) would have amounted to approximately €114.0 mn. This would have been an increase of €10.3 mn compared to the free cash flow of 2014 amounting to €103.7 mn.

Cash flows from financing activities

In 2015, cash flows from financing activities amounted to €74.9 mn of cash inflows, compared to €104.6 mn of cash outflows in 2014.

In 2015, cash proceeds of bonds and borrowings amounted to €535.5 mn, containing €495 mn from the issuance of the Senior Secured Notes, €10.7 mn of bank loans in connection with our new plant in Plössberg and €25.1 mn from a PLN term loan of our Polish subsidiary. Furthermore, cash proceeds of €1.3 mn were recognised for grants received in connection with our new site in Plössberg. These cash inflows were not completely offset by the cash outflows for repayments of borrowings (€394.4 mn) under our former senior credit facility, cash outflows for extraordinary expenses paid (€30.7 mn) in connection with our refinancing and the CHP Acquisition, interest paid (€17.6 mn) and dividends distributed to shareholders of Progroup AG (€19.2 mn).

In 2014, cash outflows for repayments under our former senior secured credit facility (€75.4 mn), extraordinary expenses paid (€3.5 mn) and interest paid (€25.7 mn) led to negative cash flows from financing activities.

In 2015, our financial liabilities, including bonds (€495 mn), bank loans (€36.2 mn) and accrued interest (€4.1 mn), increased by €140.4 mn from €394.9 mn as at 31 December 2014 to €535.3 mn as at 31 December 2015. This increase is mainly attributable to the tap offering of additional €95 mn Senior Secured Notes and to a PLN term loan amounting to €25.1 mn (PLN107 mn) and further to a bank loan associated with the investment in the new Prowell plant in Plössberg (€10.7 mn), €4.1 mn of accrued interest and €0.4 mn as a residual liability of a finance lease.

Financial liabilities and leverage

Financial liabilities and leverage (in € thousands)	2015	2014
Financial liabilities (bank loans, bonds and accrued interest)	535,263	394,851
Cash in hand, bank balances	20,762	18,758
Net financial debt	514,501	376,093
LTM EBITDA	152,861	125,117
Leverage	3.4	3.0

Cash in hand, bank balances amounted to €20.8 mn as at 31 December 2015 compared to €18.8 mn as at 31 December 2014, since negative free cash flow was more than offset by cash inflows from financing activities. Prior to the CHP Acquisition, cash in hand amounted to €91.3 mn as at 30 September 2015 and decreased significantly at the end of the fourth quarter since the CHP Acquisition was financed in parts with cash in hand.

As a result of the above described developments, net financial debt, calculated as financial liabilities minus cash in hand, bank balances, increased by €138.4 mn, from €376.1 mn as at 31 December 2014 to €514.5 mn as at 31 December 2015.

Our leverage, calculated by dividing net financial debt by EBITDA for the last twelve months, increased from 3.0 as at 31 December 2014 to 3.4 as at 31 December 2015, following the higher amount of net financial debt. Throughout the financial year 2015, we continuously decreased our leverage from 3.0 as at 31 December 2014 to 2.4 as at 30 September 2015. Subsequently, leverage increased again due to the CHP Acquisition. Excluding the above described effects of the CHP Acquisition, our leverage would have reached approximately 2.1.

VI. Unaudited *Pro Forma* Financial Information

Please note that the following *Pro Forma* Financial Information has to be seen as continuation of the *Pro Forma* Financial Information being presented as part of the Offering Memorandum issued on 8 December 2015. Accordingly, for the preparation of the *pro forma* consolidated income statement for the financial year ended 31 December 2015, the issuance of the 5.125% Senior Secured Fixed Rate Notes, the full utilisation of the Senior Secured PLN Facility and the CHP Acquisition are presented as if they each occurred on 1 January 2014.

The following *Pro Forma* Financial Information has been prepared based on German GAAP in accordance with IDW Accounting Practice Statement: "Preparation of *Pro Forma* Financial Information" (IDW AcPS AAB 1.004) issued by Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany) ("IDW"). This *Pro Forma* Financial Information describes a hypothetical situation and may therefore not be used as comparative amounts in Progroup AG's consolidated financial statements under German GAAP for the financial year ended 31 December 2016.

The purpose of the *Pro Forma* Financial Information is to illustrate the effect on Progroup AG's consolidated income statement of the acquisition by Progroup AG and certain of its subsidiaries of the combined heat and power plant ("**CHP**") adjacent to its paper mill in Eisenhüttenstadt and certain related assets (the "**CHP Acquisition**").

On 2 December 2015, Progroup AG, Propapier PM2 GmbH ("**PM2 GmbH**"), EnBW Energie Baden-Württemberg AG ("**EnBW**") and its subsidiaries Sales & Solutions GmbH ("**SSG**"), EnBW Propower GmbH ("**EnBW Propower**") and EZG Operations GmbH ("**EZG**") entered into a purchase, assignment and transfer agreement (the "**CHP Purchase Agreement**") for the proposed CHP Acquisition. The CHP Acquisition was completed on 31 December 2015. Prior to the CHP Acquisition, the CHP was owned by EnBW Propower, a wholly owned subsidiary of SSG. Pursuant to the CHP Purchase Agreement, the CHP Acquisition was effected by way of a transfer of all shares in EnBW Propower by SSG to Progroup AG, a transfer of the network access ports by SSG to Propapier PM2 GmbH linking Progroup's paper machine PM2 to the public electricity grid, a transfer of all rights under an intra-group loan from EnBW to EnBW Propower by EnBW to Propapier PM2 GmbH and a transfer to EnBW Propower of certain spare parts for the CHP. The aggregate purchase price amounted to €185.5 mn.

The unaudited *pro forma* adjustments are based on available information and certain assumptions that Progroup believes are reasonable and give effect to events that are directly attributable to the CHP Acquisition and are factually supportable.

The purpose of this *Pro Forma* Financial Information is to present the *pro forma* consolidated income statement of Progroup AG for the financial year ended 31 December 2015 as if the CHP Acquisition as well as the issuance of the 5.125% Senior Secured Fixed Rate Notes and the full utilisation of the Senior Secured PLN Facility each had occurred as at 1 January 2014. The *pro forma* consolidated income statement for the year ended 31 December 2015 is based on the consolidated financial statements of Progroup AG and the financial statements of EnBW Propower GmbH for the financial year 2015.

Since the CHP Acquisition became effective as at 31 December 2015, the audited consolidated balance sheet of Progroup AG as at 31 December 2015 includes all assets and liabilities acquired as part of the CHP Acquisition through the initial consolidation as at 31 December 2015. Therefore, no *pro forma* balance sheet is being presented.

Preparing this *Pro Forma* Financial Information, Progroup has applied certain assumptions and made related adjustments which are presented in the explanatory notes following the *pro forma* income statement table.

This *Pro Forma* Financial Information is only meaningful if read in conjunction with the *Pro Forma* Financial Information as at 31 December 2014, presented in our Special Report to our bondholders dated 8 December 2015 under the section "Unaudited *Pro Forma* Financial Information" and the audited consolidated financial statements of Progroup AG as at and for the year ended 31 December 2015.

The presentation of the *Pro Forma* Financial Information is provided for illustrative purposes only. Because of its nature, the *Pro Forma* Financial Information describes only a hypothetical situation and, therefore, does not indicate the future development of Progroup AG's financial condition, results of operations and cash flows.

Pro Forma Consolidated Income Statement for the period of 1 January – 31 December 2015 (in € thousands)	Progroup AG	Propower GmbH	Subtotal	*Pro Forma* Adjustments	Note	*Pro Forma*
1. Sales	689,940	47,666	737,606	(42,683)	(1)	694,923
2. Increase/decrease in finished goods and work in process	3,812	0	3,812	0		3,812
3. Other own work capitalised	930	0	930	0		930
4. Other operating income	40,679	48,440	89,119	(48,961)	(1) (2) (3)	40,158
5. Cost of materials	(385,454)	(17,266)	(402,720)	53,430	(1) (4) (5)	(349,290)
6. Personnel expenses	(56,838)	0	(56,838)	(2,176)	(4)	(59,014)
7. Amortisation and depreciation of fixed intangible and tangible assets	(29,419)	(10,576)	(39,994)	(6,998)	(5) (6) (7)	(46,993)
8. Other operating expenses	(138,459)	(1,574)	(140,033)	(6,241)	(1) (4)	(146,274)
9. Other interest and similar income	150	0	150	0		150
10. Interest and similar expenses	(21,881)	(6,937)	(28,818)	1,706	(8) (9) (10)	(27,111)
11. Profit/loss on ordinary activities	**103,460**	**59,754**	**163,214**	**(51,923)**		**111,291**
12. Extraordinary income	2,810	0	2,810	0		2,810
13. Extraordinary expenses	(38,341)	0	(38,341)	6,961	(11)	(31,380)
14. Extraordinary net income/loss	**(35,531)**	**0**	**(35,531)**	**6,961**		**(28,570)**
15. Taxes on income	(11,775)	0	(11,775)	(9,729)	(12) (13)	(21,504)
16. Other taxes	(1,749)	(37)	(1,786)	0		(1,786)
17. Profit transfer on the basis of partial profit transfer agreement	0	(59,717)	(59,717)	59,717	(14)	0
18. Consolidated net income for the year	**54,405**	**0**	**54,405**	**5,026**		**59,431**

(1) Represents adjustments for the elimination of expenses and sales and income resulting from deliveries of goods and services between PM2 GmbH and EnBW Propower totalling €42,683 thousand included in sales and €1,991 thousand included in other operating income, which led to corresponding costs of €42,183 thousand included in costs of materials and €1,355 thousand in other operating expenses; the remaining difference is due to timing differences. These intra-group transactions were eliminated for purposes of the *pro forma* consolidated financial information. Intra-group profits between Progroup AG and EnBW Propower arising from these transactions were not reflected in the *pro forma* consolidated financial information due to immateriality.

(2) Represents an adjustment of €45,770 thousand to eliminate a reversal of the impairment related to the CHP that EnBW Propower recorded in its historical financial statements, which will be eliminated for *pro forma* purposes.

(3) Represents an adjustment of €1,200 thousand to eliminate income from other accounting periods related to a reimbursement payment by PM2 GmbH to EnBW Propower in connection with an €2,400 thousand payment by EnBW Propower in settlement of a legal dispute. PM2 GmbH was required to reimburse EnBW Propower for half of the settlement amount. EnBW Propower had initially recognised provisions for the full amount of the expected settlement, and PM2 GmbH had recognised provisions with regard to its expected share in the settlement. The relevant provisions were reversed by EnBW Propower in its historical financial statements in 2015 in connection with the settlement payment and EnBW Propower recorded the €1,200 thousand reimbursement amount being received from PM2 GmbH as income from other accounting periods. This amount was eliminated for *pro forma* purposes.

(4) Represents adjustments for reclassifications in connection with the CHP Acquisition. In its financial statements, EnBW Propower recorded costs of materials of €9,772 thousand, which will be replaced for *pro forma* purposes with personnel expenses of €2,176 thousand and other operating expenses of €7,596 thousand as post acquisition, Progroup will employ the personnel directly and incur direct operating expenses.

(5) Represents adjustments of €1,474 thousand to eliminate costs of materials and of €450 thousand to record incremental depreciation expense related to the acquired network access ports (which Progroup will depreciate on a straight-line basis over 13 years). Prior to the CHP Acquisition, Propapier PM2 GmbH paid SSG for the use of the network access ports.

(6) Represents an adjustment for incremental amortisation expense of €2,367 thousand relating to the fair value purchase accounting adjustment for the acquisition of the operating license, which will be amortised on a straight-line basis over 10 years.

(7) Represents an adjustment for incremental depreciation expense of €4,181 thousand relating to the fair value purchase accounting adjustment for the acquisition of the CHP, which will be depreciated on a straight-line basis over 5 to 20 years, respectively.

(8) Represents an adjustment of €6,937 thousand for the elimination of interest expense of EnBW Propower under the intra-group loans from EnBW, which were acquired by Progroup AG.

(9) Represents an adjustment of €4,869 thousand for incremental interest expense relating to the 5.125% Senior Secured Fixed Rate Notes with a nominal value of €95,000 thousand issued by Progroup AG to fund a portion of the purchase price for the CHP Acquisition as well as an adjustment of €731 thousand to recognise the premium at which such additional notes were issued (recorded as deferred income) rateably over the term of the notes.

(10) Represents an adjustment of €1,092 thousand for incremental interest expenses relating to the new borrowings under the Senior Secured PLN Facility by using the contractually agreed interest rate of 4.27%, translated using the average exchange rate for the period.

(11) Represents an adjustment of €6,961 thousand for non-recurring transaction costs as well as financing costs incurred in connection with the CHP Acquisition being presented as extraordinary expenses in the historical income statement of Progroup AG as being incurred in 2015; however, for *pro forma* purposes being presented as part of the *pro forma* income statement 2014 assuming that the CHP Acquisition occurred as at 1 January 2014.

(12) Represents an adjustment of €712 thousand to record incremental income tax income from the reduction of the deferred tax liability resulting from the depreciation and amortisation of the fair value purchase accounting adjustments described above.

(13) Historically, EnBW Propower was part of a tax group (Organschaft) with EnBW. As a result, no income tax expenses were presented on the level of EnBW Propower. Following the completion of the CHP Acquisition, Progroup intends to include EnBW Propower in the Progroup AG tax group. As a result, a blended tax rate of 29.8% was used to calculate the incremental income tax expense for *pro forma* purposes. In addition, it is assumed for *pro forma* purposes, that Progroup AG will utilise existing tax loss carryforwards and interest carryforwards. The adjustment of €10,441 thousand relates to (i) incremental income tax expense and deferred taxes for EnBW Propower of €5,880 thousand and (ii) tax expenses from deferred taxes in the amount of €4,561 thousand. The incremental income tax expense and deferred taxes in the amount of €5,880 thousand are due to the positive earnings of EnBW Propower in 2015. The incremental tax expense from deferred taxes in the amount of €4,561 thousand relates to the fact that for *pro forma* purposes the use of tax losses carryforwards and interest carryforwards occurs in different time periods compared to the historical financial statements. Assuming that the acquisition and incorporation of Propower in the tax group of Progroup already occurred as at 1 January 2014 resulted in a higher and much quicker use of tax losses carryforwards and especially interest carryforwards resulting in higher deferred tax income in 2014 and lower deferred tax income respectively deferred tax expenses in the following years, so also in 2015.

(14) Represents an adjustment of €59,717 thousand to eliminate the profit transfer on the basis of a partial profit transfer agreement between EnBW and EnBW Propower, which was terminated upon the closing of the CHP Acquisition.

D. CONSOLIDATED FINANCIAL STATEMENTS

I. Group Management Report

1. FUNDAMENTAL INFORMATION ABOUT THE GROUP

The business purpose of Progroup AG is the acquisition and management of equity holdings, especially of companies in the paper and corrugated board industry, including such companies which provide services to companies in the paper and corrugated board industry, as well as the assumption of management and other administration functions for these companies.

Progroup AG mainly covers the central functions corporate development, supply chain management, accounting for most of the individual companies and the group, treasury, controlling, human resources, legal and purchase management.

The consolidated group accounts contain fourteen companies, including Progroup AG. Progroup AG owns nine domestic companies and four foreign companies of which eleven companies are included in the consolidated financial statements of Progroup AG. The Prowell business comprises eight corrugated board plants in total. The parent company is Prowell GmbH which operates four German corrugated board plants. The four foreign plants are operated by wholly-owned subsidiaries of Prowell GmbH in France, United Kingdom, Poland and the Czech Republic. The Propapier business comprises the upstream value chain of containerboard production. This business includes Propapier PM1 GmbH with its paper mill in Burg and its wholly-owned subsidiary Propapier PM2 GmbH in Eisenhüttenstadt. Propower GmbH (formerly EnBW Propower GmbH) with its combined heat and power plant in Eisenhüttenstadt supplies Propapier PM2 GmbH with steam and sells electricity at the spot market to the public electricity grid. Prologistik GmbH as a logistics company, Proservice GmbH with IT and customer support functions and Profund GmbH (not consolidated due to minor importance) as consultancy and service provider in the customer oriented corporate finance sector provide practical added value for the paper processing industry. Progroup AG directly or indirectly holds all shares of the affiliated companies. In the financial year 2014, Progroup AG and Prowell GmbH concluded a profit-or-loss transfer agreement. Between Progroup AG and Propapier PM1 GmbH, a profit-or-loss transfer agreement has existed since 2009. Furthermore, between Propapier PM1 GmbH and Propapier PM2 GmbH, a profit-or-loss transfer agreement has existed since 2007.

The value chain within the group of companies starts with the two paper mills Propapier PM1 GmbH (PM1) and Propapier PM2 GmbH (PM2) and is supported by the production of steam and electricity at a preceding stage since 31 December 2015 through the acquisition of Propower GmbH. The most important input factor for the containerboard production is recycled paper. The corrugated board plants are mainly supplied by the paper mills within the group of companies. Due to the technical configuration, PM2 mainly produces containerboard with lighter weights (< 110 g/m²), responding to the market trend towards lighter corrugated board. In contrast, PM1 mainly covers the product range of heavier containerboard (> 110 g/m²).

The second central element of the value chain is the production and distribution of corrugated board and thus the supply of packaging manufacturers, who in turn supply the end customers/consumers. The corrugated board production focuses on the domestic plants in Offenbach/Queich, Burg, Schüttorf and Plössberg as well as on the plants in France (Douvrin), the Czech Republic (Rokycany), Poland (Stryków) and the United Kingdom (Ellesmere Port). Transport logistic processes between the individual stages of the value chain are supported by Prologistik GmbH.

The product range of the Prowell plants comprises single- to triple-wall corrugated boards with different flute sizes. The grammages range from approx. 300 g/m² up to 2 kg/m². In general, there is trend towards more light-weight corrugated board with the same strength as well as to small series, to meet the increasingly sophisticated needs of the packaging industry. Prowell is well positioned in the market for both trends. In 2015, productivity could be further increased in all corrugated board plants.

The range of customers in the corrugated board business comprises mainly family owned packaging manufacturers. Propapier supplies primarily the affiliated Prowell plants as well as external customers.

At the end of the fiscal year, the Progroup group of companies employed 956 employees (31 December 2014: 911 employees), of which 690 were industrial workers, 225 were salaried employees and 41 were trainees. The corporate philosophy of performance and consideration is also reflected in the remuneration system. Across the entire range of groups of employees, performance incentives are set by the specific use of variable compensation components.

Adjacent to Propapier PM2 GmbH in Eisenhüttenstadt, EnBW Propower GmbH, a subsidiary of EnBW Energie Baden-Württemberg AG, operated a modern combined heat and power plant for refuse-derived fuels until 31 December 2015. Based on a long-term contract this plant supplied the paper mill PM2 with steam. EnBW Propower GmbH was acquired by Progroup AG effective 31 December 2015. Therefore, the steam supply of PM2 is provided within the Progroup group of companies starting 2016. The combined heat and power plant supplies 750–800 thousand tons of steam to Propapier PM2 GmbH annually and sells approx. 160–165 GWh of electricity on the spot market to the public electricity grid. On 20 January 2016, EnBW Propower GmbH was renamed Propower GmbH.

As part of the environmental management, compliance with existing environmental laws and regulations is constantly monitored.

Progroup AG is managed by Chairman of the Management Board Jürgen Heindl and the CFO Frank Gumbinger. The Supervisory Board consists of three members.

2. REPORT ON ECONOMIC POSITION

a) Business performance and environment

In the past financial year, a sales record in the distribution of corrugated boards has been achieved once again. The growth in sales volume was significantly higher than the relevant market performance. The market environment was stable, based on the solid economic development in Germany and the progressing recovery of the euro zone.

The market volume in the German reference market for corrugated board slightly increased by 2.2%. Additionally, a slight increase of 2% was recorded in the containerboard market compared to 2014.

Based on stable market conditions, both the level of prices for containerboard and corrugated board rose during the fiscal year 2015. After prices remained essentially at the same level in the first half-year, price increases could be implemented in the second half-year on the market for containerboard, followed by the market for corrugated board. The price for recycled paper slightly increased from the second quarter 2015. In general, corrugated board prices are driven by the price developments for containerboard, which in turn are driven by the movements in prices for recycled paper. Throughout the financial year 2015, the margin realised for containerboard was at a satisfactory level. The demand for light-weight containerboard and light-weight corrugated sheet board has increased in 2015.

In total, the sales volume of corrugated board could be increased by 6.0% (sales volume 2015: 837 thousand tons; 2014: 789 thousand tons), which significantly exceeded market growth. For the first time the external sales of containerboard could not be increased which is essentially due to a significant increase in the internal containerboard sales in connection with the strong growth at Prowell (external sales volumes 2015: 346 thousand tons; 2014: 392 thousand tons). In total (including internal sales), Propapier reached a sales volume of 1,026 thousand tons and therefore could not achieve an increase compared to the previous year (1,035 thousand tons) for the first time as a result of a slightly lower production volume. After having substantially completed the ramp-up of PM2, no significant increases will be achieved here anymore. On the other hand, the growing trend towards light-weight papers is noticeable due to the increased surface at lower production tonnage.

In the context of stable market conditions and the described increases in sales volumes, revenue was generated amounting to €689.9 mn, which means a substantial increase in revenue by 4.3% compared to the previous year (2014 revenue: €661.3 mn). EBITDA amounted to €152.9 mn (2014: €125.1 mn) and was significantly improved compared to the previous year.

In the fiscal year 2015, Progroup AG was completely refinanced. On 30 April, Progroup AG issued bonds with a nominal value of €400 mn and a term until 2022. The volume is divided into Senior Secured Fixed Rate Notes amounting to €250 mn and a coupon of 5.125% and Senior Secured Floating Rate Notes amounting to €150 mn and a three-month EURIBOR plus 4.5% coupon. The cash proceeds were mainly used to repay the existing syndicated loan and to pay the costs of the refinancing. At the same time a revolving credit facility was granted by a syndicate of banks. In December 2015 the subsidiary Prowell sp.z o.o. raised a loan amounting to PLN107.0 mn with a term until the end of 2021.

With effect from 31 December 2015, Progroup AG acquired 100% of the shares in Propower GmbH and Propapier PM2 GmbH acquired a loan claim against Propower GmbH as well as network access ports for a total purchase price of €185.5 mn. Propower GmbH operates a combined heat and power plant in Eisenhüttenstadt for the thermal utilisation of refuse-derived fuels. Around €100 mn of the acquisition price was financed by increasing the existing Senior Secured Fixed Rate Notes of €95 mn at a coupon rate of 5.125% plus an issuing premium and the remaining amount was financed by bank deposits.

Due to the acquisition as at 31 December 2015, Propower GmbH is already included and consolidated in the consolidated financial statements 2015 of Progroup. The financial ratios are influenced, in particular, by the additional assets and liabilities from the initial consolidation, whereas the operating profit contribution is not yet considered.

In the fiscal year 2015, investments were made in the construction of a new corrugated board production site in Plössberg, Germany, as a plant of Prowell GmbH. This so-called packaging park model is built adjacent to and integrated into the customer's site. After a scheduled course of the construction project, the eighth Prowell plant commenced operations in October 2015 and expands the capacity of Prowell by approximately 90 thousand tons. The group hereby achieved an important step towards increasing the degree of internal integration between Propapier and Prowell.

b) Results of operations

The improvement in the prices for both containerboard and corrugated board compared to prior year and the only slight increase of the prices for recycled paper led to a further improvement of the margin levels and a significant increase in operating earnings before interest, taxes and depreciation and amortisation (EBITDA). The EBITDA of Progroup group increased to €152.9 mn in the fiscal year 2015 compared to €125.1 mn in the previous year. Due to the higher than expected price and the profit margin development, EBITDA significantly exceeded the prior year forecast. The EBITDA described is calculated based on the profit from ordinary activities, adjusted for depreciation and amortisation and interest income and expenses, reduced by other taxes.

Revenue increased by 4.3% to €689.9 mn in the financial year (2014: €661.3 mn). The growth in revenue therefore lay within the forecasted single-digit percentage range, but due to the better price levels exceeds the forecasted amount of €670 mn. The increase in revenue is mainly attributable to the significant increase in sales volumes of corrugated board as well as to the general improvement in the price level for containerboard and corrugated board. The average price level in 2015 for the externally sold containerboard exceeded the prior year price level by approximately 5.2% and the average price level for corrugated board exceeded the prior year price level by approximately 1.5%. At the same time, the cost of materials increased, mainly due to the slight increase in recycled paper prices, by 3.3% to €385.5 mn.

Personnel expenses increased compared to last year according to the expectations (2015: €56.8 mn, 2014: €53.1 mn). The increase of around 7.0% is mainly attributable to an increase in the average number of employees, which is primarily due to the construction of the new plant in Plössberg (PW9). In addition, the increase is related to the adjustment of wages and salaries as well as higher variable compensation payments in connection with the positive business development.

Amounting to €138.5 mn, other operating expenses are only slightly higher than in the previous year (€137 mn). A volume driven increase in freight expenses and an increase in maintenance costs could be compensated by a decrease in legal and consulting expenses from continuing operations and lower expenses related to prior-periods.

Other operating income mainly comprises income from the sale of refuse-derived fuels to EnBW Propower GmbH and income from passing through the cost of gas to EnBW Energy Solutions GmbH for the production of process steam for paper production of PM1. The expenses for steam and the gas are included in the cost of purchased services. The increase in other operating income by €7.2 mn compared to the prior year is mainly due to exchange rate gains and an increase in the income related to prior-periods.

The extraordinary result has deteriorated considerably by €31.9 mn compared to the previous year (2015: €-35.5 mn; 2014: €-3.6 mn), which is primarily attributable to the expenses related to the refinancing and the acquisition of EnBW Propower GmbH in Eisenhüttenstadt.

The significantly lower interest expense than compared to 2014 is primarily related to the refinancing and a reduction in interest-bearing liabilities. In this context, the lower market interest rates had a positive effect.

The income taxes for the fiscal year 2015 primarily result from corporate and trade tax from the fiscal unity of Progroup AG with Prowell GmbH, Propapier PM1 GmbH and Propapier PM2 GmbH.

In the fiscal year 2015, a consolidated net profit of €54.4 mn (consolidated net profit 2014: €56.3 mn) was generated, which is significantly higher than the forecasted range of €33–40 mn. Based on the increased EBITDA, the consolidated net profit was negatively affected by the extraordinary expenses.

c) Financial position

During the financial year under review, a positive cash flow was generated from operating activities of €133.5 mn. Based on a slightly lower consolidated net income for the period, the working capital development including other assets, other liabilities, prepaid expenses and deferred income mainly contributed to the cash flow significantly exceeding the prior year cash flow of €115.3 mn.

The cash flow from investing activities amounts to €-206.8 mn, which is mainly attributable to the acquisition of EnBW Propower GmbH, and the related net access ports and loan claims (payment in 2015: €-183.9 mn), as well as to the investments in the new Prowell plant in Plössberg. Additionally, the current investments in the existing plants are included. The funding of the investments was provided by the operating cash flow, the increase of the existing Senior Secured Fixed Rate Notes by €95 mn and by a finance lease (corrugated board production site PW9, Plössberg).

Cash flow from financing activities amounted to €74.9 mn. Proceeds from the issuance of bonds as well as the raising of loans are offset by cash payments for the repayment of the syndicated loan, for extraordinary items related to the refinancing and for interest and dividends.

At the end of the fiscal year the financial liabilities including accrued interest amounted to €535.3 mn (previous year: €394.9 mn), resulting in a net debt ratio of 3.4 after 3.0 in the previous year (calculated as financial liabilities including accrued interest less cash divided by EBITDA). As part of the refinancing, a new revolving credit facility amounting to €50 mn was contractually agreed with a syndicate of three banks, providing sufficient liquidity; it was not utilised in 2015 and at the balance sheet date.

The equity ratio at 31 December 2015 amounted to 25.0% (previous year 26.5%), taking into account 70% of the investment grants for fixed assets (special item relating to investment grants). Due to the significant increase in total assets (see net assets), the equity ratio fell short of the prior year expectations.

In connection with the acquisition of Propower GmbH, substantial other financial obligations, which previously existed as part of the long-term contracting agreement to supply the paper mill PM2 with steam, cease to exist.

At the closing date, outstanding purchase commitments amounting to €63.7 mn in total exist.

d) Net assets

In 2015 the total assets of Progroup group increased by €180.8 mn to €842.4 mn (previous year: €661.6 mn). The increase on the asset side is particularly caused by the acquisition of Propower GmbH. On the liabilities side, mainly the financial liabilities increased due to the funding of the respective acquisition.

The net book value of the fixed assets increased significantly by the acquisition of Propower GmbH and the related net access ports (€186.9 mn).

In the fiscal year the working capital (defined as inventories plus trade receivables less trade payables) amounting to €99.8 mn slightly exceeds the prior-year level (€97.0 mn). The increase in inventories was mainly offset by the increase in trade payables. Due to the acquisition of Propower GmbH, the working capital slightly exceeds the forecasted single digit percentage decline.

The decrease in prepaid expenses to €0.9 mn (previous year: €8.5 mn) mainly reflects the release of deferred financing expenses in connection with the former group financing (syndicated loan) through profit or loss due to its repayment in April 2015.

In addition to the changes in equity, the increase in total equity and liabilities (€180.8 mn) was caused by the increase in financial liabilities (by €139.2 mn) in connection with the acquisition of Propower GmbH.

The change in equity of €34.9 mn is attributable to the consolidated net income for the year less the dividends payment to the shareholders of Progroup AG in the amount of €19.2 mn.

The decrease in other provisions by €4.7 mn to €46.8 mn resulted primarily from the development of the provision for outstanding invoices and is thus partly closing date related.

The bond payables shown in the amount of €495 mn resulted from the refinancing through the issuance of two bonds with a volume of €400 mn in April 2015 as well as from the increase of the existing bonds by an additional €95 mn in December 2015 to partially fund the acquisition of Propower GmbH. Offsetting liabilities to banks considerably decreased to €36.2 mn due to the refinancing (previous year: €394.9 mn).

The overall business development of Progroup in 2015 significantly exceeded expectations. Based on continuously stable market conditions, both volume and contribution margin could be increased and thus a significant improvement in consolidated EBITDA was achieved.

3. REPORT ON POST-BALANCE SHEET DATE EVENTS

On 26 January 2016 a profit-and-loss transfer agreement between Progroup AG and Propower GmbH was concluded. On 3 February 2016 this agreement was registered in the commercial register. Further operational or structural changes and transactions after the closing date that would have a significant impact on the net assets, financial position and results of operations of the group did not occur.

4. REPORT ON EXPECTED DEVELOPMENTS AND ON OPPORTUNITIES AND RISKS

a) Risk report

In the risk report, the risks are combined into categories of similar risks. Besides the risks of macroeconomic and industry development (price development), Progroup is mainly exposed to risks of competition in the paper market, as well as exchange rate and financing risks. The risk assessment is carried out in two categories concerning the level of risk (gross risk larger than €3 mn and less than €3 mn) and in five steps regarding the probability of occurrence (1 = very low, 2 = low, 3 = moderate, 4 = high and 5 = very high). The following risk report mainly outlines risks with a gross risk larger than €3 mn.

Macroeconomic risks and specific risks of Progroup

The companies of Progroup supply a broad range of customers and markets resulting in a natural risk diversification. Basically the demand for corrugated board is driven by the end consumer's needs for packaging.

Based on the predominantly stable economic environment at present as well as the predictions of a steady or slightly positive economic development, stable conditions for the business development of Progroup can be assumed. However, an exposure to the variety of economic influences cannot be excluded. As a result, risks regarding the sales markets or customers of Progroup that could negatively affect the net assets, financial position and results of operations of Progroup still have to be considered.

Exchange rate risks

The foreign currency risk as a transaction risk represents an additional risk due to the increasing internationalisation of Progroup; it also gained relevance due to the increased volatility of the global interest and foreign exchange markets. Exchange rate risks result from balance sheet positions in foreign currencies and future transactions where incoming payments and disbursements are made in different currencies. In addition, exchange rate risks result from granting Euro-loans to foreign Prowell companies in different currency regions.

Interest rate risks

Part of the bonds issued are bearing interest at floating rates (€150 mn Senior Secured Floating Rate Notes) referring to the three-month EURIBOR. Consequently, the bonds bearing floating interest rates are subject to the risk of changes in interest rates. Furthermore, a risk of changes in interest rates may arise, if and to the extent to which the revolving credit facility (EURIBOR, LIBOR, WIBOR, PRIBOR) will be utilised.

Procurement risks, production risks and risks of price changes

At Progroup, procurement, production, volume and capacity utilisation risks exist that can economically burden the group. Depending on the market situation, price increases can be passed on to customers only partially or with delay, which is why an increase in raw material prices may negatively affect the results of Progroup at least temporarily. Due to the high capital intensity, a reduction in the capacity utilisation bears risks for net assets, financial position and results of operations.

With the two paper mills, Progroup sources the largest portion of the containerboard supply of the Prowell plants internally. If operations at either of the two paper mills were interrupted for a significant length in time because of technical defects or for other reasons, this could cause significant problems with the supply of the Prowell plants with containerboard as main raw material, and consequently could have adverse effects on the net assets, financial position and results of operations.

Until the end of the fiscal year the steam requirements of PM2 were mainly supplied by the refuse-derived fuel power plant of EnBW Propower GmbH. As part of a contracting agreement PM2 assumed certain risks in connection with the operation of the power plant. Effective 31 December 2015, Propower GmbH was acquired by Progroup AG. The responsibility for the operation of the power plant and therefore all related risks (e.g. resulting from shutdowns or increased investment or maintenance requirements) thus lie within Progroup group. Furthermore, risks may result in connection with the integration of Propower GmbH into the Progroup. Each of these risks may have a negative impact on the net assets, financial position and results of operations of Progroup.

Progroup and its subsidiaries obtain a number of energy-tax benefits, such as the reduced EEG surcharge for the two paper mills as electricity-intensive enterprises. A change or non-fulfillment of the requirements for the various energy tax benefits could negatively affect the net assets, financial position and results of operations.

At present the capacities of the corrugated board plants are highly utilised. A disruption at one or more of our production plants could lead to a decline in sales and as a consequence could have adverse effects on the net assets, financial position and results of operations.

Customers in the containerboard and corrugated board industry are usually supplied on a “free-domicile” basis. Therefore, Progroup also supplies the majority of its customers “free-domicile” and needs to provide the necessary freight space. A significant shortage or price increase of freight space to be procured could result in exposure of the net assets, financial position and results of operations.

Competitive risks

Progroup has a broad customer portfolio. The competitive situation is different. In the group, no major customer represents more than 5% of the annual sales generated.

Despite the different customer structure Progroup and its subsidiaries operate in a commodity market and are thus exposed to the usual market pressure on price, margin and profit. The markets are characterised by a high level of competition and price sensitivity.

The containerboard market bears the risk of new capacities entering the market especially through the conversion of fine paper machines to containerboard machines, but also through new projects. In light of past experience, the containerboard market reacts very sensitively with regard to capacity changes; in case of increases in overcapacity the occurrence of a price and margin erosion would be highly probable.

Default risk

Despite the predominantly stable economic environment in many industries, the companies still face the risk of declining business development. Should the business development of several important Progroup customers be negatively impacted simultaneously, this could, depending on the extent, cause an exposure for net assets, financial position and results of operations of Progroup.

Financing and liquidity risks

The sovereign debt crisis and the resulting crisis in the financial markets not yet overcome have generally led to very cautious lending policies by banks and thus to increased financing costs for borrowers. This development generally limits the financial flexibility of companies. It cannot be ruled out that Progroup AG could also become affected. Under the existing bond and loan agreements, Progroup AG and its subsidiaries have transferred substantial collateral to the bondholders and lenders. The bond conditions and loan agreements contain certain covenants allowing the bondholders and banks the termination and realisation of the collateral in the case of non-compliance, which in turn could have a negative impact on the net assets, financial position and results of operations.

Legal risks

Progroup AG is exposed to various litigation. It cannot be ruled out that the outcome of litigation and lawsuits could have a negative impact on the net assets, financial position and results of operations of Progroup group.

Risks associated with information technology

The processes within the group, especially in the operational value chain, are highly automated and based on extensive use of information technology. In addition to standard software, a self-developed ERP system (Wepaform) with numerous interfaces is used. In the case of failure of one or more systems or components, serious disruption to operations could arise, which could adversely affect the net assets, financial position and results of operations.

Environmental risks

During the production of corrugated board, containerboard and energy mainly in the form of steam, unpredictable incidents could cause a realisation of environmental risks in spite of the implemented environmental management system, and could have negative effects on the net assets, financial position and results of operations of Progroup.

Risks in connection with the acquisition of the combined heat and power plant Propower

In connection with the acquisition of the Propower combined heat and power plant in Eisenhüttenstadt, a variety of risks exist; an occurrence of any of these risks can negatively impact the net assets, financial position and results of operations of Progroup group.

Negative impacts on Progroup could arise if substantial risks have not been detected in the due diligence process and the acquisition.

If the integration of the combined heat and power plant, including the necessary processes and data into Progroup and its systems, or the subsequent operations fail, additional strains could follow.

Because of the transition of the combined heat and power plant to the group, numerous existing contracts for the supply of goods or services are to be newly concluded, especially service contracts with several EnBW companies (e.g. maintenance). In this respect, procurement risks or risks of price changes may arise.

As part of the acquisition, the existing workforce of the combined heat and power plant was taken over. If we are not able to retain experienced employees, this may impair the smooth operation.

Additional risks result from the extensive range of laws and regulations for energy suppliers.

b) Report on opportunities

Due to the excellent positioning in the significant markets, Progroup also expects growth rates above average for the future.

If the overall economic development remains stable with moderate growth rates, there is a chance that the comparatively stable conditions in the markets for containerboard and corrugated board in 2015 continue to exist in 2016. Under the assumption of a further positive economic development and only minor disturbances of the market equilibrium through new capacities on the containerboard market, it is conceivable that the 2015 level of earnings is achieved in the upcoming fiscal year.

Due to the acquisition of Propower GmbH in Eisenhüttenstadt, an opportunity exists to improve the energy cost structure of PM2, the EBITDA and the free cash flow of Progroup significantly.

c) Report on expected developments

Economic framework conditions

According to the economists of Deutsche Bundesbank, in 2015 the German economy showed a good basic constitution with a moderate but solid growth. According to the experts, the buoyant domestic demand based on a favourable labour market situation and the strong growth in real disposable income were the important factors. After an expected calendar-adjusted growth of 1.5% in 2015, the experts predict calendar-adjusted growth rates of 1.7% and 1.9% for the German economy for 2016 and 2017.

The economic recovery in the Euro area continued in the course of the year 2015. In addition to a significant recovery of the demand in the Euro region, exporters benefited from the increased competitiveness driven by the depreciation in Euro. After a calendar-adjusted growth of GDP of 1.5% (excluding Germany) in 2015, the economists of Deutsche Bundesbank also expect growth rates of 1.7% and 1.9% for the Euro zone for the next two years.

During the year 2015 the global economic growth did not strengthen to the extent that was expected at the beginning of the year. Although the economic development of industrialised countries proved robust, the development in some emerging markets fell short of the expectations. For the following two years, the experts assume that the rate of expansion of the global economy will slightly strengthen and - after a 3% growth in the current year - 3.5% and 4% will be reached in 2016 and 2017 (in each case without the Euro zone). According to the experts, the risks appear to be largely balanced. The forecast is offset by risks of a continuing weakness of some emerging economies, especially China and the commodity exporting economies, and of the current international geopolitical conflicts.

Industry-specific conditions

Based on our experience, the market for corrugated board develops largely in line with the development of GNP. The change in 2015 with a volume increase of approximately 2.2% is slightly above the level of economic growth. For 2016 a moderate positive growth in demand is expected in line with the overall economic development.

Strategic objectives and focus

Based on a largely stable economic development in the following years, the management board of Progroup expects a good potential for growth in all sales areas as an increase in the demand for corrugated board is expected. The Eastern European market will remain the main driver of growth in the corrugated board segment. In addition to the maximum use of the available production capacities at Prowell and the increase of the internal integration with Propapier, the strategic focus is on the creation of additional capacities at Prowell and the further optimisation of the cost structures.

Expected economic development

Progroup has a wide range of customers, which needs to be developed further in a volatile industry environment.

Since the start of PM2, the production output of containerboard exceeds the internal containerboard needs of the corrugated board plants. Therefore, since 2010 containerboard is sold externally to a considerable extent. For the following years a decrease in external sales volume of containerboard is expected due to an increase in internal sales volumes in connection with the budgeted volume increases for Prowell – based on the construction of the new Prowell plant in Plössberg among other things. In addition, a new corrugated board production plant in Poland is planned. The start-up of the plant is scheduled for 2016. This would balance the capacities between Propapier and Prowell.

Uncertainties exist with respect to the currency relations important for Progroup, especially the relation of Euro to PLN, CZK and GBP. The future development regarding raw materials is difficult to predict, although the markets remained relatively stable in the last two years.

In total, the financial year 2015 that was mainly characterised by stable market conditions significantly exceeded the expectations of the group in terms of sales and especially in terms of EBITDA. Assuming a predominantly stable to positive development of the general economic environment and a positive development of the GDP, we expect a further increase in sales volume and revenue for Progroup for 2016 and 2017 in accordance with the expectations for macroeconomic and industry growth. Furthermore, based on the positive economic development, increasing commodity price levels and therefore increasing material expenses as well as increasing personnel expenses due to the additional workforce for the combined heat and power plant, further creation of capacities at Prowell and the general salary and wage developments are expected. Opposing effects are expected through an improvement of the energy cost structure mainly due to the acquisition of Propower GmbH. The group expects to generate a growth in revenue in 2016 in a single-digit range, which will lead to a planned revenue of around €740 mn. Despite the expected increase in sales, the EBITDA for 2016 including the newly acquired combined heat and power plant is expected to be below the level of 2015, due to costs and margins. After an EBITDA margin of around 22% in 2015, a range of 19–21% is expected for the following year. Based on the assumptions, the consolidated net income of the group for 2016, including the acquired combined heat and power plant, is expected to be approximately on prior-year level. Despite the partly debt-financed acquisition of the combined heat and power plant, the net debt ratio is expected to be on a slightly lower level compared to the previous year. The equity ratio is expected to improve by 4 to 6 percentage points.

Due to the usually close relationship between the development in the containerboard and corrugated board markets and the macroeconomic development and the uncertainties in the respective expectations as well as the not yet overcome financial and sovereign debt crisis and the uncertainty regarding the capacity development in the industry, the forecast is only conditionally reliable and it should be noted that considerable price, quantity and margin risks could result, which may lead to the challenges identified in the risk report.

5. DEPENDENCY REPORT

Progroup AG is majority-owned by JH-Holding GmbH. The company prepared a dependency report in accordance with section 312 AktG in conjunction with section 17 AktG. In accordance with section 312 (3) AktG, the management board declares the following:

“Under the circumstances known to the management board at the time the legal transactions were performed, the company received an appropriate consideration for each transaction, listed in the report on relations with affiliated companies.

Acts or omissions that were made at the instigation or in the interest of JH-Holding GmbH, from which a disadvantage could have arisen, do not exist.”

Offenbach a. d. Queich, 18 February 2016

- Management Board -

II. Consolidated Financial Statements

Consolidated Balance Sheet

Assets

	Assets (in € thousands)	31/12/2015	31/12/2014
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	24,737	360
		24,737	**360**
II.	**Tangible assets**		
1.	Land and buildings including buildings on leasehold land	183,689	180,460
2.	Technical equipment and machinery	437,426	285,221
3.	Other equipment, factory and office equipment	6,417	4,469
4.	Prepayments and constructions in process	5,179	6,075
		632,712	**476,225**
III.	**Financial assets**		
1.	Shares in affiliated companies	37	37
		37	**37**
		657,486	**476,622**
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials, consumables and supplies	45,908	38,474
2.	Work in process	24,339	20,488
3.	Finished goods	4,649	4,689
4.	Prepayments	129	96
		75,025	**63,746**
II.	**Receivables and other assets**		
1.	Trade receivables	57,593	55,289
2.	Receivables from affiliated companies	30	16
3.	Other assets	24,844	25,784
		82,467	**81,088**
III.	**Cash in hand, bank balances**	**20,762**	**18,758**
		178,254	**163,592**
C.	**Prepaid expenses and deferred charges**	**922**	**8,513**
D.	**Deferred taxes**	**5,694**	**12,841**
E.	**Excess of plan assets over post-employment benefit liability**	**0**	**9**
	Total assets	**842,355**	**661,578**

Consolidated Balance Sheet

Equity and Liabilities

	Equity and Liabilities (in € thousands)	31/12/2015	31/12/2014
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	910	1,198
5.	Consolidated net retained profits	123,284	88,069
		208,604	**173,677**
B.	**Investment grants for fixed assets**	**2,459**	**1,959**
C.	**Provisions**		
1.	Provisions for pensions	70	0
2.	Tax provisions	2,336	6,002
3.	Other provisions	46,842	51,523
		49,247	**57,525**
D.	**Liabilities**		
1.	Bonds	495,000	0
2.	Bank loans	36,210	394,851
3.	Trade payables	32,784	22,050
4.	Other liabilities	12,311	10,177
		576,305	**427,078**
E.	**Deferred income**	**5,740**	**1,338**
	Total equity and liabilities	**842,355**	**661,578**

Consolidated Income Statement

	Consolidated Income Statement (in € thousands)	2015	2014
1.	Sales	689,940	661,287
2.	Increase/decrease in finished goods and work in process	3,812	-5,066
3.	Other own work capitalised	930	0
4.	Other operating income	40,679	33,509
5.	Cost of materials		
a)	Cost of raw materials, consumables and supplies	-275,326	-262,424
b)	Cost of purchased services	-110,128	-110,615
		-385,454	-373,039
6.	Personnel expenses		
a)	Wages and salaries	-48,161	-44,717
b)	Social security and pensions	-8,677	-8,391
		-56,838	-53,107
7.	Amortisation and depreciation of fixed intangible and tangible assets	-29,419	-28,509
8.	Other operating expenses	-138,459	-137,005
9.	Other interest and similar income	150	376
10.	Interest and similar expenses	-21,881	-27,757
11.	**Profit/loss on ordinary activities**	**103,460**	**70,688**
12.	Extraordinary income	2,810	93
13.	Extraordinary expenses	-38,341	-3,707
14.	**Extraordinary net income/loss**	**-35,531**	**-3,614**
15.	Taxes on income	-11,775	-9,110
16.	Other taxes	-1,749	-1,461
17.	Profit transfer on the basis of partial profit transfer agreement	0	-197
18.	**Consolidated net income for the year**	**54,405**	**56,307**
19.	Consolidated unappropriated retained earnings brought forward	68,879	31,763
20.	**Consolidated net retained profits**	**123,284**	**88,069**

Consolidated Cash Flow Statement

	Consolidated Cash Flow Statement (in € thousands)	2015	2014
1.	**Cash flows from operating activities**		
	Consolidated net income for the period	54,405	56,307
	Amortisation and depreciation of fixed assets	29,419	28,509
	Increase (+)/decrease (-) in provisions	-8,739	22,406
	Other non-cash expenses (+)/income (-)	1,298	1,343
	Increase (-)/decrease (+) in inventories, trade receivables and other assets*	-2,357	-3,088
	Increase (+)/decrease (-) in trade payables and other liabilities*	7,789	-22,619
	Interest expenses (+)/income (-)	21,732	27,381
	Extraordinary expenses (+)/income (-)	35,531	3,614
	Income tax expenses (+)/income (-)	11,775	9,110
	Income taxes paid (-)	-17,328	-7,684
	Cash flows from operating activities	**133,525**	**115,279**
2.	**Cash flows from investing activities**		
	Proceeds (+) from disposal of intangible and tangible fixed assets	67	110
	Payments (-) to acquire intangible fixed assets	-659	-139
	Payments (-) to acquire tangible fixed assets	-26,769	-11,800
	Payments (-) to acquire entities included in the basis of consolidation	-179,547	0
	Interest received (+)	130	294
	Cash flows from investing activities	**-206,778**	**-11,535**
3.	**Cash flows from financing activities**		
	Proceeds (+) from the issuance of bonds and borrowings	535,529	0
	Cash repayments (-) of bonds and borrowings	-394,420	-75,359
	Proceeds (+) from grants received	1,300	0
	Extraordinary expenses paid (-)	-30,705	-3,515
	Interest paid (-)	-17,577	-25,699
	Dividends paid to shareholders of the parent entity (-)	-19,191	0
	Cash flows from financing activities	**74,936**	**-104,573**
4.	**Cash funds at end of period**		
	Net change in cash funds	1,683	-829
	Effect on cash funds of exchange rate movements	321	34
	Cash funds at beginning of period	18,758	19,553
	Cash funds at end of period	**20,762**	**18,758**
5.	**Composition of cash funds**		
	Cash and cash equivalents	20,762	18,758
	Cash funds at end of period	20,762	18,758

* Not attributable to investing or financing activities

As at 31 December 2015 we present our statement of cash flows in accordance with DRS 21 (German Accounting Standard - GAS 21), including the comparative figures for 2014.

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity (in € thousands)	Subscribed capital	Capital reserve	Consolidated equity generated: Revenue reserves	Consolidated equity generated: Consolidated net retained profits**	Currency translation adjustment	Group equity
1 January 2014	**7,588**	**75,414**	**1,408**	**31,763**	**1,164**	**117,337**
Consolidated net profit for the year	0	0	0	56,306	0	56,306
Other changes	0	0	0	0	34	34
31 December 2014	**7,588**	**75,414**	**1,408**	**88,069**	**1,198**	**173,677**
1 January 2015	**7,588**	**75,414**	**1,408**	**88,069**	**1,198**	**173,677**
Distribution of profit	0	0	0	-19,190	0	-19,190
1 January 2015, after appropriation of retained profits	**7,588**	**75,414**	**1,408**	**68,879**	**1,198**	**154,487**
Consolidated net profit for the year	0	0	0	54,405	0	54,405
Other changes	0	0	0	0	-288	-288
31 December 2015	**7,588**	**75,414**	**1,408**	**123,284**	**910**	**208,604**

** Consolidated net retained profits in the amount of the deferred tax assets recognised in Progroup AG's annual financial statements (€11.2 mn) are subject to a distribution restriction. The restriction on distribution in the group has been calculated at €5.7 mn.

According to the annual financial statements of Progroup AG an amount of €106.3 mn is available for distribution to the shareholders.

Notes to the Consolidated Financial Statements

A. GENERAL INFORMATION

The consolidated financial statements of Progroup AG, comprising the consolidated balance sheet, consolidated income statement, notes to the consolidated financial statements, consolidated cash flow statement and 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).

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 the consolidated profit and loss 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 TRANSACTIONS

I. Refinancing by the issuance of bonds

On 30 April 2015, Progroup AG issued a fixed-interest bond (Senior Secured Fixed Rate Notes) in the amount of €250 mn with an interest rate of 5.125% and a maturity date in 2022, as well as a floating-rate bond (Senior Secured Floating Rate Notes) in the amount of €150 mn with an interest rate equaling the 3-month EURIBOR plus 4.5% and a maturity date in 2022. Inter alia, the cash proceeds were used to repay a syndicated loan agreement with a syndicate of banks and to pay the fees and costs in connection with this transaction.

II. Acquisition of combined heat and power plant in Eisenhüttenstadt

According to the agreement on the acquisition and assignment of the shares in EnBW Propower GmbH, the acquisition and transfer of the network access ports as well as the purchase and assignment of a loan claim dated 2 December 2015 between EnBW Energie Baden-Württemberg AG, Karlsruhe (EnBW), Sales & Solutions GmbH, Frankfurt, a wholly-owned subsidiary of EnBW, Progroup AG and its indirect subsidiary Propapier PM2 GmbH, Progroup AG acquired 100% of the shares in EnBW Propower GmbH and Propapier PM2 GmbH acquired a loan claim against EnBW Propower GmbH for a total purchase price of €181.1 mn, effective 31 December 2015. EnBW Propower GmbH operates a combined heat and power plant in Eisenhüttenstadt for the thermal utilisation of refuse-derived fuels and supplies the adjacent paper machine of Propapier PM2 GmbH with steam. According to the same agreement, Propapier PM2 GmbH acquired the network access ports for a total purchase price of €4.4 mn.

With effect from 20 January 2016, the company name EnBW Propower GmbH was changed into Propower GmbH.

As at 8 December 2015, Progroup AG increased the fixed-interest bond (Senior Secured Fixed Rate Notes) issued on 30 April 2015 by €95 mn on equal terms (Additional Notes) to partly finance the purchase price of the investment.

C. BASIS OF CONSOLIDATION

The subsidiaries which have been included in the consolidated financial statements and the unconsolidated subsidiaries are presented in section F.III.3 and 4 of the notes to the consolidated financial statements.
Due to the acquisition of 100 percent of the shares in Propower GmbH with effect from 31 December 2015 ("Mitternachtsklausel"), the assets and liabilities of this company were consolidated for the first time at the balance sheet date 31 December 2015.

D. CONSOLIDATION PRINCIPLES

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 (old version) by eliminating the cost of the equity investments against the proportionate amount that these shares represent in the equity of the subsidiaries as at 1 January 1999, 1 January 2001, 1 January 2002, 1 January 2006 and 12 September 2006.

Acquisitions made after 31 December 2009 are accounted for in accordance with section 301(1) no. 1 of the HGB (latest version) 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, deferrals and special items to be included in the consolidated financial statements at the acquisition date.

Two affiliated companies have not been consolidated as permitted under section 296(2) of the HGB. These companies are not material to the presentation of a true and fair view of the group's net assets, financial position and results of operation as the sales and total assets of these companies amount to less than 1% of consolidated sales and consolidated total assets. Consolidation as an associate has also been dispensed with on the grounds of immateriality as permitted under section 311(2) of the HGB. Shares in these companies are recognised at amortised cost. The companies are listed by name in section F.III 4. of the notes to the consolidated financial statements.

Receivables and liabilities between consolidated companies have been eliminated, with receivables and liabilities amounting to €837,188 thousand having been eliminated outside profit or loss.

In the business year 2015, intercompany profits from Propapier PM1 GmbH and Propapier PM2 GmbH's paper deliveries to affiliated companies amounting to €255 thousand have been eliminated through profit or loss. Intra-group sales and intra-group other operating income and interest income have been eliminated against corresponding expenses, with expenses and income amounting to €348,115 thousand having been eliminated.

Deferred taxes are generally recognised for consolidation adjustments which are recognised through profit or loss. In 2015 and 2014, consolidation adjustments through profit or loss related exclusively to the elimination of intercompany profits. Deferred tax assets of €854 thousand were recognised as at 31 December 2015 on eliminated intercompany profits of €2,862 thousand (as at 31 December 2015). Eliminated intercompany profits as at 31 December 2014 amounted to €2,607 thousand. The deferred tax assets recognised for these amounted to €778 thousand and were prior-period related (deferred) tax income.

E. SIGNIFICANT ACCOUNTING POLICIES

I. Disclosure of accounting policies applied

Intangible assets are measured at cost less amortisation. The amortisation is calculated using the straight-line method over their standard useful lives. The intangible assets are amortised over the period of 3 to 10 years.

Tangible fixed assets are measured at purchase and production cost less depreciation.

Production cost comprises, if applicable, direct material costs, direct labor costs and special costs of production, appropriate indirect material costs and indirect labor 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.

The corrugator in the new plant in Plössberg, which is financed by a finance lease agreement, is presented in the tangible fixed assets as Prowell GmbH is considered to be the economic owner.

Depreciation is generally calculated on a straight-line basis. Tangible fixed assets are depreciated over the period of 3 to 33 years.

Straight-line depreciation rates are increased by 50% for fixed assets which are used throughout the year in three-shift operations.

Investment grants are reported separately at their nominal amount on the liabilities side under investment grants for 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 €150 each are fully written off in the year of acquisition. Assets which are capable of being used independently and which cost between €150 and €1,000 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.

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. For obsolete, second-hand or slow moving spare parts, valuation allowances amounting to €1,350 thousand (previous year: €1,129 thousand) were recorded.

Appropriate valuation allowances are applied to inventories which are obsolete, second-hand, damaged 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 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 on 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 nominal amount.

Subscribed capital is recognised at par value.

Provisions are recognised at the settlement amount dictated by prudent business judgement. 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 been discounted at the average market interest rate corresponding to their remaining maturity.

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 at the prior-month average Euro rate. Measurement as at the balance sheet date is at the 31 December 2015 closing rate, 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 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 of the HGB.

Currency translation differences arising from acquisition accounting are eliminated directly against group equity. Currency translation differences from the consolidation of intercompany balances are recognised directly in currency translation adjustments in equity.

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

The reporting date for all companies included in the consolidated financial statements is 31 December.

I. Consolidated balance sheet

1. Fixed assets

In connection with the acquisition of EnBW Propower GmbH, the acquired fixed assets were recognised at a carrying amount of €182,435 thousand in the context of acquisition accounting and the related revaluation. This comprises an operating license amounting to €23,894 thousand, which is amortised over a remaining useful life of 10 years. In addition, intangible fixed assets in the amount of €64 thousand, land and buildings in the amount of €10,272 thousand, technical equipment and machinery amounting to €147,673 thousand and factory and office equipment amounting to €532 thousand are included. Network access ports, acquired in connection with the acquisition of Propower GmbH (acquisition cost: €4,377 thousand) are not included here, as these have been acquired by Propapier PM2 GmbH as part of an asset deal.

The classification and movement in the financial year of the fixed asset accounts recognised in the consolidated financial statements are presented separately 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 €20,181 thousand (previous year: €20,067 thousand) to the extent that they were attributable to the period of production. Interest was mainly capitalised in tangible fixed assets in buildings and technical equipment and machinery.

2. Receivables and other assets

Receivables and other assets include receivables due in more than one year amounting to €42 thousand (previous year: €84 thouasand).

As in the previous year, receivables from affiliated companies resulted exclusively from group trading.

3. Prepaid expenses

As at 31 December 2014, this item included prepaid expenses that were similar to interest in the amount of €5,978 thousand. These were being reversed through profit or loss as at 30 April 2015 in connection with the repayment of the syndicated loan agreement with a syndicate of banks.

4. Deferred taxes

Balance sheet account (in € thousands)	Deferred tax assets 31/12/2015	Deferred tax assets 31/12/2014	Deferred tax liabilities 31/12/2015	Deferred tax liabilities 31/12/2014
Tax loss carryforwards/ eligible interest carried forward	11,470	11,273	0	0
Elimination of intercompany profits	854	778	0	0
Assets				
Intangible fixed assets	0	0	6,619	0
Tangible fixed assets/financial assets	1,167	423	931	5
Inventories, receivables and other assets	176	172	467	22
Prepaid expenses	0	0	0	5
Liabilities				
Provisions	65	21	0	14
Liabilities	0	260	21	40
Deferred income	0	0	0	0
Other	0	0	0	0
Total deferred tax (gross)	13,732	12,927	8,038	86
Deferred tax disclosed (net and rounded)	5,694	12,841		

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 (14%–33.33%) 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 2015 on consolidation adjustments for the elimination of intercompany profits in accordance with section 306 of the HGB.

Deferred tax assets on tax loss carryforwards (€0 thousand (previous year: €3,983 thousand) at the level of Progroup AG and €189 thousand (previous year: €404 thousand) at the level of Prowell SAS) and eligible interest carried forward (German earnings stripping rule; €11,281 thousand (previous year: €6,886 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.

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 notional value of one Euro each.

Distribution potential is based on the annual financial statements of Progroup AG. The articles of incorporation do not contain any restrictions on distributions. There is a statutory restriction on distributions equating to the deferred tax assets in the annual financial statements of Progroup AG in the amount of €11.2 mn. The restriction on distribution in the group has been calculated at €5.7 mn.

6. Investment grants for fixed assets

Investment grants 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

The pension provision is measured in accordance with the PUC method using Prof. Dr. Klaus Heubeck's 2005 G mortality tables. The pension provision has been discounted in the aggregate at the average market interest rate according to the Rückstellungsabzinsungsverordnung (RückAbzinsVO) that results from an assumed remaining maturity of 15 years, as published by the Deutsche Bundesbank (section 253(2) sentence 2 of the HGB latest version).

Measurement of pension provisions is based on the following assumptions:

- Pension increase: +2% (unchanged from 2014)
- Salary increase: 0% (unchanged from 2014)
- Interest rate: 3.89%

Pension obligations for which provisions required to be recognised amounted to €1,014 thousand as at the balance sheet date. 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 2015, at the asset value (€944 thousand; this corresponds to the cost as well as fair value). The amount remaining after the offset with the carrying amount of the pension provision (€70 thousand) is reported under "provisions for pensions". Effect on profit in 2015:

- Interest expense from pension provision €39 thousand (2014: €36 thousand)
- Interest income from plan assets: €13 thousand (2014: €8 thousand)

8. Tax Provisions

Tax provisions (in € thousands)	2015	2014
Corporate income tax	1,366	3,828
Trade tax	678	2,113
Other taxes	292	61
	2,336	**6,002**

9. Other Provisions

This item comprises the following provisions:

Provisions for (in € thousands)	2015	2014
Outstanding invoices	23,669	29,711
Maintenance not undertaken	3,111	6,808
Personnel expenses (bonuses, special payments, severance payments, holiday obligations, overtime)	8,107	7,010
Bonuses still to be granted	4,805	4,434
Costs of preparing the annual financial statement, legal and consulting costs	6,142	2,742
Berufsgenossenschaft (Employer's Liability Insurance Association), Schwerbehindertenabgabe (levy for not employing disabled persons)	867	677
Storage	141	141
	46,842	**51,523**

10. Liabilities

Liabilities (in € thousands)	Remaining Term less than 1 year	1 to 5 years	more than 5 years	total	thereof secured
Bonds	0	0	495,000	495,000	495,000
Previous year	0	0	0	0	0
Bank loans	1,882	26,158	8,170	36,210	36,196
Previous year	117,628	277,223	0	394,851	394,851
Trade payables	32,784	0	0	32,784	0
Previous year	22,050	0	0	22,050	0
Other liabilities	12,311	0	0	12,311	4,053
Previous year	8,017	1,624	536	10,177	0
Total liabilities	**46,977**	**26,158**	**503,170**	**576,305**	**535,249**
Previous year	147,695	278,847	536	427,078	394,851

Of the liabilities reported, a total of €535,249 thousand are secured as follows:

- Pledging of shares of Progroup AG and company shares of its main subsidiaries included in the consolidated financial statement of Progroup AG (Prowell GmbH, Propapier PM1 GmbH, Propapier PM2 GmbH, PROLOGISTIK GmbH, Proservice GmbH, Prowell sp. z o.o., Prowell s.r.o., Prowell S.A.S., Prowell Ltd.)
- Pledging of all bank deposits of Progroup AG in Germany
- Real estate liens (that is land charges or mortgages) on all substantial land and buildings of Prowell GmbH, Propapier PM1 GmbH, Propapier PM2 GmbH, Prowell sp. z o.o., and Prowell s.r.o.
- Assignment by way of security of insurance claims and receivables against affiliated companies by Progroup AG, Prowell GmbH, Propapier PM1 GmbH, Propapier PM2 GmbH, Propower GmbH, Prowell sp. z o.o., Prowell s.r.o. and Prowell Ltd. and assignment by way of security of receivables against affiliated companies by JH-Holding GmbH
- Transfer of title on machinery and equipment and other office equipment of Prowell GmbH, Propapier PM1 GmbH, Propapier PM2 GmbH, Prowell sp. z o.o., Prowell s.r.o. and Prowell Ltd.

Apart from the corporate financing through the issuance of bonds (€495 mn) on 30 April 2015 and 8 December 2015, a revolving credit facility amounting to €50 mn was granted by a syndicate of banks (Super Senior Revolving Credit Facility). As at 31 December 2015 this revolving credit facility was not utilised by the company or its subsidiaries.

Of the liabilities recorded as at 31 December 2014, a total amount of €394,851 was secured on the basis of the syndicated loan agreement and finance lease contract valid at that point in time. In conjunction with the refinancing as at 30 April 2015 these securities have been completely released.

Dated 1 December 2015, Prowell sp. z o.o. concluded a fixed-interest loan amounting to PLN107 mn with Commerzbank Aktiengesellschaft, Frankfurt. The loan payment was made on 15 December 2015.
Senior Secured Fixed Rate Notes, Senior Secured Floating Rate Notes, the PLN-loan and the Super Senior Revolving Credit Facility are secured pari passu as mentioned above. In an Intercreditor Agreement the creditors were granted a priority satisfaction from possible proceeds of sale.

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

€4,079 thousand of other liabilities was attributable to tax liabilities (31 December 2014: €3,724 thousand) and €620 thousand to social security liabilities (31 December 2014: €612 thousand).

According to the agreement dated 3 December 1991, last amended on 7/8 July 2011, the Company had two silent partnerships with fixed capital contributions totaling €984,236.87. The proportionate assumption of prior-year losses had reduced the silent partnership balances to a total of €535,916.97 as at 31 December 2014. On the basis of an agreement dated 18 March 2015, the termination of the silent partnerships was agreed by settlement payment amounting to the nominal amount of the fixed capital contributions of €984,236.87. The settlement payment was made on 30 December 2015.

11. Deferred income

This item comprises the difference (€4,729 thousand) between the settlement value and the payment amount of the bond issued on 8 December 2015 (€95 mn) which will be released as adjustment to interest expenses through profit or loss over the term of the bond until 1 Mai 2022. Furthermore, it comprises a compensation payment in the amount of €1,010 thousand for a steam supply contract which is being reversed to profit or loss over the term of the contract until 31 January 2019.

II. Consolidated income statement

The consolidated income statement has been prepared under the total cost (nature of expense) method.

1. Sales

Sales breakdown by country of origin (in € thousands)		2015	2014
Domestic	Corrugated board	265,840	246,581
	Containerboard	132,367	142,766
	Other	10,313	9,861
Other European countries	Corrugated board	281,420	262,079
Total		**689,940**	**661,287**

2. Other operating income

This account includes income from the proportionate reversal of investment grants for fixed assets amounting to €383 thousand (previous year: €428 thousand).

Other operating income also includes prior-period income of €15,216 thousand (previous year: €13,160 thousand). This mainly comprises income from the reversal of provisions in the amount of €7,595 thousand (previous year: €4,358 thousand), income from prior-year energy tax refunds amounting to €3,561 thousand (previous year: €6,899 thousand) and income from prior-year receivables of €0 thousand (previous year: €208 thousand) which had already been subject to a specific valuation allowance. Moreover, it contains income from additional charges for the supply of substitute fuel amounting to €1,896 thousand and income from prior-year energy costs of €1,085 thousand.

Furthermore, it includes currency translation gains of €5,521 thousand (previous year: €1,363 thousand).

3. Personnel expenses

Pension expenses were €239 thousand in the financial year (previous year: €189 thousand).

4. Other operating expenses

This account includes prior-period expenses amounting to €2,020 thousand (previous year: €5,561 thousand) which mainly comprise adjustments to waste water charges for the previous year in the amount of €0 thousand (previous year: €4,200 thousand) and energy costs for the previous year of €1,116 thousand (previous year: €0 thousand).

In addition, the account also includes currency translation losses of €4,165 thousand (previous year: €2,466 thousand).

5. Other interest and similar income

Interest income from the discounting of provisions amounted to €0 thousand in 2015 (previous year: €51 thousand).

6. Interest and similar expenses

Overall, the amount of interest paid in financial year 2015 was €17,577 thousand and the amount of interest received was €131 thousand.

In addition, the item includes expenses similar to interest from the reversal of prepaid expenses and deferred charges in the amount of €540 thousand.

Interest expense from discount unwinding of discounted provisions amounted to €65 thousand in 2015 (previous year: €37 thousand).

7. Extraordinary net income/loss

Extraordinary expenses amounting €38,341 thousand (previous year: €3,707 thousand) comprise costs relating to refinancing measures in the amount of €31,278 thousand (previous year: €3,707 thousand) and costs relating to the acquisition of the combined heat and power plant of €6,852 thousand (previous year: €0 thousand). The extraordinary income of €2,810 thousand comprise the reversal of a provision which had been set up for tax risks in previous years. In the prior year, the extraordinary income amounting to €93 thousand resulted from a reversal of a provision previously set up.

8. Taxes on income

This account mainly includes trade tax and corporate income tax for the current financial year in the amount of €11,931 thousand (previous year: €8,773 thousand) and refunds of trade tax and corporate income tax for previous years in the amount of €187 thousand (previous year: €522 thousand). It also includes expenses arising from the adjustment of deferred tax assets in the amount of €68 thousand (previous year: €859 thousand). In financial year 2015, the total amount of tax paid was €17,328 thousand.

III. Other disclosures

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

In the context of the refinancing conducted on 30 April 2015, a revolving credit facility (Super Senior Revolving Credit Facility) amounting to €50 mn was granted by a syndicate of banks in addition to the issuance of the bonds (€400 mn). As at 31 December 2015, the revolving credit facility was not utilised by the company or any of its subsidiaries.

The bonds issued on 30 April and 8 December 2015 and the Super Senior Revolving Credit Facility, which can also be utilised by a subsidiary of Progroup AG, are secured by pledging of shares of Progroup AG and company shares of its main subsidiaries, pledging of bank deposits of the holding company, transfer of title on tangible fixed assets of the subsidiaries, real estate liens and assignments of certain receivables. Furthermore, certain covenants apply.

The bonds and the Super Senior Revolving Credit Facility as well as a loan granted to Prowell sp. z o.o. by Commerzbank Aktiengesellschaft in the amount of PLN107 mn are secured pari passu as mentioned above. In an Intercreditor Agreement the creditors were granted a priority satisfaction from possible proceeds of sale.

Furthermore, the Company has provided letters of comfort and guarantees for a total of €3,061 thousand to various suppliers of subsidiaries.

According to the the framework agreement for the implementation of the energy supply of Propapier PM2 GmbH dated 18 December 2008, Progroup AG was jointly and severally liable in relation to Propower GmbH (formerly: EnBW Propower GmbH) and Sales & Solutions GmbH (formerly: EnBW Energy Solutions GmbH), for claims of Sales & Solutions GmbH or Propower GmbH against Propapier PM2 GmbH from this framework

agreement or from agreements associated with this framework agreement in the event of default. The framework agreement and the agreements associated with it have been terminated with effect from 31 December 2015.

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 2015, the remaining obligations from lease agreements were €5,816 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 2015, the remaining obligations from these rental/lease agreements for subsequent years were €19,172 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 were not, however, recognised in the financial statements. As at the reporting date, these framework agreements have a remaining term of up to 15.3 years (15 April 2031).

Due to specific contractual agreements entered into as at the balance sheet date, obligations for the following year are €11,587 thousand (previous year: €53,722 thousand).

There are obligations from long-term waste disposal contracts amounting to €603 thousand.

As at 31 December 2015, there was a remaining obligation from a consignment agreement amounting to €29 thousand (previous year: €2,672 thousand).

In addition, as at the balance sheet date there were contractual purchase commitments for recycled paper and containerboard supplies; commitments for the following year are €41,990 thousand (31 December 2014: €32,728 thousand). Furthermore, there are outstanding purchase commitments for other services in the amount of €21,706 thousand (31 December 2014: €12,984 thousand).

2. Employees

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

Employees	2015	2014
Salaried employees	220	208
Wage earners	690	645
Total	**910**	**853**

The disclosure only includes employees of consolidated companies.

3. List of companies included in the consolidated financial statements

Consolidated companies

	Percentage shareholding as at 31/12/2015 %
Prowell GmbH (formerly Prowell GmbH & Co. KG), Offenbach a. d. Queich	100.00
Prowell Verwaltungs GmbH, Offenbach a. d. Queich	100.00
Propapier PM1 GmbH, Burg	100.00
Prowell S. A. S., Douvrin, France*	100.00
Propower GmbH, Eisenhüttenstadt** (formerly EnBW Propower GmbH, Eisenhüttenstadt)	100.00
Prologistik GmbH, Burg	100.00
Proservice GmbH, Offenbach a. d. Queich	100.00
Prowell s. r. o., Rokycany, Czech Republic*	100.00
Prowell Sp. z o.o., Stryków, Poland*	100.00
Propapier PM2 GmbH, Eisenhüttenstadt*	100.00
Prowell Ltd., Ellesmere Port, England*	100.00

*indirect equity interest **acquisition with effect from 31 December 2015

4. Unconsolidated affiliated companies

(in € thousands)	Percentage shareholding as at 31/12/2015 %	Equity as at 31/12/2015	Net income/loss for 2015
Profund GmbH, Offenbach a. d. Queich, Germany	100.00	14	-1
Projekt 3 CZ Beteiligungs GmbH, Offenbach a. d. Queich, Germany*	99.00	24	0

*indirect equity interest

5. Holding company

Progroup AG is included in the consolidated financial statements of JH-Holding GmbH, Neustadt a. d. Weinstrasse, Germany, which are submitted to the operator of the Bundesanzeiger (Federal Gazette) for publication.

6. Subsidiaries

Propapier PM1 GmbH, Burg, Germany, Propapier PM2 GmbH, Eisenhüttenstadt, Germany, Propower GmbH, Eisenhüttenstadt and Prowell GmbH (formerly Prowell GmbH & Co. KG), Offenbach a. d. Queich, Germany, have made use of the exemption to use 264(3) of the HGB.

7. Derivative financial instruments/hedges

As part of the refinancing carried out 30 April 2015, the existing interest rate swaps were terminated. As at 31 December 2015, no derivative financial instruments or hedges exist.

Until 31 December 2014, interest rate risk from loans recorded at 31 December 2014 were hedged with interest rate swaps (micro hedge) and accounted for as hedges in accordance with section 254 of the HGB. The loans, which were hedged against Euribor interest rate risks, amounted to a total of €293,493 thousand as at 31 December 2014. The loans were hedged proportionately in differing amounts. The extent of items hedged was approx. 50.83% overall. As at 31 December 2014, there were interest rate hedging instruments in the notional amount of €149,180 thousand.

The market values of these interest rate hedging instruments were provided to the Company by the contractual partner and determined using the mark-to-market method. The negative market values of these interest rate hedging instruments amounted to €11,756 thousand as at 31 December 2014.

8. Emission allowances

As at the balance sheet date, the group held 402,717 CO_2 emission allowances (allocation for 2014: 304,158 CO_2 emission allowances). These were acquired free of charge as part of a public allocation. The allowances are recognised at their nominal amount. The quoted market price as at the balance sheet date was approximately €8 per certificate (31 December 2014: approximately €7 per certificate). The fair value of the allowances recognised at a carrying amount of €0 thousand therefore amounted to €3.2 mn (31 December 2014: €2.1 mn).

9. Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash funds have been exclusively defined as cash and cash equivalents.

10. 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)
Frank Gumbinger, Dipl.-Kfm., Baden-Baden, Germany (CFO)

11. Supervisory Board

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

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

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

Dr. Armin Schuler, Management spokesman of BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart (until 19 February 2015)

Dr. Jochen Wolf, Management spokesman of BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart (20 February 2015 until 11 Mai 2015)

Dr. Martin Eberhard, Tax Advisor, Managing Director of Falk GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Heidelberg (11 Mai 2015 until 29 Oktober 2015)

Prof. Dr. Hermut Kormann, honorary professor at the University Leipzig and at the Zeppelin University Friedrichshafen (since 29 October 2015)

12. Total remuneration

Management Board's total remuneration in the financial year for exercising its responsibilities in the holding company and the subsidiaries was €3,689 thousand (2014: €1,514 thousand).
Supervisory Board remuneration in 2015 amounted to €68 thousand (2014: €68 thousand).

13. Auditor's fee

Group auditor's fees recognised as an expense in the financial year amounted to €139 thousand (2014: €135 thousand) for audit services and €1,483 thousand (2014: €64 thousand) for other assurance services.

Offenbach a. d. Queich, Germany, 18 February 2016

Management Board

Jürgen Heindl

Frank Gumbinger

Consolidated Fixed Asset

Movement Schedule

Appendix to the Notes to the Consolidated Financial Statements

Consolidated Fixed Asset Movement Schedule for 2015* (in € thousands)	Acquisition or manufacturing cost							Amortisation/depreciation						Net book values	
	01/01/2015	Exchange differences	Additions	Additions Purchase	Disposals	Retransfers	31/12/2015	01/01/2015	Exchange differences	Additions	Additions Purchase	Disposals	31/12/2015	31/12/2015	31/12/2014
Fixed assets															
I. Intangible assets															
Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	6,051	18	659	24,150	301	84	30,660	5,691	6	337	191	301	5,924	24,737	360
	6,051	**18**	**659**	**24,150**	**301**	**84**	**30,660**	**5,691**	**6**	**337**	**191**	**301**	**5,924**	**24,737**	**360**
II. Tangible assets															
1. Land and buildings including buildings on leasehold land	260,954	508	562	14,085	1	314	276,422	80,495	234	8,192	3,814	1	92,733	183,689	180,460
2. Technical equipment and machinery	591,926	1,059	21,966	213,103	680	1,867	829,240	306,704	857	19,473	65,430	650	391,814	437,426	285,221
3. Other equipment, factory and office equipment	16,700	43	2,676	865	1,722	181	18,743	12,231	30	1,418	333	1,685	12,326	6,417	4,469
4. Prepayments and construction in process	6,075	-15	1,565	0	0,00	-2,446	5,179	0	0	0	0	0	0	5,179	6,075
	875,655	**1,594**	**26,769**	**228,053**	**2,403**	**-84**	**1,129,585**	**399,430**	**1,120**	**29,082**	**69,577**	**2,336**	**496,873**	**632,712**	**476,225**
III. Financial assets															
Shares in affiliated companies	37	0	0	0	0	0	37	0	0	0	0	0	0	37	37
	37	0	0	0	0	0	37	0	0	0	0	0	0	37	37
	881,743	**1,612**	**27,428**	**252,203**	**2,705**	**0**	**1,160,282**	**405,121**	**1,126**	**29,419**	**69,768**	**2,638**	**502,797**	**657,486**	**476,622**

* 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.

III. Audit Opinion

We have audited the consolidated financial statements prepared by Progroup AG, Offenbach a. d Queich, Germany, comprising the balance sheet, the income statement, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with (German) principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Mannheim, 18 February 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(sgd. Andreas Bröcher)
Wirtschaftsprüfer
(German Public Auditor)

(sgd. ppa. Stefan Sigmann)
Wirtschaftsprüfer
(German Public Auditor)

E. SUPERVISORY BOARD

I. 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 expires at the end of the fifth general shareholders' meeting following the general shareholders' meeting at which the member was elected. 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 must be invited with due notice and 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: Prof. Dr. Hermut Kormann, Rainer Dietmann, Prof. Dr. Rudolf Wimmer

II. Members of the Supervisory Board

The Supervisory Board was composed as follows in the fiscal year 2015:

RA Rainer Dietmann (Chairman)

Born: 1956
Member since: 2007
Appointed until: 2017

Other principal positions:

Chairman of the supervisory board of Global Vermögensberatung AG, Wiesbaden

Member of the supervisory board of SSP Deutschland GmbH, Eschborn

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. The focus of his professional activities is primarily on all matters of corporate law, MBA transactions and corporate finance.

Prof. Dr. Rudolf Wimmer (Vice Chairman)

Born: 1946
Member since: 2008
Appointed until: 2017

Other principal positions:

Member of the supervisory board of PBS-Holding AG, Wels/Austria (vice chairman)

Member 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

Vice president of the University Witten/Herdecke

Chairman of the university council of Pädagogische Hochschule Wien

Chairman of the advisory board of Diagram, Halbach

Prof. Dr. Wimmer studied law and political science at the universitiy 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 Tübingen. 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 and Tübingen. 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. Since 2013, Prof. Dr. Wimmer has been Vice President of the University of Witten/Herdecke. In 2011, he became a member of the university council of the Pädagogische Hochschule Wien which he has chaired since 2012.

Prof. Dr. Hermut Kormann

Born: 1942
Member since: 2015
Appointed until: 2017

Other principal positions:

Member of the advisory board of Hübner GmbH & Co. KG, Kassel

Member of the supervisory board of Trumpf GmbH + Co. KG, Ditzingen

Member of the supervisory board of Semikron International GmbH, Nürnberg

Chairman of the advisory board of Karl Wörwag Lack- und Farbenfabrik GmbH & Co. KG, Stuttgart

Prof. Dr. Kormann studied business administration at the Erlangen Nuremberg University between 1961 and 1965 and earned his Ph.D. in 1968. In 1966, he became research assistant to the Chair for Business Administration of Prof. Dr. Eugen H. Sieber, with focus on corporate management in Nuremberg. Prof. Dr. Kormann served as member of the management board of Voith AG, Heidenheim/Brenz, from 1989 to 2008, first as chief financial officer and, since 2000, as president and CEO. Voith AG is a global engineering group established 1867 in Germany and today wholly owned by the fifth and sixth generation of the Voith families. Prior to his activities at Voith AG, Prof. Dr. Kormann held management positions at Brown, Boveri & Cie. AG (now part of the ABB group), at the family holding of the Otto group and at Booz & Co. Management Consultants. Prof. Dr. Kormann served and serves on various supervisory boards of family companies. Since 2006, Prof. Dr. Kormann has been active as visiting professor at the Leipzig University for General Business Administration, and since 2009 at the Zeppelin University, Friedrichshafen, with a particular focus on strategy and corporate governance of family businesses.

Members of the Supervisory Board retired in the fiscal year 2015:

Name: Dr. Armin Schuler, Spokesman for the Management Board of BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart
Born: 1961
Term: 1 April 2013 to 19 February 2015

Name: Dr. Jochen Wolf, Spokesman for the Management Board of BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart
Born: 1961
Term: 20 February 2015 to 11 May 2015

Name: Dr. Martin Eberhard, Tax Consultant, Managing Director for Falk GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Heidelberg
Born: 1970
Term: 11 May 2015 to 29 October 2015

III. 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 1 January 2015 to 31 December 2015 ("Reporting Period"):

- RA Rainer Dietmann, Chairman
- Prof. Dr. Rudolf Wimmer, Vice Chairman
- Dr. Armin Schuler (until 19 February)
- Dr. Jochen Wolf (20 February to 11 May)
- Dr. Martin Eberhard (11 May to 29 October)
- Prof. Dr. Hermut Kormann (as at 29 October)

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 having received the report of the Management Board to the Supervisory Board regarding the Reporting Period at the meeting on 7 March 2016 and also the reports presented to the Supervisory Board on 7 March 2016 by the Management Board regarding the annual financial statements (individual financial statements) and the consolidated financial statements of Progroup AG as at 31 December 2015, regarding the situation of the company and the group and also regarding the relationship between the company and affiliated companies, and finally the auditor's report regarding the audit of the annual financial statements as at 31 December 2015, including the management report, the consolidated financial statements as at 31 December 2015, including the group management report and the dependency report for the 2015 financial year, and taking into account the subsequent discussion of the reports by the Management Board and the auditor, the Supervisory Board unanimously resolved in its meeting on 7 March 2016 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 11 February 2015, 5 March 2015, 8 April 2015, 11 May 2015, 28 September 2015, 29 October 2015 and 27 November 2015. Furthermore, Supervisory Board telephone conferences took place on 22 April 2015, 23 April 2015, 9 June 2015, 21 July 2015, 13 August 2015 and 8 October 2015.

The subject matters of the meeting on 11 February 2015 were, other than the Management Board's reports regarding the current economic and financial situation of the company and of the group, the reports on and discussion of refinancing options.

In its meeting on 5 March 2015 ("Accounts Review Meeting") in Mannheim, the Management Board reported on the 2014 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 at 31 December 2014 were approved. During the Accounts Review Meeting, the Supervisory Board also prepared the ordinary Shareholders' Meeting 2015 and dealt with the Management Board's reports regarding the current financial, income and liquidity situation of the company and the group, including the risk report, with strategic projects, with refinancing options, with material legal disputes, with management measures requiring specific approval and with matters relating to human resources and the Management Board.

The focus of the meeting on 8 April 2015 was then, again, on the current economic situation of the group, including its outlook, material legal disputes, management measures requiring specific approval and matters relating to human resources and the Management Board as well as preparing for and implementing the redemption of the existing group funding by issuing corporate bonds.

The subject matters of the meeting on 11 May 2015 included, in addition to the Management Board's reports on the implementation status of the refinancing of the group, reports on the current economic situation and the forecast for the end of the financial year and on material legal disputes, strategic investment projects and matters relating to human resources and the Management Board.

At the meeting on 28 September 2015, the Supervisory Board, in addition to dealing again with the current economic situation of the company and of the group and the year-end forecast, received information on strategic acquisition and investment projects. Furthermore the Supervisory Board dealt with topics related to the Shareholders' Meeting, ongoing legal disputes, management measures requiring specific approval and with matters relating to human resources and the Management Board.

At the meeting on 29 October 2015, the Supervisory Board again dealt with strategic acquisition and investment projects and their financing, and also with human resources matters, after having received an update by the Management Board on the economic and financial position of the company and the group.

The subject matters of the meeting on 27 November 2015 included reports from the Management Board regarding the current economic and financial position of the company and the group and the year-end forecast, risk reports, short updates on ongoing legal disputes, the budget for the 2016 financial year, reports on strategic acquisition and investment projects and their financing, management measures requiring specific approval, ongoing legal disputes and matters relating to human resources and the Management Board.

The telephone conferences held by the Supervisory Board and the Management Board during the Reporting Period mainly served the purpose of providing timely updates for the Supervisory Board regarding the situation of the group, the preparation and implementation of the redemption of the previous group financing by way of corporate bonds, the preparation and implementation of acquisition and investment measures and their financing, as well as the discussion and resolution on management measures requiring specific approval and human resources matters.

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 at 31 December 2015, 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 the company and the relevant 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 at 31 December 2015, and also the result of the audit of the dependency report for the 2015 financial year were discussed in depth at the Supervisory Board meeting on 7 March 2016 with the Management Board and the auditor, based on the audit reports submitted. Any questions received during this Supervisory Board meeting regarding individual items of 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 statements and the consolidated financial statements of the company as at 31 December 2015 render a true and fair view of the assets, financial and earnings situation of the company and of the group. Based on its review, the Supervisory Board found that the management reports accurately and comprehensively reflect the foreseeable risks and opportunities resulting from the business development of the past year and the future development. Based on 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 18 February 2016 regarding the audit of the annual financial statements and the consolidated financial statements as at 31 December 2015 and the management reports, for which the auditor issued unqualified audit certificates, did not give cause for any objections, either. The same applies for the report on the audit of the dependency report for the 2015 financial year which was also presented on 18 February 2016 and for which the auditor issued the following audit certificate: *"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. Final declarations

a) Following the final result of the review by the Supervisory Board, there are no objections to be raised against the rendering of accounts, the management reports and the management in the financial year from 1 January 2015 to 31 December 2015 and/or against the reports of the auditor as regards the annual financial statements and the consolidated financial statements.

The Supervisory Board approved the annual financial statements prepared by the Management Board and the consolidated financial statements prepared by the Management Board as at 31 December 2015; hence the annual financial statements of Progroup AG as at 31 December 2015 are adopted.

b) Following the final result of the review by the Supervisory Board, there are no objections against the declaration by the Management Board at the end of the dependency report for the 2015 financial year.

Landau, 7 March 2016

(Rainer Dietmann)
Chairman of the Supervisory Board

F. ADDITIONAL INFORMATION

I. Disclaimer

Financial Information

The consolidated financial information of Progroup AG ("Progroup") as at and for the period ended 31 December 2015 included in this report, has been prepared in accordance with generally accepted accounting principles *(Grundsätze ordnungsgemässer Buchführung)* in the Ferderal 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 in tables between totals and the sums of the amounts listed 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, EBT, free cash flow, net financial debt, 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, EBT, free cash flow, net financial debt and leverage presented by us may not be comparable to similarly titled measures used by other companies.

II. Financial Calendar

30 May 2016
Interim Financial Report/First Quarter 2016

29 August 2016
Interim Financial Report/Second Quarter 2016

29 November 2016
Interim Financial Report/Third Quarter 2016

1 March 2017
Interim Financial Short Report/Fourth Quarter 2016

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Frank Gumbinger (CFO)

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