Progroup
Interim Financial Report

31 March / First Quarter 2017

pro group

The Power of Innovation

Key Figures

Key operating figures (in € thousands)	January – March 2017	January – March 2016
Sales	193,516	189,510
Reported EBITDA [1]	40,315	51,536
Reported EBITDA margin (in % of net sales)	20.8%	27.2%
EBIT [2]	28,472	39,637
Consolidated net income for the period	14,784	23,371
Cash flows from operating activities	9,208	39,497
Cash flows from investing activities	-11,686	-2,546
Free cash flow [3]	-2,478	36,951

Key balance sheet figures (in € thousands)	31/03/2017	31/12/2016
Total assets	1,022,049	836,815
Equity	276,143	259,609
Cash in hand, bank balances	205,791	37,370
Financial liabilities (bonds, bank loans, finance leases and accrued interest)	635,915	458,799

Key financial figures (in € thousands)	31/03/2017	31/12/2016
Net leverage [4]	2.7	2.5
LTM adjusted EBITDA [5]	159,504	170,725
Net financial debt [6]	430,124	421,428

(1) Reported EBITDA (not a German GAAP measure) is calculated as sales, plus increase/decrease in finished goods and work in process, plus other own work capitalised, plus other operating income (excluding any extraordinary income), minus costs of materials, minus personnel expenses, minus other operating expenses (excluding any extraordinary expenses), minus other taxes.
(2) EBIT (not a German GAAP measure) is calculated as reported EBITDA minus amortisation and depreciation of fixed intangible and tangible assets.
(3) Free cash flow (not a German GAAP measure) is calculated as cash flows from operating activities plus cash flows from investing activities.
(4) Net leverage (not a German GAAP measure) is calculated by dividing net financial debt as at 31 March 2017 and 31 December 2016, respectively, by adjusted EBITDA for the last twelve months (LTM) ended on the relevant date.
(5) LTM adjusted EBITDA (not a German GAAP measure) is calculated as reported EBITDA plus exceptional effects from unplanned CHP shutdown extension in 2016.
(6) Net financial debt (not a German GAAP measure) is calculated as financial liabilities (bonds, bank loans, finance leases and accrued interest) minus cash in hand, bank balances.

Highlights

- The first quarter of 2017 saw a sound, but normalised performance compared to the exceptional first quarter in 2016, with strong external volume growth which was attributable to the strong performance of the corrugated board business.

- Sales increased by 2.1% to €193.5 mn, after €189.5 mn in the first quarter of 2016, driven by the continued strong performance of the corrugated board business.

- Sales volume saw a further increase in both the corrugated board business as well as the containerboard business. While the external sales volume in corrugated board increased substantially by 12.6%, the total sales volume of containerboard increased by 3.9%. The strong corrugated board sales volume growth lead to 9.6% higher internal sales volumes of the containerboard business, while external sales volume declined by 9.8%.

- The integration between corrugated board business and containerboard business was further expanded in the first quarter of 2017, reaching 75%. Including swap agreements with other containerboard suppliers, a level of integration of 85% was reached.

- The first quarter of 2017 saw a significant increase in price levels for recycled paper, which lately stabilised on a high level. After a reduction of prices for containerboard and corrugated board in the previous quarters, price levels of containerboard increased noticeably in the first quarter. Due to time lags in passing on price developments to customers, the increase in price level had only a limited effect on the result of the first quarter of 2017. Prices for corrugated board did not change significantly in the first quarter of 2017, but producers announced price increases for the second quarter. It is expected to unfold its impact over the course of the following quarters.

- EBITDA decreased by 21.8% to €40.3 mn in the first quarter of 2017. This was primarily due to margin pressure resulting from increased resource prices and normalised price levels for the main products, i.e. containerboard and corrugated board. The most recent price hikes are not reflected in these figures. After an exceptional first quarter of 2016 with a peak EBITDA margin of 27.2%, market conditions normalised throughout the past quarters, resulting in an EBITDA margin of 20.8% for the first quarter of 2017. This is basically in line with the three-year-average of 21.1%.

- Net financial debt remained broadly stable at €430.1 mn as at 31 March 2017, after €421.4 mn as at 31 December 2016. The successful placement of a €150 mn Floating Rate Note issued in March increased cash in hand as well as financial liabilities. The proceeds will be used to finance the redemption of existing Floating Rate Notes on 2 May 2017, as well as investments in new production sites in Italy and the UK.

- Alongside the new issuance, Standard & Poor's upgraded Progroup's long-term corporate credit rating from "B+" to "BB-" ("outlook stable") while highlighting the company's improved financial risk profile in the last year due to strong profitability and early debt repayments. Compared to the end of 2016, net leverage slightly increased to 2.7 at the end of the first quarter of 2017.

- New Production site PW10 successfully concluded test operations during the first quarter and started commercial production in the beginning of April 2017.

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Letter to Investors

Dear investors and business partners,

We are delighted to share with you our interim report for the first quarter of the financial year 2017. Throughout the first quarter of 2017, we successfully concluded test operations of our newly built production site PW10 in Trzcinica, Poland, which started commercial production in the beginning of April 2017.

In the first three months of 2017, market conditions started to improve again with a positive outlook. Resource prices for recycled paper experienced a significant increase in the reporting period, stabilising on a higher level compared to the first quarter of 2016. After a normalisation process throughout the previous quarters, prices for recycled containerboard saw an increase towards the end of the first quarter, however they remained below the high levels of the first quarter of 2016. While rising resource prices had an immediate effect on the results, the following increases in sales prices for recycled containerboard and corrugated board, which started to rise from the beginning of the second quarter, are subject to time lag effects on passing the new price level on to customers. Positive effects of rising price levels for our products are expected to show full effect within the upcoming quarters, resulting in a positive outlook.

In the first quarter of 2017, the sales volume of our main growth driver - corrugated board - continued to increase strongly by 12.6%, marking a new record in our corrugated board business. Following our strategy to maintain a high level of integration between our containerboard business and our corrugated board business, an integration level of 75% was reached, accomplishing even 85% when swap agreements with other suppliers are taken into account. With an integration level well above 70%, we achieved our strategic target and underline the success of our strategy.

In the first three months of 2017, our sales increased by 2.1% to €193.5 mn, after €189.5 mn in the first quarter of 2016, driven by the strong sales performance of our main growth driver corrugated board. EBITDA normalised, reaching €40.3 mn in the first quarter of 2017, after €43.5 mn in the fourth quarter of 2016 (adjusted figure) and €51.5 mn in the first quarter of 2016. After an exceptionally successful first quarter in 2016, the normalisation is based on margin pressure resulting from increased resource prices and the decline of sales prices, as experienced throughout the past quarters. Further, recent increases in sales price levels for both of our products containerboard and corrugated board are subject to time lag effects due to existing customer contracts and will have an effect on our result in the upcoming quarters.

As a result of the normalised EBITDA, EBITDA margin decreased to 20.8% after the exceptional high of 27.2% in the first three months of 2016. In the first quarter of 2017, EBITDA margin reached a stable level within close proximity to our three-year average of 21.1%.

Consolidated net income decreased in line with a lowered EBITDA, reaching €14.8 mn in the first quarter of 2017, after €23.4 mn in the first quarter of 2016. Net income was further impacted by extraordinary expenses of around €3 mn related to the issuance of a new Floating Rate Note.

Free cash flow diminished to €-2.5 mn in the first three months of 2017, after €37.0 mn in the respective time-frame in 2016. The significant decrease mainly resulted from higher cash outflows from investing activities and a strong increase in working capital due to reduced factoring of trade receivables. Cash in hand considerably increased due to the successful placement of Floating Rate Notes of €150 mn in March 2017. The proceeds of the new Floating Rate Notes will be used to redeem existing Floating Rate Notes of €75 mn in the second quarter of 2017. The remaining funds will be used to finance investments in new corrugated board production capacities in Italy and the UK.

Along with the new issuance, Standard & Poor's upgraded Progroup's long-term corporate credit rating from "B+" to "BB-" ("outlook stable"). The rating agency highlighted the company's improved financial risk profile in the last year due to strong profitability and early debt repayments. Despite higher capex levels, Standard & Poor`s thinks Progroup can maintain credit metrics around the current levels. Net financial debt remained stable at €430.1 mn as at the end of the first quarter of 2017, compared to €421.4 mn as at 31 December 2016, resulting in a slightly higher net leverage of 2.7.

The good operational performance in the first quarter of 2017 again demonstrated the success of our strategy, delivering best-in-class corrugated board products and services to our box-manufacturing customers. Building upon a consistent greenfield approach, we apply leading production technology and operate our cutting-edge production sites on highest standards. We maintain production in direct proximity to our customers, rely on our high asset quality and constantly optimise our value chain. Thus, we continue to produce with great cost efficiency and high utilisation rates.

We will continue our successful greenfield strategy, operating state-of-the-art facilities and providing suitable solutions in close proximity to our key clients and business partners. In line with our strategic goals, our new fully automated corrugated board production facility PW10 in Trzcinica, Poland, has been finalised and commenced operation in the first quarter of 2017. We will further continue in our strive for growth with a new production site in Drizzona, Italy, which is scheduled to start production in the first quarter of 2018. We will also invest approximately €75 mn in a new production site in Ellesmere Port, UK, which will form the most efficient and powerful corrugated board mega plant in the world. The constuction works are expected to be completed by the third quarter of 2018.

Yours sincerely,

Jürgen Heindl
Chief Executive Officer

Dr. Volker Metz
Chief Financial Officer

Philipp Kosloh
Deputy Member of the Executive Board

Disclaimer

Financial Information

The unaudited consolidated financial information of Progroup AG ("Progroup") as at and for the period ended 31 March 2017 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 or apparent inconsistencies between different amounts included in this report may occur due to such rounding.

Forward-Looking Statements

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

Industry and Market Data

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

Non-GAAP Financial Measures

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

Capital Market Activities

Progroup's capital market activities relate to the Senior Secured Notes Offerings in 2015 (€495 mn) and 2017 (€150 mn).

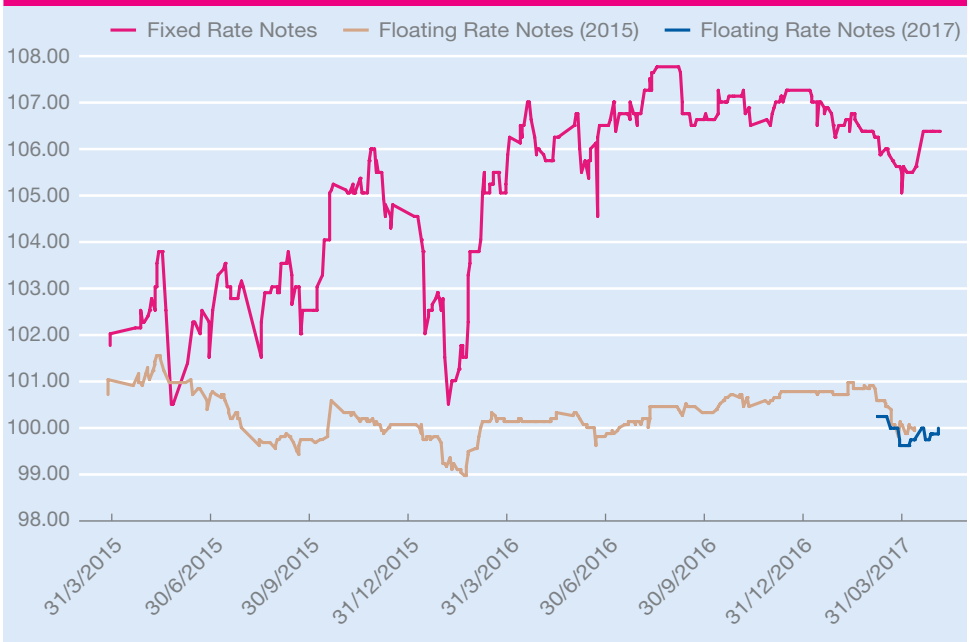
An overview of the features of our Senior Secured Fixed Rate Notes and our Senior Secured Floating Rate Notes and their market performance as at 31 March 2017 is presented below.

Capital market activities Progroup AG			
ISIN	DE000A161GD1 (144A)/ DE000A161GC3 (Reg S)	DE000A161GF6 (144A)/ DE000A161GE9 (Reg S)	DE000A2E4YZ7 (144A) / DE000A2E4YY0 (Reg S)
Issue	Senior Secured Fixed Rate Notes	Senior Secured Floating Rate Notes	Senior Secured Floating Rate Notes
Issuer	Progroup AG	Progroup AG	Progroup AG
Listing	Luxembourg EURO MTF	Luxembourg EURO MTF	Luxembourg EURO MTF
Distribution	144A/Reg S	144A/Reg S	144A/Reg S
Amount issued	€345,000,000	€150,000,000	€150,000,000
Amount outstanding	€345,000,000	€75,000,000	€150,000,000
Currency	EUR	EUR	EUR
Issue date	30 April 2015/8 December 2015	30 April 2015	27 March 2017
Final maturity	1 May 2022	1 May 2022	31 March 2024
Optional redemption	from 1 May 2018: 102.563%	from 1 May 2016: 101.000%	from 31 March 2018: 101.000%
	from 1 May 2019: 101.281%	from 1 May 2017 and thereafter: 100.000%	from 1 May 2019 and thereafter: 100.000%
	from 1 May 2020 and thereafter: 100.000%		
Issue price	100% of face amount/105% (tap)	100% of face amount	100% of face amount
Coupon	5.125%	Three-month EURIBOR plus 4.50%	Three-month EURIBOR (subject to a zero-floor) plus 2.50%
Interest payments	Semi-annually on 1 May and 1 Nov, commencing on 1 Nov 2015	Quarterly on 1 Feb, 1 May, 1 Aug and 1 Nov, commencing on 1 Aug 2015	Quarterly on 31 Mar, 30 Jun, 30 Sep and 31 Dec, commencing on 30 Jun 2017
Paying Agent	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
Security Agent	Wilmington Trust (London) Limited	Wilmington Trust (London) Limited	Wilmington Trust (London) Limited
Ratings			
S&P	BB-	BB-	BB-
Moody's	Ba2 (1)	Ba2 (1)	Ba2 (1)

(1) After the announcement of a successful Tender Offer of JH-Holding GmbH to purchase approximately €44 million of the PIK Toggle Notes of JH-Holding Finance S.A. Moody's notched the instrument rating of Progroup's senior secured debt down to the corporate family rating level of Ba3 on 2 May 2017.

In March 2017, Progroup successfully issued Senior Secured Floating Rate Notes in an amount of €150 mn. The proceeds from the Offering will be used to redeem the remaining €75 mn outstanding principal amount of the Existing Floating Rate Notes on 2 May 2017 and for Prowell's newest growth projects.

Progroup Senior Secured Notes Prices



Source of price data: Deutsche Bank AG

Business

Progroup Headquarter
Landau, Germany

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 believe 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.

Prowell PW07 plant
Stryków, Poland

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

Propapier PM1 plant Burg, Germany

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 and 2016, 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 PM2 plant Eisenhüttenstadt, Germany

Propapier manufactures containerboard at our two paper mills in Germany, with an envisaged total annual production capacity of approximately 1,100,000 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/m^2 using almost exclusively recycled paper. This, in turn, allows us to internally source consistently high quality containerboard with the appropriate widths for Prowell's nine corrugated board production sites in the Czech Republic, France, Germany, Poland and the United Kingdom, with a total annual production capacity of approximately 1,130,000 tons of corrugated board. Our historic greenfield location strategy ensures close customer proximity and high production flexibility.

Recent Developments

Prowell PW10 plant
Trzcinica, Poland

Poland: New Prowell production site in Trzcinica commenced production

In 2016, we started to build another packaging park in south-western Poland. At the end of January 2017, Prowell launched its ninth corrugated sheetboard plant as a fully owned subsidiary of Progroup AG at the Trzcinica site and performed test operations during the first quarter. In the immediate vicinity of and with a direct link to the packaging specialist Janmar Centrum, it is able to exploit all of the advantages of a modern packaging park. The new Prowell plant is fully integrated within the Progroup network so that all of the relevant data and orders can be centrally managed in a highly efficient way. This makes it possible to achieve the maximum synergy and integration effects within Progroup's business model on the one hand and as part of the packaging park model on the other hand. In a packaging park, the packaging manufacturer is supplied by Prowell with corrugated sheet boards directly via fully automatic transport systems. The whole process is fully automated using IT systems. Once an order is received, all other processes proceed fully automatically. PW10 started commercial production in the beginning of April 2017.

Italy: Expansion into new markets – Prowell penetrates the Italian board market

With the production launch of Prowell Drizzona (Italy), which is scheduled for the first quarter of 2018, Progroup will enter the largest corrugated board market in Europe and consequently will further enhance its capacities and increase the associated market share as part of the Two Twentyfive strategy. The newly founded Prowell S.r.l. will be operating a corrugated board machine in Drizzona next to the Italian packaging specialist Imbal Carton S.r.l. and supply it with corrugated board at no additional logistic expenditure. This follows the extremely successful Packaging Park II model of Prowell Plößberg (Germany) and Prowell Trzcinica (Poland). A 2.8-metre-wide corrugated board machine will be operated at the new site, and will produce 100,000 tons of corrugated sheet boards per year at a working speed of 350 m/min. We are planning to produce single and doublewall in the grades B, B NG, C, E and combinations thereof. This will create approximately 40 new high-tech jobs at Prowell. The Prowell plant is fully integrated in the Progroup network for high efficiency and centralised control of all relevant data and orders. This not only allows us to achieve maximum synergy and integration effects within the business model of Progroup but also within the framework of the packaging park model.

Prowell PW08 plant Ellesmere Port, United Kingdom

United Kingdom: The most efficient and powerful corrugated sheet board mega plant in the world

A little over eight years ago, the corrugated sheet board plant of Prowell Limited, which had just been founded in Ellesmere Port near Liverpool, launched its production on a 2.50 m wide corrugated board machine from the first Prowell plant. As part of the Two Twentyfive strategy concept, a reform strategy with a generation change of the first Prowell system is now taking place to successfully meet market growth and customer requirements for delivery reliability and quality. The most efficient and most powerful corrugated sheet board mega plant of the entire industry will be created by the third quarter of 2018, within just a few kilometres of the current location. A total of €75 mn is being invested in a high-tech plant, which is set to become a highly competitive production facility with efficient process flows. Following a start-up and optimisation phase, the plant will produce up to 235,000 tonnes of corrugated board each year with a working width of 3.35 m, thus seamlessly integrating into the Progroup mill system.

Resolution of the General Meeting of 20 April 2017: dividend payment of €7.25/share

The annual general meeting, held on 20 April 2017, resolved the payment of a dividend of €7.25 per share. As all 7,588,236 shares are entitled to dividend, the total distribution amounted to approximately €55.0 mn.

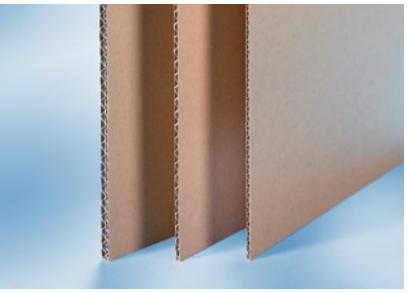
JH-Holding Tender Offer and Moody's rating action

In order to reduce the overall debt and interest burden, JH-Holding GmbH, the majority shareholder of Progroup AG, used parts of the dividend payment for a successful Tender Offer to purchase approximately €44 mn of JH-Holding Finance S.A.'s PIK Toggle Notes. The Tender Offer was settled on 4 May 2017 and the tendered notes were cancelled on the same day. As a consequence of the reduction of the outstanding PIK Toggle Notes Moody's rated Progroup's senior secured debt on the same Ba3 level as the corporate family rating. The step was explained by the reduction of the relative importance of the PIK Toggle Notes in the loss given default waterfall, leading to a lower loss absorption in the capital structure. Moody's now believes that the proportion of PIK Toggle Notes in the capital structure going forward will not be material enough to justify a rating for Progroup's senior secured debt above the corporate family rating.

Market Developments

Recycled paper storage
Propapier PM2 plant
Eisenhüttenstadt, Germany

Containerboard



Corrugated board

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

Due to an increase in demand, especially from outside Europe, prices for recycled paper, our primary raw material for the production of recycled containerboard, were significantly higher during the first quarter of 2017 compared to the prior year's same period. The average price per ton for recycled paper grades we purchased was approximately €142 in the first quarter of 2017, compared to €121 in the first quarter of 2016.

Concerning the volume of Propapier's recycled containerboard sold externally, the average price was approximately €368 per ton in the first quarter of 2017, after an average of €402 per ton in the prior year's same period (for the overall product portfolio mix sold externally). After a continuously downward trend during 2016, prices significantly increased again in the first quarter of 2017. Propapier achieved price increases of €60 per ton in total during the first three months of 2017, which are not fully reflected in the average sales figures for the first quarter.

Prices for corrugated board also continuously decreased during 2016, following the recycled containerboard's price development. Since the containerboard prices increased again in the first quarter of 2017, prices for corrugated board products of Prowell typically started to follow this development with a slight time lag. In the first quarter of 2017, Prowell's average price for corrugated board was approximately €613 per ton compared to €663 per ton in the first quarter of 2016.

Results of Operations

Key operating figures (in € thousands)	January – March 2017	January – March 2016
Sales	193,516	189,510
Reported EBITDA	40,315	51,536
Reported EBITDA margin (in % of net sales)	20.8%	27.2%
EBIT	28,472	39,637
Consolidated net income for the period	14,784	23,371

Sales volume (in thousands of tons)	January – March 2017	January – March 2016
Corrugated board	**259.2**	**230.1**
Containerboard	**265.4**	**255.4**
– thereof external	67.4	74.7
– thereof internal	198.0	180.7

The corrugated board business is our main external sales driver. We were able to increase our sales volume of corrugated board by 12.6% (+29.1 thousand tons) in the first quarter of 2017, compared to the prior year's same quarter.

Total sales volume of containerboard in the first quarter of 2017 is above the level of the prior year's same quarter (+3.9% / +10.0 thousand tons). The higher volume of corrugated board sold led to a higher internal usage of containerboard (+9.6% or 17.3 thousand tons) and thus to a further decrease in the external volume sold (-9.8% or -7.3 thousand tons).

Based on this development, the level of integration of our containerboard business, including swap agreements, increased to approximately 85%.

Sales (in € thousands)	**January – March**	
	2017	**2016**
Corrugated board	158,847	152,521
Containerboard	24,774	30,038
Other	9,895	6,951
Total Sales	**193,516**	**189,510**

Total sales increased by 2.1% (€4.0 mn) to €193.5 mn in the first quarter of 2017, compared to €189.5 mn in the same quarter of the prior year. This increase in sales is attributable to further growth in our corrugated board sales (+4.1% or €6.3 mn) as a result of the higher volume sold. At the same time, our sales of containerboard decreased by 17.5% (€5.3 mn) due to the lower external volume sold. The increase in other sales (+42.4% or €2.9 mn) is mainly attributable to higher sales for refuse-derived fuel and electricity at Propower.

Other operating income (in € thousands)	**January – March**	
	2017	**2016**
Investment subsidies	43	40
Income from exchange rate differences	1,341	643
Income from other periods	2,655	1,956
Other income	345	1,369
Other operating income	**4,384**	**4,008**

Other operating income increased by 9.4% (€0.4 mn) to €4.4 mn in the first quarter of 2017, mainly resulting from higher income from exchange rate differences and income from other periods.

Costs of materials (in € thousands)	January – March 2017	2016
Costs of raw materials, consumables and supplies	83,371	76,105
Costs of purchased services	18,392	15,343
Costs of materials	**101,763**	**91,448**

Costs of materials increased by 11.3% (€10.3 mn) to €101.8 mn in the first quarter of 2017, mainly resulting from higher costs of raw materials, consumables and supplies. The higher costs for externally purchased containerboard and significantly higher prices for recycled paper were the main drivers of this development.

Personnel expenses (in € thousands)	January – March 2017	2016
Wages and salaries	13,827	12,963
Social security and pensions	2,449	2,348
- thereof for pension expenses	65	53
Personnel expenses	**16,276**	**15,311**

Personnel expenses increased by 6.3% (€1.0 mn) to €16.3 mn in the first quarter of 2017. This increase is mainly attributable to a higher average number of employees, primarily as a result of the new production site Trzcinica (PW10).

Other operating expenses (in € thousands)	**January – March**	
	2017	**2016**
Freight expenses	16,134	15,412
Maintenance and repair	8,342	7,879
Paper machine clothings	1,143	1,828
Rental and leasing costs	1,627	1,598
Water and waste water treatment	1,630	1,675
Legal and consulting fees	509	337
Expenses from exchange rate differences	832	1,131
Expenses from other periods	790	1,201
Extraordinary expenses	3,280	818
Others	4,939	4,319
Other operating expenses	**39,226**	**36,198**

Other operating expenses increased by 8.4% (€3.0 mn) to €39.2 mn in the first quarter of 2017, primarily in connection with extraordinary expenses related to the Senior Secured Floating Rate Notes Offering in March 2017 and a volume based increase in freight expenses.

Results of operations (in € thousands)	**January – March**	
	2017	**2016**
EBITDA	**40,315**	**51,536**
Amortisation and depreciation of fixed assets	-11,843	-11,899
Net interest result	-5,493	-6,482
Extraordinary income/expenses (other operating income/expenses)	-3,280	-818
Taxes on income	-4,916	-8,967
Consolidated net income for the period	**14,784**	**23,371**

In the first quarter of 2017, EBITDA decreased by 21.8% (€11.2 mn) to €40.3 mn, mainly impacted by the price/margin development compared to the previous year's first quarter. Since prices for recycled containerboard and corrugated board decreased during 2016 and prices for recycled paper, our main raw material, predominantly increased, the gross margin level in the first quarter of 2017 is lower compared to the first quarter of 2016, representing the main impact on our EBITDA.

The net interest result improved by 15.3% (€1.0 mn) to €-5.5 mn in the first quarter of 2017, mainly as a result of a lower average amount of financial liabilities until March 2017.

Extraordinary expenses in first quarter of 2017 are related to the Senior Secured Notes Offering in March 2017.

In the first quarter of 2017, taxes on income decreased by €4.1 mn to €4.9 mn, mainly in connection with the lower results.

Net Asset Position

The following statements describe the main changes in the balance sheet as at 31 March 2017 compared to 31 December 2016.

Inventories amounted to €72.4 mn as at 31 March 2017, which is slightly below the level as at 31 December 2016 (-2.1% or €1.5 mn). An increase of raw materials and supplies, driven by a higher quantity of spare parts, was more than offset by a decrease of work in process caused by lower stocks of internally purchased containerboard at our Prowell plants.

Trade receivables increased by €23.9 mn or 40.1% to €83.4 mn as at 31 March 2017, mainly as a result of a lower factoring volume at the end of March. This was due to the high cash position resulting from the Senior Secured Notes Offering in March. Furthermore receivables increased in connection with our increased sales.

Other assets decreased by €3.5 mn or 17.6% to €16.3 mn as at 31 March 2017, mainly as a result of lower receivables from forfaiting and factoring due to reporting date factors.

In connection with the Senior Secured Notes Offering in March, **cash in hand, bank balances** amounted to €205.8 mn as at 31 March 2017, which is significantly above the level as at 31 December 2016 and also above our "usual range".

Prepaid expenses and deferred charges increased by €1.9 mn to €3.1 mn, primarily due to prepaid insurance premiums for the financial year of 2017.

As at 31 March 2017, **deferred taxes** decreased by €0.9 mn to €4.1mn due to the usage of interest carryforwards in connection with the positive EBITDA development in 2017.

Shareholder's equity increased by 6.4% from €259.6 mn as at 31 December 2016 to €276.1 mn as at 31 March 2017 as a result of consolidated net income and currency effects.

Bonds increased by €150.0 mn to €570.0 mn as at 31 March 2017 in connection with a further Senior Secured Notes Offering (please also refer to the section "Capital Market Activities").

As at 31 March 2017, **bank loans** increased by €23.1 mn to €49.4 mn due to the full usage of a Senior Secured PLN Facility, raised in 2016 in order to finance the project PW10.

The decrease in **trade payables** by €9.6 mn or 16.5% to €48.5 mn as at 31 March 2017 is mainly due to the payment of payables in connection with the project PW10, which were included in trade payables at year-end 2016.

The increase in **other liabilities** by €6.2 mn to €24.4 mn as at 31 March 2017 is mainly related to a higher amount of accrued interest for our Senior Secured Notes as well as higher sales tax liabilities.

Financial Position

Summary of cash flows (in € thousands)	January – March 2017	2016
Cash flows from operating activities	9,208	39,497
Cash flows from investing activities	-11,686	-2,546
Free cash flow	**-2,478**	**36,951**
Cash flows from financing activities	169,343	-6,586

Cash flows from operating activities significantly decreased by €30.3 mn to €9.2 mn in the first quarter of 2017 compared to the prior year's same period, mainly resulting from the lower EBITDA and from a strong increase in working capital, predominantly driven by an increase in trade receivables.

Cash flows from investing activities amounted to €-11.7 mn in the first quarter of 2017 and are mainly attributable to the final construction of our new corrugated board plant PW10 in Poland during the first quarter as well as the payment of liabilities (at year-end 2016) in connection with the construction work in 2016. Furthermore, the figures include several smaller investments in different plants as part of our continuous maintenance capital expenditures.

Free cash flow for the first quarter, calculated as cash flows from operating activities plus cash flows from investing activities, decreased, driven by the lower cash flows from operating activities.

Cash inflows from financing activities in the first quarter of 2017 were mainly related to the Senior Secured Notes Offering (€150 mn) and the full usage of the PLN facility in order to finance PW10. On the other hand we had cash outflows for interest paid (€1.4 mn) as well as cash payments relating to expenditure of exceptional size or incidence (€1.1 mn) due to extraordinary expenses in connection with the Senior Secured Notes Offering (transaction costs, advisory and professional fees and others).

Cash funds (cash in hand, bank balances) significantly increased by €168.4 mn and amounted to €205.8 mn as at 31 March 2017, compared to €37.4 mn as at 31 December 2016. Since we have not used the proceeds from the latest Senior Secured Notes Offering until the end of March, our cash funds considerably exceed our “usual range”.

Unaudited Consolidated Interim Financial Information

31 March / Q1 2017

Consolidated Balance Sheet

Assets

	Assets (in € thousands)	31/03/2017*	31/12/2016
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	21,685	22,352
		21,685	**22,352**
II.	**Tangible assets**		
1.	Land and buildings including buildings on leasehold land	174,353	175,005
2.	Technical equipment and machinery	403,213	409,967
3.	Other equipment, factory and office equipment	6,189	6,254
4.	Prepayments and constructions in process	31,448	26,239
		615,204	**617,466**
III.	**Financial assets**		
1.	Shares in affiliated companies	37	37
		37	**37**
		636,926	**639,855**
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials, consumables and supplies	53,480	51,480
2.	Work in process	15,500	18,396
3.	Finished goods	3,155	4,038
4.	Prepayments	267	29
		72,402	**73,944**
II.	**Receivables and other assets**		
1.	Trade receivables	83,432	59,562
2.	Receivables from affiliated companies	17	52
3.	Other assets	16,288	19,757
		99,738	**79,370**
III.	**Cash in hand, bank balances**	**205,791**	**37,370**
		377,930	**190,685**
C.	**Prepaid expenses and deferred charges**	**3,052**	**1,189**
D.	**Deferred taxes**	**4,141**	**5,086**
	Total assets	**1,022,049**	**836,815**

* Unaudited consolidated interim financial information

Consolidated Balance Sheet

Equity and Liabilities

	Equity and Liabilities (in € thousands)	31/03/2017*	31/12/2016
A.	**Shareholder's equity**		
1.	Subscribed capital	7,588	7,588
2.	Capital reserve	75,414	75,414
3.	Revenue reserves	1,408	1,408
4.	Currency translation adjustment	-1,517	-3,267
5.	Consolidated net retained profits	193,250	178,466
		276,143	**259,609**
B.	**Investment grants for fixed assets**	**2,874**	**2,937**
C.	**Provisions**		
1.	Provisions for pensions	83	35
2.	Tax provisions	9,020	8,104
3.	Other provisions	37,259	38,953
		46,362	**47,092**
D.	**Liabilities**		
1.	Bonds	570,000	420,000
2.	Bank loans	49,367	26,275
3.	Trade payables	48,454	58,020
4.	Other liabilities	24,423	18,188
		692,243	**522,483**
E.	**Deferred income**	**4,426**	**4,695**
	Total equity and liabilities	**1,022,049**	**836,815**

* Unaudited consolidated interim financial information

Consolidated Income Statement

	Consolidated Income Statement (in € thousands)	January – March* 2017	2016
1.	Sales	193,516	189,510
2.	Increase/decrease in finished goods and work in process	-3,786	526
3.	Other own work capitalised	548	0
4.	Other operating income	4,384	4,008
5.	Costs of materials		
a)	Costs of raw materials, consumables and supplies	-83,371	-76,105
b)	Costs of purchased services	-18,392	-15,343
		-101,763	-91,448
6.	Personnel expenses		
a)	Wages and salaries	-13,827	-12,963
b)	Social security and pensions	-2,449	-2,348
		-16,276	-15,311
7.	Amortisation and depreciation of fixed intangible and tangible assets	-11,843	-11,899
8.	Other operating expenses	-39,226	-36,198
9.	Other interest and similar income	10	60
10.	Interest and similar expenses	-5,503	-6,541
11.	Taxes on income	-4,916	-8,967
12.	**Earnings after taxes**	**15,146**	**23,738**
13.	Other taxes	-362	-367
14.	**Consolidated net income for the period**	**14,784**	**23,371**
15.	Consolidated unappropriated retained earnings brought forward	178,466	123,284
16.	**Consolidated net retained profits**	**193,250**	**146,655**

* Unaudited consolidated interim financial information

Consolidated Cash Flow Statement

	Consolidated Cash Flow Statement (in € thousands)	January – March* 2017	2016
1.	**Cash flows from operating activities**		
	Consolidated net income for the period	14,784	23,371
	Amortisation and depreciation of fixed assets	11,843	11,899
	Increase (+)/decrease (-) in provisions	-3,052	-5,354
	Other non-cash expenses (+)/income (-)	-1,362	-912
	Increase (-)/decrease (+) in inventories, trade receivables and other assets**	-20,686	-7,998
	Increase (+)/decrease (-) in trade payables and other liabilities**	-383	6,143
	Interest expenses (+)/income (-)	5,493	6,482
	Expenditure (+)/income (-) of exceptional size or incidence	3,280	818
	Income tax expenses (+)/income (-)	4,916	8,967
	Cash payments (-) relating to expenditure of exceptional size or incidence	-2,178	0
	Income taxes paid (-)	-3,447	-3,919
	Cash flows from operating activities	**9,208**	**39,497**
2.	**Cash flows from investing activities**		
	Proceeds (+) from disposal of intangible and tangible fixed assets	0	26
	Payments (-) to acquire intangible fixed assets	-38	-186
	Payments (-) to acquire tangible fixed assets	-11,657	-2,406
	Interest received (+)	9	20
	Cash flows from investing activities	**-11,686**	**-2,546**
3.	**Cash flows from financing activities**		
	Proceeds (+) from the issuance of bonds and borrowings	173,187	0
	Cash repayments (-) of bonds and borrowings	-1,320	-610
	Cash payments (-) relating to expenditure of exceptional size or incidence***	-1,111	-3,988
	Interest paid (-)	-1,413	-1,988
	Cash flows from financing activities	**169,343**	**-6,586**
4.	**Cash funds at end of period**		
	Net change in cash funds	166,865	30,365
	Effect on cash funds of exchange rate movements	1,556	-565
	Cash funds at beginning of period	37,370	20,762
	Cash funds at end of period	**205,791**	**50,562**
5.	**Composition of cash funds**		
	Cash and cash equivalents	205,791	50,562
	Cash funds at end of period	205,791	50,562

* Unaudited consolidated interim financial information

** Not attributable to investing or financing activities

*** Includes reclassification of k€1,040 from “cash payments (-) relating to expenditure of exceptional size or incidence” to “increase/decrease in provisions”, which were included in the first quarter 2016 under “extraordinary expenses paid”.

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 2017	**7,588**	**75,414**	**1,408**	**178,466**	**-3,267**	**259,609**
Consolidated net profit for the period	0	0	0	14,784	0	14,784
Other changes	0	0	0	0	1,750	1,750
31 March 2017*	**7,588**	**75,414**	**1,408**	**193,250**	**-1,517**	**276,143**

* Unaudited consolidated interim financial information

Additional Explanatory Information

Accounting policies

The unaudited consolidated interim financial information of Progroup AG as at and for the period ended 31 March 2017 included in this report has been prepared in accordance with generally accepted accounting principles (*Grundsätze ordnungsgemäßer Buchführung*) in the Federal Republic of Germany as in effect from time to time ("German GAAP"), which differ in certain respects from International Financial Reporting Standards as adopted by the European Union.

The accounting policies in the period under review generally correspond to those used for the audited consolidated financial statements for the year ended 31 December 2016.

Please refer to the notes to the audited consolidated financial statements for the year ended 31 December 2016 for a detailed description of our significant accounting policies.

Scope of consolidation

In the first quarter of 2017, the newly founded Prowell S.r.l. (Italy) was added to the scope of consolidation.

Information on material risks

As at 31 March 2017, there are no significant changes with regard to the risks for Progroup compared with the year ended 31 December 2016 and described in the respective annual financial statements.

Prowell corrugated board plant in Plössberg, Germany

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Philipp Kosloh (Deputy Member of the Executive Board)

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pro group

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