Progroup Interim Financial Report

30 June / Second Quarter 2016

progroup

The Power of Innovation

Key Figures

Key operating figures (in € thousands)	April – June 2016	April – June 2015	January – June 2016	January – June 2015
Sales	188,980	169,508	378,489	341,798
EBITDA [1]	43,068	37,492	94,604	70,238
EBITDA margin (in % of net sales)	22.8%	22.1%	25.0%	20.5%
EBIT [2]	31,307	30,233	70,944	55,873
Consolidated net income for the period	19,163	-3,095	42,534	9,962
Cash flows from operating activities [3]	47,168	40,893	87,704	83,198
Cash flows from investing activities [3]	-6,810	-6,301	-9,355	-9,005
Free cash flow [3] [4]	40,358	34,592	78,349	74,193

Key balance sheet figures (in € thousands)	30/06/2016	31/12/2015
Total assets	839,629	842,355
Equity	241,348	208,604
Cash in hand, bank balances	31,398	20,762
Financial liabilities (bank loans, bonds, finance leases and accrued interest)	493,213	535,263

Key financial figures (in € thousands)	30/06/2016	31/12/2015
Leverage [5]	2.6	3.4
LTM EBITDA	177,228	152,861
Net financial debt [6]	461,815	514,501

(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 (excluding any extraordinary income), minus costs of materials, minus personnel expenses, minus other operating expenses (excluding any extraordinary expenses), minus other taxes. In response to certain changes to the presentation of our financial statements as required by the "BilRUG", we have modified the way we calculate EBITDA to ensure consistency and comparability with our EBITDA reported for prior periods. See also section "Additional Explanatory Information – Accounting policies".
(2) EBIT (not a German GAAP measure) is calculated as EBITDA minus amortisation and depreciation of fixed intangible and tangible assets.
(3) Since 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 the prior period. Therefore, the presented cash flows for Q2 2015 and the period January - June 2015 differ from cash flows presented in the previous year.
(4) Free cash flow (not a German GAAP measure) is calculated as cash flows from operating activities plus cash flows from investing activities.
(5) Leverage (not a German GAAP measure) is calculated by dividing net financial debt as at 30 June 2016 and 31 December 2015, respectively, by EBITDA for the last twelve months (LTM) ended on the relevant date.
(6) Net financial debt (not a German GAAP measure) is calculated as financial liabilities (bank loans, bonds, finance leases and accrued interest) minus cash in hand, bank balances.

Highlights

- In the first half of 2016, we managed a strong start with considerable sales volume growth of corrugated board within our new production site PW9 and positive effects from the recently acquired CHP plant.

- In the first half of 2016, we again generated a strong increase in sales volume of our corrugated board business by 11.9% compared to the previous year's first half. Total sales volume of our containerboard business grew by 2.1%, resulting from an increase in internal sales volume by 11.6% in the first half of 2016, while external sales volume further declined by 15.6% as part of the ongoing integration process.

- Sales reached €378.5 mn in the first half of 2016, increasing by 10.7% compared to the previous year's first half. In the second quarter, sales grew by 11.5% to €189.0 mn.

- EBITDA rose by 34.7% to €94.6 mn in the first half of 2016. In the second quarter, EBITDA reached €43.1 mn, representing an increase of 14.9% compared to the previous year's same quarter.

- EBITDA margin increased by 4.5 percentage points compared to the previous year's first half to 25.0% in the first half of 2016, based on the growth path of our corrugated board business and positive effects from the CHP. In the second quarter of 2016, EBITDA margin achieved a slight increase to 22.8%.

- Following our strong operational performance, free cash flow rose by 5.6% to €78.3 mn in the first half of 2016, compared to €74.2 mn in the previous year. In the second quarter, free cash flow increased by 16.7% to €40.4 mn.

- As at 30 June 2016, net financial debt was decreased by 10.2% to €461.8 mn, after €514.5 mn as at 31 December 2015, primarily achieved by a redemption of the Floating Rate Notes (€40 mn) as well as an increase in cash in hand, provided by a strong cash generation.

- Leverage further decreased from 3.4 as at 31 December 2015 to 2.6 as at the end of the first half 2016, due to lower net financial liabilities in connection with a very strong EBITDA performance.


Bank of Thailand

Content

Letter to Investors

Dear investors and business partners,

we are delighted to share with you our interim report for the first half of the financial year 2016. After a good start into the new financial year, we produced continuous growth in the first and second quarter, resulting in a strong performance for the first half of 2016.

As anticipated, market conditions were less favourable regarding the price development. Prices passed their peak almost at the end of last year and decreased throughout the first half of 2016; however, they still remained on a slightly higher level for the first half compared to the prior year's first half. Total sales further increased in the first half, driven by a continuously strong performance of our prime growth driver corrugated board. The corrugated board sales volume rose by 11.9% compared to the previous year's first half of 2015. Due to the ongoing integration process of our businesses, a cornerstone of our strategy, our containerboard business declined in external sales volume by 15.6%, while the internal sales volume grew by 11.6%, resulting in a solid total increase in volume of 2.1% in the first half of 2016.

Total sales grew by 10.7% to €378.5 mn, after €341.8 mn in the first half of 2015. This increase was primarily fuelled by the continuously strong performance of our corrugated board business, including our new production site PW9. Further, sales were supported by our recently acquired CHP (combined heat and power) plant, providing €5.3 mn in external sales in the first half of 2016.

EBITDA achieved a strong increase by 34.7% to €94.6 mn, compared to €70.2 mn in the first half of 2015. In the second quarter, EBITDA increased by 14.9%, reaching €43.1 mn. The significant growth is primarily attributed to the strong sales performance in our corrugated board business as well as the contribution from the CHP plant. Compared to the previous year's first half, in average slightly higher prices further supported this increase. On the other hand, we already recognised approximately €6.5 mn in provisions for maintenance in the second quarter in order to prepare for scheduled downtimes of our paper machines and CHP during the coming quarter. In the first half of 2016, EBITDA margin rose to 25.0%, an increase by 4.5 percentage points compared to the previous year's first half. In the second quarter, we generated an EBITDA margin of 22.8%, slightly increased compared to 22.1% in the previous year's second quarter. Due to the scheduled downtimes in the second half of 2016 and the lower price levels, we expect an EBITDA margin around 23% for the entire financial year.

Resulting from our strong operational performance, consolidated net income grew further, reaching €42.5 mn in the first half of 2016, thus increasing by €32.5 mn compared to the first half of 2015. In the second quarter 2016 alone, consolidated net income increased to €19.2 mn from €-3.1 mn in the previous year's second quarter, which was impacted by a significant amount of extraordinary expenses in connection with our refinancing.

The first half of 2016 saw a strong increase in free cash flow by 5.6%, reaching €78.3 mn after €74.2 mn during the same period of 2015. This positive development is mainly attributed to our strong operational performance. Net financial debt as at the end of June 2016 amounted to €461.8 mn, after €514.5 mn at the end of December 2015. The considerable decrease by 10.2% resulted from a partial redemption of the Floating Rate Notes (€40 mn), further supported by an increase of cash in hand, reaching €31.4 mn after €20.8 mn at the end of 2015. As a result of diminishing debt, leverage decreased from 3.4 on 31 December 2015 to 2.6 at 30 June 2016.

The strong operational performance in the first half of 2016 underlines the success of our strategy to deliver best-in-class corrugated board products and services in close proximity to our customers. We continue to rely on our strategy of running cutting-edge technology and facilities of the highest technical standard, developed in a consistent greenfield approach.

Throughout the second half of 2016, we will continue our successful greenfield strategy, operating state-of-the-art facilities and providing tailor-made solutions for our key clients and business partners in their direct vicinity. In line with our strategic goals, our new fully automated corrugated board production facility PW10 in Trzcinica, Poland, is currently under construction in strategic partnership with local business partners. Due to slight delays in the acquisition process for the land, the new facility is expected to be launched at the beginning of 2017.

Yours sincerely,

Jürgen Heindl
Chief Executive Officer

Frank Gumbinger
Chief Financial Officer

Disclaimer

Financial Information

The unaudited consolidated financial information of Progroup AG ("Progroup") as at and for the period ended 30 June 2016 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, 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 leverage presented by us may not be comparable to similarly titled measures used by other companies.

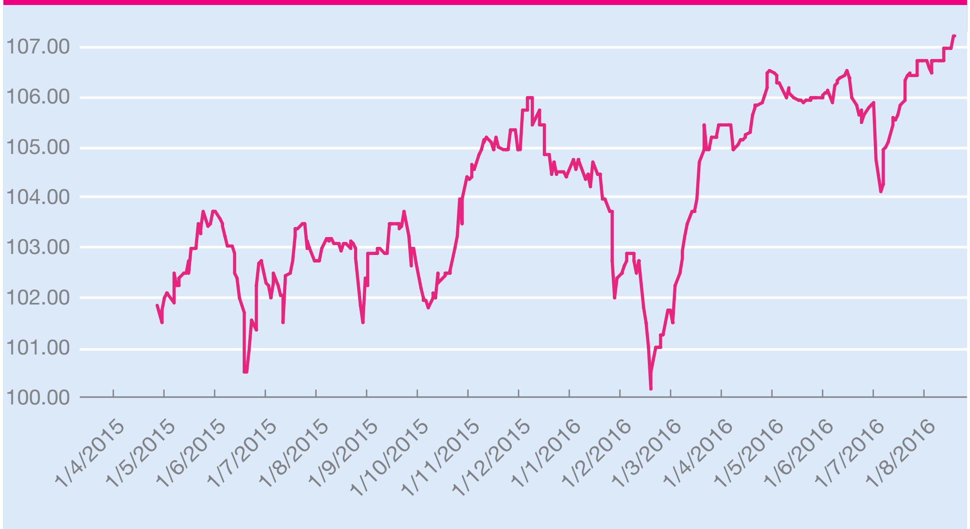
Capital Market Activities

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
Amount outstanding	€345,000,000	€110,000,000
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

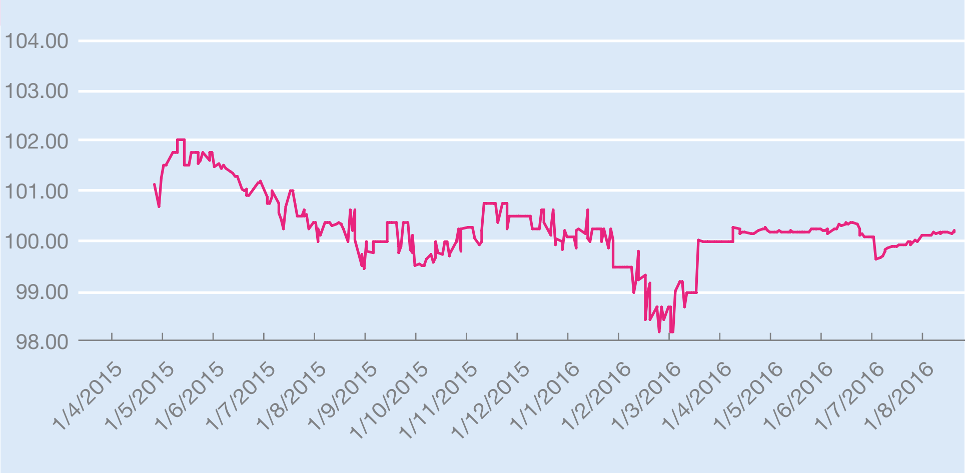
Under the conditions of issue (the "Conditions of Issue") governing our senior secured floating rate notes due 2022 (the "Floating Rate Notes"), we have the option to early redeem all or a part of the Floating Rate Notes at a redemption price equal to 101.00% of any Floating Rate Notes so redeemed, plus accrued and unpaid interest thereon up to, but excluding, the relevant redemption date. On 30 June 2016, we already redeemed €40 mn in principal amount of Floating Rate Notes, so that €110 mn in principal amount of Floating Rate Notes currently remain outstanding. On 10 August 2016, we exercised our option to redeem a further €35 mn in principal amount of the outstanding Floating Rate Notes on 30 September 2016 (the "Redemption Date"). Following such further partial redemption on the Redemption Date, the aggregate principal amount of the Floating Rate Notes outstanding will be €75 mn. We propose to redeem the additional €35 mn in principal amount of Floating Rate Notes using a portion of our cash in hand.

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

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 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, 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 1,050,000 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/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 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.

Recent Developments

Under construction:
PW10 in Trzcinica, Poland

Investment in the construction of new Prowell plant

In 2016, we will continue our successful greenfield strategy, operating state-of-the-art facilities and providing made-to-measure solutions in close proximity to our key customers and business partners. For this reason, we continue our commitment to growth by establishing a new, fully automated corrugated board production facility PW10 in Trzcinica, Poland. The new facility will be constructed as part of a strategic partnership with local business partners. At the time of the project start, we planned to launch the new facility towards the year-end of 2016. Due to slight delays in the acquisition process for the land, the new facility is expected to be launched at the beginning of 2017.

Market Developments

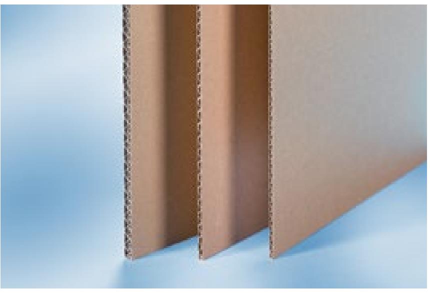
Demand for our products is generally driven by the level of economic growth and activity, since these factors typically result in higher per capita use of packaging materials through higher rates of consumption and transportation of goods. An increase in usage of packaging materials results in increasing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

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

Prices for recycled paper, our primary raw material for the production of recycled containerboard, were higher during the first half of 2016 compared to the prior year's first half. The average price per ton for recycled paper grades we purchased was approximately €123 in the first half of 2016, compared to €112 in the first half of 2015. During the second quarter 2016, the price level for recycled paper slightly increased. The average price per ton during the second quarter 2016 was approximately €126, after €121 in the first quarter (Q2 2015: €114).

Recycled paper

Containerboard



Corrugated board

Concerning the volume of Propapier's recycled containerboard sold externally, the average price was approximately €388 per ton in the first half 2016, after an average of €368 per ton in the prior year's first half (for the overall product portfolio mix sold externally) and therefore still on a higher level compared year-on-year. However, since the middle of the first quarter, prices for containerboard decreased in most European markets including Germany. The average price in the second quarter was approximately €374 per ton, after €402 per ton in the first quarter (Q2 2015: €369).

Since containerboard prices decreased during the second quarter 2016, prices for corrugated board products of Prowell typically followed this development. In the second quarter of 2016, Prowell's average price for corrugated board was approximately €639 per ton, after €663 per ton in the first quarter (Q2 2015: €650). In the first half of 2016, Prowell's average price was approximately €651 per ton and slightly above the level of the first half of 2015 (€646 per ton).

Results of Operations

Key operating figures (in € thousands)	April – June 2016	April – June 2015	January – June 2016	January – June 2015
Sales	188,980	169,508	378,489	341,798
EBITDA	43,068	37,492	94,604	70,238
EBITDA margin (in % of net sales)	22.8%	22.1%	25.0%	20.5%
EBIT	31,307	30,233	70,944	55,873
Consolidated net income for the period	19,163	-3,095	42,534	9,962

Sales volume (in thousands of tons)	April – June 2016	April – June 2015	January – June 2016	January – June 2015
Corrugated board	**238.5**	**206.6**	**468.7**	**418.9**
Containerboard	**269.0**	**261.1**	**524.4**	**513.7**
– thereof external	77.0	88.7	151.7	179.8
– thereof internal	192.0	172.4	372.7	333.9

The corrugated board business is our main external sales driver. We were able to increase our sales volume of corrugated board by 15.4% (+31.9 thousand tons) in the second quarter 2016, compared to the prior year's same quarter. In the six months ended 30 June 2016, the volume sold could be increased by 11.9% (+ 49.8 thousand tons) compared to the prior year's same period.

Total sales volume of containerboard slightly increased by 3.0% (+7.9 thousand tons) in the second quarter of 2016, compared to the prior year's second quarter. The higher sales volume of corrugated board sold led to a significantly higher internal usage of containerboard (+11.4% or 19.6 thousand tons) and thus to a further decrease in the external volume sold (-13.2% or -11.7 thousand tons). In the six months ended 30 June 2016, sales volume of containerboard increased by 2.1% or 10.7 thousand tons compared to the prior year's same period. Internal volume rose by 11.6%, while external volume decreased by 15.6%.

Based on this development, the level of integration of our containerboard and corrugated board businesses increased from 66% in the second quarter of 2015 to 71% in the same quarter of 2016.

Sales (in € thousands)	**April – June**		**January – June**	
	2016	**2015**	**2016**	**2015**
Corrugated board	152,454	134,240	304,975	270,620
Containerboard	28,818	32,703	58,856	66,105
Other	7,708	2,565	14,658	5,073
Total Sales	**188,980**	**169,508**	**378,489**	**341,798**

Total sales increased by 11.5% (€19.5 mn) to €189.0 mn in the second quarter of 2016, compared to €169.5 mn in the same quarter of the prior year. This increase in sales is mainly attributable to a significant increase in corrugated board sales as a result of the higher volume sold. At the same time, our sales of containerboard decreased by 11.9% (€3.9 mn), due to the lower external volume sold, even with a 1.4% higher price level in comparison to the prior year's second quarter. In the six months ended 30 June 2016, sales increased by 10.7%, also primarily driven by the higher volume of corrugated board. Other sales increased, mainly as a result of certain changes to German GAAP related to the implementation of the "BilRUG". The reclassification of several positions from other operating income had a positive impact on other sales (€3.8 mn for Q2 2016; €7.1 mn for H1 2016). The relevant 2015 figures are not reclassified. See also the related discussion with regard to our other operating income below. For more detailed information, see also the section "Additional Explanatory Information – Accounting policies".

Other operating income (in € thousands)	**April – June 2016**	**April – June 2015**	**January – June 2016**	**January – June 2015**
Investment subsidies	47	107	87	214
Income from passing through the costs of gas	0	2,724	0	4,737
Income from sales of refuse-derived fuel and fuel oil	0	1,408	0	2,904
Income from exchange rate differences	290	2,347	933	4,450
Income from other periods	2,801	1,059	4,757	5,924
Extraordinary income*	0	0	0	0
Other income	256	395	1,624	1,146
Other operating income	**3,394**	**8,040**	**7,401**	**19,375**

*please refer to the footnote presented at the end of the section “Results of Operations” on page 23

Other operating income significantly decreased by 57.8% (€4.6 mn) to €3.4 mn in the second quarter 2016, resulting from lower income from exchange rate differences and effects based on changes in German GAAP related to the implementation of the “BilRUG”. Among other changes, the “BilRUG” required us to reclassify certain items (e.g. income from passing through the costs of gas and income from sales of refuse-derived fuel), which we now report as other sales within the income statement item sales. The relevant 2015 figures (income from passing through the costs of gas, income from sales of refuse-derived fuel and others) were not reclassified (€4.3 mn). See also the related discussion with regard to our sales above. Regarding the six months ended 30 June 2016, other operating income also decreased significantly (-61.8% or €-12.0 mn), mainly driven by the abovementioned facts.

Costs of materials (in € thousands)	**April – June 2016**	**April – June 2015**	**January – June 2016**	**January – June 2015**
Cost of raw materials, consumables and supplies	77,742	64,342	153,847	130,835
Cost of purchased services	15,073	28,877	30,416	56,713
Cost of materials	**92,816**	**93,220**	**184,264**	**187,548**

Costs of materials are almost on the same level, respectively decreased by 0.4% (€0.4 mn) to €92.8 mn in the second quarter of 2016. Significantly lower costs of purchased services (-47.8%) in terms of lower energy costs as a result of the CHP integration were almost offset by higher costs for raw materials and supplies. In the second quarter of 2015, costs for purchased services contained a considerable amount of costs for steam for our paper machine PM2, based on charges under the long-term contract with EnBW Propower GmbH. Following the acquisition of the CHP, the related charges were mainly replaced by costs of raw materials and supplies, personnel expenses and other operating expenses. The increase of costs of raw materials and supplies by 20.8% in the second quarter 2016 primarily results from a higher consumption volume and higher prices for recycled paper, as well as a higher consumption of external purchased containerboard and from costs for ash and reject disposal related to the operation of the CHP. In the six months period ended 30 June 2016, costs of materials decreased by 1.8% (€3.3 mn) since increasing prices for recycled paper mainly affected the second quarter.

Personnel expenses (in € thousands)	**April – June 2016**	**April – June 2015**	**January – June 2016**	**January – June 2015**
Wages und salaries	13,502	12,119	26,464	23,394
Social security and pensions	2,285	2,196	4,633	4,238
- thereof for pension expenses	61	47	113	86
Personnel expenses	**15,786**	**14,315**	**31,098**	**27,633**

Personnel expenses increased by 10.3% (€1.5 mn) to €15.8 mn in the second quarter 2016. This increase is mainly attributable to a higher average number of employees, in particular as a result of the launch of our new corrugated board site PW9 and the CHP integration. Regarding the six months period ended 30 June 2016, personnel expenses increased by 12.5%, mainly driven by the abovementioned effects.

Other operating expenses (in € thousands)	**April – June** 2016	2015	**January – June** 2016	2015
Maintenance and repair	13,567	6,106	21,446	18,154
Freight expenses	15,747	15,085	31,158	30,255
Paper machine clothings	999	1,244	2,827	2,769
Rental and leasing costs	1,543	1,396	3,141	2,772
Water and waste water treatment	1,616	1,214	3,291	2,525
Legal and consulting fees	721	382	1,059	726
Expenses from exchange rate differences	924	1,591	2,055	2,001
Expenses from other periods	60	179	1,261	1,723
Extraordinary expenses*	15	28,201	833	31,183
Others	4,286	4,681	8,605	10,440
Other operating expenses	**39,478**	**60,079**	**75,676**	**102,548**

*please refer to the footnote presented at the end of the section “Results of Operations” on page 23

Other operating expenses decreased significantly by 34.3% (€20.6 mn) to €39.5 mn in the second quarter 2016, primarily due to the considerable extraordinary expenses in the second quarter of 2015 incurred from our refinancing. This decrease in other operating expenses was partly offset by higher costs for maintenance. In preparation for measures scheduled for the third quarter 2016 we already recognised approximately €6.5 mn in provisions for maintenance. Due to changes to German GAAP related to the implementation of the “BilRUG”, we are required to classify any extraordinary expenses as other operating expenses since 2016. Looking at the six months period ended 30 June, the development of other operating expenses (-26.2% or €-26.9 mn) is also mainly influenced by the considerable amount of extraordinary expenses in 2015.

Results of operations (in € thousands)	**April – June** 2016	2015	**January – June** 2016	2015
EBITDA	**43,068**	**37,492**	**94,604**	**70,238**
Amortisation and depreciation of fixed assets	-11,761	-7,259	-23,660	-14,365
Interest net result	-6,997	-5,066	-13,479	-10,867
*Extraordinary positions (other operating income/expenses)**	-15	-28,201	-833	-31,183
Taxes on income	-5,131	-62	-14,098	-3,861
Consolidated net income for the period	**19,163**	**-3,095**	**42,534**	**9,962**

*please refer to the footnote presented at the end of the section “Results of Operations” on page 23

In the second quarter of 2016, EBITDA increased by 14.9% (€5.6 mn) to €43.1 mn. The EBITDA margin reached 22.8% (Q2 2015: 22.1%) and continues to exceed our current three-year average. Regarding the first half of 2016, EBITDA increased by 34.7% (€24.4 mn) to €94.6 mn through our strong sales performance and effects from the integration of the CHP.

Amortisation and depreciation increased significantly by 62.0% (€4.5 mn) to €11.8 mn in the second quarter 2016, mainly as a result of the additional fixed assets we acquired and recorded as part of the CHP Acquisition.

The interest net result declined by 38.1% (€1.9 mn) to €-7.0 mn in the second quarter, mainly as a result of the higher amount of financial liabilities since the CHP Acquisition in December 2015 (financial liabilities amounted to €493.2 mn as at 30 June 2016, compared to €408.1 mn as at 30 June 2015).

Following the implementation of the "BilRUG", extraordinary income/expenses are not separate income statement items any more and are reclassified as other operating income/expenses. We show EBITDA without adding/deducting extraordinary income/expenses to ensure consistency and comparability with our EBITDA reported for prior periods.

In the second quarter of 2016, taxes on income increased by €5.0 mn to €5.1 mn. In 2015, almost no taxes on income had to be recognised, mainly based on the considerable impact of the extraordinary expenses in connection with our refinancing. This fact also led to the negative consolidated net income (€-3.1 mn) in the second quarter of the prior year. In 2016 consolidated net income increased by €22.3 mn to €19.2 mn.

* Since the "BilRUG" abolished the income statement item "extraordinary net income/loss" and therefore also "extraordinary income" and "extraordinary expenses" as separate income statement items, any items we might previously have recognised under "extraordinary income" or "extraordinary expenses", respectively, we are now required to recognise under either "other operating income" or "other operating expenses". Fore more detailed information about changes resulting from the "BilRUG", please refer to the section "Additional Explanatory Information".

Net Asset Position

The following statements describe the main changes in the balance sheet as at 30 June 2016 compared to 31 December 2015.

As at 30 June 2016, **fixed assets** amounted to €641.2 mn, after €657.5 mn as at 31 December 2015, decreased (2.5%) as a result of amortisation and depreciation.

The increase of €2.1 mn or 2.8% in **inventories** to €77.1 mn is primarily due to a higher quantity of raw materials and supplies of spare parts and a higher quantity of finished goods.

Trade receivables increased by €9.5 mn or 16.5% to €67.1 mn as at 30 June 2016, mainly in connection with our higher sales.

Other assets decreased by €9.2 mn or 36.9% to €15.7 mn as at 30 June 2016, mainly as a result of the settlement of receivables related to the refunding of energy tax related to prior years and lower sales tax prepayments, partly as a result of reporting date factors.

Cash in hand, bank balances increased from €20.8 mn as at 31 December 2015 to €31.4 mn as at 30 June 2016, based on our strong cash generation.

Prepaid expenses and deferred charges increased by €1.8 mn to €2.8 mn as at 30 June 2016, primarily in connection with prepaid insurance premiums.

As at 30 June 2016, **deferred taxes** decreased by €1.4 mn to €4.3 mn, mainly due to the usage of interest carryforwards in connection with the positive EBITDA development in the first half of 2016.

Shareholder's equity increased by 15.7% from €208.6 mn as at 31 December 2015 to €241.3 mn as at 30 June 2016 as a result of consolidated net income, reduced by distribution of dividends and negative exchange rate influences.

The decrease in **other provisions** by €5.1 mn or 10.8% to €41.8 mn mainly results from provisions for outstanding invoices in connection with the CHP Acquisition in December 2015.

Bonds decreased by €40.0 mn to €455.0 mn as at 30 June 2016 in connection with a partial redemption of our Floating Rate Notes.

As at 30 June 2016, **bank loans** decreased by €11.8 or 32.6% to €24.4 mn, primarily resulting from a reclassification of the (former) bank loan relating to PW9 to the balance sheet item other liabilities. This bank loan was transferred into a finance lease agreement in the first quarter of 2016 and therefore has to be disclosed as 'other liability' under the applicable accounting policies.

The increase in **trade payables** by €8.2 mn or 25.0% to €41.0 mn as at 30 June 2016 is due to working capital management as well as one-off effects as a result of reporting date factors.

The increase in **other liabilities** by €9.7 mn to €22.0 mn as at 30 June 2016 is mainly related to the abovementioned reclassification of the (former) bank loan.

Financial Position

Summary of cash flows (in € thousands)	April – June 2016	April – June 2015	January – June 2016	January – June 2015
Cash flows from operating activities	47,168	40,893	87,704	83,198
Cash flows from investing activities	-6,810	-6,301	-9,355	-9,005
Free cash flow	**40,358**	**34,592**	**78,349**	**74,193**
Cash flows from financing activities	-58,067	5,554	-65,693	-32,344

Since 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 the prior period. Therefore, the presented cash flows for Q2 2015 and the period January - June 2015 differ from cash flows presented in the previous year.

Following our strong sales performance, our cash flows from operating activities increased by €6.3 mn to €47.2 mn in the second quarter of 2016 compared to the prior year's same period.

Cash flows from investing activities amounted to €-6.8 mn in the second quarter of 2016 and are mainly attributable to the construction of our new corrugated board plant PW10 in Poland (€4.6 mn). Furthermore, we had several smaller investments in different plants as part of our continuous maintenance capital expenditures. In the second quarter of the previous year, cash outflows showed a similar amount due to the PW9 constructions then conducted.

Free cash flow, calculated as cash flows from operating activities plus cash flows from investing activities, increased, driven by the higher cash flows from operating activities.

Cash outflows from financing activities in the second quarter of 2016 were mainly related to the partial redemption of the Floating Rate Notes (€40 mn), interest paid (€12.0 mn) and dividends paid (€6.2 mn). Interest paid mainly concerns the interest payments for our Fixed Rate and Floating Rate Notes in May. Regarding the first half of 2016, the main difference to Q2 is made up by extraordinary expenses paid, which are related to costs (transaction costs, advisory and professional fees and others) in connection with the CHP Acquisition in December 2015.

Cash funds (cash in hand, bank balances) increased by €10.6 mn and amounted to €31.4 mn as at 30 June 2016, compared to €20.8 mn as at 31 December 2015.

In order to finance the investment in our new Prowell plant PW10, in accordance with the currency requirements our Polish subsidiary Prowell sp.z o.o. raised a loan amounting to PLN107.0 mn in May 2016. As at 30 June 2016 this loan was not utilised.

Under the conditions of issue (the "Conditions of Issue") governing our senior secured floating rate notes due 2022 (the "Floating Rate Notes"), we have the option to early redeem all or a part of the Floating Rate Notes at a redemption price equal to 101.00% of any Floating Rate Notes so redeemed, plus accrued and unpaid interest thereon up to, but excluding, the relevant redemption date. On 30 June 2016, we already redeemed €40 mn in principal amount of Floating Rate Notes, so that €110 mn in principal amount of Floating Rate Notes currently remain outstanding. On 10 August 2016, we exercised our option to redeem a further €35 mn in principal amount of the outstanding Floating Rate Notes on 30 September 2016 (the "Redemption Date"). Following such further partial redemption on the Redemption Date, the aggregate principal amount of the Floating Rate Notes outstanding will be €75 mn. We propose to redeem the additional €35 mn in principal amount of Floating Rate Notes using a portion of our cash in hand.

Unaudited Consolidated Interim Financial Information

30 June / Q2 2016

Consolidated Balance Sheet

Assets

	Assets (in € thousands)	30/06/2016*	31/12/2015
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	23,572	24,737
		23,572	**24,737**
II.	**Tangible assets**		
1.	Land and buildings including buildings on leasehold land	178,691	183,689
2.	Technical equipment and machinery	423,071	437,426
3.	Other equipment, factory and office equipment	6,122	6,417
4.	Prepayments and constructions in process	9,751	5,179
		617,635	**632,712**
III.	**Financial assets**		
1.	Shares in affiliated companies	37	37
		37	**37**
		641,244	**657,486**
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials, consumables and supplies	48,785	45,908
2.	Work in process	22,154	24,339
3.	Finished goods	5,998	4,649
4.	Prepayments	183	129
		77,121	**75,025**
II.	**Receivables and other assets**		
1.	Trade receivables	67,089	57,593
2.	Receivables from affiliated companies	32	30
3.	Other assets	15,684	24,844
		82,804	**82,467**
III.	**Cash in hand, bank balances**	**31,398**	**20,762**
		191,323	**178,254**
C.	**Prepaid expenses and deferred charges**	**2,752**	**922**
D.	**Deferred taxes**	**4,311**	**5,694**
	Total assets	**839,629**	**842,355**

* Unaudited consolidated interim financial information

Consolidated Balance Sheet

Equity and Liabilities

	Equity and Liabilities (in € thousands)	30/06/2016*	31/12/2015
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	-2,658	910
5.	Consolidated net retained profits	159,596	123,284
		241,348	**208,604**
B.	**Investment grants for fixed assets**	**3,063**	**2,459**
C.	**Provisions**		
1.	Provisions for pensions	129	70
2.	Tax provisions	5,746	2,336
3.	Other provisions	41,776	46,842
		47,651	**49,247**
D.	**Liabilities**		
1.	Bonds	455,000	495,000
2.	Bank loans	24,392	36,210
3.	Trade payables	40,980	32,784
4.	Other liabilities	21,992	12,311
		542,365	**576,305**
E.	**Deferred income**	**5,203**	**5,740**
	Total equity and liabilities	**839,629**	**842,355**

* Unaudited consolidated interim financial information

Consolidated Income Statement

	Consolidated Income Statement (in € thousands)	April – June* 2016	April – June* 2015	January – June* 2016	January – June* 2015
1.	Sales	188,980	169,508	378,489	341,798
2.	Increase/decrease in finished goods and work in process	-1,362	-295	-836	-3,707
3.	Other own work capitalised	488	0	488	0
4.	Other operating income	3,394	8,040	7,401	19,375
5.	Costs of materials				
a)	Costs of raw materials, consumables and supplies	-77,742	-64,342	-153,847	-130,835
b)	Costs of purchased services	-15,073	-28,877	-30,416	-56,713
		-92,816	-93,220	-184,264	-187,548
6.	Personnel expenses				
a)	Wages and salaries	-13,502	-12,119	-26,464	-23,394
b)	Social security and pensions	-2,285	-2,196	-4,633	-4,238
		-15,786	-14,315	-31,098	-27,633
7.	Amortisation and depreciation of fixed intangible and tangible assets	-11,761	-7,259	-23,660	-14,365
8.	Other operating expenses	-39,478	-60,079	-75,676	-102,548
9.	Other interest and similar income	42	34	102	111
10.	Interest and similar expenses	-7,040	-5,099	-13,581	-10,978
11.	Taxes on income	-5,131	-62	-14,098	-3,861
12.	**Earnings after taxes**	**19,531**	**-2,747**	**43,269**	**10,644**
13.	Other taxes	-368	-347	-735	-682
14.	**Consolidated net income for the period**	**19,163**	**-3,095**	**42,534**	**9,962**
15.	Consolidated unappropriated retained earnings brought forward			117,062	76,687
16.	**Consolidated net retained profits**			**159,596**	**86,649**

* Unaudited consolidated interim financial information

Since changes have been introduced to German GAAP by the “BilRUG” with regard to the preparation of financial information for any period beginning after 31 December 2015, the structure of the presented income statement changed. For more detailed information please refer to the section “Additional Explanatory Information”.

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement (in € thousands)		April – June*		January – June*	
		2016	2015	2016	2015
1.	**Cash flows from operating activities**				
	Consolidated net income for the period	19,163	-3,095	42,534	9,962
	Amortisation and depreciation of fixed assets	11,761	7,259	23,660	14,365
	Increase (+)/decrease (-) in provisions	4,782	-10,848	467	-6,984
	Other non-cash expenses (+)/income (-)	419	-909	-491	-874
	Increase (-)/decrease (+) in inventories, trade receivables and other assets**	2,958	-503	-5,042	5,867
	Increase (+)/decrease (-) in trade payables and other liabilities**	1,390	17,818	7,533	18,254
	Interest expenses (+)/income (-)	6,997	5,066	13,479	10,867
	Extraordinary expenses (+)/income (-)	15	28,201	833	31,183
	Income tax expenses (+)/income (-)	5,131	62	14,098	3,861
	Income taxes paid (-)	-5,448	-2,158	-9,367	-3,303
	Cash flows from operating activities	**47,168**	**40,893**	**87,704**	**83,198**
2.	**Cash flows from investing activities**				
	Proceeds (+) from disposal of intangible and tangible fixed assets	8	8	35	10
	Payments (-) to acquire intangible fixed assets	-74	-225	-260	-370
	Payments (-) to acquire tangible fixed assets	-6,786	-6,111	-9,192	-8,741
	Interest received (+)	42	27	62	96
	Cash flows from investing activities	**-6,810**	**-6,301**	**-9,355**	**-9,005**
3.	**Cash flows from financing activities**				
	Proceeds (+) from the issuance of bonds and borrowings	0	404,116	0	404,116
	Cash repayments (-) of bonds and borrowings	-40,078	-365,158	-40,688	-394,135
	Proceeds (+) of grants received	313	0	313	0
	Extraordinary expenses paid (-)	-119	-20,390	-5,147	-23,872
	Interest paid (-)	-11,961	-1,632	-13,949	-7,071
	Dividends paid to shareholders of the parent entity (-)	-6,222	-11,382	-6,222	-11,382
	Cash flows from financing activities	**-58,067**	**5,554**	**-65,693**	**-32,344**
4.	**Cash funds at end of period**				
	Net change in cash funds	-17,709	40,146	12,656	41,849
	Effect on cash funds of exchange rate movements	-1,455	185	-2,020	355
	Cash funds at beginning of period	50,562	20,631	20,762	18,758
	Cash funds at end of period	**31,398**	**60,962**	**31,398**	**60,962**
5.	**Composition of cash funds**				
	Cash and cash equivalents	31,398	60,962	31,398	60,962
	Cash funds at end of period	31,398	60,962	31,398	60,962

* Unaudited consolidated interim financial information

** Not attributable to financing activities

Since 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 the prior period. Therefore, the presented cash flows for Q2 2015 and the period January - June 2015 differ from cash flows presented in the previous year.

Consolidated Statement
of Changes in Equity

Consolidated Statement of Changes in Equity (in € thousands)	**Subscribed capital**	**Capital reserve**	**Consolidated equity generated**		**Currency translation adjustment**	**Group equity**
			Revenue reserves	**Consolidated net retained profits**		
1 January 2016	**7,588**	**75,414**	**1,408**	**123,284**	**910**	**208,604**
Consolidated net profit for the period	0	0	0	42,534	0	42,534
Distribution of profit	0	0	0	-6,222	0	-6,222
Other changes	0	0	0	0	-3,568	-3,568
30 June 2016*	**7,588**	**75,414**	**1,408**	**159,596**	**-2,658**	**241,348**

* 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 30 June 2016 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 2015, except to the extent relevant changes have been introduced to German GAAP by the *Bilanzrichtlinie-Umsetzungsgesetz* ("BilRUG") with regard to the preparation of financial information for any period beginning after 31 December 2015. The following is just a brief summary of the key changes introduced by the BilRUG that affect Progroup AG and the presentation of its financial information, as reflected in the consolidated interim information for the period ended 30 June 2016 included in this report.

In connection with the implementation of the changes introduced by the BilRUG, we made certain changes to the presentation of our income statement. In particular, we will not report "profit/loss on ordinary activities" and "extraordinary net income/loss" separately anymore and, as a result, also will not separately report "extraordinary income" and "extraordinary expenses" anymore. Instead, we now report "earnings after taxes" as a new line item.

In addition, the BilRUG introduced a new definition of "sales". As a result, we are now required to reclassify certain items as "sales" that we would previously have classified as "other operating income". The BilRUG does not require us to restate our financial information for any periods prior to 1 January 2016 to reflect this change. We have therefore not restated our sales and other operating income for the prior-year period. Instead, we have included relevant explanatory information in the notes to our consolidated interim financial information as at and for the period ended 30 June 2016.

Because the BilRUG abolished the income statement item “extraordinary net income/loss” and therefore also “extraordinary income” and “extraordinary expenses” as separate items, any items we might previously have recognised under “extraordinary income” or “extraordinary expenses”, respectively, we are now required to recognise under either “other operating income” or “other operating expenses”. With regard to this particular change, the BilRUG does require us to restate our financial information for the corresponding prior-year period. As a result, “other operating income” and “other operating expenses” for the period ended 30 June 2015 as reported in the consolidated interim financial information included in this report have been restated to include all relevant items we have previously reported as “extraordinary income” and “extraordinary expenses”, as applicable. As a result, the prior-period information for the period ended 30 June 2015 as presented in the consolidated interim financial information included in this report differs from our previously reported figures for such period.

For more detail on how these changes have affected the presentation of our results of operations for the period ended 30 June 2016, see section “Results of Operations”.

Beside the changes introduced by the BilRUG as described above, please also refer to the notes to the audited consolidated financial statements for the year ended 31 December 2015 for a detailed description of our significant accounting policies.

Scope of consolidation

In the period ended 30 June 2016, there have been no changes in the scope of consolidation compared to the year ended 31 December 2015. We began consolidating our new subsidiary Propower GmbH upon completion of the CHP Acquisition effective as of midnight on 31 December 2015. As a result, the results of operation of Propower GmbH are included for the first time in our income statement for the period ended 30 June 2016.

Information on material risks

As at 30 June 2016, there are no significant changes with regard to the risks for Progroup compared with the year ended 31 December 2015 and described in the respective annual financial statements.

Prowell corrugated board plant in Rokycany, Czech Republic

Legal Notice and Information

www.progroup.ag

www.ir.progroup.ag

Progroup AG
Horstring 12
76829 Landau
Germany

Phone: +49 (0) 6341 / 55 76-0
Fax: +49 (0) 6341 / 55 76-109

ir@progroup.ag
www.ir.progroup.ag

Commercial Register:
Amtsgericht Landau, HRB Nr. 2268

Board:
Jürgen Heindl (CEO, Chairman)
Frank Gumbinger (CFO)

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The Power of Innovation