progroup

INTERIM FINANCIAL REPORT

30 September / Third Quarter 2020

KEY FIGURES

(in € thousands)

SALES
January – September 2020

649,262

Reported EBITDA
January – September 2019

163,373

Reported EBITDA
January – September 2020

141,247

Reported EBITDA margin
January – September 2020

21.8%

Net leverage
30/09/2020

4.1

Net financial debt
30/09/2020

825,713

Key operating figures

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Sales	219,717	211,623	649,262	680,641
Reported EBITDA [1]	38,857	41,845	141,247	163,373
Reported EBITDA margin (in % of net sales)	17.7%	19.8%	21.8%	24.0%
EBIT [2]	15,070	27,977	86,672	121,638
Consolidated net income for the period	4,954	14,716	44,022	70,379
Cash flows from operating activities	40,548	56,432	115,477	153,860
Cash flows from investing activities	-79,549	-70,421	-254,908	-208,470
Free cash flow [3]	-39,001	-13,989	-139,431	-54,610

Key balance sheet figures

(in € thousands)

	30/09/2020	31/12/2019
Total assets	1,533,908	1,446,911
Equity	432,738	394,985
Cash in hand, bank balances	100,533	202,775
Financial liabilities (bonds, bank loans and accrued interest)	926,245	873,755

Key financial figures

(in € thousands)

	30/09/2020	31/12/2019
Net leverage [4]	4.1	3.0
LTM EBITDA	201,107	223,232
Net financial debt [5]	825,713	670,980

(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 2020 and 31 December 2019, respectively, by adjusted EBITDA for the last twelve months (LTM) ended on the relevant date.

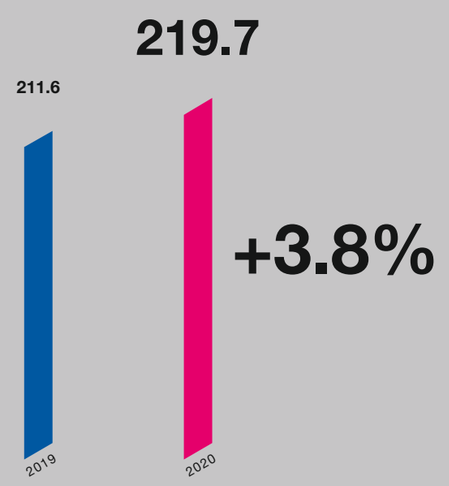
(5) Net financial debt (not a German GAAP measure) is calculated as financial liabilities (bonds, bank loans, finance leases and accrued interest) minus cash in hand, bank balances.

HIGHLIGHTS

01

Throughout the first nine months of the financial year 2020, Progroup generated significantly growing sales volumes in our two key businesses despite the ongoing corona pandemic. The lower impact of the corona pandemic on Progroup's operating business in the third quarter compared to the second quarter was also reflected in normalised purchasing prices for recovered paper. The price levels for both corrugated board and containerboard saw further slight downward adjustments in the third quarter.

SALES
July – September
(in € million)



02

In the third quarter, sales increased from €211.6 mn in 2019 to €219.7 mn in 2020 mainly driven by our strong volume growth. The strong volume growth more than compensated for the slightly lower sales prices levels. In the first nine months of 2020, sales declined by 4.6% to €649.3 mn, after €680.6 mn in the previous year.

The decline is attributed to further normalised sales prices for corrugated board, which continued throughout the corona crisis.

03

Sales volume of our corrugated board business increased strongly in the third quarter of 2020 by 10.4% and in the first nine months of 2020 by 6.9%, driven by higher production capacities and good demand after the impact of the corona pandemic in the second quarter. Containerboard sales volumes also saw an increase of 12.8% in the third quarter and 5.8% in the first nine months of 2020, partly driven by higher production capacities with the start-up of the new paper machine PM3.

04

Integration between both main businesses of Progroup lowered due to increased external sales volume in containerboard to prepare for the expansion of external sales volume with the start-up of PM3. Consequently, integration including swap agreements reached 90% in the third quarter of 2020, after 95% in the previous year's third quarter. Excluding swap agreements, integration amounted to 83% in the third quarter of 2020, after 86% in the respective period of 2019.

22%

EBITDA margin
January – September 2020

05

EBITDA reached €141.2 mn in the first nine months of 2020, after €163.4 mn in the previous year. The lower EBITDA performance in the first nine months of 2020 is attributed to further normalised sales prices. In the third quarter, EBITDA declined from €41.8 mn in 2019 to €38.9 mn in 2020 due to start-up costs in connection with our new paper machine PM3. In the first nine months of 2020, EBITDA margin reached 21.8%, slightly above our expectations.

06

As expected, Progroup has left the long-term target corridor for net leverage of between 2.5 and 3.0 throughout 2020 due to continued investment activities related to PM3. As a result, net leverage grew from 3.0 on 31 December 2019 to 4.1 on 30 September 2020. The increase is equally attributed to a normalised LTM EBITDA as well as higher net financial debt. While PLN and EUR facilities were redeemed, Progroup drew the remaining €30 mn of the €155 mn long-term bilateral bank loan facilities to finance the construction of PM3 as well as €45 mn of a €75 mn facility to finance future growth projects. Progroup is fully committed to its long-term target corridor and intends to return to it in the mid-term.

07

An incremental Term Loan Facility was entered into in the third quarter to further bolster the Group's liquidity. The loan amounts to €100 mn and will be applied towards general corporate and working capital purposes of the Group. As at 30 September 2020, the loan is fully undrawn.

08

As at 24 August 2020, PM3 successfully started test production and is now in the ramp-up phase. We expect a significant increase in production capacity of containerboard in the fourth quarter of 2020.

09

At the end of the third and beginning of the fourth quarter, we finalised the construction of the packaging park at our production site in Ellesmere Port (PW12) and started operation. The packaging park combines our high-tech corrugated board plant with the specialist packaging production of our customer Krystals.

10

In light of the ongoing corona crisis, the construction of Progroup's newest corrugated board production site PW14 is still postponed until further notice. This step was taken to provide additional financial flexibility to tackle unforeseen challenges arising from the current crisis.

CONTENT

LETTER TO INVESTORS

Dear investors and business partners,

The global coronavirus pandemic still has an impact on the economic development of almost every single company. Progroup takes its responsibility for the health of its employees, customers and partners very seriously. Soon after the pandemic became known in spring 2020, we established a task force which analyses the situation on an ongoing basis and implements measures where necessary. In terms of dealing with infectious diseases, the Company follows the recommendations of the WHO and the German Robert Koch Institute.

Despite the consequences of the coronavirus pandemic, Progroup has a positive view of the future. So far, production activities have been maintained in all plants while the most rigorous health and safety measures have been complied with. As a company of the systemically relevant paper and packaging industry, we make an important contribution to address the challenges surrounding the coronavirus pandemic by ensuring that supply chains remain intact for vital goods such as pharmaceuticals, food and medical devices.

from l.t.r.:
Maximilian Heindl, Chief Development Officer
Dr. Volker Metz, Chief Financial Officer
Philipp Kosloh, Chief Operating Officer
Jürgen Heindl, Chief Executive Officer

Growth projects paper factory PM3 and packaging park remain on track

Successful start of the new paper factory PM3 in Sandersdorf-Brehna
In the third quarter of 2020, Progroup managed to reach, as planned, an important milestone in its long-term corporate strategy, despite the extended safety measures introduced following the coronavirus pandemic. After a record-breaking construction and assembly period of just 18 months, operations have been started at our new high-tech paper factory PM3 in Sandersdorf-Brehna. The centrepiece of the factory is one of the world's most modern and powerful paper machines for manufacturing environmentally friendly and high-quality containerboard. The plant has an annual capacity of 750,000 tons. Thus, Progroup increases its containerboard production volume from 1.1 million tons to a total of around 1.85 million tons per year. The Company has been pursuing a Green High Tech strategy since it was founded. Progroup only uses recovered paper as the raw material for making paper. The new paper machine is designed so that it will continue to produce containerboard in a sustainable and energy-efficient way in the long-term.

Packaging park in Ellesmere Port is nearing completion
Progroup fully remains on its growth path. Long-term, trusting collaborations with independent medium-sized packaging manufacturers represent the foundation for this development. Based on the packaging park model, we seek to grow in line with our customers in the long term in order to further strengthen our position in the market. In the third quarter of 2020, we wrote another chapter in this success story. Together with the packaging manufacturer Krystals, we nearly completed the construction of the new packaging park in Ellesmere Port, UK, by the end of the third quarter and commenced regular operations early in the fourth quarter of 2020. The packaging park combines our high-tech corrugated board plant with Krystals' specialist packaging production. By interconnecting the production and IT systems of both companies, the level of flexibility and efficiency in the production processes has been increased considerably. The corrugated board formats manufactured by Progroup are fed directly into Krystals' production process via a transport bridge – on time and in the precise quantity required.

Business development of the Company

Prices for recovered paper again followed the long-term trend in Q3
Overall, it has to be noted that the coronavirus pandemic had a significantly lower impact on Progroup's operations in the third quarter than in the second quarter. The strong increase of prices for recovered paper in the second quarter of 2020, which was due to, among other things, the lower level of waste paper collection, did not continue. The market situation normalised in the third quarter as prices for recovered paper fell, thus returning to the long-term trend.

Progroup increases sales in the business areas Paper and Board

The paper market currently is in a state of stability. Demand has remained on a consistently good level, both within Europe and worldwide. While not all of the industries had returned to their pre-pandemic levels by the third quarter of 2020, we are confident that future development will be positive, particularly due to the increased demand from the e-commerce sector. Progroup's paper sales volume rose by 12.8% quarter-on-quarter (i.e. from Q3 2019 to Q3 2020) and by 5.8% on a year-to-date basis. A major contributor to this development was the successful start of the new paper factory PM3.

The sales volume of corrugated board rose by 10.4% quarter-on-quarter (i.e. from Q3 2019 to Q3 2020) and by 6.9% on a year-to-date basis. This increase is largely attributable to the new high-tech corrugated board plants PW12 in Ellesmere Port, UK, and PW13 in Eisfeld, Germany.

Overview of financial indicators

Group sales rose by 3.8% over the prior-year quarter
Quarter-on-quarter (i.e. Q3 2019 to Q3 2020), Group sales rose by 3.8% from €211.6 mn to €219.7 mn, which is largely attributable to the strong volume growth which more than compensated the slightly lower price levels.

A year-to-date comparison shows a decline in sales by 4.6%. The reason for this is the lower sales price levels compared to the previous year which have not yet been fully offset by the volume increases in our Board and Paper businesses.

EBITDA
EBITDA in the third quarter of 2020 amounted to €38.9 mn; the EBITDA margin was 17.7%. The EBITDA margin fell compared to the second quarter of 2020 (22.7%), but follows the long-term development of Q3 margins.

The EBITDA decrease compared to the second quarter of 2020 (€-5.7 mn) primarily results from higher maintenance costs in connection with the planned and successfully conducted maintenance shutdowns in the RDF power plant in Eisenhüttenstadt, the paper factory PM2 in Eisenhüttenstadt and the paper factory PM1 in Burg.

Compared to the prior-year quarter, EBITDA declined by €3.0 mn. This decrease is due to higher energy costs in connection with the start of PM3 and higher consulting fees. These are temporary effects.

Indicators of financial position
As at the end of the third quarter of 2020, financial liabilities were €52.5 mn higher compared to year-end 2019. The reasons are the full utilisation of the remaining facilities to finance PM3 in the amount of €30 mn and the €45 mn drawdown from the €75 mn facility to finance further growth projects in the course of 2020. At the same time, bank loans were reduced by scheduled repayments of the PLN facilities and the EUR facilities as well as by exchange rate effects.

The increase in net financial debt in connection with the lower EBITDA for the last 12 months (LTM EBITDA) led to an expected increase of the net leverage by 1.1, from 3.0 as at year-end 2019 to 4.1 as at 30 September 2020. Accordingly, net leverage is temporarily outside of the long-term target corridor of 2.5 to 3.0 set by Progroup. The temporary deviation is attributable to the investments in the new paper factory PM3. This is also the reason for the current negative free cash flow. We will return to the target corridor in the medium term.

Progroup remains on growth path
Our Company's long-term strategy shows its benefits especially in times of a tight financial situation, similar to what we are currently witnessing due to the coronavirus pandemic. We address this situation from a position of strength. Since the financial crisis in 2008/2009, we have established a sustainable financial structure with reserves. We continue to set up new growth projects so that we can push ahead with these in 2021 and make them ready for market launch quickly. Progroup remains on its growth path.

Yours sincerely,




Jürgen Heindl
Chief Executive Officer

Dr. Volker Metz
Chief Financial Officer

Maximilian Heindl
Chief Development Officer

Philipp Kosloh
Chief Operating Officer

CAPITAL MARKET ACTIVITIES

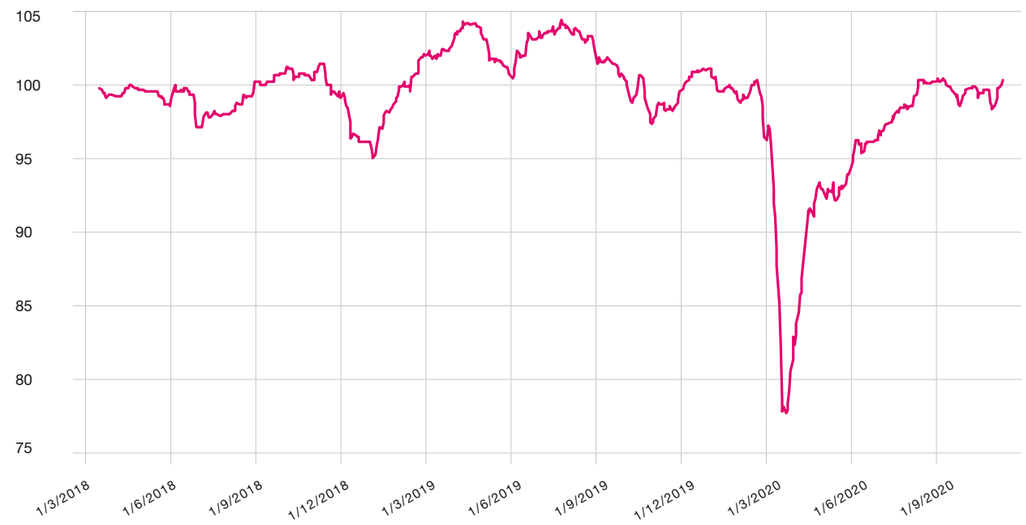
An overview of the features of our senior secured fixed rate notes and their market performance as at 30 September 2020 is presented below.

Capital market activities Progroup AG

ISIN	DE000A2G8WB1 (144A) / DE000A2G8WA3 (Reg S)
Issue	Senior Secured Fixed Rate Notes
Issuer	Progroup AG
Listing	The International Stock Exchange
Distribution	144A/Reg S
Amount issued	€600,000,000
Amount outstanding	€600,000,000
Currency	EUR
Issue date	27 March 2018 / 26 June 2019
Final maturity	31 March 2026
Optional redemption	from 31 March 2021: 101.500%
	from 31 March 2022: 100.750%
	from 31 March 2023 and thereafter: 100.000%
Issue price	100% of face amount / 101.625% (tap)
Coupon	3.000%
Interest payments	Semi-annually on 31 Mar and 30 Sep, commencing on 30 Sep 2018
Paying agent	Deutsche Bank AG
Security agent	Wilmington Trust (London) Limited

Ratings	
S&P	BB-
Moody's	Ba3

Progroup Senior Secured Notes Prices



Fixed Rate Notes 2018

Source of price data: Deutsche Bank AG

BUSINESS

Corrugated board production

We are a leading, family-owned producer and supplier of containerboard and corrugated board in Central Europe and headquartered in Landau, Germany. According to an independent market consultant, we are the third largest producer of corrugated board in Europe (by production capacity) through our Progroup Board business ("Board") and the sixth largest producer of recycled containerboard in Europe through our Progroup Paper business ("Paper"). 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 are the market leader by volumes sold in Germany, Austria, Belgium, the Czech Republic and the Netherlands (according to an independent market consultant). 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 produce boxes and therefore 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 primarily greenfield strategy to create an optimal geographic set-up of our production sites across the markets in which we operate. As a result, we benefit from a well-invested asset base and production sites with high technological standards, resulting in a relatively low cost base compared to many of our competitors and relatively low requirements for additional capital expenditures in the short- to medium-term. Given the high technological standards of our production facilities, we believe we are well-positioned to benefit from major growth trends in our industry, such as (i) increasing demand for light-weight packaging, (ii) the increasing importance of small-size packaging due to the growing importance of e-commerce, and (iii) the general trend towards a more efficient and

Quality check: corrugated sheetboard

sustainable use of raw materials and energy, which can help reduce both costs and CO_2 emissions.

Our core business comprises Paper and Board. The focus of Paper's operations is highly flexible containerboard production using almost exclusively recovered paper, with high output volumes to increase cost efficiency and short delivery times. Containerboard produced by Paper accounted for most of the containerboard sourcing requirements of our corrugated board production within Board. We believe that a high degree of vertical integration and the ability of Board 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.

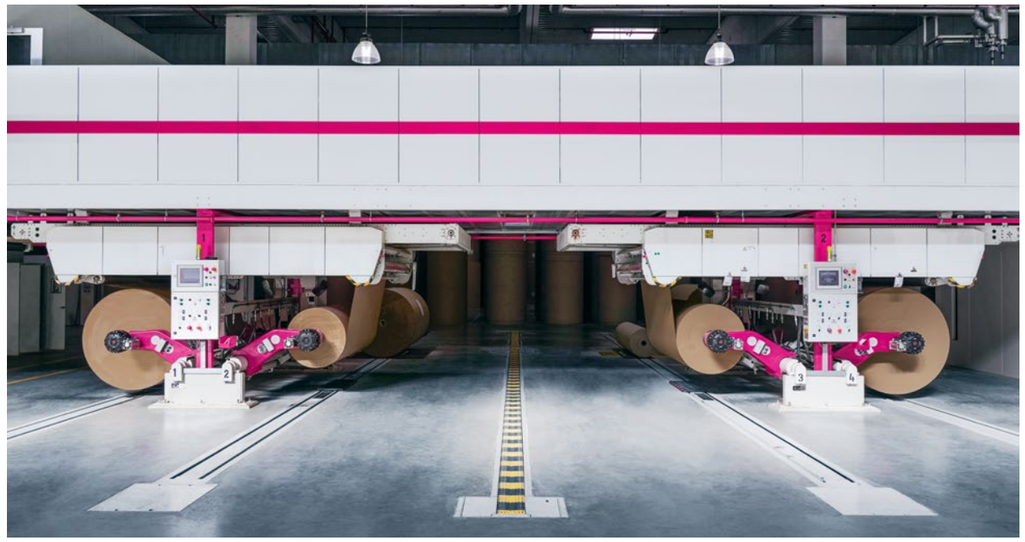
Progroup Board PW10 plant
Trzcinica, Poland

Corrugated sheetboard

Paper manufactures containerboard at our three paper mills in Germany, with an envisaged total annual production capacity of approximately 1,850,000 tons of containerboard. Our three paper machines, PM1 in Burg, PM2 in Eisenhüttenstadt and PM3 in Sandersdorf-Brehna, have complementary production layouts which allow us to produce brown containerboard with grammages between 60 and 230g/m² using almost exclusively recovered paper. This, in turn, allows us to internally source consistently high quality containerboard with the appropriate widths for Board's eleven corrugated board production sites in the Czech Republic, France, Germany, Italy, Poland and the United Kingdom with a total annual production capacity of approximately 1,615,000 tons of corrugated board (including PW13). Our historic greenfield location strategy ensures close customer proximity and high production flexibility.

RECENT DEVELOPMENTS

Progroup began operating Europe's most modern corrugated sheetboard plant last year
Ellesmere Port, United Kingdom



Corrugated board production

Incremental Term Loan Facility

In light of the continuing uncertainty about the mid- and long-term economic impact of the ongoing Covid-19 pandemic, we entered into an additional €100 mn senior secured facility agreement in August 2020 to further bolster the Group's liquidity and to allow it to weather even a further significant and/or more sustained potential economic downturn. Amounts borrowed under the fixed rate, amortising term loan facility will be applied for general corporate and working capital purposes of the Group, including the financing or refinancing of costs of materials, personnel expenses or other operating expenses, including in connection with certain expansion projects of the Group and/or all or any part of the purchase price in connection with the acquisition, build-up and/or increase of inventories. The facility has a one year availability period and any amounts borrowed under the facility must be repaid in quarterly instalments on a straight-line basis until 31 December 2025, following an initial two-year grace period.

Productivity and growth create challenging jobs

Investment in packaging park in United Kingdom

After we successfully started production at our production site in Ellesmere Port (PW12) in 2019, we are now expanding the site to create a packaging park with our customer Krystals. The packaging park will combine Progroup's high-tech corrugated board plant with the specialist packaging production that Krystals provides. This will deliver the maximum level of efficiency in the production processes. In addition, the two cooperation partners are consistently implementing their sustainability strategy by using technology that conserves resources and reduces CO_2 emissions. The new packaging park successfully started operation at the beginning of the fourth quarter.

Corrugated board production site in Poland

The already mentioned project of the newest state-of-the-art corrugated sheetboard plant in Stryków (Poland) with an annual capacity of 210,000 tons has been postponed until further notice. In light of the current pandemic crisis, Progroup finalised the projects until the building permit. However, the start of construction will be put on hold for the time being. This step provides additional financial flexibility and further strengthens the financial foundation of the company in these times of uncertainty.

Launch of production at Progroup Paper PM3
Sandersdorf-Brehna, Germany, © Progroup

Launch of production at our newest paper machine PM3

One of the world's largest high-tech paper factory commenced operations
At the end of August 2020, after a record-breaking construction and assembly period of just 18 months, operations were commenced at the paper factory PM3 in Sandersdorf-Brehna. The facility covers an area of 453,000 square metres and has an annual capacity of 750,000 tons. Thus, Progroup increases its containerboard production capacity from 1.1 million tons to a total of approximately 1.85 million tons per year. The centrepiece of the new factory is one of the world's most advanced and powerful paper machines for the production of environmentally friendly and high-quality containerboard.

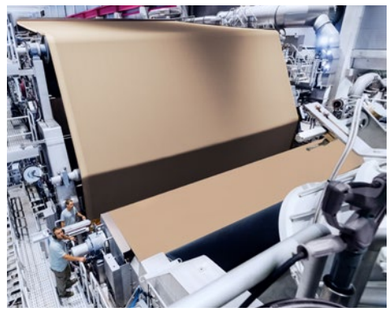
Green Hightech saves resources: waste paper treatment and a fully closed loop water treatment system
Within the context of its Green Hightech strategy, which Progroup has been pursuing consistently since its foundation, an amount of around €100 mn is invested in resource-conserving technology. Accordingly, the new factory sets pioneering standards in the paper industry in terms of environmental protection, energy efficiency and sustainability.

Around 860,000 tons of recovered paper will be used in the PM3 factory to manufacture containerboard. This raw material will be processed in a state-of-the-art drum pulper and drum screen. With an overall installed length of 78 metres, this processing facility is the largest of its type. The drum also operates in a particularly resource-conserving way thanks to its special design.

The innovative circulating water treatment plant of PM3 treats the process water used and feeds it back into the closed loop circulating water system of paper production
Sandersdorf-Brehna, Germany, © Progroup

The innovative circulating water treatment plant, which is also integrated into the factory, works like a biological kidney. It treats the process water used and feeds it back into the closed loop circulating water system of paper production. Contaminated recovered paper is biodegraded and converted into biogas. This leads to a reduction in the consumption of fossil resources by ten per cent. As a result of the rigorous improvement of its environmental performance, Progroup received the Eco-Management and Audit Scheme (EMAS) certificate of the European Union regarding its PM3 factory.

Productivity and growth create challenging jobs



The new site in Sandersdorf-Brehna will create around 140 direct and up to 350 indirect jobs with a great potential for the future
© Progroup

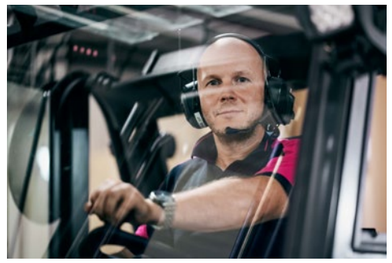
Largest investment project in Saxony-Anhalt creates jobs and long-term perspectives
With investments in a total amount of close to €0.5 billion, the factory currently is the largest investment project in Saxony-Anhalt. While employment is flat in some other German regions, this new site will create around 140 direct and up to 350 indirect jobs with a great potential for the future.

MARKET DEVELOPMENTS

Corrugated board stock

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. Therefore, the less favourable economic situation, as the corona crisis reached Europe in mid-March 2020, has also affected Progroup, especially in the second quarter of 2020. However, our key product corrugated sheetboard is and will remain systemically relevant to safeguard the distribution of vital goods. For this reason, we are not as strongly affected as other sectors.

Prices for recovered paper have decreased by 17%



Recovered paper is our main raw material for the production of recycled containerboard. Since the beginning of the second quarter of 2019, prices for recovered paper have shown several price reductions due to the very good availability. In light of the corona pandemic, the downward trend stopped at the end of the first quarter. Due to the changed market situation with limited access to waste paper, prices increased in the second quarter of 2020. In the third quarter, the market situation normalised and prices decreased (-17% compared to Q2 2020).

In the period from the fourth quarter of 2018 to the second quarter of 2019, prices for recycled containerboard declined in several steps. The decline in containerboard prices since the fourth quarter of 2018 was driven by a weaker demand and the ramp-up of the capacity additions in the previous months. After a stable third quarter of 2019, prices showed another downward step between the fourth quarter of 2019 and the first quarter of 2020. At the end of the first and beginning of the second quarter, prices for containerboard slightly increased. Since the beginning of the third quarter, prices for containerboard decreased (Q3 2020 compared to Q2 2020 -5%).

Prices for corrugated board declined from the fourth quarter of 2018 until the beginning of the second quarter of 2020. In the middle of the second quarter, prices for corrugated board slightly increased. Since the middle of the third quarter, prices for corrugated board have decreased, following the recycled containerboard's price development with the typical time lag. During the third quarter of 2020, prices were slightly below the level achieved in the second quarter (-2%).

Price development Q3 2020 compared to Q2 2020

-2% Corrugated board

-5% Recycled container-board

-17% Recovered paper

FI NAN CIAL RE PORT

RESULTS OF OPERATIONS

01

Sales volume

(in thousands of tons)

	July – September		January – September	
	2020	2019	2020	2019
Corrugated board	**342**	**310**	**988**	**924**
Containerboard	**301**	**267**	**834**	**789**
– thereof external	52	37	152	107
– thereof internal	249	230	682	682

Sales

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Sales	**219,717**	**211,623**	**649,262**	**680,641**

01

The corrugated board business is our main external sales driver. We were able to increase our sales volume of corrugated board by 10.4% (+32.1 thousand tons) in the third quarter of 2020, compared to the prior year's same quarter. In the nine months ended 30 September 2020, we were able to increase our sales volume of corrugated board by 6.9% (+63.9 thousand tons) with the main growth momentum coming from our new United Kingdom operations and our new German operations.

Total sales volume of containerboard in the third quarter of 2020 was above the level of the prior year's same quarter (+12.8%). As the new paper machine PM3 started operation at the end of August, the growth rate of the third quarter is supported by this additional volume. The increased sales volume of corrugated board sold led to a higher internal usage of containerboard (+8.4% or +19.4 thousand tons). In the third quarter of 2020, we were also able to increase our external volume sold (+39.6% or +14.7 thousand tons). Concerning the nine months ended 30 September 2020, we were able to increase our sales volume of containerboard by 5.8%, also due to an increasing external volume while internal sales volume remained stable.

The level of integration of our containerboard business, including swap agreements, increased to 90% in the third quarter of 2020 as a result of increased internal volume sold, after 88% in the second quarter of 2020.

Total sales increased by 3.8% (€8.1 mn) to €219.7 mn in the third quarter of 2020, compared to €211.6 mn in the same quarter of the prior year. This increase in sales is attributable to the higher external sales volume of corrugated board as well as containerboard, which offset the effect of the normalisation of price levels. In the nine months ended 30 September 2020, total sales decreased by 4.6% (€31.4 mn), following the normalisation of price levels, which could not be fully offset by our sales volume growth.

02

Other operating income

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Investment subsidies	167	99	491	296
Income from exchange rate differences	1,838	1,652	3,872	3,532
Income from other periods	690	1,710	4,169	4,295
Extraordinary income	0	-975	372	1
Other income	861	446	1,439	999
Other operating income	**3,557**	**2,933**	**10,344**	**9,123**

02

Other operating income increased by 21.3% (€0.6 mn) to €3.6 mn in the third quarter of 2020, mainly due to the absence of the reversal of extraordinary income in the third quarter of 2019.

In the nine months ended 30 September 2020, the increase primarily resulted from extraordinary income and income from exchange rate differences.

03

Costs of materials

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Costs of raw materials, consumables and supplies	78,995	83,485	240,417	265,131
Costs of purchased services	26,236	21,807	68,251	63,679
Costs of materials	**105,231**	**105,292**	**308,668**	**328,810**

03

Costs of materials decreased by 0.1% (€0.1 mn) to €105.2 mn in the third quarter of 2020, primarily resulting from lower costs of raw materials, consumables and supplies. This development was mainly driven by declining prices for recovered paper and declining prices for externally purchased containerboard. Concerning the nine months ended 30 September 2020, costs of materials decreased by 6.1% (€20.1 mn) to €308.7 mn, driven by the same facts.

04 Personnel expenses

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Wages and salaries	21,003	18,311	62,603	55,591
Social security and pensions	3,606	3,215	10,942	9,615
– thereof for pension expenses	25	82	92	278
Personnel expenses	**24,609**	**21,526**	**73,545**	**65,206**

04

Personnel expenses increased by 14.3% (€3.1 mn) to €24.6 mn in the third quarter of 2020. This increase is mainly attributable to a higher average number of employees, administrative and group positions reflecting our strong growth. The increase in the number of employees is mainly related to our growth projects in Eisfeld (PW13) and Sandersdorf-Brehna (PM3) since the build-up of workforces started in the first quarter of 2019. Therefore, the increase of personnel expenses in the nine months ended 30 September 2020 (12.8% or €8.3 mn to €73.5 mn) is mainly due to the same reason.

05 Other operating expenses

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Freight expenses	17,486	17,724	52,226	55,943
Maintenance and repair	16,053	15,482	33,801	34,045
Paper machine clothings	1,685	1,612	4,310	4,552
Rental and leasing costs	2,196	2,144	6,351	6,306
Legal and consulting fees	2,607	653	5,067	3,080
Expenses from exchange rate differences	2,256	1,715	7,885	3,721
Expenses from other periods	247	101	1,012	1,516
Extraordinary expenses	647	488	649	4,334
Others	9,969	7,094	28,227	21,019
Other operating expenses	**53,146**	**47,012**	**139,529**	**134,517**

05

Other operating expenses increased by 13.0% (€6.1 mn) to €53.1 mn in the third quarter of 2020, primarily due to an increase in legal and consulting fees, higher expenses for exchange rate differences and higher cleaning costs. In the period ended 30 September 2020, other operating expenses increased by 3.7% (€5.0 mn) to €139.5 mn, driven by the same facts.

06 Results of operations

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
EBITDA	**38,857**	**41,845**	**141,247**	**163,373**
Amortisation and depreciation of fixed assets	-23,787	-13,867	-54,575	-41,735
Net interest result	-7,561	-7,314	-22,694	-19,034
Extraordinary income/expenses (other operating income/expenses)	-647	-1,463	-277	-4,333
Taxes on income	-1,908	-4,485	-19,679	-27,891
Consolidated net income for the period	**4,954**	**14,716**	**44,022**	**70,379**

06

In the third quarter of 2020, EBITDA decreased by 7.1% (€3.0 mn) to €38.9 mn, mainly driven by higher energy costs in connection with the start-up of our new paper machine PM3 and higher legal and consulting fees. Concerning the period ended 30 September 2020, EBITDA decreased by 13.5% (€22.1 mn) to €141.2 mn, mainly in connection with the normalisation of price levels and therefore declining sales and higher personnel costs.

In the period ended 30 September 2020, amortisation and depreciation increased by 30.8%, driven by the depreciation of the newly started paper machine PM3, the new corrugated board plant PW13 and the higher depreciation of PM2 in connection with the adjustment of the remaining useful life.

The net interest result of the third quarter of 2020 was below the result of the same period in the prior year due to a higher amount of financial liabilities. In the period ended 30 September 2020, net interest result declined by 19.2% (€3.7 mn) to €-22.7 mn due to the same reason.

In the period ended 30 September 2020, extraordinary expenses are related to financing agreements and extraordinary income related to a reimbursement of real estate transfer tax.

In the third quarter as well as in the nine months ended 30 September 2020, taxes on income decreased in connection with the lower results.

NET ASSET POSITION

The following statements describe the main changes in the balance sheet as at 30 September 2020 compared to 31 December 2019.

Assets

(in € thousands)

		30/09/2020	31/12/2019
A.	Fixed assets	1,185,206	1,001,034
B.	Current assets	333,814	427,497
I.	Inventories	100,921	100,176
II.	Receivables and other assets	132,361	124,547
III.	Cash in hand, bank balances	100,533	202,775
C.	Prepaid expenses and deferred charges	14,888	15,936
D.	Deferred tax assets	0	2,444
	Total assets	**1,533,908**	**1,446,911**

Equity and liabilities

(in € thousands)

		30/09/2020	31/12/2019
A.	Shareholder's equity	432,738	394,985
B.	Investment grants for fixed assets	6,794	6,605
C.	Provisions	85,538	97,613
D.	Liabilities	1,005,659	945,433
I.	Bonds	600,000	600,000
II.	Bank loans	326,245	269,255
III.	Trade payables	68,120	60,932
IV.	Liabilities from affiliated companies	0	6
V.	Other liabilities	11,293	15,242
E.	Deferred income	2,002	2,274
F.	Deferred tax liabilities	1,177	0
	Total equity and liabilities	**1,533,908**	**1,446,911**

Fixed assets increased by €184.2 mn to €1,185.2 mn as at 30 September 2020, following the capital expenditures for the corrugated board expansion project in Germany (PW13) as well as the paper machine project PM3.

Inventories amounted to €100.9 mn as at 30 September 2020, which is slightly above the level as at 31 December 2019 (0.7% or €0.7 mn) and mainly driven by an increase in spare parts.

Trade receivables increased by €14.5 mn or 15.4% to €108.8 mn as at 30 September 2020, mainly due to year-end effects based on lower sales in December, while the days sales outstanding were reduced by 13 days.

Other assets decreased by €6.7 mn or 22.2% to €23.6 mn as at 30 September 2020, mainly in connection with lower sales tax prepayments.

Prepaid expenses and deferred charges decreased by €1.0 mn to €14.9 mn, primarily due to the release of lump sum fees.

As at 30 September 2020, the balance of **deferred tax assets and liabilities** has changed to a **deferred tax liability**, which amounts to €1.2 mn, primarily caused by a change in the deprecation method introduced by German tax legislator. Progroup has switched from the straight-line to the declining-balance method of depreciation in the newly established corrugated board plant PW13 and the new paper machine PM3 within their tax balances.

Shareholder's equity increased by €37.8 mn from €395.0 mn as at 31 December 2019 to €432.7 mn as at 30 September 2020 as a result of the consolidated net income of the nine months ended 30 September 2020.

Other provisions increased by €13.6 mn to €68.2 mn, mainly due to higher provisions for outstanding invoices.

The amount of **bonds** was unchanged at €600 mn as at 30 September 2020.

As at 30 September 2020, **bank loans** increased by €57.0 mn to €326.2 mn due to a drawdown of the remaining €30 mn from the €155 mn long-term bilateral bank loan facilities to finance the ongoing construction of our PM3 project and the €45 mn drawing from the €75 mn facilities to finance growth projects in the course of 2020. This was partly offset by scheduled repayments of the Senior Secured PLN Facilities and the EUR Facilities and by effects resulting from the significant changes in GBP and PLN exchange rates.

The increase in **trade payables** by €7.2 mn or 11.8% to €68.1 mn as at 30 September 2020 is mainly due to our current growth projects.

The decrease in **other liabilities** by €3.9 mn to €11.3 mn as at 30 September 2020 is related to lower interest liabilities.

FINANCIAL POSITION

Summary of cash flows

(in € thousands)

	July – September		January – September	
	2020	2019	2020	2019
Cash flows from operating activities	40,548	56,432	115,477	153,860
Cash flows from investing activities	-79,549	-70,421	-254,908	-208,470
Free cash flow	**-39,001**	**-13,989**	**-139,431**	**-54,610**
Cash flows from financing activities	-15,417	80,120	39,066	151,846

Cash flows from operating activities decreased by €15.9 mn to €40.5 mn in the third quarter of 2020 in connection with higher income taxes paid and a lower consolidated net income. For the period ended 30 September 2020, the decrease of cash flows from operating activities followed an increase in working capital. Furthermore, lower consolidated net income and higher income taxes paid impacted the cash flows from operating activities.

Cash flows from investing activities amounted to €-79.5 mn in the third quarter of 2020. They were mainly attributable to the construction of our new paper machine PM3. As usual, several smaller investments in different plants as part of our continuous maintenance capital expenditures were also included.

Free cash flow for the third quarter, calculated as cash flows from operating activities plus cash flows from investing activities, decreased compared to the respective prior-year periods as a result of the lower cash flows from operating activities and higher cash outflows from investing activities. This also applies to our free cash flow in the period ended 30 September 2020.

Cash flows from financing activities in the period ended 30 September 2020 mainly consisted of the drawdown of the remaining €30 mn from the €155 mn long-term bilateral bank loan facilities to finance the ongoing construction of our PM3 project and the €45 mn drawing from the €75 mn facilities to finance future growth projects. The abovementioned cash flows from financing activities were partly offset by scheduled repayments of the Senior Secured PLN Facilities and the EUR Facilities as well as interest payments.

Cash funds (cash in hand, bank balances) decreased by €102.2 mn and amounted to €100.5 mn as at 30 September 2020, compared to €202.8 mn as at 31 December 2019.

UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 September / Q3 2020

CONSOLIDATED BALANCE SHEET

Assets

(in € thousands)

		30/09/2020*	31/12/2019
A.	**Fixed assets**		
I.	**Intangible assets**		
1.	Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	13,809	15,685
2.	Prepayments on intangible assets	845	0
		14,654	**15,685**
II.	**Tangible assets**		
1.	Land and buildings including buildings on leasehold land	390,709	224,659
2.	Technical equipment and machinery	735,949	399,921
3.	Other equipment, factory and office equipment	9,274	9,585
4.	Prepayments and constructions in process	34,620	351,184
		1,170,552	**985,349**
		1,185,206	**1,001,034**
B.	**Current assets**		
I.	**Inventories**		
1.	Raw materials, consumables and supplies	74,109	60,028
2.	Work in process	19,677	36,663
3.	Finished goods	3,989	3,422
4.	Prepayments	3,145	62
		100,921	**100,176**
II.	**Receivables and other assets**		
1.	Trade receivables	108,781	94,260
2.	Receivables from affiliated companies	5	0
3.	Other assets	23,575	30,287
		132,361	**124,547**
III.	**Cash in hand, bank balances**	**100,533**	**202,775**
		333,814	**427,497**
C.	**Prepaid expenses and deferred charges**	**14,888**	**15,936**
D.	**Deferred tax assets**	**0**	**2,444**
	Total assets	**1,533,908**	**1,446,911**

* Unaudited consolidated interim financial information

Equity and liabilities

(in € thousands)

		30/09/2020*	31/12/2019
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	-7,476	-1,207
5.	Consolidated net retained profits	355,804	311,782
		432,738	**394,985**
B.	**Investment grants for fixed assets**	**6,794**	**6,605**
C.	**Provisions**		
1.	Provisions for pensions	524	501
2.	Tax provisions	16,783	42,483
3.	Other provisions	68,231	54,629
		85,538	**97,613**
D.	**Liabilities**		
1.	Bonds	600,000	600,000
2.	Bank loans	326,245	269,255
3.	Trade payables	68,120	60,932
4.	Liabilities from affiliated companies	0	6
5.	Other liabilities	11,293	15,242
		1,005,659	**945,433**
E.	**Deferred income**	**2,002**	**2,274**
F.	**Deferred tax liabilities**	**1,177**	**0**
	Total equity and liabilities	**1,533,908**	**1,446,911**

* Unaudited consolidated interim financial information

Consolidated Income Statement

(in € thousands)

		July – September*		January – September*	
		2020	2019	2020	2019
1.	Sales	219,717	211,623	649,262	680,641
2.	Increase/decrease in finished goods and work in process	-10,701	-4,170	-16,419	-12,366
3.	Other own work capitalised	9,051	4,586	20,836	11,587
4.	Other operating income	3,557	2,933	10,344	9,123
5.	Costs of materials				
a)	Costs of raw materials, consumables and supplies	-78,995	-83,485	-240,417	-265,131
b)	Costs of purchased services	-26,236	-21,807	-68,251	-63,679
		-105,231	-105,292	-308,668	-328,810
6.	Personnel expenses				
a)	Wages and salaries	-21,003	-18,311	-62,603	-55,591
b)	Social security and pensions	-3,606	-3,215	-10,942	-9,615
		-24,609	-21,526	-73,545	-65,206
7.	Amortisation and depreciation of fixed intangible and tangible assets	-23,787	-13,867	-54,575	-41,735
8.	Other operating expenses	-53,146	-47,012	-139,529	-134,517
9.	Other interest and similar income	4	522	71	1,640
10.	Interest and similar expenses	-7,564	-7,836	-22,765	-20,674
11.	Taxes on income	-1,908	-4,485	-19,679	-27,891
12.	**Earnings after taxes**	**5,382**	**15,475**	**45,333**	**71,792**
13.	Other taxes	-428	-759	-1,311	-1,413
14.	**Consolidated net income for the period**	**4,954**	**14,716**	**44,022**	**70,379**
15.	Consolidated unappropriated retained earnings brought forward			311,782	213,709
16.	**Consolidated net retained profits**			**355,804**	**284,088**

* Unaudited consolidated interim financial information

Consolidated Cash Flow Statement

(in € thousands)

		July – September*		January – September*	
		2020	2019	2020	2019
1.	**Cash flows from operating activities**				
	Consolidated net income for the period	4,954	14,716	44,022	70,379
	Amortisation and depreciation of fixed assets	23,787	13,868	54,575	41,735
	Increase (+)/decrease (-) in provisions	12,267	8,981	13,296	5,539
	Other non-cash expenses (+)/income (-)	-1,558	-205	-645	112
	Increase (-)/decrease (+) in inventories, trade receivables and other assets**	6,966	7,794	-9,393	-1,343
	Increase (+)/decrease (-) in trade payables and other liabilities**	5,027	4,283	12,400	8,817
	Interest expenses (+) /income (-)	7,560	7,314	22,694	19,034
	Expenditure (+) /income (-) of exceptional size or incidence	647	1,462	277	4,333
	Income tax expenses (+) /income (-)	1,908	4,485	19,679	27,891
	Income taxes paid (-)	-21,010	-6,266	-41,428	-22,637
	Cash flows from operating activities	**40,548**	**56,432**	**115,477**	**153,860**
2.	**Cash flows from investing activities**				
	Proceeds (+) from disposal of intangible and tangible fixed assets	0	0	932	6
	Payments (-) to acquire intangible fixed assets	-472	-17	-1,287	-62
	Payments (-) to acquire tangible fixed assets	-79,077	-70,925	-254,616	-210,056
	Interest received (+)	0	521	63	1,642
	Cash flows from investing activities	**-79,549**	**-70,421**	**-254,908**	**-208,470**
3.	**Cash flows from financing activities**				
	Proceeds (+) from the issuance of bonds and borrowings	0	95,000	75,000	351,861
	Cash repayments (-) of bonds and borrowings	-3,590	-2,136	-10,815	-156,510
	Proceeds (+) from grants received	0	0	679	0
	Cash payments (-) relating to expenditure of exceptional size or incidence	-383	-2,128	-416	-3,398
	Interest paid (-)	-11,444	-10,616	-25,382	-19,998
	Dividends paid to shareholders of the parent entity (-)	0	0	0	-20,109
	Cash flows from financing activities	**-15,417**	**80,120**	**39,066**	**151,846**
4.	**Cash funds at end of period**				
	Net change in cash funds	-54,418	66,131	-100,365	97,236
	Effect on cash funds of exchange rate movements	831	-326	-1,877	-2,069
	Cash funds at beginning of period	154,120	177,793	202,775	148,431
	Cash funds at end of period	**100,533**	**243,598**	**100,533**	**243,598**
5.	**Composition of cash funds**				
	Cash and cash equivalents	100,533	243,598	100,533	243,598
	Cash funds at end of period	100,533	243,598	100,533	243,598

* Unaudited consolidated interim financial information

** Not attributable to investing or financing activities

Consolidated Statement of Changes in Equity

(in € thousands)

	Subscribed capital	Capital reserve	Consolidated equity generated		Currency translation adjustment	Group equity
			Revenue reserves	Consolidated net retained profits		
01 January 2020	**7,588**	**75,414**	**1,408**	**311,782**	**-1,207**	**394,985**
Consolidated net profit for the period	0	0	0	44,022	0	44,022
Other changes	0	0	0	0	-6,269	-6,269
30 September 2020*	**7,588**	**75,414**	**1,408**	**355,804**	**-7,476**	**432,738**

* Unaudited consolidated interim financial information

DISCLAIMER

Financial information
The unaudited consolidated financial information of Progroup AG ("Progroup") as at and for the period ended 30 September 2020 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. 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.

ADDITIONAL EXPLANATORY INFORMATION

Accounting policies
The unaudited consolidated interim financial information of Progroup AG as at and for the period ended 30 September 2020 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 2019. However, the depreciation period for the new PW13 plant was set at 10 years, in contrast to the previous projects, which had a depreciation period of 15 years.

The accounting policy for the depreciation of our paper machine PM2 changed in July 2020, as the remaining useful life was reassessed from a period of 25 years to 17 years.

Please refer to the notes to the audited consolidated financial statements for the year ended 31 December 2019 for a detailed description of our significant accounting policies.

Scope of consolidation
In the period ended 30 September 2020, there were no changes in the scope of consolidation compared to the year ended 31 December 2019.

Information on material risks
As at 30 September 2020, the pandemic crisis was added to the list of risks for Progroup AG. Besides this risk, there have been no significant changes with regard to the risks for Progroup AG compared with the year ended 31 December 2019 and described in the respective annual financial statements.

LEGAL NOTICE AND INFORMATION

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