
# Progroup
# Interim Financial Report

**30 September / Third Quarter 2017**

pro group

The Power of Innovation

# Key Figures

| Key operating figures (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| Sales | 207,979 | 177,960 | 592,451 | 556,450 |
| Reported EBITDA [1] | 40,384 | 27,027 | 122,522 | 121,632 |
| Reported EBITDA margin (in % of net sales) | 19.4% | 15.2% | 20.7% | 21.9% |
| EBIT [2] | 27,599 | 15,234 | 84,949 | 86,178 |
| Consolidated net income for the period | 15,432 | 7,126 | 46,365 | 49,660 |
| Cash flows from operating activities | 40,224 | 31,690 | 92,252 | 118,354 |
| Cash flows from investing activities | -13,106 | -5,045 | -32,722 | -14,399 |
| Free cash flow [3] | 27,118 | 26,645 | 59,530 | 103,955 |

| Key balance sheet figures (in € thousands) | 30/09/2017 | 31/12/2016 |
|---|---|---|
| Total assets | 937,446 | 836,815 |
| Equity | 252,224 | 259,609 |
| Cash in hand, bank balances | 120,386 | 37,370 |
| Financial liabilities (bonds, bank loans, finance leases and accrued interest) | 556,829 | 458,799 |

| Key financial figures (in € thousands) | 30/09/2017 | 31/12/2016 |
|---|---|---|
| Net leverage [4] | 2.6 | 2.5 |
| LTM adjusted EBITDA [5] | 166,038 | 170,725 |
| Net financial debt [6] | 436,443 | 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 September 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 three quarters of 2017 saw a strong overall performance compared to the previous year's first nine months. Particularly the third quarter showed strong growth due to continuous favourable market conditions and despite high customer demand during the summer season.

- Sales increased by 6.5% to €592.5 mn in the first nine months of 2017, after €556.5 mn in 2016. In the third quarter, sales rose by 16.9% to €208.0 mn, up from €178.0 mn in the third quarter of 2016. This strong increase was driven by a strong volume growth in the corrugated board business, as well as anticipated sales price improvements taking effect.

- The corrugated board sales volume grew strongly in the first three quarters of 2017, while sales volumes in the containerboard business declined. Sales volume of corrugated board continued on a strong growth path, increasing by 8.2% in the first three quarters of 2017, with a particular strong increase of 12.2% in the third quarter of 2017. Total sales volume of containerboard declined by 2.3% within the first nine months of 2017 and by 0.3% in the third quarter, due to program-related lowered capacity.

- Integration between the corrugated board business and the containerboard business remained at a stable high level in the current year and amounts to 87%, including swap agreements, in the third quarter of 2017.

- While prices for recycled paper continued their climb, with a peak reached during the third quarter of 2017, price levels for both corrugated board and containerboard saw a strong increase compared to the previous year. After time lags in passing on price developments to customers, the price increase had a substantial effect on the third quarter of 2017, with additional slight upward adjustments to be expected throughout the upcoming quarter.

- In the first three quarters of 2017, EBITDA increased by 0.7% to €122.5 mn. In the third quarter of 2017, EBITDA grew by 49.4% from €27.0 mn to €40.4 mn. The strong increase is mainly attributed to an increase in sales volume of corrugated board, as well as effective price increases throughout the third quarter. EBITDA margin slightly declined to 20.7% in the first three quarters of 2017, after 21.9% in 2016. In the third quarter 2017, EBITDA margin increased substantially to 19.4%, after 15.2% in the previous year's same period. The lower EBITDA margin in the third quarter of 2017 was related to the planned maintenance shutdown of the combined heat and power plant.

- Net financial debt increased slightly to €436.4 mn on 30 September 2017, after €421.4 mn on 31 December 2016, following the successful placement of a €150 mn Floating Rate Note issued in March. Compared to the net financial debt as at 30 June 2017, we saw a decrease by €21.4 mn.

- Leverage increased slightly from 2.5 at the end of 2016 to just 2.6 on 30 September 2017, despite the successful issuance of new Floating Rate Notes in March 2017 and the drawing of a credit facility in Polish Zloty. Further, a special dividend of €55 mn was distributed in April 2017. Compared to 30 June 2017, leverage improved by 0.3 due to a strong increase in cash in hand as well as an improved LTM adjusted EBITDA.

- PW10 in Trzcinica, Poland, has reached full operationality and contributes to the strong performance of the corrugated board business. Works on the new production sites PW11 and PW12 in Italy and the UK are within schedule, with PW11 to be starting test operations in February 2018.

# Content



# Letter to Investors

**Dear investors and business partners,**

We are pleased to announce the successful conclusion of the first nine months of financial year 2017. Within the past three quarters, we saw the launch of commercial production at our new production site PW10 in Trzcinica, Poland, which is already contributing a substantial amount to our sales volume. Building upon this success, we continue on our growth strategy with the construction of our new production sites PW11 in Italy and PW12 in the UK. Both sites are well within schedule, with PW11 to start test operations in February 2018 and PW12 by the end of the third quarter of 2018.

Throughout the first nine months of 2017, market conditions improved as expected, with the outlook remaining positive. Resource prices for recycled paper saw a steep increase throughout 2017, with a peak in the course of the third quarter. In line with increasing resource prices, price levels of our two product families corrugated board and containerboard saw strong growth throughout the first nine months of 2017. While our products faced time lag effects in passing on new price levels to customers in the first half of 2017, increased sales prices showed a positive effect on our sales in the third quarter of 2017. Further slight increases are expected throughout the upcoming quarter.

We continued on our strong growth path with our main growth driver corrugated board, experiencing continuous high customer demand. Sales volume of corrugated board increased by 8.2% in the first nine months of 2017, compared to the same period in 2016. Further, in the third quarter of 2017, corrugated board sales volume strongly increased by 12.2%, compared to the previous year's third quarter. Sales volume of containerboard slightly decreased by 2.3% within the first nine months of 2017. The third quarter of 2017 saw a slightly lower decrease in total sales volume of containerboard of 0.3%, with an increase of 7.5% in internal sales and a decrease of 18.4% in external sales due to a higher integration of our businesses. The slight decline in containerboard sales volume is attributed to scheduled program-related lowered capacity. Integration between our corrugated board and containerboard business stabilised on a high level of 87% including swap agreements with other suppliers, and of 76% excluding the swap volumes.

In comparison to the first three quarters of 2016, sales considerably increased by 6.5% from €556.5 mn in 2016 to €592.5 mn in the first three quarters of 2017. The third quarter of 2017 saw an even stronger increase in sales by 16.9% to €208.0 mn. In the first nine months of 2017, EBITDA remained largely stable, growing slightly by 0.7% to €122.5 mn compared to the previous year's same period. In the third quarter, EBITDA increased substantially by 49.4% to €40.4 mn. The strong increase has to be viewed in light of an exceptionally weak third quarter 2016, caused by the unplanned maintenance shutdown extension of our CHP (combined heat and power) plant. Adjusted by these effects, EBITDA increased by 23.9% in the third quarter of 2017, compared to the previous third quarter. The stable performance throughout the first nine months was based on a steep increase in resource prices for recycled paper, which was offset by our strong increase in sales volume. Increased sales prices were subject to time lag effects throughout the first half of 2017 and only showed substantial effect as at the end of the second quarter. Further, our good EBITDA performance, particularly in the third quarter of 2017, is attributed to a strong increase in sales volume due to a high utilisation of all our production capacities, including our new production site PW10. For the upcoming quarter, we expect further slight positive momentum from rising sales prices.

In the first nine months of 2017, we reached an EBITDA margin of 20.7%, which marks a slight decrease after 21.9% in the previous year's same period. In the third quarter of 2017, EBITDA margin improved strongly to 19.4%

compared to 15.2% (adjusted 18.3%) in the third quarter of 2016. The slight decline in EBITDA margin within the first nine months of 2017 resulted from a strong price increase for recycled paper, while increased sales prices for corrugated board and containerboard only showed a delayed effect throughout the second and third quarter of 2017.

Consolidated net income decreased to €46.4 mn in the first nine months of 2017, after €49.7 mn in the same period of 2016. In the third quarter of 2017, based on a strong EBITDA performance, net income increased substantially by 116.6% from €7.1 mn in 2016 to €15.4 mn.

Free cash flow fell to €59.5 mn in the first three quarters of 2017, after €104.0 mn in the same period of 2016. The significant decline particularly results from increased cash outflows from investing activities as well as lower cash flows from operating activities due to an increase in working capital. In the third quarter of 2017, free cash flow remained largely stable, with a slight increase of 1.8% to €27.1 mn, due to a strong operational performance.

Resulting from the placement of a Floating Rate Note of €150 mn in March 2017 and the drawing of a credit facility in Polish Zloty, cash in hand increased significantly, as the proceeds of the new Floating Rate Note were used to redeem existing Floating Rate Notes of €75 mn in May 2017. The remaining funds are to be invested in our corrugated board production capacities in Italy and the UK.

Net financial debt increased moderately to €436.4 mn as at 30 September 2017, compared to €421.4 mn as at 31 December 2016, following the successful placement of a €150 mn Floating Rate Note issued in March. Net leverage of Progroup slightly increased to 2.6 as at 30 September 2017, after 2.5 as at 31 December 2016. Compared to 30 June 2017, net leverage decreased by 0.3 due to a further increase in cash in hand and an improved LTM adjusted EBITDA.

The strong result of the first three quarters of 2017 underlines the continuous success of our strategy, producing best-in-class corrugated board products in the direct vicinity of our partners and customers. Building upon a consistent greenfield approach and cutting edge production technology, we deliver products of highest standards. We continue to produce with great cost efficiency and strong utilisation rates, relying on our strong asset qualities and constant optimisation along the value chain.

We continue our successful greenfield approach, operating state-of-the-art facilities in close proximity to our key business partners. In line with our strategic goals, we will further continue on our growth path with a new production site in Drizzona, Italy, which is scheduled for test production in February 2018. Further, we invest in the expansion of our production capacity in Ellesmere Port, UK, which will be developed into the most efficient and powerful corrugated board mega plant worldwide. Completion of the construction works is expected by the end of the third quarter of 2018.

Yours sincerely,

| Jürgen Heindl | Dr. Volker Metz | Maximilian Heindl | Philipp Kosloh |
|---|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Deputy Member of the Executive Board | 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 September 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

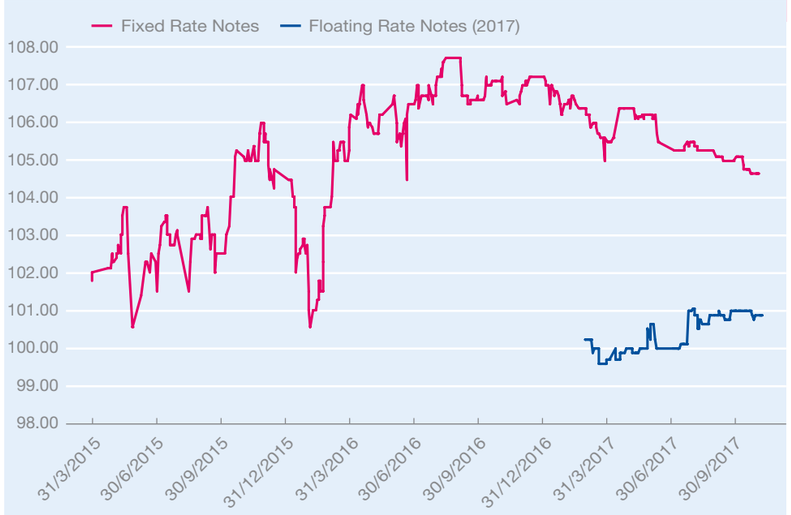
Progroup's capital market activities relate to the Senior Secured Notes Offerings in 2015 (€495 mn) and 2017 (€150 mn).

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 September 2017 is presented below.

| Capital market activities Progroup AG | | |
|---|---|---|
| ISIN | DE000A161GD1 (144A)/ DE000A161GC3 (Reg S) | DE000A2E4YZ7 (144A) / DE000A2E4YY0 (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 | €150,000,000 |
| Currency | EUR | EUR |
| Issue date | 30 April 2015/8 December 2015 | 27 March 2017 |
| Final maturity | 1 May 2022 | 31 March 2024 |
| Optional redemption | from 1 May 2018: 102.563% | from 31 March 2018: 101.000% |
| | from 1 May 2019: 101.281% | 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 |
| Coupon | 5.125% | 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 31 Mar, 30 Jun, 30 Sep and 31 Dec, commencing on 30 Jun 2017 |
| Paying Agent | Deutsche Bank AG | Deutsche Bank AG |
| Security Agent | Wilmington Trust (London) Limited | Wilmington Trust (London) Limited |
| | | |
| **Ratings** | | |
| S&P | BB- | BB- |
| Moody's | 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 Floating Rate Notes on 2 May 2017 and will be used for Prowell's newest growth projects.

**Progroup Senior Secured Notes Prices**




Source of price data: Deutsche Bank AG

# Business


*Progroup Headquarter*
*Landau, Germany*

*Prowell PW07 plant*
*Stryków, Poland*

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.

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*

*Propapier PM2 plant*
*Eisenhüttenstadt, 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 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/m² using almost exclusively recycled paper. This, in turn, allows us to internally source consistently high quality containerboard with the appropriate widths for Prowell's 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. PW10 started commercial production in the beginning of April 2017 and continued with a successful ramp-up during the second and the third quarter. At the end of the third quarter the plant already started up the third shift, i.e. the plant now provides a production capacity of 24 hours on 5 days a week.

**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. Construction work started in the second quarter of 2017. At the end of September foundation works and the production building were completed. Currently, the installation of the corrugator and the ancillary machinery is in progress.


*Prowell PW08 plant*
*Ellesmere Port,*
*United Kingdom*

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

A little over eight years ago, the corrugated sheet board plant of Prowell Limited, which had been founded in Ellesmere Port near Liverpool, launched its production on a 2.50 m wide corrugated board machine from the first Prowell plant. As part of the Two Twentyfive strategy concept, a reform strategy with a generation change of the first Prowell system is now being implemented 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 more than 200,000 tonnes of corrugated board each year with a working width of 3.35 m, thus seamlessly integrating into the Progroup mill system. In September we received the building permit. In October we set up the construction site and started with earthworks within our timetable.

**Resolution of the General Meeting of 7th November 2017: Dividend payment of €0.33 /share**

An extraordinary general meeting, held on 7 November 2017, resolved the payment of a dividend of €0.33 per share. As all 7,588,236 shares are entitled to dividend, the total distribution amounted to approximately €2.5 mn. On JH-Holding level, the dividend payment is used to pay the interest for the PIK Toggle Notes in December 2017.

*Maximilian Heindl*
*Deputy Member*
*of the Executive Board*

## Leading Progroup into the future: Maximilian Heindl appointed as Deputy Chairman

From 1 August 2017, Maximilian Heindl, son of the company founder and Chief Executive Officer Jürgen Heindl, took over responsibility as Deputy Chairman in Progroup's senior management team. Maximilian Heindl joined the company back in mid-2016 and successfully took charge of the area of production and technology at Propapier (PM1 and PM2) as well as assuming overall responsibility for Propower.

With the Two Twentyfive strategy, which began in 2016, Progroup is approaching the ten-year period that lies ahead with ambitious projects and success-driven trade and is consistently striving to expand its market leadership in the sheet-feeding market in Central Europe. The required structural reconfiguration and expansion of the Executive Board is now continuing its logical progress with the appointment of Maximilian Heindl to the role of Deputy Chairman.

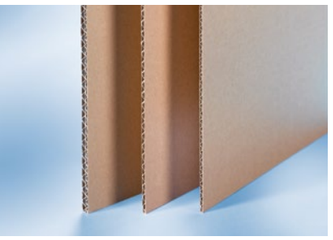
"I am particularly delighted that with my son joining the Executive Board the future course for the successful development of the family company has been set at an early stage. The aim is to continue to champion our business model in the market as a private company in the future," says Jürgen Heindl, Chief Executive Officer of Progroup.

At Progroup, as well as serving on the Executive Board, Maximilian Heindl will continue in his role as head of the area of production and technology for Propapier and assume overall responsibility for Propower. Before he joined Progroup, Maximilian Heindl was successfully employed as P&S EMEA Director of Production and as management consultant for Business Line P&S at Voith Paper GmbH & Co. KG in Heidenheim.

# 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 a strong demand, especially from Asia, prices for recycled paper, our primary raw material for the production of recycled containerboard, were significantly higher during the first nine months of 2017 compared to the prior year's same period. The average price per ton for recycled paper grades we purchased was approximately €153 in the first nine months of 2017, compared to €128 in the same period of 2016. During the third quarter of 2017, the price level was approximately €163 per ton, after €154 in the second quarter (Q3 2016: €139).

Concerning the volume of Propapier's recycled containerboard sold externally, the average price was approximately €403 per ton in the first nine months of 2017 and therefore above the level of the prior year's same period with an average of €380 per ton (for the overall product portfolio mix sold externally). After a downward trend during the whole year of 2016, prices significantly increased again in 2017. Propapier achieved price increases of €100–110 per ton in total during the first nine months of 2017, which are not fully reflected in the average sales figures. The average price level in the third quarter of 2017 was approximately €434 per ton, after €411 in the second quarter (Q3 2016: €364).

Prices for corrugated board also continuously decreased during 2016, following the recycled containerboard's price development. Since containerboard prices increased again during 2017, prices for corrugated board products of Prowell typically started to follow this development with a slight time lag. In the first nine months of 2017, Prowell's average price for corrugated board was approximately €645 per ton compared to €642 per ton in prior year's same period. The average price in the third quarter of 2017 was approximately €669 per ton, after €654 in the second quarter (Q3 2016: €623).

# Results of Operations

| Key operating figures (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
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| Reported EBITDA | 40,384 | 27,027 | 122,522 | 121,632 |
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| EBIT | 27,599 | 15,234 | 84,949 | 86,178 |
| Consolidated net income for the period | 15,432 | 7,126 | 46,365 | 49,660 |

| Sales volume (in thousands of tons) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| **Corrugated board** | **257.5** | **229.6** | **755.8** | **698.3** |
| **Containerboard** | **257.6** | **258.3** | **765.1** | **782.7** |
| – thereof external | 63.1 | 77.3 | 189.4 | 229.1 |
| – thereof internal | 194.5 | 181.0 | 575.7 | 553.6 |

The corrugated board business is our main external sales driver. Our sales volume in the third quarter of 2017 strongly increased by 27.9 thousand tons or 12.2% compared to the prior year's third quarter. In the nine months ended 30 September 2017, we were able to increase our sales volume of corrugated board by 8.2% (+57.5 thousand tons), compared to the prior year's same period.

Total sales volume of containerboard in the third quarter of 2017 was approximately on the same level as in the prior year's same quarter (-0.3% or -0.7 thousand tons). In the nine months ended 30 September 2017, sales volume was slightly below the prior year's same period (-2.3% or -17.6 thousand tons) following a program-related lower production volume. The higher sales volume of corrugated board led to a higher internal usage of containerboard (+4.0% or 22.1 thousand tons) and thus to a further decrease in the external sales volume (-17.3% or -39.7 thousand tons).

Based on this development, the level of integration of our containerboard business, including swap agreements, is stable at approximately 87% in the third quarter of 2017, unchanged from 87% in the second quarter.

| Sales (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| Corrugated board | 172,305 | 143,105 | 487,491 | 448,080 |
| Containerboard | 27,368 | 28,180 | 76,382 | 87,036 |
| Other | 8,306 | 6,675 | 28,578 | 21,334 |
| **Total Sales** | **207,979** | **177,960** | **592,451** | **556,450** |

Total sales significantly increased by 16.9% (€30.0 mn) to €208.0 mn in the third quarter of 2017, compared to €178.0 mn in the same quarter of the previous year. This increase in sales is attributable to further strong growth in our corrugated board sales (+20.4% or €29.2 mn), as a result of the higher sales volume and higher average price level. At the same time, our sales of containerboard decreased by 2.9% (€0.8 mn) due to the lower external sales volume, even with a higher average price level. The increase in other sales (+24.4% or €1.6 mn) is mainly attributable to higher sales for refuse-derived fuel and electricity at Propower. Regarding the nine months period ended 30 September 2017, total sales increased by 6.5% (€36.0 mn) to €592.5 mn, compared to €556.5 mn in the prior year's same period. This increase in sales is also attributable to further growth in our corrugated board sales (+8.8% or €39.4 mn) mainly as a result of a significantly higher sales volume, while price development had a slightly positive effect on sales. Our sales of containerboard decreased by 12.2% (€10.7 mn) following the lower external sales volume, while the positive price development supported sales. The increase in other sales (+34.0% or €7.2 mn) is mainly attributable to higher sales for refuse-derived fuel and electricity at Propower.

| Other operating income (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| Investment subsidies | 43 | 43 | 130 | 130 |
| Income from exchange rate differences | 366 | 720 | 2,163 | 1,653 |
| Income from other periods | 4,817 | 2,028 | 8,478 | 6,784 |
| Other income | 424 | 306 | 1,479 | 1,932 |
| **Other operating income** | **5,650** | **3,097** | **12,250** | **10,499** |

Other operating income increased by 82.4% (€2.6 mn) to €5.7 mn in the third quarter of 2017 and by 16.7% (€1.8 mn) to €12.3 mn in the nine months ended 30 September 2017, mainly resulting from higher income from other periods, which is primarily related to a different timing of refunds for grid charges and energy taxes.

| Costs of materials (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| Costs of raw materials, consumables and supplies | 95,281 | 77,782 | 266,544 | 231,629 |
| Costs of purchased services | 19,842 | 16,559 | 55,487 | 46,976 |
| **Costs of materials** | **115,122** | **94,341** | **322,031** | **278,605** |

Costs of materials considerably increased by 22.0% (€20.8 mn) to €115.1 mn in the third quarter of 2017, mainly resulting from higher costs of raw materials, consumables and supplies. The main drivers for this development were predominantly volume based higher costs for externally purchased containerboard and significantly higher prices for recycled paper. Concerning the nine months ended 30 September 2017, costs of materials increased by 15.6% (€43.4 mn) compared to the prior year's same period, driven by the same reasons.

| Personnel expenses (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| Wages and salaries | 13,711 | 13,056 | 41,470 | 39,520 |
| Social security and pensions | 2,350 | 2,059 | 7,250 | 6,693 |
| - thereof for pension expenses | 68 | 51 | 205 | 164 |
| **Personnel expenses** | **16,061** | **15,115** | **48,719** | **46,213** |

Personnel expenses increased by 6.3% (€0.9 mn) to €16.1 mn in the third quarter of 2017, which was primarily driven by the regular annual wage increase and a higher average number of employees, mainly due to the new production site Trzcinica (PW10) and furthermore a slight increase in the number of overhead group positions. The increase of personnel expenses in the nine months ended 30 September 2017 (5.4% or €2.5 mn to €48.7 mn) is attributable to the same reasons as the increase in the third quarter.

| Other operating expenses (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| Freight expenses | 15,514 | 15,019 | 46,347 | 46,178 |
| Maintenance and repair | 14,755 | 15,004 | 31,403 | 36,450 |
| Paper machine clothings | 1,804 | 1,673 | 4,897 | 4,500 |
| Rental and leasing costs | 1,678 | 1,543 | 4,979 | 4,684 |
| Water and waste water treatment | 1,609 | 1,175 | 4,883 | 4,590 |
| Legal and consulting fees | 503 | 735 | 1,592 | 1,793 |
| Expenses from exchange rate differences | 836 | 524 | 2,200 | 2,579 |
| Expenses from other periods | 517 | 665 | 1,632 | 1,926 |
| Extraordinary expenses | 9 | 13 | 3,500 | 846 |
| Others | 5,962 | 4,547 | 16,810 | 13,028 |
| **Other operating expenses** | **43,187** | **40,898** | **118,243** | **116,574** |

Other operating expenses increased by 5.6% (€2.3 mn) to €43.2 mn in the third quarter of 2017, primarily in connection with volume driven higher freight costs and higher costs for waste water treatment at one of our containerboard machines. Concerning the nine months ended 30 September 2017, other operating expenses increased by 1.4% or €1.7 mn, mainly due to extraordinary expenses related to the Senior Secured Floating Rate Notes Offering in March 2017 and certain increases in other items, which were partly offset by lower costs for maintenance and repair. Expenses for maintenance and repair were impacted by significantly higher costs for the CHP in the first nine months of the prior year due to the unplanned shutdown extension.

| Results of operations (in € thousands) | July – September 2017 | July – September 2016 | January – September 2017 | January – September 2016 |
|---|---|---|---|---|
| **EBITDA** | **40,384** | **27,027** | **122,522** | **121,632** |
| Amortisation and depreciation of fixed assets | -12,786 | -11,793 | -37,573 | -35,454 |
| Net interest result | -5,908 | -6,048 | -17,643 | -19,527 |
| *Extraordinary income/expenses (other operating income/expenses)* | -9 | -13 | -3,500 | -846 |
| Taxes on income | -6,249 | -2,047 | -17,440 | -16,145 |
| **Consolidated net income for the period** | **15,432** | **7,126** | **46,365** | **49,660** |

The EBITDA of the third quarter of 2017 (€40.4 mn) was considerably above the level of the prior year's same period (€13.4 mn or 49.4%), mainly due the favorable price margin development compared to the third quarter of 2016 and the impact of the unplanned CHP shutdown extension in the previous year's period. EBITDA margin increased to 19.4% after 15.2% in the third quarter of 2016. EBITDA for the nine months ended 30 September 2017 of €122.5 mn was slightly above the EBITDA of the comparison period of 2016 (0.7% or €0.9 mn). Driven by the contrary price margin developments, 2017 saw a slightly weaker first half as 2016, but a considerably stronger Q3 concerning gross margin, which represents the main impact on our EBITDA.

The net interest result improved by 2.3% (€0.1 mn) in the third quarter of 2017 and by 9.6% (€1.9 mn) in the nine months ended 30 September 2017. This was the result of the interest advantage from the new Floating Rate Notes and a lower average amount of financial liabilities until March 2017.

Extraordinary expenses in the nine months ended 30 September 2017 are related to the Senior Secured Notes Offering in March 2017.

In the nine months ended 30 September 2017, taxes on income slightly increased by €1.3 mn to €17.4 mn following the stronger Q3 results.

# Net Asset Position

| | Assets (in € thousands) | 30/09/2017 | 31/12/2016 |
|---|---|---|---|
| A. | Fixed assets | 629,955 | 639,855 |
| B. | Current assets | 303,435 | 190,685 |
| I. | Inventories | 79,793 | 73,944 |
| II. | Receivables and other assets | 103,256 | 79,370 |
| III. | Cash in hand, bank balances | 120,386 | 37,370 |
| C. | Prepaid expenses and deferred charges | 1,746 | 1,189 |
| D. | Deferred taxes | 2,311 | 5,086 |
| | **Total assets** | **937,446** | **836,815** |

| | Equity and Liabilities (in € thousands) | 30/09/2017 | 31/12/2016 |
|---|---|---|---|
| A. | Shareholder's equity | 252,224 | 259,609 |
| B. | Investment grants for fixed assets | 2,748 | 2,937 |
| C. | Provisions | 58,874 | 47,092 |
| D. | Liabilities | 619,711 | 522,483 |
| I. | Bonds | 495,000 | 420,000 |
| II. | Bank loans | 46,545 | 26,275 |
| III. | Trade payables | 55,907 | 58,020 |
| IV. | Liabilities from affiliated companies | 23 | 0 |
| V. | Other liabilities | 22,236 | 18,188 |
| E. | Deferred income | 3,889 | 4,695 |
| | **Total equity and liabilities** | **937,446** | **836,815** |

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

As at 30 September 2017, **fixed assets** amounted to €630.0 mn, after €639.9 mn as at 31 December 2016, decreased by 1.5% as a result of amortisation and depreciation as well as some lower prepayments and construction in process.

**Inventories** amounted to €79.8 mn as at 30 September 2017, which is above the level as at 31 December 2016 (+7.9% or 5.9 mn). This is mainly due to an increase of raw materials and supplies, driven by a higher quantity of spare parts and an increase in work in process, caused by higher stocks of internally purchased containerboard at our Prowell plants.

Reveivables and other assets increased, primarily driven by higher **trade receivables**, which increased by €24.3 mn or 40.9% to €83.9 mn as at 30 September 2017, mainly as a result of the considerably higher sales in the third quarter of 2017, compared to the fourth quarter and the year-end effect of 2016.

**Cash in hand, bank balances** amounted to €120.4 mn as at 30 September 2017, which is significantly above the level as at 31 December 2016 and due to a current strong cash conversion as well as the Senior Secured Notes Offering in March 2017. A major part of the cash in hand and bank balances is earmarked to finance our growth projects.

As at 30 September 2017, **deferred taxes** decreased by €2.8 mn to €2.3 mn due to the usage of interest carry-forwards in connection with the positive EBITDA development in 2017.

**Shareholder's equity** decreased by 2.8% from €259.6 mn as at 31 December 2016 to €252.2 mn as at 30 September 2017 due to dividends paid to shareholders in the second quarter of 2017 (€55.0 mn), mainly offset by the positive results in the first nine months of 2017.

The increase in provisions is mainly driven by **other provisions**, which increased by €11.2 mn or 28.6% to €50.1 mn, primarily due to higher provisions for outstanding invoices as well as provision for maintenance measures and therefore partly due to reporting date factors.

**Bonds** increased by €75.0 mn to €495.0 mn as at 30 September 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 September 2017, **bank loans** increased by €20.3 mn to €46.5 mn due to the full usage of a Senior Secured PLN Facility (Q1), raised in 2016 in order to finance the project PW10. In March 2017 we started with the regular repayments of our Senior Secured PLN Facilities.

The decrease in **trade payables** by €2.1 mn or 3.6% to €55.9 mn as at 30 September 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. Contrary effects came from higher payables for raw material purchases in connection with current price developments and our increased volume requirements.

The increase in **other liabilities** by €4.0 mn to €22.2 mn primarily results from accrued interest for our senior secured notes.

# Financial Position

| Summary of cash flows (in € thousands) | July – September | | January – September | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Cash flows from operating activities | 40,224 | 31,690 | 92,252 | 118,354 |
| Cash flows from investing activities | -13,106 | -5,045 | -32,722 | -14,399 |
| **Free cash flow** | **27,118** | **26,645** | **59,530** | **103,955** |
| Cash flows from financing activities | -1,320 | -35,299 | 23,098 | -99,952 |

Cash flows from operating activities increased by €8.5 mn to €40.2 mn in the third quarter of 2017 compared to the prior year's same period, following the higher EBITDA and a slight decrease in working capital. Regarding the nine months ended 30 September 2017, cash flows from operating activities are significantly lower due to an increase in working capital, predominantly driven by considerably higher trade receivables and an increase in inventories. Furthermore, a higher amount of taxes paid compared to the previous year reduced our cash flows from operating activities.

Cash outflows from investing activities amounted to €-13.1 mn in the third quarter of 2017, mainly resulting from our new projects PW11 in Italy and PW12 in the UK. Furthermore, we purchased land at our PM1 site to extend our storage capacity for recycled paper and had an additional amount of maintenance capex for PM1 since we prepare the change of the Sizer for the coming months. Regarding the nine months period ended 30 September 2017 cash flows from investing activities amounted to €-32.7 mn and are mainly attributable to the final payments for constructions at our new corrugated board site PW10 in Poland, the abovementioned start of our new projects PW11 in Italy and PW12 in the UK as well as several smaller investments in different plants as part of our continuous maintenance capital expenditures.

Free cash flow for the period ended 30 September 2017, calculated as cash flows from operating activities plus cash flows from investing activities, decreased following lower cash flows from operating activities and the higher cash outflows from investing activities.

In the third quarter of 2017 we had no considerable cash flows from financing activities. Concerning the nine months ended 30 September 2017, we had cash inflows from financing activities since the Senior Secured Notes Offering (€150 mn) and the full usage of the PLN facility in order to finance PW10 more than offset cash outflows. The cash outflows contain the early redemption of our existing Floating Rate Notes (€75 mn), dividends paid (€55 mn), interest paid as well as 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 €83.0 mn and amounted to €120.4 mn as at 30 September 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 September and due to a strong operating cash generation, our cash funds currently exceed our "usual range".

# Unaudited Consolidated Interim Financial Information

30 September / Q3 2017

# Consolidated Balance Sheet

## Assets

| | Assets (in € thousands) | 30/09/2017* | 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 | 20,380 | 22,352 |
| | | **20,380** | **22,352** |
| II. | **Tangible assets** | | |
| 1. | Land and buildings including buildings on leasehold land | 185,001 | 175,005 |
| 2. | Technical equipment and machinery | 403,697 | 409,967 |
| 3. | Other equipment, factory and office equipment | 6,730 | 6,254 |
| 4. | Prepayments and constructions in process | 14,110 | 26,239 |
| | | **609,537** | **617,466** |
| III. | **Financial assets** | | |
| 1. | Shares in affiliated companies | 37 | 37 |
| | | **37** | **37** |
| | | **629,955** | **639,855** |
| B. | **Current assets** | | |
| I. | **Inventories** | | |
| 1. | Raw materials, consumables and supplies | 54,688 | 51,480 |
| 2. | Work in process | 20,229 | 18,396 |
| 3. | Finished goods | 4,613 | 4,038 |
| 4. | Prepayments | 263 | 29 |
| | | **79,793** | **73,944** |
| II. | **Receivables and other assets** | | |
| 1. | Trade receivables | 83,894 | 59,562 |
| 2. | Receivables from affiliated companies | 17 | 52 |
| 3. | Other assets | 19,344 | 19,757 |
| | | **103,256** | **79,370** |
| III. | **Cash in hand, bank balances** | **120,386** | **37,370** |
| | | **303,435** | **190,685** |
| C. | **Prepaid expenses and deferred charges** | **1,746** | **1,189** |
| D. | **Deferred taxes** | **2,311** | **5,086** |
| | **Total assets** | **937,446** | **836,815** |

* Unaudited consolidated interim financial information

# Consolidated Balance Sheet

## Equity and Liabilities

| | Equity and Liabilities (in € thousands) | 30/09/2017* | 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 | -2,002 | -3,267 |
| 5. | Consolidated net retained profits | 169,816 | 178,466 |
| | | **252,224** | **259,609** |
| **B.** | **Investment grants for fixed assets** | **2,748** | **2,937** |
| | | | |
| **C.** | **Provisions** | | |
| 1. | Provisions for pensions | 185 | 35 |
| 2. | Tax provisions | 8,585 | 8,104 |
| 3. | Other provisions | 50,104 | 38,953 |
| | | **58,874** | **47,092** |
| **D.** | **Liabilities** | | |
| 1. | Bonds | 495,000 | 420,000 |
| 2. | Bank loans | 46,545 | 26,275 |
| 3. | Trade payables | 55,907 | 58,020 |
| 4. | Liabilities from affiliated companies | 23 | 0 |
| 5. | Other liabilities | 22,236 | 18,188 |
| | | **619,711** | **522,483** |
| **E.** | **Deferred income** | **3,889** | **4,695** |
| | **Total equity and liabilities** | **937,446** | **836,815** |

* Unaudited consolidated interim financial information

# Consolidated Income Statement

| | Consolidated Income Statement (in € thousands) | July – September* | | January – September* | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| 1. | Sales | 207,979 | 177,960 | 592,451 | 556,450 |
| 2. | Increase/decrease in finished goods and work in process | 751 | -3,600 | 2,408 | -4,436 |
| 3. | Other own work capitalised | 722 | 284 | 1,987 | 773 |
| 4. | Other operating income | 5,650 | 3,097 | 12,250 | 10,499 |
| 5. | Costs of materials | | | | |
| a) | Costs of raw materials, consumables and supplies | -95,281 | -77,782 | -266,544 | -231,629 |
| b) | Costs of purchased services | -19,842 | -16,559 | -55,487 | -46,976 |
| | | -115,122 | -94,341 | -322,031 | -278,605 |
| 6. | Personnel expenses | | | | |
| a) | Wages and salaries | -13,711 | -13,056 | -41,470 | -39,520 |
| b) | Social security and pensions | -2,350 | -2,059 | -7,250 | -6,693 |
| | | -16,061 | -15,115 | -48,719 | -46,213 |
| 7. | Amortisation and depreciation of fixed intangible and tangible assets | -12,786 | -11,793 | -37,573 | -35,454 |
| 8. | Other operating expenses | -43,187 | -40,898 | -118,243 | -116,574 |
| 9. | Other interest and similar income | 12 | 9 | 33 | 111 |
| 10. | Interest and similar expenses | -5,920 | -6,057 | -17,676 | -19,638 |
| 11. | Taxes on income | -6,249 | -2,047 | -17,440 | -16,145 |
| **12.** | **Earnings after taxes** | **15,790** | **7,499** | **47,446** | **50,768** |
| 13. | Other taxes | -357 | -373 | -1,081 | -1,108 |
| **14.** | **Consolidated net income for the period** | **15,432** | **7,126** | **46,365** | **49,660** |
| 15. | Consolidated unappropriated retained earnings brought forward | | | 123,451 | 117,062 |
| **16.** | **Consolidated net retained profits** | | | **169,816** | **166,722** |

* Unaudited consolidated interim financial information

# Consolidated Cash Flow Statement

| | Consolidated Cash Flow Statement (in € thousands) | July – September* 2017 | July – September* 2016 | January – September* 2017 | January – September* 2016 |
|---|---|---|---|---|---|
| 1. | **Cash flows from operating activities** | | | | |
| | Consolidated net income for the period | 15,432 | 7,126 | 46,365 | 49,660 |
| | Amortisation and depreciation of fixed assets | 12,786 | 11,793 | 37,573 | 35,454 |
| | Increase (+)/decrease (-) in provisions | 5,933 | 1,440 | 10,438 | 867 |
| | Other non-cash expenses (+)/income (-) | 1,486 | -588 | 52 | -1,081 |
| | Increase (-)/decrease (+) in inventories, trade receivables and other assets** | -10,470 | 5,466 | -30,293 | 425 |
| | Increase (+)/decrease (-) in trade payables and other liabilities** | 6,385 | -2,660 | 5,832 | 4,873 |
| | Interest expenses (+)/income (-) | 5,908 | 6,048 | 17,643 | 19,527 |
| | Expenditure (+)/income (-) of exceptional size or incidence | 9 | 13 | 3,500 | 846 |
| | Income tax expenses (+)/income (-) | 6,249 | 2,047 | 17,440 | 16,145 |
| | Cash payments (-) relating to expenditure of exceptional size or incidence | 0 | 0 | -2,178 | 0 |
| | Income taxes paid (-) | -3,494 | 1,005 | -14,120 | -8,362 |
| | **Cash flows from operating activities** | **40,224** | **31,690** | **92,252** | **118,354** |
| 2. | **Cash flows from investing activities** | | | | |
| | Proceeds (+) from disposal of intangible and tangible fixed assets | 150 | 43 | 150 | 78 |
| | Payments (-) to acquire intangible fixed assets | -40 | -15 | -79 | -275 |
| | Payments (-) to acquire tangible fixed assets | -13,233 | -5,085 | -32,826 | -14,276 |
| | Interest received (+) | 17 | 12 | 33 | 74 |
| | **Cash flows from investing activities** | **-13,106** | **-5,045** | **-32,722** | **-14,399** |
| 3. | **Cash flows from financing activities** | | | | |
| | Proceeds (+) from the issuance of bonds and borrowings | 0 | 2,081 | 173,187 | 2,081 |
| | Cash repayments (-) of bonds and borrowings | 0 | -35,079 | -78,769 | -75,767 |
| | Proceeds (+) from grants received | 0 | 0 | 0 | 313 |
| | Cash payments (-) relating to expenditure of exceptional size or incidence | -118 | -2 | -2,358 | -4,109*** |
| | Interest paid (-) | -1,202 | -2,299 | -13,947 | -16,248 |
| | Dividends paid to shareholders of the parent entity (-) | 0 | 0 | -55,015 | -6,222 |
| | **Cash flows from financing activities** | **-1,320** | **-35,299** | **23,098** | **-99,952** |
| 4. | **Cash funds at end of period** | | | | |
| | Net change in cash funds | 25,798 | -8,654 | 82,628 | 4,003 |
| | Effect on cash funds of exchange rate movements | -768 | 574 | 388 | -1,447 |
| | Cash funds at beginning of period | 95,356 | 31,398 | 37,370 | 20,762 |
| | **Cash funds at end of period** | **120,386** | **23,318** | **120,386** | **23,318** |
| 5. | **Composition of cash funds** | | | | |
| | Cash and cash equivalents | 120,386 | 23,318 | 120,386 | 23,318 |
| | Cash funds at end of period | 120,386 | 23,318 | 120,386 | 23,318 |

* 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 | 46,365 | 0 | 46,365 |
| Distribution of profit | 0 | 0 | 0 | -55,015 | 0 | -55,015 |
| Other changes | 0 | 0 | 0 | 0 | 1,265 | 1,265 |
| **30 September 2017*** | **7,588** | **75,414** | **1,408** | **169,816** | **-2,002** | **252,224** |

* 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 September 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 period ended 30 September 2017, the newly founded Prowell S.r.l. (Italy) was added to the scope of consolidation.

## Information on material risks

As at 30 September 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 with packaging park in Trzcinica, Poland*

# Legal Notice and Information

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*Dr. Volker Metz (CFO)*
*Maximilian Heindl (Deputy Member of the Executive Board)*
*Philipp Kosloh (Deputy Member of the Executive Board)*

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