

Riga, 03.01.2018

Price adjustment for wooden pallets and pallet collars from 01.02.2018

Dear business partner,

finally we've successfully passed the very turbulent year 2017. Nevertheless demands for pallets and pallet collars are growing week by week. This is surely good indicator for the global economy growth and it significantly affects KRONUS raw material purchase strategy as one of the global market players.

And at the moment one of the biggest challenges for us is to ensure a smooth and continuous supply with high quality packaging to You. Currently we are competing with different market actors for the limited wooden resources. And simple economic rule says: if the demands on the market are higher than the supply - prices are growing.

This is exactly the situation we are faced with at the moment. All our suppliers of wooden materials increased their prices rapidly. A lot of our suppliers switched their selling activities to China and US where demands and purchasing prices continuing to grow and even higher than in Europe.

Additionally there is a huge lack of raw material on the European wooden markets due to a very rainy summer and autumn 2017 as well as still very moist grounds in the middle and north European forests. In Germany sawmills haven't received ca. 30% of ordered volumes from their suppliers due to this reason. Similar situation we have currently on the Baltic and partly on Scandinavian markets.

1. HPE price index for sawn timber (www.hpe.de)

HPE price index continued its growth also in the 4Q/2017. So we're facing a total growth from the 3Q/2016 of 9,9%!!!

It means that at the moment we have the highest price index since 2005, when HPE started to monitor it. Market indicators show that this trend will continue also in the 1st half of 2018.

This development could be seen in the following chart:

The HPE price index for sawn timber and wood-based products for wooden packaging and pallets

(Stand 13th of Dec. 2017)

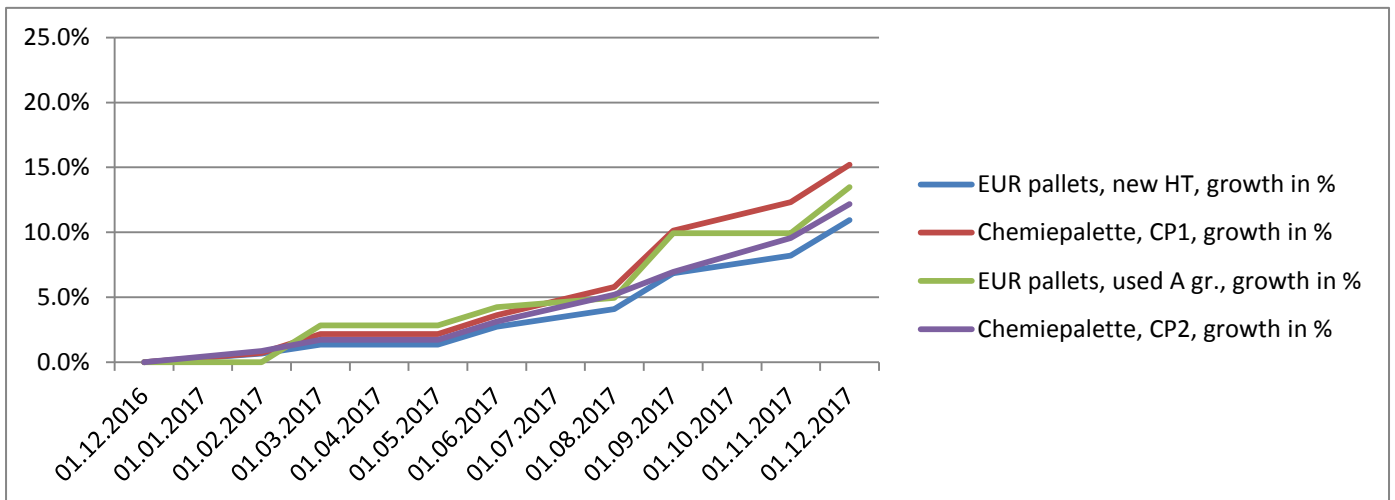


Price index: solid timber for wooden pallets								
Quarter	1/2016	2/2016	3/2016	4/2016	1/2017	2/2017	3/2017	4/2017
Index value	152,7	151,4	151,5	152,1	153,7	157,2	160,7	166,8
Price changes since last quarter	-1,0%	-0,8%	0,1%	0,4%	1,1%	2,3%	2,2%	3,8%
Price changes since last year	-3,2%	-3,7%	-3,4%	-1,4%	0,7%	3,8%	6,1%	9,7%

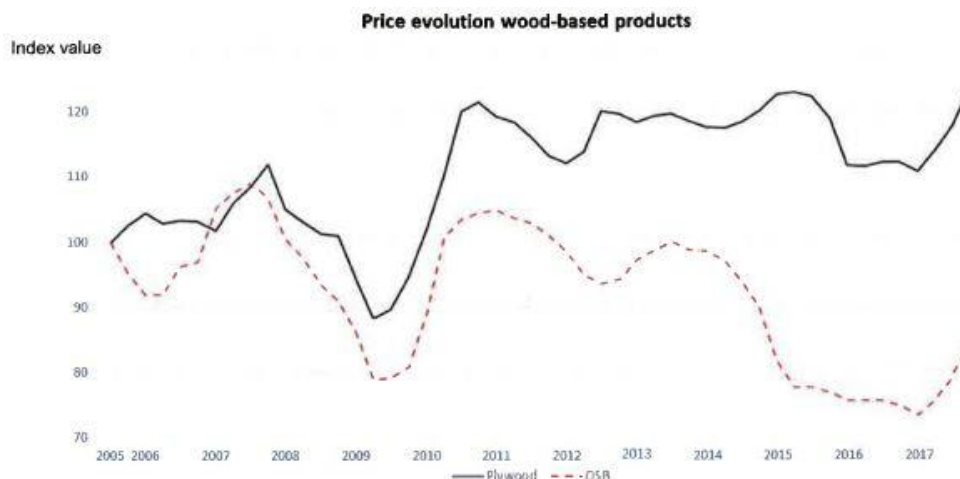
2. EUWID (www.euwid-holz.de)

Among with increase of prices for sawn timber, prices for wooden pallets are growing accordingly. E.g. prices for new EPAL pallets grew from Dec. 2016 to Dec. 2017 by 11% and CP1 pallets by 15,2% in the same period of time.

EUWID price chart for pallets
01.12.2016-14.12.2017



The general shortage of wooden resources among with the high demands on the market leads to a price increase of wooden-based products like OSB and Plywood as well. In this market segment we observe price increase of more than 10% as shown in the following chart.



Price index: plywood for packaging								
Quarter	1/2016	2/2016	3/2016	4/2016	1/2017	2/2017	3/2017	4/2017
Index value	111,9	111,8	112,2	112,3	110,8	114,2	118,0	124,0
Price changes since last quarter	-6,1%	-0,1%	0,4%	0,1%	-1,3%	3,1%	3,4%	5,1%
Price changes since last year	-9,0%	-9,3%	-8,4%	-5,8%	-0,9%	2,2%	5,1%	10,4%

Price index: OSB for packaging								
Quarter	1/2016	2/2016	3/2016	4/2016	1/2017	2/2017	3/2017	4/2017
Index value	75,5	75,4	75,5	74,5	73,2	75,6	79,7	84,0
Price changes since last quarter	-1,5%	-0,1%	0,1%	-1,2%	-1,8%	3,3%	5,5%	5,4%
Price changes since last year	-7,3%	-2,8%	-2,5%	-2,7%	-3,0%	0,2%	5,7%	12,7%

1/2005 = 100

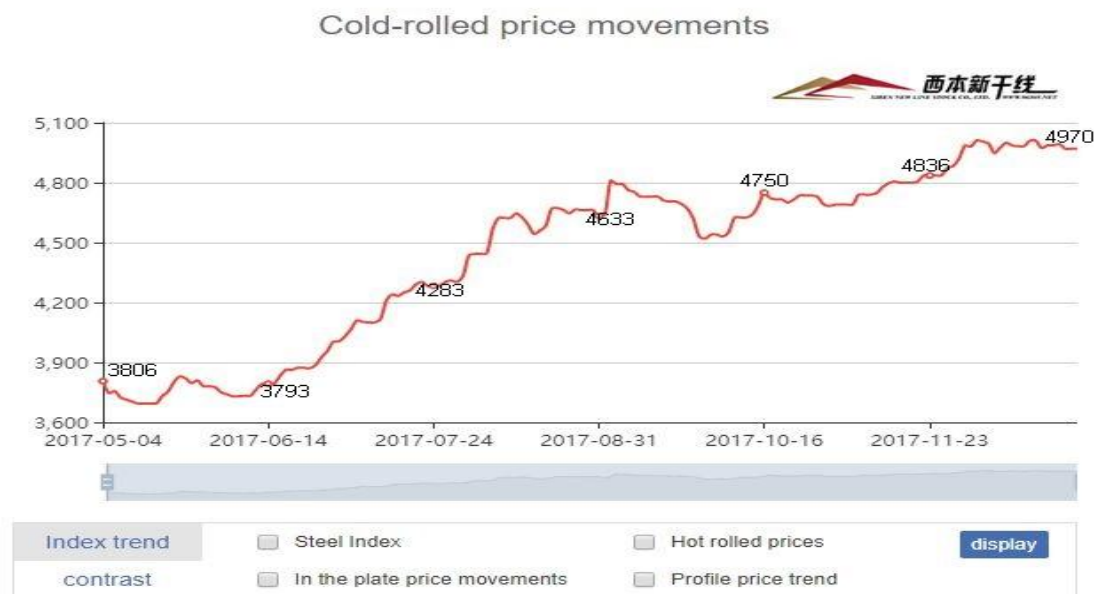
3. Price trend for steel products

As already informed by beginning of 2017, prices for metal continue to grow. This trend influences our purchasing prices for metal hinges and nails for pallet production.

In the 2nd half of 2017 prices for cold rolled steel = raw material for our hinges increased by more than 30%.

Below you can see the price trend for cold rolled steel.

(<http://www.96369.net/indices/109>)



Due to this turbulent and really unpredictable situation on the wooden and metal markets we are obliged to follow the market trends. Therefore we need to adjust our prices to ensure the stability of supply.

New prices enter into force from 01.02.2018.

Your new price list along with amounts of products can be ordered with the old prices you'll receive within 10 days from your responsible Key Account Manager.

Hoping for your understanding we are looking forward to continue our successful cooperation.

Best regards,

Sebastian Domme

