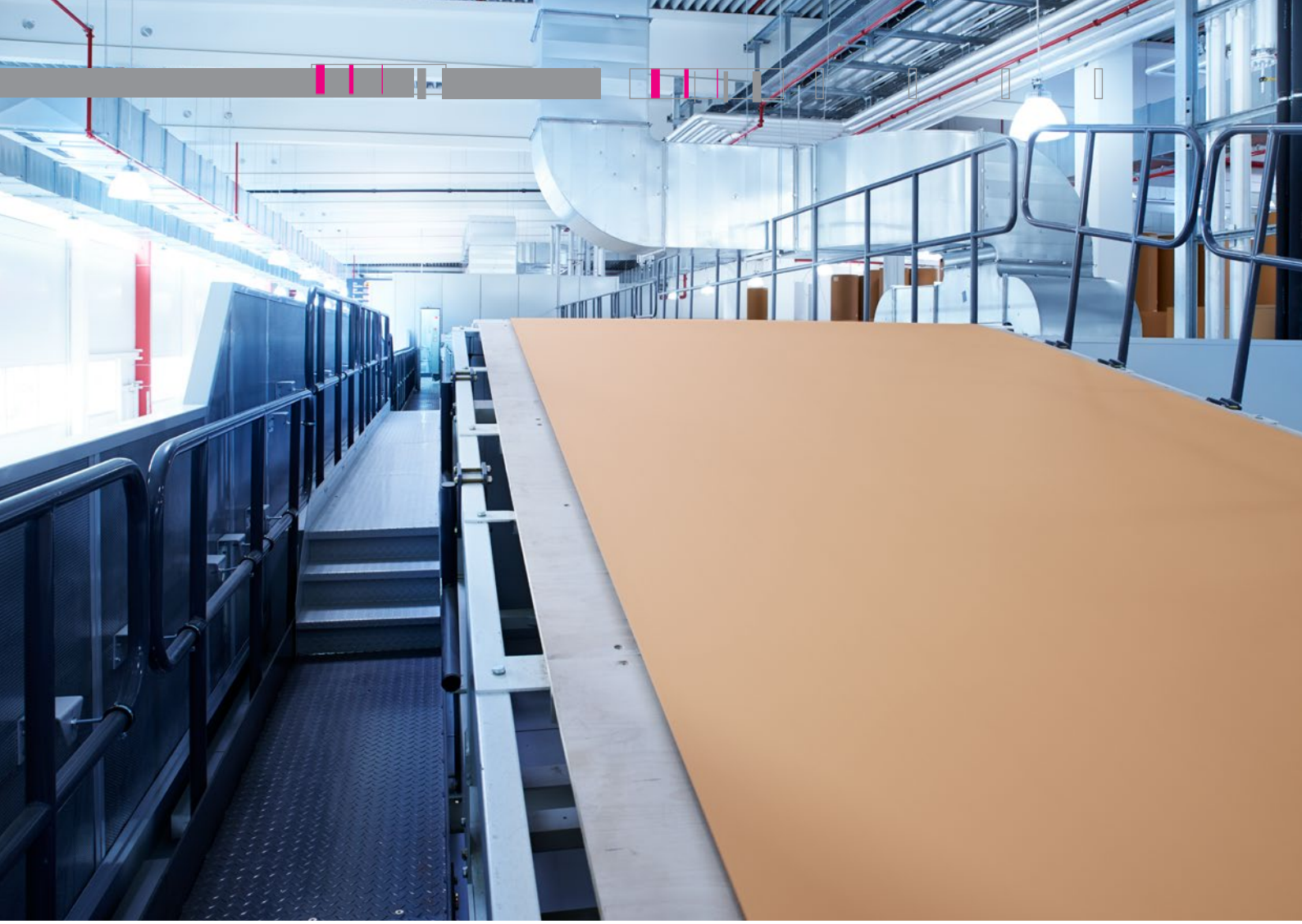


Progroup
Interim Financial Report

30 June / Second Quarter 2017

pro group

The Power of Innovation

Key Figures

Key operating figures (in € thousands)	April – June		January – June	
	2017	2016	2017	2016
Sales	190,956	188,980	384,473	378,489
Reported EBITDA [1]	41,822	43,068	82,137	94,604
Reported EBITDA margin (in % of net sales)	21.9%	22.8%	21.4%	25.0%
EBIT [2]	28,878	31,307	57,350	70,944
Consolidated net income for the period	16,149	19,163	30,933	42,534
Cash flows from operating activities	42,820	47,168	52,028	86,664
Cash flows from investing activities	-7,930	-6,810	-19,616	-9,355
Free cash flow [3]	34,890	40,358	32,412	77,309

Key balance sheet figures (in € thousands)	30/06/2017	31/12/2016
Total assets	903,242	836,815
Equity	237,441	259,609
Cash in hand, bank balances	95,356	37,370
Financial liabilities (bonds, bank loans, finance leases and accrued interest)	553,168	458,799

Key financial figures (in € thousands)	30/06/2017	31/12/2016
Net leverage [4]	2.9	2.5
LTM adjusted EBITDA [5]	158,258	170,725
Net financial debt [6]	457,813	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 30 June 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 half of 2017 saw a good and further normalised performance compared to the exceptionally strong first half of 2016.

- Sales increased by 1.6% to €384.5 mn in the first half of 2017, after €378.5 mn in 2016. This growth was driven by the continued strong performance of the corrugated board business.

- Sales volume saw a continued increase in the corrugated board business, while sales volume in the containerboard business declined. Sales volume of corrugated board increased substantially by 6.3% in the first half of 2017. Within the same timeframe, total sales volume of containerboard decreased by 3.2%, due to program-related capacity limitations. As the integration of both businesses continued, internal sales volume of containerboard grew further by 2.3%, while external sales volume declined by 16.7%.

- The integration between the corrugated board business and the containerboard business was further increased throughout the first half of 2017, with a new peak of 76% in the second quarter 2017. Including swap agreements with other containerboard suppliers, integration reached 87%.

- In the first half of 2017, price levels for recycled paper increased significantly. After a normalisation of prices for corrugated board and containerboard throughout the previous year, price levels of both products saw an anticipated significant increase. Due to time lags in passing on price developments to customers, the increase in price levels showed a first significant effect on the result towards the end of the second quarter of 2017 with further slight upward adjustments to be expected throughout the upcoming quarters.

- EBITDA decreased by 13.2% to €82.1 mn in the first half of 2017. In the second quarter of 2017, EBITDA of €41.8 mn was almost on the level of the previous year's second quarter (€43.1 mn). The decline was primarily attributed to margin pressure resulting from increased resource prices and normalised price levels for the main products, i.e. corrugated board and containerboard in the first quarter, with EBITDA stabilised further in the second quarter of 2017. EBITDA margin reached 21.4% in the first half of 2017, just above the three-year-average of around 21%. After an exceptional first half of 2016 with an equally exceptional EBITDA margin of 25.0%, market conditions normalised throughout the past quarters.

- Net financial debt increased to €457.8 mn on 30 June 2017, after €421.4 mn on 31 December 2016, with the successful placement of a €150 mn Floating Rate Note issued in March. The proceeds were used to finance the redemption of existing Floating Rate Notes of €75 mn in May 2017, and are available for investments in the new production sites in Italy and the UK.

- Leverage increased from 2.5 at the end of 2016 to 2.9 on 30 June 2017 due to the successful issuance of new Floating Rate Notes in March 2017 and the usage of a Senior Secured PLN Facility. Further, a special dividend of approximately €55 mn was distributed in April 2017, allowing JH-Holding to purchase approximately €44 mn of PIK Toggle Notes. As JH-Holding is the parent company of Progroup, the transactions were intended to optimise the finance structure of the entire group.

- The new production site PW10 in Trzcinica, Poland, started commercial production on schedule in the second quarter of 2017 and already runs on high capacity utilisation. Further, the construction of the new production sites PW11 and PW12 in Italy and the UK are well underway and are expected to be finalised within schedule.

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 2017. Throughout the first half of 2017, we successfully started commercial production of our newly constructed production site PW10 in Trzcinica, Poland, in the beginning of April 2017. It now already runs on high capacity utilisation. Further, the construction of the new production sites PW11 and PW12 in Italy and the UK are well underway and are expected to be finalised within schedule.

Market conditions saw the expected improvement in the first half of 2017, while maintaining a positive outlook. After a significant increase in the first quarter of 2017, prices for recycled paper rose further in the second quarter. Similarly, after a normalisation process throughout the financial year of 2016, prices for both corrugated board and containerboard increased strongly throughout the first half of 2017. While rising resource prices directly impacted our results, the subsequent price adjustments for corrugated board and containerboard only started to show effect towards the end of the second quarter of 2017 due to time lag effects in passing on the new price level to customers. Further slight positive effects of increasing price levels for our products are expected throughout the upcoming quarters, resulting in a continued positive outlook.

In the first half of 2017, we continued the strong growth in sales volume of our main growth driver corrugated board with an increase of 6.3%. Total containerboard sales volume slightly decreased by 3.2%. While internal sales volume increased by 2.3%, external sales volume declined by 16.7%. The decline in total sales volume of containerboard is mainly attributed to program-related capacity limitations. Integration between both of our businesses, corrugated board and containerboard continued, reached 87% including swap agreements with other suppliers and 76% excluding such swap agreements.

Our sales increased by 1.6% to €384.5 mn in the first half of 2017, after €378.5 mn in the previous year's first half, driven by the continued strong performance of our main growth driver corrugated board. EBITDA saw a continued normalisation, reaching €82.1 mn in the first half of 2017, after €94.6 mn in the first half of 2016. In the second quarter of 2017, EBITDA reached €41.8 mn, after €43.1 mn in the previous year's second quarter. The normalisation is attributed to margin pressure from higher resource prices throughout the first half of 2017, particularly compared to an exceptionally strong first half of 2016. The recent increase in sales prices of both of our products corrugated board and containerboard was subject to time lag effects due to existing customer contracts and showed significant effect only as at the end of the second quarter of 2017, with further slight positive effects expected within the upcoming quarters.

We reached an EBITDA margin of 21.4% in the first half of 2017, after the exceptional 25.0% in the previous year's first half. The second quarter of 2017, saw a normalisation of EBITDA margin at 21.9%, above the three-year-average of around 21%.

Resulting from our normalised EBITDA, consolidated net income decreased to €30.9 mn in the first six months of 2017, after €42.5 mn in the same period of 2016. In the second quarter, consolidated net income amounted to €16.1 mn, compared to €19.2 mn in the second quarter of 2016.

Free cash flow diminished to €32.4 mn in the first half of 2017, after €77.3 mn in the first half of 2016. The significant decline particularly results from increased cash outflows from investing activities in the first half of 2017, as well as the lower EBITDA and a significant increase in working capital due to reduced factoring of trade receivables. The second quarter of 2017 saw a moderately decreased free cash flow of €34.9 mn after €40.4 mn in the previous year's second quarter, primarily due to higher spending on investments and a slightly lower EBITDA.

Because of the placement of a Floating Rate Note of €150 mn in March 2017 and the usage of a Senior Secured PLN Facility, cash in hand increased significantly, as the proceeds of the new Floating Rate Note redeemed existing Floating Rate Notes of €75 mn in May 2017. The remaining funds will be invested in our corrugated board production capacity 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") in March 2017. Net financial debt increased moderately to €457.8 mn by 30 June 2017, compared to €421.4 mn as at 31 December 2016. The increase is particularly attributed to a special dividend of approximately €55 mn paid to Progroup's shareholders in April 2017. The dividend allowed JH-Holding to purchase PIK Toggle Notes of approximately €44 mn by a Tender Offer, thus optimising the finance structure of the entire group. Consequently, net leverage of Progroup increased slightly to 2.9 as at 30 June 2017.

The good operational performance in the first half of 2017 demonstrates the continuous success of our strategy, delivering best-in-class corrugated board products and services. Building upon a consistent greenfield approach, we rely on leading production technology, operating our cutting-edge production sites on highest standards. We continue to produce with high cost efficiency and strong utilisation rates in close proximity to our customers, relying on our high asset qualities and constant optimisation along the value chain.

We will continue our successful greenfield strategy, operating state-of-the-art facilities and providing tailor-made solutions in close proximity to our key business partners. In line with our strategic goals, our new fully automated corrugated board production facility PW10 in Trzcinica, Poland, was finalised and started commercial production already at high capacity utilisation. We will further continue on our growth path with a new production site in Drizzona, Italy, which is scheduled to start production in the first quarter of 2018. Further, we will invest in a new production site in Ellesmere Port, UK, which will be the most efficient and powerful corrugated board mega plant worldwide. The construction works are expected to be completed by the second half of 2018.

Lastly, we are delighted to announce the reconfiguration and expansion of our Executive Board, with Maximilian Heindl joining the Executive Board as deputy member as at 1 August 2017. Hereby, we are gradually transforming the company from being owner-run into a second-generation family business.

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 30 June 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).

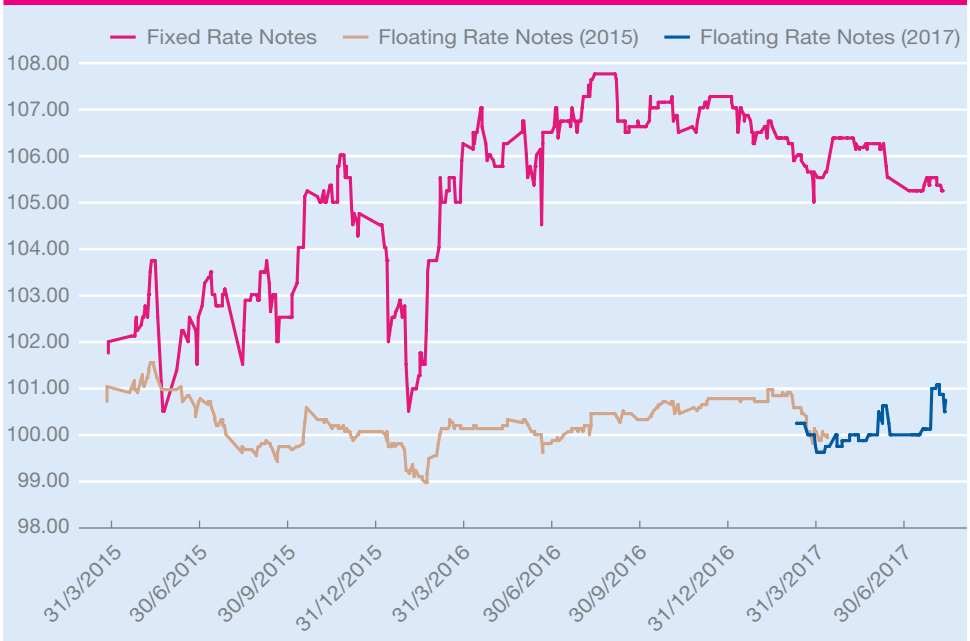
An overview of the features of our Senior Secured Fixed Rate Notes and our Senior Secured Floating Rate Notes and their market performance as at 30 June 2017 is presented below.

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	€0	€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	Ba3	Ba3	Ba3

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

After the successful Tender Offer of JH-Holding GmbH to purchase approximately €44 mn of the PIK Toggle Notes of JH-Holding Finance SA (please see also Recent Developments) 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.

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 in ramp-up phase

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 (south-western Poland) and performed test operations during the first quarter. Located 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. PW10 started commercial production in the beginning of April 2017 and continued with a successful ramp-up during the second quarter.

Italy: Expansion into new markets – construction work started

With the production launch of Prowell Drizzona (Italy), which is scheduled for the first quarter of 2018, Progroup will enter the largest corrugated sheet 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. 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. Construction work started in the second quarter of 2017. At the end of June earthworks were completed and the foundation works as well as the frameworks for the production building have been started.

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

Prowell PW08 plant Ellesmere Port, United Kingdom

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. We are investing 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. Currently, we work on the legal formalities and procurements. We expect to be ready for the start of construction works in the fourth quarter of 2017.

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

The annual general meeting of Progroup AG, 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.

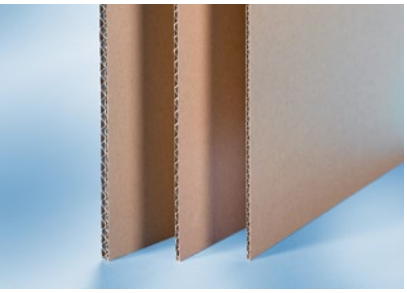
JH-Holding Tender Offer and Moody's rating action

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 SA'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 half of 2017 compared to the prior year's same period. The average price per ton for recycled paper grades we purchased was approximately €148 in the first half of 2017, compared to €123 in the first half of 2016. During the second quarter of 2017, the price level was approximately €154 per ton, after €142 in the first quarter (Q2 2016: €126).

Concerning the volume of Propapier's recycled containerboard sold externally, the average price was approximately €388 per ton in the first half of 2017 and therefore on the level as in the prior year's same period with the same average of €388 per ton (for the overall product portfolio mix sold externally). After a downward trend during 2016, prices significantly increased again in the first half of 2017. Propapier achieved price increases of €80 per ton in total during the first half of 2017, which are not fully reflected in the average sales figures for the first six months. The average price level in the second quarter of 2017 was approximately €411 per ton, after €368 in the first quarter (Q2 2016: €374).

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 half of 2017, prices for corrugated board products of Prowell typically started to follow this development with a slight time lag. In the first half of 2017, Prowell's average price for corrugated board was approximately €633 per ton compared to €651 per ton in the first half of 2016. The average price in the second quarter of 2017 was approximately €654 per ton, after €613 in the first quarter (Q2 2016: €639).

Results of Operations

Key operating figures (in € thousands)	April – June		January – June	
	2017	2016	2017	2016
Sales	190,956	188,980	384,473	378,489
Reported EBITDA	41,822	43,068	82,137	94,604
Reported EBITDA margin (in % of net sales)	21.9%	22.8%	21.4%	25.0%
EBIT	28,878	31,307	57,350	70,944
Consolidated net income for the period	16,149	19,163	30,933	42,534

Sales volume (in thousands of tons)	April – June		January – June	
	2017	2016	2017	2016
Corrugated board	**239.1**	**238.5**	**498.2**	**468.7**
Containerboard	**242.1**	**269.0**	**507.5**	**524.4**
– thereof external	59.0	77.0	126.3	151.7
– thereof internal	183.1	192.0	381.2	372.7

The corrugated board business is our main external sales driver. Our sales volume in the second quarter of 2017 is approximately on the same level as in the second quarter of 2016, mainly due to a lower number of working days. Seasonally adjusted, our sales volume would have grown approximately 5%. Concerning the first half of 2017, we were able to increase our sales volume of corrugated board by 6.3% (+29.5 thousand tons), compared to the prior year's same period.

Total sales volume of containerboard in the second quarter of 2017 is below the level of the prior year's same quarter (-10.0% or -26.9 thousand tons) driven by a lower production volume and very low stock levels. In the first half of 2017, sales volume was also below the prior year's same period (-3.2% or -16.9 thousand tons). The higher sales volume of corrugated board led to a higher internal usage of containerboard (+2.3% or 8.5 thousand tons) and thus to a further decrease in the external sales volume (-16.7% or -25.4 thousand tons). This was further reduced or rather somewhat limited by a lower production volume.

Based on this development, the level of integration of our containerboard business, including swap agreements, increased to approximately 87% in the second quarter of 2017, after 85% in the first quarter.

Sales (in € thousands)	**April – June**		**January – June**	
	2017	**2016**	**2017**	**2016**
Corrugated board	156,339	152,454	315,186	304,975
Containerboard	24,240	28,818	49,014	58,856
Other	10,377	7,708	20,273	14,658
Total Sales	**190,956**	**188,980**	**384,473**	**378,489**

Total sales increased by 1.0% (€2.0 mn) to €191.0 mn in the second quarter of 2017, compared to €189.0 mn in the same quarter of the previous year. This slight increase in sales is attributable to further growth in our corrugated board sales (+2.5% or €3.9 mn), mainly as a result of a higher average price level. At the same time, our sales of containerboard decreased by 15.9% (€4.6 mn) due to the lower external sales volume, even with a higher average price level. The increase in other sales (+34.6% or €2.7 mn) is mainly attributable to higher sales for refuse-derived fuel and electricity at Propower. In the first half of 2017, total sales increased by 1.6% (€6.0 mn) to €384.5 mn, compared to €378.5 mn in the prior year's same period. This increase in sales is attributable to further growth in our corrugated board sales (+3.3% or €10.2 mn) as a result of a higher sales volume. Our sales of containerboard decreased by 16.7% (€9.8 mn) following the lower external sales volume. The increase in other sales (+38.3% or €5.6 mn) is mainly attributable to higher sales for refuse-derived fuel and electricity at Propower.

Other operating income (in € thousands)	**April – June**		**January – June**	
	2017	**2016**	**2017**	**2016**
Investment subsidies	43	47	87	87
Income from exchange rate differences	456	290	1,797	933
Income from other periods	1,006	2,801	3,661	4,757
Other income	711	256	1,055	1,624
Other operating income	**2,216**	**3,394**	**6,600**	**7,401**

Other operating income decreased by 34.7% (€1.2 mn) to €2.2 mn in the second quarter of 2017 and by 10.8% (€0.8 mn) to €6.6 mn in the first half of 2017, mainly resulting from lower income from other periods.

Costs of materials (in € thousands)	April – June		January – June	
	2017	2016	2017	2016
Costs of raw materials, consumables and supplies	87,893	77,742	171,264	153,847
Costs of purchased services	17,253	15,073	35,645	30,416
Costs of materials	**105,146**	**92,816**	**206,909**	**184,264**

Costs of materials considerably increased by 13.3% (€12.3 mn) to €105.1 mn in the second quarter of 2017, mainly resulting from higher costs of raw materials, consumables and supplies. Predominantly volume based higher costs for externally purchased containerboard and significantly higher prices for recycled paper were the main drivers of this development. Concerning the first half of 2017, costs of materials increased by 12.3% (€22.6 mn) compared to the prior year's same period, driven by the same reasons.

Personnel expenses (in € thousands)	April – June		January – June	
	2017	2016	2017	2016
Wages und salaries	13,932	13,502	27,759	26,464
Social security and pensions	2,451	2,285	4,900	4,633
- thereof for pension expenses	71	61	136	113
Personnel expenses	**16,383**	**15,786**	**32,659**	**31,098**

Personnel expenses increased by 3.8% (€0.6 mn) to €16.4 mn in the second quarter of 2017, which was primarily driven by a higher average number of employees, mainly due to the new production site Trzcinica (PW10). The increase of personnel expenses in the first half of 2017 (5.0% or €1.6 mn to €32.7 mn) is attributable to the same reasons as the increase in the second quarter.

Other operating expenses (in € thousands)	**April – June**		**January – June**	
	2017	**2016**	**2017**	**2016**
Freight expenses	14,699	15,747	30,833	31,158
Maintenance and repair	8,306	13,567	16,647	21,446
Paper machine clothings	1,950	999	3,093	2,827
Rental and leasing costs	1,674	1,543	3,301	3,141
Water and waste water treatment	1,597	1,667	3,275	3,291
Legal and consulting fees	501	721	1,089	1,059
Expenses from exchange rate differences	532	924	1,363	2,055
Expenses from other periods	326	60	1,116	1,261
Extraordinary expenses	211	15	3,491	833
Others	6,034	4,235	10,848	8,605
Other operating expenses	**35,830**	**39,478**	**75,056**	**75,676**

Other operating expenses decreased by 9.2% (€3.6 mn) to €35.8 mn in the second quarter of 2017, primarily in connection with lower costs for maintenance and repair. Maintenance and repair costs were impacted by significantly higher expenses for the CHP in the prior year's second quarter due to an unplanned CHP shutdown in March/April 2016 and a different timing of the major shutdowns of our paper mills. Concerning the first half of 2017, other operating expenses decreased by 0.8% or €0.6 mn, mainly due to the same fact, but partly offset by extraordinary expenses related to the Senior Secured Floating Rate Notes Offering in March 2017.

Results of operations (in € thousands)	**April – June**		**January – June**	
	2017	**2016**	**2017**	**2016**
EBITDA	**41,822**	**43,068**	**82,137**	**94,604**
Amortisation and depreciation of fixed assets	-12,944	-11,761	-24,787	-23,660
Net interest result	-6,242	-6,997	-11,735	-13,479
Extraordinary income/expenses (other operating income/expenses)	-211	-15	-3,491	-833
Taxes on income	-6,275	-5,131	-11,191	-14,098
Consolidated net income for the period	**16,149**	**19,163**	**30,933**	**42,534**

The EBITDA of the second quarter of 2017 was almost on the same level as in the prior year's second quarter (€41.8 mn in Q2/2017; €43.1 mn in Q2/2016). EBITDA margin increased to 21.9% after 20.8% in the first quarter of 2017. EBITDA for the first half of 2017 of €82.1 mn was below the exceptionally high EBITDA of the first half of 2016 (13.2% or €12.5 mn), mainly due to a weaker first quarter. The average sales price level for corrugated board was below the prior year's same period and prices for recycled paper were higher, especially in the first quarter of 2017. The resulting lower gross margin represents the main impact on our EBITDA.

The net interest result improved by 10.8% (€0.8 mn) in the second quarter of 2017 and by 12.9% (€1.7 mn) in the first half. This was the result of a lower average amount of financial liabilities until March 2017 and the interest advantage resulting from the new Floating Rate Notes.

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

In the first half of 2017, taxes on income decreased by €2.9 mn to €11.2 mn, mainly in connection with the lower results.

Net Asset Position

The following statements describe the main changes in the balance sheet as at 30 June 2017 compared to 31 December 2016.

As at 30 June 2017, **fixed assets** amounted to €630.2 mn, after €639.9 mn as at 31 December 2016, decreased by 1.5% as a result of amortisation and depreciation.

Inventories amounted to €78.1 mn as at 30 June 2017, which is above the level as at 31 December 2016 (+5.6% or €4.1 mn). This is mainly due to an increase of raw materials and supplies, driven by a higher quantity of spare parts and an increase of work in process, caused by higher stocks of internally purchased containerboard at our Prowell plants.

Trade receivables increased by €17.5 mn or 29.4% to €77.1 mn as at 30 June 2017, mainly as a result of higher sales in the second quarter of 2017, compared to the fourth quarter and the year-end effect of 2016.

Other assets decreased by €3.0 mn or 15.2% to €16.7 mn as at 30 June 2017, mainly as a result of lower sales tax prepayments due to reporting date factors.

After a further Senior Secured Notes Offering in March, **cash in hand, bank balances** amounted to €95.4 mn as at 30 June 2017, which is significantly above the level as at 31 December 2016. A part of the generated cash was already used to redeem our existing Floating Rate Notes, while another part is still available and intended to finance our growth projects.

Prepaid expenses and deferred charges increased by €1.2 mn to €2.4 mn, primarily due to prepaid insurance premiums for the financial year of 2017.

As at 30 June 2017, **deferred taxes** decreased by €1.7 mn to €3.4mn due to the usage of interest carryforwards in connection with the positive EBITDA development in 2017.

Shareholder's equity decreased by 8.5% from €259.6 mn as at 31 December 2016 to €237.4 mn as at 30 June 2017 due to dividends paid to shareholders in the second quarter of 2017 (€55.0 mn), partly offset by the positive results in the first half of 2017.

The increase in **other provisions** by €5.5 mn or 14.0% to €44.4 mn is mainly driven by higher provisions for outstanding invoices and therefore partly due to reporting date factors.

Bonds increased by €75.0 mn to €495.0 mn as at 30 June 2017. A portion of the March 2017 Senior Secured Notes Offering (€150 mn) was used for the early redemption of the outstanding amount of our existing Floating Rate Notes (€75 mn). Please also refer to the section "Capital Market Activities".

As at 30 June 2017, **bank loans** increased by €20.7 mn to €46.9 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 €12.3 mn or 21.2% to €45.7 mn as at 30 June 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.

Financial Position

Summary of cash flows (in € thousands)	April – June		January – June	
	2017	2016	2017	2016
Cash flows from operating activities	42,820	47,168	52,028	86,664
Cash flows from investing activities	-7,930	-6,810	-19,616	-9,355
Free cash flow	**34,890**	**40,358**	**32,412**	**77,309**
Cash flows from financing activities	-144,925	-58,067	24,418	-64,653

Cash flows from operating activities decreased by €4.3 mn to €42.8 mn in the second quarter of 2017 compared to the prior year's same period, following the slightly lower EBITDA and a slight increase in working capital. Regarding the first half of 2017, cash flows from operating activities are significantly lower due to the decline in EBITDA and especially due to a strong increase in working capital, predominantly driven by an increase in trade receivables and a decrease in trade payables.

Cash flows from investing activities amounted to €-7.9 mn in the second quarter of 2017 and are attributable to the final payments for constructions at our new corrugated board site PW10 in Poland, the start of our new project PW11 in Italy as well as several smaller investments in different plants as part of our continuous maintenance capital expenditures.

Free cash flow for the reported periods, calculated as cash flows from operating activities plus cash flows from investing activities, decreased, predominantly following lower cash flows from operating activities, but also due to higher cash outflows from investing activities.

Cash outflows from financing activities in the second quarter of 2017 were mainly related to the early redemption of our existing Floating Rate Notes (€75 mn) and dividends paid (€55 mn). Concerning the first half of 2017, we had cash inflows from financing activities since a Senior Secured Notes Offering (€150 mn) and the full usage of the PLN facility in order to finance PW10 in the first quarter more than off-set the abovementioned main cash outflows. Furthermore, cash flows from financing activities contain interest paid and cash payments relating to expenditure of exceptional size or incidence due to extraordinary expenses in connection with the Senior Secured Notes Offering (transaction costs, advisory and professional fees and others).

Cash funds (cash in hand, bank balances) increased by €58.0 mn and amounted to €95.4 mn as at 30 June 2017, compared to €37.4 mn as at 31 December 2016. Since we have not fully used the proceeds from the latest Senior Secured Notes Offering until the end of June and due to a strong operating cash generation, our cash funds currently exceed our “usual range”.

Unaudited Consolidated Interim Financial Information

30 June / Q2 2017

Consolidated Balance Sheet

Assets

	Assets (in € thousands)	30/06/2017*	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	21,046	22,352
		21,046	**22,352**
II.	**Tangible assets**		
1.	Land and buildings including buildings on leasehold land	186,078	175,005
2.	Technical equipment and machinery	409,806	409,967
3.	Other equipment, factory and office equipment	6,533	6,254
4.	Prepayments and constructions in process	6,667	26,239
		609,084	**617,466**
III.	**Financial assets**		
1.	Shares in affiliated companies	37	37
		37	**37**
		630,167	**639,855**
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials, consumables and supplies	53,602	51,480
2.	Work in process	19,748	18,396
3.	Finished goods	4,343	4,038
4.	Prepayments	398	29
		78,091	**73,944**
II.	**Receivables and other assets**		
1.	Trade receivables	77,078	59,562
2.	Receivables from affiliated companies	17	52
3.	Other assets	16,747	19,757
		93,843	**79,370**
III.	**Cash in hand, bank balances**	**95,356**	**37,370**
		267,290	**190,685**
C.	**Prepaid expenses and deferred charges**	**2,397**	**1,189**
D.	**Deferred taxes**	**3,388**	**5,086**
	Total assets	**903,242**	**836,815**

* Unaudited consolidated interim financial information

Consolidated Balance Sheet

Equity and Liabilities

	Equity and Liabilities (in € thousands)	30/06/2017*	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	-1,353	-3,267
5.	Consolidated net retained profits	154,384	178,466
		237,441	**259,609**
B.	**Investment grants for fixed assets**	**2,811**	**2,937**
C.	**Provisions**		
1.	Provisions for pensions	134	35
2.	Tax provisions	6,872	8,104
3.	Other provisions	44,414	38,953
		51,420	**47,092**
D.	**Liabilities**		
1.	Bonds	495,000	420,000
2.	Bank loans	46,925	26,275
3.	Trade payables	45,745	58,020
4.	Other liabilities	19,742	18,188
		607,412	**522,483**
E.	**Deferred income**	**4,157**	**4,695**
	Total equity and liabilities	**903,242**	**836,815**

* Unaudited consolidated interim financial information

Consolidated Income Statement

	Consolidated Income Statement (in € thousands)	April – June*		January – June*	
		2017	2016	2017	2016
1.	Sales	190,956	188,980	384,473	378,489
2.	Increase/decrease in finished goods and work in process	5,443	-1,362	1,657	-836
3.	Other own work capitalised	717	488	1,265	488
4.	Other operating income	2,216	3,394	6,600	7,401
5.	Costs of materials				
a)	Costs of raw materials, consumables and supplies	-87,893	-77,742	-171,264	-153,847
b)	Costs of purchased services	-17,253	-15,073	-35,645	-30,416
		-105,146	-92,816	-206,909	-184,264
6.	Personnel expenses				
a)	Wages and salaries	-13,932	-13,502	-27,759	-26,464
b)	Social security and pensions	-2,451	-2,285	-4,900	-4,633
		-16,383	-15,786	-32,659	-31,098
7.	Amortisation and depreciation of fixed intangible and tangible assets	-12,944	-11,761	-24,787	-23,660
8.	Other operating expenses	-35,830	-39,478	-75,056	-75,676
9.	Other interest and similar income	11	42	21	102
10.	Interest and similar expenses	-6,253	-7,040	-11,756	-13,581
11.	Taxes on income	-6,275	-5,131	-11,191	-14,098
12.	**Earnings after taxes**	**16,511**	**19,531**	**31,657**	**43,269**
13.	Other taxes	-362	-368	-724	-735
14.	**Consolidated net income for the period**	**16,149**	**19,163**	**30,933**	**42,534**
15.	Consolidated unappropriated retained earnings brought forward			123,451	117,062
16.	**Consolidated net retained profits**			**154,384**	**159,596**

* Unaudited consolidated interim financial information

Consolidated Cash Flow Statement

	Consolidated Cash Flow Statement (in € thousands)	April – June*		January – June*	
		2017	2016	2017	2016
1.	**Cash flows from operating activities**				
	Consolidated net income for the period	16,149	19,163	30,933	42,534
	Amortisation and depreciation of fixed assets	12,944	11,761	24,787	23,660
	Increase (+)/decrease (-) in provisions	7,558	4,782	4,506	-573
	Other non-cash expenses (+)/income (-)	-73	419	-1,435	-491
	Increase (-)/decrease (+) in inventories, trade receivables and other assets**	863	2,958	-19,823	-5,042
	Increase (+)/decrease (-) in trade payables and other liabilities**	-170	1,390	-553	7,533
	Interest expenses (+)/income (-)	6,242	6,997	11,735	13,479
	Expenditure (+)/income (-) of exceptional size or incidence	211	15	3,491	833
	Income tax expenses (+)/income (-)	6,275	5,131	11,191	14,098
	Cash payments (-) relating to expenditure of exceptional size or incidence	0	0	-2,178	0
	Income taxes paid (-)	-7,179	-5,448	-10,626	-9,367
	Cash flows from operating activities	**42,820**	**47,168**	**52,028**	**86,664**
2.	**Cash flows from investing activities**				
	Proceeds (+) from disposal of intangible and tangible fixed assets	0	8	0	35
	Payments (-) to acquire intangible fixed assets	-1	-74	-39	-260
	Payments (-) to acquire tangible fixed assets	-7,936	-6,786	-19,593	-9,192
	Interest received (+)	7	42	16	62
	Cash flows from investing activities	**-7,930**	**-6,810**	**-19,616**	**-9,355**
3.	**Cash flows from financing activities**				
	Proceeds (+) from the issuance of bonds and borrowings	0	0	173,187	0
	Cash repayments (-) of bonds and borrowings	-77,449	-40,078	-78,769	-40,688
	Proceeds (+) from grants received	0	313	0	313
	Cash payments (-) relating to expenditure of exceptional size or incidence	-1,129	-119	-2,240	-4,107***
	Interest paid (-)	-11,332	-11,961	-12,745	-13,949
	Dividends paid to shareholders of the parent entity (-)	-55,015	-6,222	-55,015	-6,222
	Cash flows from financing activities	**-144,925**	**-58,067**	**24,418**	**-64,653**
4.	**Cash funds at end of period**				
	Net change in cash funds	-110,035	-17,709	56,830	12,656
	Effect on cash funds of exchange rate movements	-400	-1,455	1,156	-2,020
	Cash funds at beginning of period	205,791	50,562	37,370	20,762
	Cash funds at end of period	**95,356**	**31,398**	**95,356**	**31,398**
5.	**Composition of cash funds**				
	Cash and cash equivalents	95,356	31,398	95,356	31,398
	Cash funds at end of period	95,356	31,398	95,356	31,398

* Unaudited consolidated interim financial information

** Not attributable to investing or financing activities

*** Includes reclassification of k€1,040 “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	30,933	0	30,933
Distribution of profit	0	0	0	-55,015	0	-55,015
Other changes	0	0	0	0	1,914	1,914
30 June 2017*	**7,588**	**75,414**	**1,408**	**154,384**	**-1,353**	**237,441**

* 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 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 half of 2017, the newly founded Prowell S.r.l. (Italy) was added to the scope of consolidation.

Information on material risks

As at 30 June 2017, there are no significant changes with regard to the risks for Progroup AG 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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pro group

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