

**STEICO SE**

2017 annual report

The green share

2017

Continued growth with above-average improvement in earnings

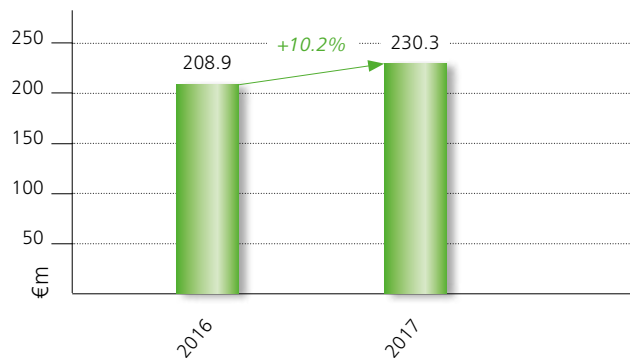


**Natural** building products for **healthier living**

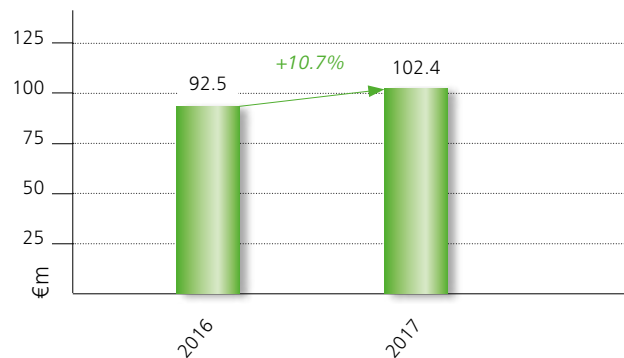
# Overview

## Continued growth with above-average improvement in earnings

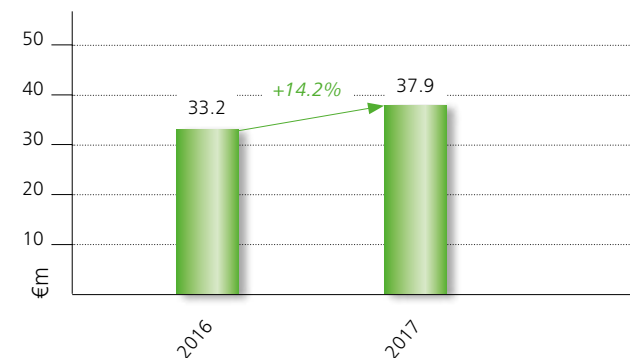
Revenue growth in € millions



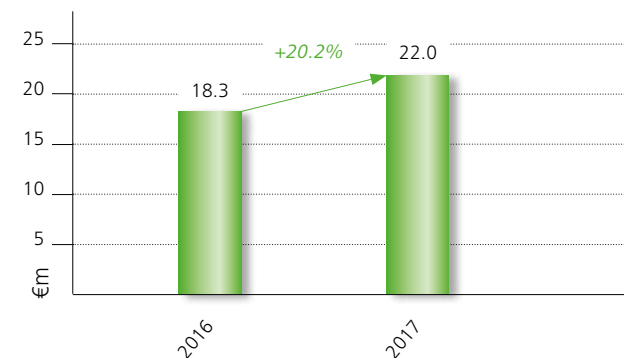
Gross earnings growth in € millions



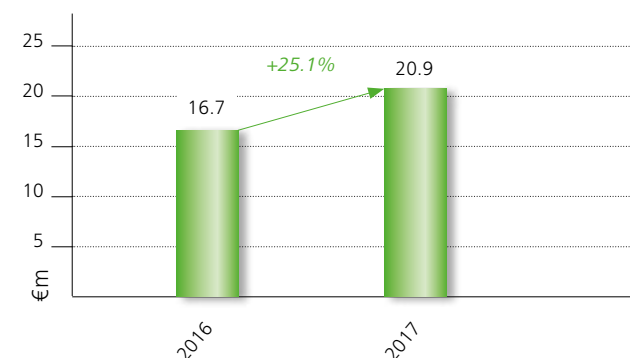
EBITDA growth in € millions



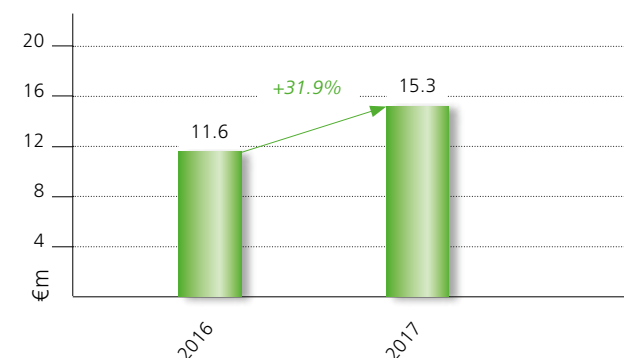
EBIT growth in € millions



EBT growth in € millions



Consolidated profits growth in € millions



### ADDITIONAL KPIS

	2017	2016
1. Total operating revenue in € millions	€ 232.3 million	€ 210.8 million
2. EBITDA margin as a percentage of total operating revenue	16.3%	15.7%
3. EBIT margin as a percentage of total operating revenue	9.5%	8.7%
4. Equity ratio (as of Dec. 31)	53.9%	47.6%

Percentage increases and margins calculated based on rounded figures.

The STEICO Group once again recorded new records for its revenues and earnings in 2017.

Revenue improved by 10.2% to € 230.3 million. EBITDA improved by 14.2% to € 37.9 million and EBIT lifted by 20.2% to € 22.0 million. Net income increased by 31.9% to € 15.3 million.

The EBITDA margin of 16.3% and the EBIT margin of 9.5% mean that 2017 was also the most successful year in STEICO's history in terms of its earnings.

In 2017 STEICO once again benefited from economies of scale as a result of the high level of capacity uptake for the production lines. In addition synergies can be realised as a result of the integrated production of laminated veneer lumber and wood fibre insulation materials. Revenue growth in the United Kingdom was slower as a result of the devaluation of Sterling, however it was possible to compensate for this thanks to continued growth on other markets, in particular in France and Germany.

If the economy does not deteriorate, the company's management is aiming for revenue growth in 2018 of around 15% compared to the previous year. In terms of EBIT, growth in the upper single-digit to low double-digit percentage range is forecast for 2018.

#### Company profile

STEICO develops, produces and markets ecological construction products made of renewable raw materials. STEICO is the European market leader in the wood-fibre insulation materials segment.

STEICO is positioned as a system provider for ecological residential construction and is the only manufacturer in the industry to offer an integrated wooden construction system in which insulation material and construction components supplement each other. These include flexible and stable wood fiber insulation panels, composite thermal insulation systems, insulation panels with a reinforcing effect, as well as cavity wall insulation made of wood fibers and cellulose.

The construction elements comprise I-joists and laminated veneer lumber. In addition, the STEICO group also produces fiberboard and operates in the wood trade.

The Munich-based company's products are used in new construction and when renovating roofs, walls, ceilings, floors and facades. STEICO's products allow the construction of future-proof, healthy buildings with a particularly high quality of living and a healthy atmosphere. STEICO's products offer reliable protection against cold, heat and also noise, and they permanently improve the building's energy efficiency.

#### Disclaimer

This document is a translated version of the German original document. The translation has been prepared with utmost care. However, only the German original document is binding.

Dear business partners,  
dear shareholders,



Udo Schramek

CEO

STEICO SE celebrated a little anniversary in 2017. STEICO's IPO was now ten years ago - in 2007. In these ten years since hitting the stock exchange, shares of STEICO have seen the entire spectrum of life on the stock market - huge upswings and disappointing downturns. That means that we are even more pleased that in 2017 our shares have not only regained their original issuing price but have sustainably exceeded this. We know that some of our shareholders have been with us from day one, and that they were always convinced by the company's perspectives. I would like to thank them for their long-standing loyalty.

STEICO as a company has grown since its initial listing. Our revenues have more than doubled since then, and the STEICO group is now more profitable than ever. Our product range reflects an impressive variety and our structures and processes make it easier to manage our company than ever before.

We don't want to just rest on our laurels, but we are continuing to look forward. We are already putting the strategy in place today to allow us to continue STEICO's growth story in future. We succeeded in reinforcing our capital basis in 2017 with a capital increase of 10% of our share capital - thus successfully positioning our group for its coming growth. I would like to welcome our new shareholders to the company. We will continue to do everything in our power to successfully continue the STEICO story.

One of the positive side-effects from our capital increase has been that our free-float has increased, which will benefit trading in STEICO's shares – a wish that many shareholders have expressed in the past.

As an industrial company, STEICO has to rely, in particular, on sufficient and reliable production capacity. As a result we are particularly pleased that our most recent investment projects - our second laminated veneer lumber line and the expansion of our capacity for insulation materials - are on budget and, in some cases, even substantially ahead of our original timetable. This means that we have an excellent basis to further expand our "natural construction system".

And, of course, our success is people-based. The STEICO team currently comprises more than 1,500 colleagues and has almost doubled over the past then years. And our team does great things every single day. Thanks to all of you for your special dedication.

Yours sincerely,

A handwritten signature in green ink, consisting of a large, stylized 'U' followed by a long horizontal stroke that ends in a small hook.

Udo Schramek

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# Report by the Supervisory Board

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Dear business partners,  
dear shareholders,

in 2017 the STEICO Group was able to continue its success story: Both revenues and earnings lifted substantially once again. We are particularly happy that our earnings grew at a faster rate than our revenues.

In so doing the STEICO Group is benefiting from the high level of capacity uptake for its production lines, thus allowing economies of scale to be realised. In addition the production of laminated veneer lumber has contributed to the increased profitability - also because it was possible to excellently integrate the two production lines into the existing production environment. "Waste" from laminated lumber production is a valuable raw material for STEICO's wood fibre insulation materials. Bark etc. is used to generate heat and steam in the biomass plants and reduces the use of fossil fuels. Finally, the so-called "remaining timber core" - or the part which is left over when the trunk is stripped - is used in order to saw this and produce our own palettes for STEICO products.

However, the continuing growth also requires forward looking plans. Setting up new production capacity can entail start-up periods of up to two years in some cases. As was the case in the previous years, strategic investments were often the subject of discussion for the Supervisory Board.

The successful capital increase of 10% of the share capital allowed the STEICO Group to reinforce its capitalisation and substantially expand its latitude for future capital expenditure. As a result, investing the proceeds from the issue to throw of the greatest profit was thus also a subject of discussion for the Supervisory Board.

In addition, the Supervisory Board also discussed a large number of smaller investments to increase efficiency. The intensive competitive environment requires ongoing activities for process optimisation, automation and digitalisation. This is the only way to secure and expand the company's position as the industry-wide cost leader for the future.

The perspectives on the various sales markets were also considered. In particular developments in the United Kingdom were discussed in detail in view of the Brexit negotiations.

The company's success is due to a major extent on the dedication of all of its employees. On behalf of the Supervisory Board I would thus like to thank all of the STEICO Group's employees and its managing directors for their commitment over the past few months.

## MANAGEMENT AND MONITORING BY THE SUPERVISORY BOARD

In 2017 the Supervisory Board fully performed all of the its tasks and obligations required by the law and the articles of association. It defined the fundamental principles of its activities and monitored their implementation. The Supervisory Board was included directly in decisions which were of of fundamental importance for the company. To the extent that approval by the Supervisory Board was required for decisions or activities by the company's management according to the law, the articles of association or the by-laws, the corresponding resolutions were only passed after these issues had been discussed in detail with the managing directors.

The managing directors reported regularly, in good time and in detail to the Supervisory Board according to Section 40 (6) of the SEAG in connection with Section 90 of the AktG on the course of business and the general position of the company and the group and their profitability. In addition, in-depth discussions were held in particular concerning business policy and the company's strategic further development. The Supervisory Board was also informed about the risk position and risk management.

The managing directors regularly submitted an in-depth report on the course of business, including the growth of revenues, earnings and liquidity, and also on the position of the company and the group companies. The reports were available for each member of the Supervisory Board and were discussed in joint meetings. Differences in the course of business were discussed in detail. The managing directors provided additional information at the Supervisory Board's request. The Supervisory Board was also consulted on special transactions which were of major importance for the company. In addition, the Chairman of the Supervisory Board was in regular contact with the managing directors and received regular reports on the company's growth and he reported to the Supervisory Board on the information obtained.

### KEY AREAS OF DISCUSSION IN THE SUPERVISORY BOARD

In fiscal year 2017 the Supervisory Board held five face-to-face meetings and in four cases it passed a resolution outside of a meeting. The attendance rate for meetings of the Supervisory Board was 100%. The managing directors participated in the Supervisory Board meetings to the extent not otherwise determined by the Chairman of the Supervisory Board.

In its first meeting on 9 March 2017 the Supervisory Board appointed Mr. Holger Jödecke as a new managing director and dealt with various capital expenditure projects.

In its meeting on 26 April 2017 the Supervisory Board dealt, in particular, with STEICO SE's annual financial statements, the dependent companies report and the consolidated financial statements as of 31 December 2016 as well as the respective management reports. This meeting also dealt with the report of the Supervisory Board for fiscal year 2016. In addition the proposed resolutions for the company's ordinary general meeting on 22 June 2017 were passed.

In its meeting on 22 June 2017, among others, the Supervisory Board revised the schedule for the distribution of business between the managing directors.

In its meeting on 15 September 2017 the Supervisory Board resolved to relocate a wood fibre board line from the production facility in France to move this to Czarna Woda. In addition the Supervisory Board dealt in detail with the issue of whether and where a new production facility could possibly be established.

The last meeting on 4 December 2017 dealt with issues including an in-depth discussion of the risk management report by the managing directors, which forms part of the early warning system set up according to Section 22 (3) of the SEAG. In so doing, the Supervisory Board confirmed that risks which could endanger the company's continued existence can be recognised at an early stage, however that there were no such risks.

### AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements and the managing report as well as the consolidated financial statements and group management report as of 31 December were prepared by the managing directors according the regulations of the Handelsgesetzbuch (HGB - German

Commercial Code). The firm of auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements and management report of the company as well as the consolidated financial statements and group management report, discussed this in the audit reports and issued both the annual financial statements as well as the consolidated financial statements with an unqualified auditor's opinion. Performance of the audit and the audit reports correspond to the statutory requirements in Sections 317, 321 of the HGB. The company's annual financial statements and management report and the group's consolidated financial statements and group management report as well as the proposal by the managing directors for the use of the profits and the auditors reports by the auditors were passed on to the Supervisory Board in good time. The auditors participated in the meeting to discuss the financial statements and responded extensively to questions and reported in detail on the course and results of the audit of the annual financial statements and consolidated financial statements.

The Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the associated management reports. As there were no objections, the board concurred with the results of the audit by the auditors and approved the annual financial statements and consolidated financial statements. The annual financial statements were thus adopted. The Supervisory Board also approved the management reports.

The Supervisory Board reviewed the proposal for the appropriation of profits while considering the company's financial position and the expectations of shareholders and the capital market, and discussed this with the managing directors. It then concurred with the managing directors' proposals for the appropriation of profits.

### STAFF CHANGES

Mr. Steffen Zimny's appointment as a managing director was extended through to 31 December 2019. Mr. Holger Jödecke was appointed as a further managing director for a period of office to 31 December 2019. There were no other staff changes to the Supervisory Board or the managing directors in the year under review.

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# Report by the Supervisory Board

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## AFFILIATED COMPANIES REPORT

The managing directors prepared the report on affiliated companies (dependent parties report) for fiscal year 2017. Accordingly, the company received reasonable compensation in each case for the transactions presented with affiliated companies.

The dependent parties report was audited by the auditor and issued with the following unqualified auditor's opinion:

"After our proper audit and assessment we confirm that

1. The facts in the report are correct and
2. The company's payments for the transactions listed in the report were not unreasonably high."

Both the dependent parties report and also the audit report were received by the Supervisory Board in good time. As a result of its own review the Supervisory Board concurred with the auditor's opinion and approved the dependent parties report.

Feldkirchen, 26 April 2018



Udo Schramek  
Chairman of STEICO SE's Supervisory Board



## Growth of STEICO's shares

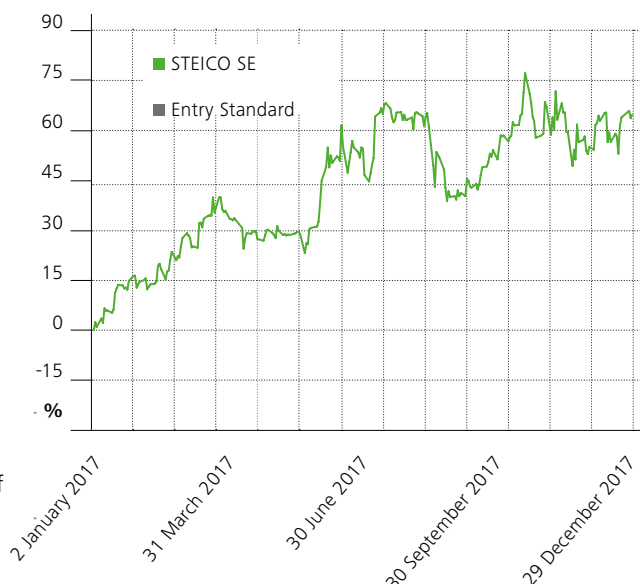
### A. PRICE GROWTH IN 2017

STEICO's shares started the year with a price of € 13.22 on 02 January 2017, which was their lowest price in this period. In the following months the share price improved constantly, and reached an interim high of € 22.25 on 12 July 2017.

After a set-back in August, the share price started to lift again in September.

On 20 September 1,280,315 new shares were issued at a price of € 19.50 per share as part of a capital increase from authorised capital. The capital increase was received very positively by the market and did not have any impact on the share price performance. The high for the year was recorded shortly afterwards at € 23.45 on 11 October.

STEICO's shares closed at a price of € 20.61 in Xetra trading on 29 December. As a result, the share price lifted by a total of 55.9% in 2017.



### B. INVESTOR RELATIONS

As was the case in previous years, STEICO SE engaged in open and direct communication with the capital markets in 2017, and was also in close contact with its shareholders. In 2017, in addition to the transparency policies for the Basic Board and m:access, STEICO SE fulfilled its publication requirements, for example with end-to-end communication in German and English and the regular publication of quarterly reports. In addition, up-to-date press releases and financial reports are also always published on the Web site [www.STEICO.com/ir](http://www.STEICO.com/ir). Information on key events was disseminated via a well-known institution to comply with publicity obligations.

### C. CAPITAL MARKET DIARY 2017

5/6 January 2017	STEICO presented the company at the 20th Oddo Forum, held by ODDO BHF in Lyon (France)
6 February 2017	Publication of provisional figures for 2016
7 February 2017	STEICO presented the company at the HSBC SRI Conference (Frankfurt am Main)
15/16 February 2017	STEICO presented the company at the "11th German Conference" held by ODDO BHF
26 April 2017	Publication of the 2016 STEICO annual report
26 April 2017	Publication of STEICO's 2017 Q1 report
9/10 May 2017	STEICO presented the company to institutional investors in Brussels, Cologne and Düsseldorf (roadshow with ODDO BHF)
22 June 2017	2017 ordinary general meeting
4/5 July 2017	STEICO presented the company to institutional investors Paris and Frankfurt am Main (roadshow with ODDO BHF)
13/14 July 2017	STEICO presented the company to institutional investors in Zurich and London (roadshow with ODDO BHF)
17 July 2017	Publication of STEICO's 2017 semi-annual report
30 August 2017	STEICO presented the company at Commerzbank's "Sector Conference 2017"
31 August 2017	STEICO presented the company to institutional investors in Amsterdam (roadshow with ODDO BHF)
5 September 2017	STEICO presented the company to institutional investors in Vienna (roadshow with ODDO BHF)
6 September 2017	STEICO presented the company to institutional investors in Paris (roadshow with ODDO BHF)
7 September 2017	STEICO presented the company to institutional investors in London (roadshow with ODDO BHF)
20 September 2017	STEICO performs a 10% capital increase from authorised capital
16 October 2017	Publication of STEICO's 2017 Q3 report
23 October 2017	STEICO presented the company to institutional investors in Frankfurt/Main (roadshow with ODDO BHF)
13 December 2017	STEICO presents the company at the Munich Capital Market Conference (MCK)

## A. FOUNDATIONS

### I. STEICO SE'S BUSINESS MODEL

#### 1. OVERVIEW

STEICO develops, produces and markets ecological construction products made of renewable raw materials. STEICO is the European market leader in the wood-fibre insulation materials segment.

STEICO is positioned as a system provider for ecological residential construction and is the only manufacturer in the industry to offer an integrated wooden construction system in which insulation material and construction components supplement each other. These include flexible wood fiber insulation materials, stable wood fiber insulation boards, wood fiber insulation boards for facade insulation ("WDVS"), bracing insulation boards, cavity insulation made of wood-fibre and cellulose as well as system products to insulate building shells. Construction elements comprise I-joists and laminated veneer lumber. In addition, the STEICO group also produces Natural Fibre Boards and operates in the wood wholesale trade. The product range in the United Kingdom also include products for ceiling and floor construction.

The STEICO Group's production equipment can also be used to produce a wide variety of specialty products such as door panels, pin-boards, etc. which are sold to various industrial customers.

#### 2. THE STEICO GROUP'S PRODUCTS AND SERVICES

The STEICO Group is a system provider for natural construction products for insulation and construction. The core range comprises "natural wood-fibre insulation materials". In 2017 the bulk of revenues (61.5%) was recorded with environmentally friendly wood-fibre insulation materials and cavity insulation for building and floor insulation.

The STEICO Group's current range of products and services comprises:

##### Wood-fibre insulation materials

STEICO insulation materials are made of fresh soft wood. They are used in new buildings and renovation work, protecting against the cold, heat and noise.

Wood-fibre insulation materials are produced by the subsidiaries using various methods - both the wet and the dry method. Both methods break down wood into individual fibres using steam and mechanical treatment. The

fundamental difference between the two methods is that wet fibres are processed (formed to make boards) in the wet method, and in the dry method the fibres are dried before forming the boards. The dry method can be used to produce fibres for cavity insulation, flexible (compressible) mats or stable insulation boards.

##### Cavity insulation

Cavity insulation is made of loose insulation fibres or insulation flakes which are blown into construction cavities at high pressure, where they then compress. The STEICO Group produces and sells cavity insulation material made of wood fibres and also cellulose flakes.

##### Construction products I-joists

I-joists are supporting components which are optically very similar to traditional double-T-joists. They comprise two "belts" (square timber posts made of laminated veneer lumber) which are connected using a fibreboard, also made by STEICO. STEICO's I-joists offer an alternative to standard construction products such as construction lumber or laminated timber in terms of both their price and energy consumption.

##### Construction products Laminated Veneer Lumber (LVL)

LVL is a high-performance wood material and comprises several layers of wood laminate glued together. It is characterised by its particularly high rigidity and ability to bear loads, while simultaneously offering high dimensional stability. Laminated veneer lumber is used both in the construction industry and also in industrial applications (for example to produce doors and furniture). It is also a key component for I-joists (belt material). The STEICO Group took its first production line for laminated veneer lumber into operations in Czarna Woda in 2016. As a result of the high demand, the construction of a second production line for laminated veneer lumber was started the same year. The second line went live in the fourth quarter of 2017 (for further information see B.II.1. Key events in 2017).

##### Timber wholesale

The STEICO Group operates in timber product wholesale in Germany. These products stem from the company's former orientation and these operations are being continued with a lower number of employees. The company generates revenues with timber products which are mostly imported from south-eastern European countries and Poland. Clients are the timber wholesale trade and furniture industry in Germany. The range of merchandise spans sawn timber

through to semi-finished products for furniture making (e.g. products cut to customer specifications).

STEICO UK Ltd. runs wholesale operations in the United Kingdom with wood and wooden composite boards to supplement its sales of I-joists. It has become standard practice on the UK market for construction companies to offer end-to-end ceiling systems - including planning, the supporting structure (I-joists) and wooden composite boards to construct the floor - all from a single source.

#### Special products

The special products segment bundles all of the products that the group produces itself which are not directly allocable to the construction sector. These include, for example, fibreboards for pinboards or door fills, as well as other products for industrial applications.

#### Natural fibre boards

The production of natural fibre boards is similar to the production of wood-fibre insulation materials made using the wet method. The difference is that wet fibres are pressed to form stable boards using particularly high pressure. Natural fibre boards are used in the furniture industry. Natural fibre boards are used in the furniture industry where they are used, for example, to form the backs of cupboards or the bottoms of drawers. In addition, they are used as standard construction boards on many markets, for example for roof boards. Within the STEICO Group, natural fibre boards are a key component in the production of I-joists, where they form the so-called bar. Sales to external customers is no longer of any strategic importance due to the low margins.

#### Miscellaneous

The Miscellaneous segment bundles various peripheral activities, such as ETICS accessories, vapour barriers and other accessories such as tools for processing insulation material.

#### Services

STEICO offers a range of supplementary services, such as its "STEICO Academy" seminars. These seminars train craftsmen, architects, trade representatives and also people building their own home in how to use the STEICO construction system. In addition STEICO has its own department for technical advice for craftsmen, planners and builders. As a rule services are performed free of charge.

### 3. PROCUREMENT

The fresh wood required to produce wood fibre products is mostly procured in Poland from the Polish State Forest.

In France wood is procured on the free wood market. The wood is sourced from sustainably managed forests from the region surrounding the production facilities.

### 4. SALES AND CUSTOMERS

The STEICO Group's customers are mostly broken down into the customer groups of wood and construction materials traders, wood construction companies, pre-fabricated home construction companies and DIY stores (in some cases via distributors) as well as industrial customers (e.g. manufacturers of laminated/parquet flooring, furniture manufacturers, construction material manufacturers). The STEICO Group aims to ensure a broad customer base in order to avoid dependencies on individual customers. 3.1% of revenues were generated with the largest customer in 2017 (previous year: 4.2%). 18.4% of revenues were generated with the ten largest customers in 2017 (previous year: 20.5%). The company's management believes that it is thus not especially dependent on a single individual customer.

## II. CONTROL SYSTEM AND SHAREHOLDER STRUCTURE

STEICO SE is responsible for sales management, marketing, investments, product development, finance and financial control in its position as the group's holding company. 61.1% of shares are held by the CEO/managing director Mr. Udo Schramek, and the remaining 38.9% is in free float.

## III. RESEARCH AND DEVELOPMENT

R&D activities in fiscal year 2017 focused on optimising product characteristics for wood fibre insulation boards as well as developing new products as part of the product range, in particular:

- Supporting research work in parallel to operating the Group's own production line for laminated veneer lumber and taking the second line into operation.
- Research activities to develop formaldehyde-free binding agents for wood materials and other adhesives
- Further development of cellulose cavity insulation
- Developing and optimising wet method wood fibre insulation materials
- Developing and optimising dry method wood fibre insulation materials

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# Group management report for STEICO SE as of 31 December 2017

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- Research to optimise the fire and mouldering performance for STEICO's insulation materials
- Research to optimise the thermal conductivity of STEICO's insulation materials

Future R&D work will continue to focus on building the integrated construction system.

## B. ECONOMIC REPORT

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### I. OVERALL ECONOMIC AND INDUSTRY-SPECIFIC UNDERLYING CONDITIONS

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#### 1. ECONOMIC TREND

According to a quick estimate by the European Statistics Office Eurostat, gross domestic product in 2017 grew by 2.5% in both the Eurozone and also in the EU. As a result the European Economy has been able to continue its positive growth.<sup>1</sup>

The European construction sector drove economic growth in 2017. The experts at the market research institute Eurostat are expect that construction activities grew by 3.5% in 2017. As a result growth is linking back in to the levels recorded in 2006, just before the start of the financial crisis. However, it is also remarkable that growth was recorded in 2017 in all of the 19 countries covered by Euroconstruct.<sup>2</sup>

Current figures from DESTATIS, the German Federal Statistics Office, are available for sales in the main construction industry through to November 2017. Sales lifted by 5.9% in the period from January to November compared with the same period of the previous year. As a result the excellent situation in the German construction sector has continued.<sup>3</sup>

2017 continued to be characterised by the extensive competition for wood fibre insulation materials. However, in the opinion of STEICO's management team, the high demand for wood fibre insulation materials industry-wide means that there is high capacity uptake for the production equipment, thus reducing the pressure on prices. For example, in the summer of 2017 STEICO was able once again, for the first time in several years, to pass on the higher cost of raw materials to the market in the form of a moderate price increase for part of its insulation materials range.

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1 Source: Eurostat, 30 January 2018

2 Source: Euroconstruct, 24 November 2017

3 Source: Destatis, 12 February 2018

#### 2. COMPETITION

With regard to wood-fibre insulation materials, the most important competitors according to the company's management were Soprema with its Pavatex brand (France), Gutex (Germany), Homatherm (Germany - after bankruptcy now a brand of HOMANIT Building Materials), Schneider (Germany) and Hunton (Norway).

In terms of fibreboards, in STEICO's view the most important competitors were Fibris (Poland), Homanit (Poland), Woodway Group (Russia), Huntonit (Norway) and Finnish Fibreboard (Finland).

The company's management believes that in 2017 its key competitors for I-joists are Metsä (Finland), Masonite (Sweden), as well as James Jones (United Kingdom).

The most important competitors for laminated veneer lumber were Metsä (Finland) Stora Enso (Finland), Louisiana Pacific (USA), as well as Taleon Terra (Russia), however STEICO continues to supply this company with laminated veneer lumber as merchandise (to supplement its own production).

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### II. COURSE OF BUSINESS

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#### 1. KEY EVENTS IN 2017

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##### Increase to the supervisory board

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On 9 March 2017 the STEICO SE's supervisory board resolved to create a new position on the board for HR and Organisational Development and Business Process Management. Mr. Holger Jödecke was appointed as managing director in this new position. Mr. Jödecke has been a STEICO employee since October 2014 and was most recently managing director at the French STEICO production company and CFO for the Polish STEICO production company.

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##### New construction of a production line for wood fibre insulation materials (dry method)

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On 9 March 2017 the board of directors of STEICO SE resolved to build an additional production facility for stable wood fiber insulation materials (dry method). The new production line will have a maximum annual capacity of 300,000 cbm. As a result, STEICO is reacting to the ongoing trend toward environmentally friendly insulation material.

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##### Execution of a capital increase from authorised capital

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STEICO SE successfully completed a capital increase from authorised capital on 20 September 2017. A total of

1,280,315 new shares were placed at a price of € 19.50. Gross proceeds from the issue totaled around € 25 million. The proceeds from the issue will be used to finance the company's growth strategy, in particular by adding new or extended production capacity for wood fibre insulation materials and/or construction products, by acquiring potential acquisition targets (used production facilities, additional fields of business), and for general purposes.

#### **Start of operation for the second production line for Laminated Veneer Lumber (LVL)**

The "80% performance test" was been successfully passed by the second production line for laminated veneer lumber at the plant in Czarna Woda (Poland) on 7 November 2017. The 80% performance test marks the start of regular production. As a result, it has been possible to start regular production significantly earlier than had been planned. The original plans were for the line to go live in the first half of 2018.

# Group management report for STEICO SE as of 31 December 2017

## 2. COURSE OF BUSINESS<sup>4</sup>

In 2017 the STEICO Group was able to record revenue growth on most of its sales markets. It recorded substantial growth in the three major economies in Germany, the United Kingdom and France. Sales in France were up by 27.9%, benefiting from a significant economic recovery, and the German market remained at a high level, up by 11.4%.

Growth was substantially lower in the United Kingdom at 0.6%: The UK construction sector continues to be robust, however consolidated income fell as a result of the devaluation of sterling as a result of the ongoing Brexit process. The STEICO Group combated this situation with increased currency hedging as well as the necessary price changes. The United Kingdom is the main sales market for I-joists, accounting for around 2/3 of sales. In addition, STEICO is also involved in wood wholesale in the United Kingdom with supplementary flooring products, which contributed to growth in 2017.

Poland (+16.4%) and the rest of Eastern Europe (+27.3%) also recorded very pleasing growth rates which are due to the company's in-depth processing of the market and the excellent state of the construction industry there.

In Italy, which was one of STEICO's most important sales markets prior to the financial crisis, the economy appears

<sup>4</sup> All of the change rates have been calculated based on non-rounded figures.

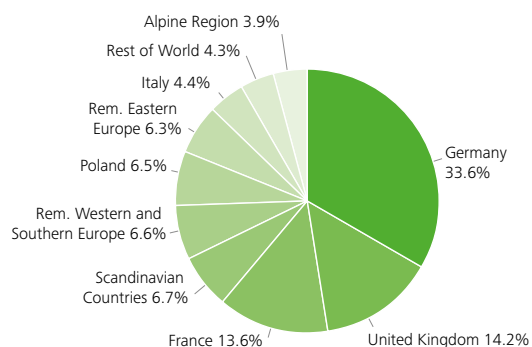
to have bottomed out. Revenues were up by 18.0% - solid revenue growth in 2017.

In contrast revenues fell in Scandinavia (-3.2%), the Alpine region (-2.9%) and in the rest of the world (-2.4%).

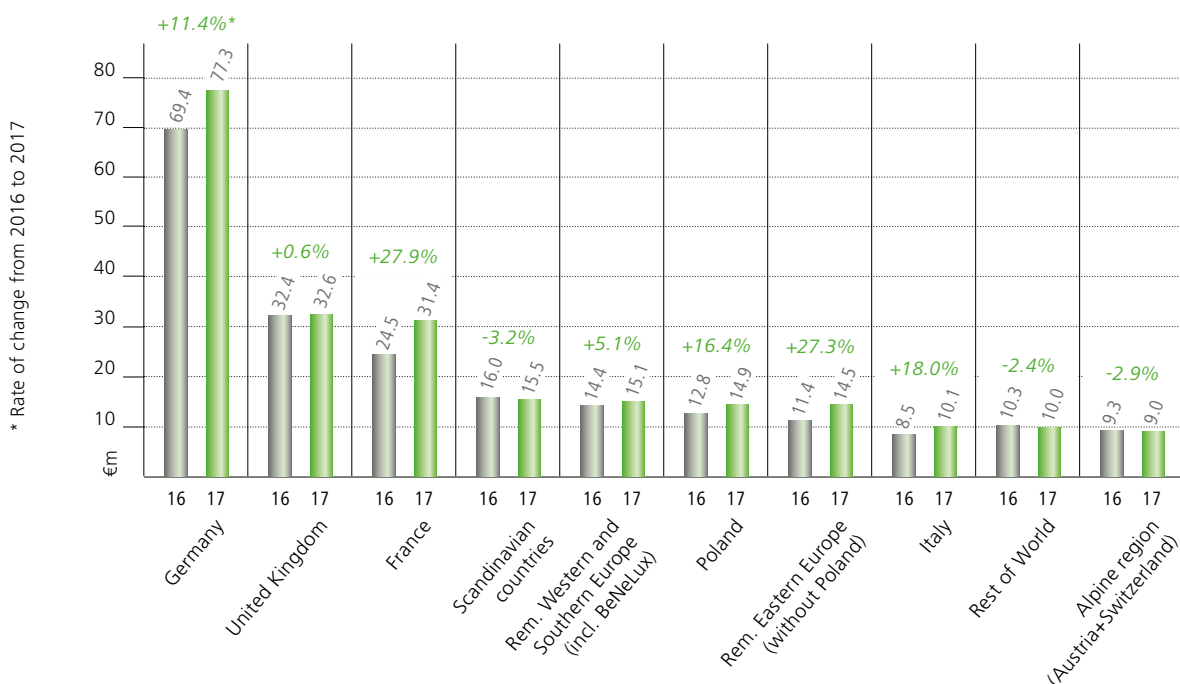
In total, the STEICO Group's revenues lifted by 10.2% to € 230.3 million (previous year: € 208.9 million).

In 2017 the STEICO Group recorded around 66.4% of its revenues outside its home market of Germany (previous year: 66.8%).

### 2017: Revenues by market



### 2017: Development revenues by market in € millions (230.3 €m total)



\* Rate of change from 2016 to 2017

### 3. GROWTH IN THE PRODUCT SEGMENTS

The sale of environmentally friendly insulation materials as well as cavity insulation and flooring constitutes STEICO's core business and contributed around 61.5% of the Group's total revenues in 2017 at € 141.7 million (previous year: € 124.8 million). This corresponds to an increase of 13.5%.

The sale of I-joists (construction products) fell slightly in 2017. As a result these products accounted for € 32.0 million of revenues or around 13.9% (previous year: € 33.3 million). This corresponds to a decrease of 3.8%. Although revenues certainly lifted on continental European markets, a slight weakening was recorded in the United Kingdom, and this was reinforced by negative currency effects. However, the

company's management believes that this segment will grow again in future. Specific product versions as wall supports in timber frame construction are currently being developed for central Europe. In addition sales on overseas markets are also being reinforced.

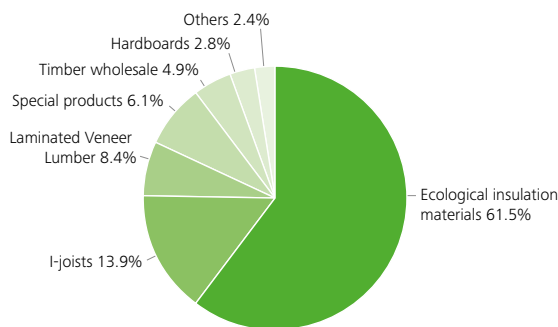
The sale of laminated veneer lumber contributed around 8.4% to total revenues in 2017 (€ 19.4 million; previous year: € 13.7 million). This corresponds to an increase of 41.4%. The company's management believes that it will be possible to record significant revenue growth in future in this segment, as it was already possible to start production in the fourth quarter of 2017 when the second production line went live.

The special products segment is declining and in 2017 this contributed around 6.1% to total revenues (€ 14.1 million; previous year: € 16.7 million). This corresponds to a decrease of 15.9%.

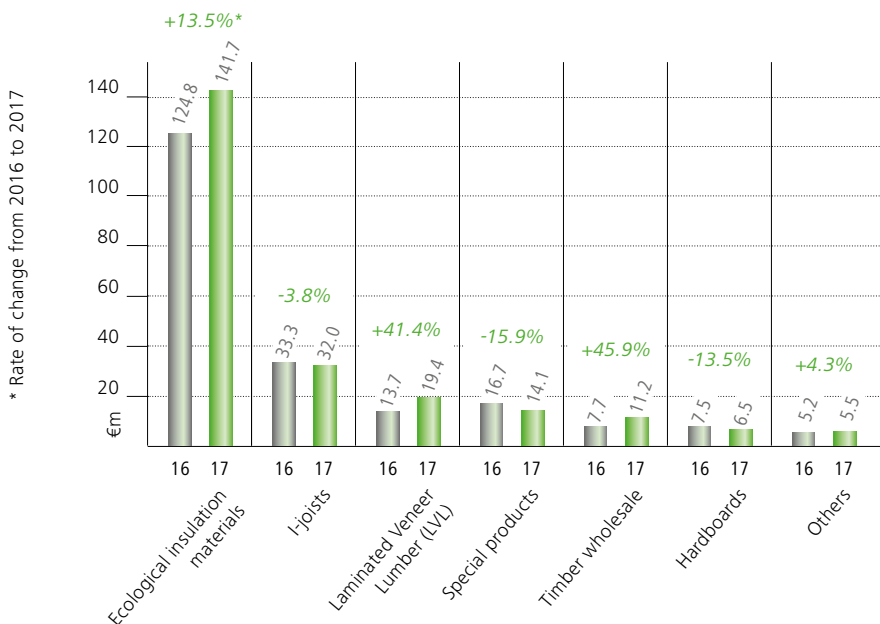
Business with fibreboards was weaker in 2017 than in the previous year. Sales in this segment contributed around 2.8% to total revenues in 2017 (€ 6.5 million; previous year: € 7.5 million). This corresponds to a decrease of 13.5%. This development also reflects the fact that fibreboards are increasingly being used within the company as a component for I-joists.

The wood wholesale segment recorded a substantial increase in revenues. Wood wholesale contributed € 11.2 million to total revenues in 2017 (previous year: € 7.7 million). This corresponds to an increase of 45.9%.

2017: Revenues by product segment



2017: Development revenues by sales in € millions (230.3 €m total)



In the "Miscellaneous" segment revenues of € 5.5 million were recorded in 2017 (previous year: € 5.2 million) This corresponds to an increase of 4.3%.

\* Rate of change from 2016 to 2017

## 4. PRODUCTION

In the previous years the production quantities exclusively considered the finished products produced, i.e. semi-finished products produced during the year were not considered until these were then processed to become a finished product in a final processing line. However, for assessment of the STEICO Group's production performance, the output quantities on the main production lines are more meaningful. As a result, from 2017, calculations for the production quantities have been changed accordingly and the output quantity for the main lines is recorded. The prior year's figures have been adjusted accordingly.

### Wood-fibre insulation materials

On 31 December 2017 the STEICO Group had a total of seven state-of-the-art production lines for the production of stable wood-fibre insulation materials using the wet method. The output quantity was 164,375t (previous year: 158,269t). This corresponds to an increase of 3.9%. Four of the lines are installed in Czarnków and two lines are installed in Czarna Woda. A further line, which was previously located at the facility in Casteljaloux is currently being moved to Poland.

A further line produces stable insulation material using the dry method. In 2017 a total of 52,999t of these products were produced (previous year: 40,205t). This corresponds to an increase of 31.8%. The line is installed in the Czarnków facility. A further line is currently being built there.

As of 31 December 2017 three lines produced flexible wood-fibre insulation boards as well as cavity insulation made of wood fibres. Two of these lines are installed in the Czarnków facility, one is located in Casteljaloux. Two further lines produce cellulose cavity insulation at the facility in Czarnków. In 2017 a total of 51,179t of this cavity insulation material was produced (previous year: 38,515t). This corresponds to an increase of 32.9%.

In total, in 2017 268,553t of wood-fibre and cellulose insulation material was produced (previous year: 236,988t). This corresponds to an increase of 13.3% and proves the continuing trend to environmentally-friendly insulation materials. Hemp insulation materials are not listed due to their minor importance.

### Fibreboards

Two production lines in Czarna Woda continue to produce fibreboards. These lines primarily cover the requirements for fibreboards as a component of I-joists. In 2017, 34,086t were produced (previous year: 36,611t). This corresponds to a decrease of 6.9%. As fibreboards are no longer one of the

strategic divisions, these are only sold to external customers if there is a corresponding contribution to margins.

### I-joists

I-joists are produced in a production line in the Czarnków facility. Around 9,007trm (thousand running meters) were produced in 2017 (previous year around 9,613trm). This corresponds to a decrease of 6.3%. In addition to a slight decrease in sales in the United Kingdom, an improvement in warehousing also contributed to this development.

### Laminated veneer lumber

Laminated veneer lumber is produced on two lines in the Czarna Woda facility. The second line went live in the fourth quarter of 2017. In 2017 a total of 79,306 cbm of these products were produced (previous year: 57,292 cbm). This corresponds to an increase of 38.4%.

### Growth in production quantities for the STEICO Group

	STEICO Group 2017	STEICO Group 2016
Insulation materials (total)	268,553	236,988
Wood-fibre products and insulation boards (wet method) [t]	164,375	158,269
Stable wood-fibre insulation boards (dry method) [t]	52,999	40,205
Wood fibres and flexible wood-fibre insulation boards (dry method) and cellulose cavity insulation [t]	51,179	38,515
Fibreboards [t]	34,086	36,611
I-joists (trm)	9,007	9,613
Laminated veneer lumber [cbm]	79,306	57,292

## III. NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

### 1. RESULTS OF OPERATIONS

As a leading production and marketing company for wood-fibre insulation materials in Europe the STEICO Group has been able to once again increase its revenues year-on-year. Revenues in the past fiscal year increased by 10.2% from € 208.9 million in 2016 to € 230.3 million.

The cost of materials ratio fell in 2017 to 58.4% (previous year: 59.3%) which is due to savings resulting from the excellent capacity uptake and also the company's own production of laminated veneer lumber. The personnel expenses ratio in 2017 was 17.2% (previous year: 16.2%) and is thus slightly higher than the previous year's level. This



is due to the strategic staff increases for further growth and also the higher wage and salary costs, for example in Poland.

Other operating expenses		
In € thousand	2017	2016
Write-downs of receivables	93	378
Building costs, rent, cleaning	807	668
Insurance, contributions, fees	2,618	3,537
Repairs and maintenance	4,111	3,517
Vehicle costs	2,699	2,264
Sales costs, advertising and travel expenses	3,393	3,206
Commission expenses	222	175
Operating costs	1,807	1,564
Administrative costs, IT	1,927	2,011
Telecommunication	254	243
Legal and consulting costs, court costs	598	816
Costs of preparing the annual	171	156
Currency translation and incidental costs for payments	2,800	4,522
Miscellaneous other operating expenses	3,162	2,998
<b>Total</b>	<b>24,662</b>	<b>26,054</b>

Other operating expenses total € 24.7 million (previous year: € 26.1 million) and are thus below the previous year's level despite the substantial increase in revenues. Exchange rates also impacted earnings as follows: Currency translation differences totalled around € 3,197 thousand under other operating income. This is offset by expenses from currency translation under other operating expenses of around € 1,934 thousand.

The financial result in 2017 was negative at € 1.1 million (previous year: € 1.6 million) and is mostly governed by the interest expenses due to financing the second laminated veneer production line as part of the current syndicated credit agreement.

Last year's results are substantially higher than the original expectations.

EBITDA was up 14.1% from € 33.2 million in the previous year to € 37.9 million. EBIT was 20.2% higher than in the previous year (€ 18.3 million) at € 22.0 million. The improvement in earnings is mostly due to the improved operating output, the excellent capacity uptake for the production lines and the in-house production of laminated veneer lumber.

Total earnings (consolidated profits) amounted to € 15.3 million in 2017 (previous year: € 11.6 million). This corresponds to an increase of 32.1%.

## 2. FINANCIAL POSITION AND NET ASSETS

Total assets increased substantially as of 31 December 2017 to around € 298.7 million compared to 31 December 2016 (€ 239.8 million). Property, plant and equipment has increased to € 200.5 million (previous year: € 161.4 million), which is mostly due to capital expenditure to complete the second production line for laminated veneer lumber. In addition, inventories and receivables and other assets increased and reflect the company's growth and the resulting higher level of receivables at the end of the year. Inventories totalled € 35.0 million on 31 December 2017 (previous year: € 29.7 million), and receivables and other assets amounted to € 34.0 million at the end of the year (previous year: € 27.3 million).

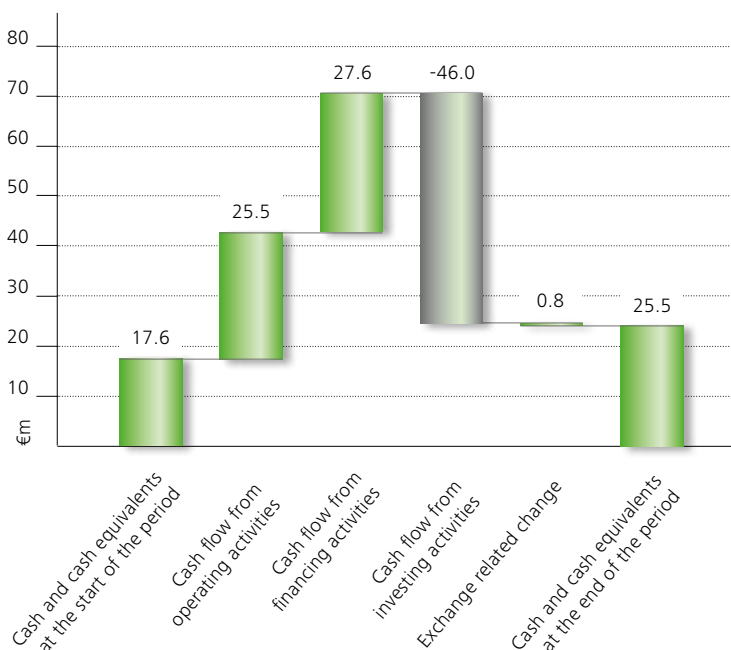
On 31 December 2017 the item cash in hand and bank balances amounted to € 25.5 million (31 December 2016: € 17.6 million). This increase is mostly due to the proceeds from the issue from the capital increase.

On 31 December 2017 equity amounted to € 161.0 million (31 December 2016: € 114.1 million). This corresponds to an equity ratio of around 53.9% (previous year: 47.6%). This increase is also mostly due to the capital increase.

On the balance sheet date the group companies had free credit lines available of more than € 29.8 million at standard market conditions. In addition, a credit limit for currency forwards was granted in order to be able to perform the hedging transactions required for operating business.

## 3. LIQUIDITY

### 2017: Cash flow statement



#### Cash flow from operating activities

During the past fiscal year, the STEICO Group recorded a cash flow from operating activities of € 25.5 million (previous year: € 32.9 million). This downturn is primarily due to an increase in inventories, trade receivables and other assets that are not allocated to investing or financing activities.

#### Cash flow from investing activities

The cash flow from investing activities totaled € -46.0 million (previous year: € -26.8 million) and is mostly due to payments made for investments in property, plant and equipment. The construction of the new production facilities for laminated veneer lumber constituted the largest block of capital expenditure in the previous year.

#### Cash flow from financing activities

The cash flow from financing activities is positive at € 27.6 million (previous year: € 1.7 million) and is mostly governed by payments received from additions to equity by the parent company's shareholders as part of the capital increase.

As of 31 December 2017 the STEICO Group's cash and cash equivalents totaled € 25.5 million (previous year: € 17.6 million), which are deposited in overnight money, fixed accounts and current accounts. The group pursues a risk-

minimising investment approach which ensures that liquidity is guaranteed until it is used for further investments.

The planned total investment volume in 2018 is approx. € 45 million. The existing cash and cash equivalents and the net proceeds from the cash flow from operating activities as well as bank loans are used to finance this capital expenditure.

#### Summary of the economic position

In 2017 the STEICO Group's revenue growth was in line with expectations at 10.2%. Both demand for wood-fibre insulation materials as well as the increased sale of construction products contributed to this positive growth.

The STEICO Group enjoys a unique position as a system provider for environmentally-friendly construction. It has an extensive product range and its large, integrated production facilities - which means that it is excellently positioned for further growth. Both the income statement and also the balance sheet show a healthy group of companies with enormous growth potential. In addition, the STEICO Group's business success continues to depend on advantageous currency

hedging for PLN/€. In fiscal year 2017 there was average hedging for the majority of goods purchased in PLN that was higher than the exchange rate in calculations of PLN 4.30/€. In total the STEICO Group has a future-oriented business model and solid finances, and in the view of the company's management it will continue its on-track growth over the long term.

## IV. FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

### 1. THE STEICO GROUP'S FINANCIAL INDICATORS AT A GLANCE:

In € thousand	2017	2016
Revenues	230,307	208,941
Total operating revenue	232,284	210,828
Gross profits	102,424	92,537
Personnel expenses	39,857	33,971
EBITDA	37,906	33,237
EBIT	22,019	18,312
Financial result	-1,131	-1,616
Earnings before taxes	20,888	16,696
Consolidated net income	15,267	11,560
Net change in cash and cash equivalents	7,071	7,806
Total assets	298,705	239,757

In particular revenues and EBIT are used as indicators for the internal control of the group

### 2. NON-FINANCIAL PERFORMANCE INDICATORS

#### Environmental protection

As a sales company with an extensive product range of environmentally friendly products, the STEICO Group attaches great importance to having a low environmental impact and saving natural resources. The wood from which STEICO's products are made originates from sustainably managed forests, which are mostly certified according to the well-known organisations FSC® (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification Schemes).

The IBR® seal means that STEICO's insulation materials have a recognised seal of quality for environmentally friendly, safe and functional construction products. In addition, since February 2016 the STEICO Group holds an environmental product declaration (EPD) for wood fibre insulation materials which offers additional proof of its dedication to sustainability.

Products from STEICO's range are tested regularly by the well-known consumer magazine ÖKO-TEST and always received the grade of "sehr gut" (English: exzellent) in the past. In the last test in August 2017 the product "STEICOzell" once again received a grade of "excellent".

Protecting the environment is one of the key basic pillars of STEICO's corporate philosophy. The STEICO Group uses its

activities and awards to show that growth and sustainability can go hand in hand and thus reinforces its position as one of the leading companies for environmentally friendly construction products.

#### Staff

In 2017 the STEICO Group had an average of 1,540 employees (without suspended employees) (previous year: 1,378). The STEICO Group's employees play a key role in the group's long-term success. STEICO companies aim to acquire highly qualified staff and keep them in the group. This is based on an open corporate culture, which is based on flat hierarchies, respect and a willingness to perform. Training activities are actively promoted to reinforce employee loyalty.

### C. REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

No particular events occurred between the balance sheet date and preparation of the STEICO Group's consolidated financial statements.

### D. OPPORTUNITY AND RISK REPORT, FORECAST

The following comments in the opportunity and risk report and in the forecast are, by their very nature, associated with a certain degree of forecasting uncertainty.

#### I. RISK MANAGEMENT SYSTEM

Entrepreneurial activities are always associated with risks. As a result, consciously entering into risks is a necessary pre-requisite for the company's overall success. This means that the STEICO Group has a risk management system which recognises risks at an early stage, allowing countermeasures to be put in place in good time. Risks from production and procurement are primarily to be found with the subsidiaries STEICO Spółka z o.o. (Poland), STEICO Joist Spółka z o.o. (Poland) and STEICO Casteljalous S.A.S. (France), however these can have a direct impact on STEICO SE: Risks are monitored and controlled at the subsidiaries. Changes or critical developments are reported to STEICO SE's management. The risk management system is constantly tested to make sure that this is up to date and adjusted if required in order to meet the requirements for a company listed in OTC trading and the requirements of the German Public Limited Companies Act.

## II. RISKS OF FUTURE GROWTH

### 1. DEPENDENCY ON THE ECONOMY AND THE GROWTH OF THE CONSTRUCTION AND CONSTRUCTION MATERIALS INDUSTRY.

As a company in the construction materials industry the STEICO Group depends on factors including overall economic development and also the growth of the European construction industry. The STEICO Group operates on a niche market which has proved to be very robust in the past with regard to economic fluctuations - however an ongoing recession on key markets or a longer-term downturn in construction activities could depress the group's revenues and earnings.

### 2. PRODUCTION RISKS

As a production and distribution company, the STEICO Group depends on the reliable operation of the installed production equipment and taking new production lines into operation smoothly at the manufacturing subsidiaries. Risks that could impact production include, in particular, force majeure as a result of fire or flooding, technical failure or the failure to obtain or withdrawal of licenses from the authorities to operate the equipment. Environmental pollution from emissions or disruptions to operations and thus the resulting downtime for equipment cannot be ruled out. The STEICO Group combats these risks with regular maintenance, precautionary construction and organisational activities and it has also concluded corresponding insurance policies. In addition it is in close contact with the licensing authorities.

### 3. LOCATION RISKS

In 2017 the STEICO Group had manufacturing activities at three locations and thus used various location advantages. Depending on its position, the choice of a location can also be associated with risks, for example exchange rate fluctuations or regionally higher prices for raw materials and energy. As the STEICO Group produces light, high-volume insulation material, the proximity of its production facilities and sales markets is a key strategic success factor. Setting up new locations - by developing locations or making acquisitions - to ensure future growth can, however, also be associated with risks, for example with financing risks, personnel risks, production or organisational risks.

### 4. RISKS FROM INVESTMENTS BY OTHER MANUFACTURERS

The STEICO Group operates in a dynamic market environment. As the leading company for wood fibre insulation materials, the STEICO Group is thus in constant competition with other European manufacturers. Extensive new investments by competitors to build up additional capacity could lead to price reductions over the medium term, or lower uptake for STEICO's production capacity. This, in turn, could depress the STEICO Group's profits. However, STEICO has been able to establish substantial barriers in order to protect and expand its position on the market. These include, for example, an efficient sales organisation with access to the key sales markets and market entry barriers for its manufacturing subsidiaries such as production and development expertise, the most extensive product range in the industry, a large number of construction supervision licenses as well as a modern fleet of equipment with production capacity that can be used flexibly.

### 5. EXCHANGE RATE RISKS

There are exchange rate risks as the STEICO Group mostly produced its goods in 2017 in Poland and thus in the Zloty currency zone. As its products are sold internationally and thus invoiced in euros as well as in other currencies, for example sterling and US dollars, exchange rate fluctuations could thus have a negative impact on the STEICO Group. The STEICO Group observes and evaluates exchange rate fluctuations as part of its risk management system and performs exchange rate hedging on a regular basis with the aim of creating the most stable basis for calculations possible for the STEICO Group.

### 6. DEPENDENCIES/RISKS FROM EXCHANGE RATE HEDGING

The exchange rate hedges use structured currency forwards in PLN, sterling and US dollars with, in some cases, variable nominals, exchange rate swaps and interest rate swaps with currency options. These offer the opportunity of lower priced exchange rate hedging compared to traditional transactions. At the same time, these can result in income and liquidity risks for the STEICO Group in line with the complex structure of the contracts' content, or also the removal of hedged quantities on the other hand, which could occur depending on the respective development of the exchange rate in particular between the Polish Zloty as the key foreign currency on the procurement side, and Euros.

## 7. RISKS FROM COMPETITION WITH OTHER MANUFACTURERS AND DUE TO PRODUCT LIABILITY

Lower revenues could result if existing customers decide to use competitors' products. This could be primarily due to delivery bottlenecks or quality defects, as well as an incorrect product or price policy. However, forward-looking production planning, a well-functioning logistics system, in-depth quality management (ISO 9001:2015 certification for STEICO Spółka z o.o) as well as in-depth observation of market developments minimise these risks. In addition there is insurance in the event of product liability for all of the companies in the STEICO Group.

## 8. RISKS OF DEPENDENCIES ON KEY CUSTOMERS

The risk of customer dependencies is limited by the large number of customers and their balanced share of total revenues. For example, during the year under review no single customer accounted for more than 3.1% of the STEICO Group's total revenues. The STEICO Group recorded 18.4% of its revenues with its ten largest customers, which means that there is also no dependency on a single customer in this regard.

## 9. RISKS FROM SUPPLIER DEPENDENCIES

In addition to the products it produces itself, the STEICO Group sells a range of merchandise, for example products for sealing the building shell. It is not possible to change suppliers quickly for all of the products. As a result, difficulties encountered by the manufacturer in making deliveries could impact the company's success. Management constantly observes business relationships with STEICO's partners and if required it reviews alternatives, for example procuring replacements or producing the items in house. This aims to ensure that the loss of individual suppliers does not have any long-term negative impact.

## 10. RISKS FROM LOST RECEIVABLES

Defaults on receivables constitute an additional operating risk which could restrict the group's liquidity. However, outstanding receivables are mostly hedged under a credit sale insurance policy, which minimises this risk. There were no notable receivables defaults in 2017.

## 11. RISKS FROM FINANCING REQUIREMENTS

In order to realise the growth planned by management, financing is also required in addition to the profits recorded and the cash and cash equivalents available. The provision and receipt of this financing is subject to various risks, such

as creditworthiness and the capital markets risk. As a rule, investment projects are only released when financing has been secured. Delays in the procurement of suitable financing for investment projects in future could lead to delays in or the discontinuation of planned investment projects.

## 12. DEPENDENCY ON PERSONS IN KEY POSITIONS

In order to reach its entrepreneurial targets, it is of key importance for the STEICO Group to acquire and retain qualified staff. This relates to both executive positions and also, in particular, qualified staff in the respective departments. The STEICO Group aims to transfer key employees' experience and contacts to other employees and it is in constant contact with various institutions, for example with educational establishments, in order to acquire qualified staff.

## 13. RISKS FROM THE ORGANISATIONAL AND WORK-FLOW STRUCTURE

As part of the constant expansion of its business and its internationalisation the STEICO Group believes that it is exposed to increasing complexity. This relates to both administration and also its organisational structures. In order to also ensure smooth business processes in future, responsibilities and work-flows are reviewed regularly and, if necessary, staff structures are realigned. This is coupled with increased administration requirements as part of the listing on the Frankfurt and Munich stock exchanges. This is associated with reporting and publication requirements. Failure to uphold these could result in, for example, penalisation under stock market law. In order to combat this risk, the STEICO Group has put the requisite organisational processes in place and created clear responsibilities.

## 14. RISKS FROM LITIGATION

Potential litigation could also constitute a risk for the operating result. However, there were no ongoing cases in 2017 which could have a negative impact on the course of the STEICO Group's business or which could have a future negative impact.

## III. OPPORTUNITIES FROM FUTURE GROWTH

Based on the broad product range and the ongoing product developments the STEICO Group is planning to further expand its revenues and market shares in the coming years. In so doing, in the opinion of the company's management,

it can benefit from the following central development opportunities:

## 1. OPPORTUNITIES DUE TO GROWING DEMAND FOR NATURAL INSULATION MATERIALS

As the European market leader for environmentally friendly insulation materials made of wood fibres STEICO SE is benefiting to a particularly great extent from the continued increase in demand for environmentally friendly insulation materials. The wide ranging physical advantages for construction such as protection from summer heat, vapour permeability and protection from damage from damp are being focused on by builders. In addition, throughout Europe, requirements for energy efficiency in buildings are constantly being heightened. The company's management believes that there is particular market potential in the increasing energy-related renovation of existing buildings. According to an EU policy from 2010, from 2020 new buildings should only be built as so-called lowest energy buildings. Far-reaching enhancements to the energy efficiency policies have also been resolved for energy-related renovations. EU member states have intensively driven implementing these policies in national law over the past few years. Additional enhancements to the energy efficiency requirements to comply with the policy are still outstanding, and are likely to cause demand for natural insulation materials to rise in the coming years.

## 2. OPPORTUNITIES DUE TO GROWING DEMAND FOR CONSTRUCTIVE BUILDING PRODUCTS

The STEICO Group also operates on the market for constructive building elements by selling I-joists and laminated veneer lumber. These products are used as replacements for structural timber and glued laminated timber and are an economic alternative - for both timber frame construction and also in concrete structures, for example for ceiling constructions or for facade renovation. As a result of their product characteristics (including reducing thermal bridges, dimensional stability, low own weight and excellent static properties) STEICO's construction products are used in walls, roofs, ceilings and floors. At the same time, they are designed to be used with STEICO's insulation products, which means that we can offer customers an optimised construction and insulation system - almost the entire building shell from a single source.

STEICO has a unique position in the industry with its own construction system, it develops new sales markets and at the same time it reduces its dependency on individual segments. There are additional advantages for customers,

such as the possibility to optimise freight thanks to mixed loads of insulation and construction materials.

## 3. OPPORTUNITIES DUE TO EXTENSIVE VERTICAL INTEGRATION

The STEICO Group sells merchandise as a supplement to the goods it produces itself on several markets. At present these products are air sealant films and components for composite thermal insulation systems. STEICO checks these goods constantly for their revenue and earnings growth as well as their importance in the STEICO construction system. Wherever it appears to be pertinent over the long term, STEICO invests in its own production, as is the case, for example, for laminated veneer lumber, in order to reduce dependencies and improve margins.

## 4. OPPORTUNITIES DUE TO THE INTRODUCTION OF NEW PRODUCTS.

As an innovative, high-growth company STEICO constantly further develops its product range. In addition to further developing its integrated construction and insulation system the focus is also on specialty and industrial products which can be produced using STEICO's production equipment. In the opinion of the company's management, this opens up further areas of application, allowing the product range to be supplemented by additional, high-margin products.

## 5. OPPORTUNITIES FROM FURTHER INTERNATIONALISATION

In addition to expanding the product range, internationalisation also offers opportunities for increasing revenues. In 2017 the STEICO Group recorded around 66.4% of its revenues outside its home market of Germany. Over the short term in particular the United Kingdom and the Alpine region offer opportunities for growth. Over the long term the Eastern European countries could develop to become an attractive market for STEICO's product ranges for insulation materials and I-joists. The planned establishment and expansion of sales channels and the expanded production capacity will thus allow new growth potential to be developed.

## 6. OPPORTUNITIES FROM PROCESS OPTIMISATION AND INCREASES TO EFFICIENCY

The STEICO Group constantly reviews its processes for procurement, production, administration and sales and optimises these to generate further improvements in efficiency as well as to gain synergy effects. For example, STEICO constantly invests in automating production and

in digitalisation, process optimisation and making its administrative structures leaner, with the aim of establishing STEICO as the industry-wide cost leader.

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#### IV. FORECAST

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If the economy does not deteriorate, the company's management is aiming for revenue growth of 2018 of around 15% compared to the previous year. In terms of EBIT, growth in the upper single-digit to low double-digit percentage range is forecast for 2018.

The company's management believes that the key factor in this regard will be the anticipated positive growth for construction products. Further growth is expected as a result of the increased in-house production of laminated veneer lumber and there continues to be potential for improved margins, albeit at a lesser extent than in 2017.

The company's management believes that the market will continue to revitalise as a result of European law (obligation for new buildings to fulfil the lowest energy standards from 2020) and from government subsidies for energy-efficient construction and renovation. In addition residential accommodation is scarce in many countries in Europe, which is expected to boost construction activities on the whole. As a result, the company's management believes that overall demand for energy-efficient construction products will continue to increase. It is expected that the sub-market for environmentally friendly wood fibre insulation materials will record higher growth rates than the overall European market for insulation materials, as was the case in the past.

The company's management expects additional growth potential from the continued internationalisation of its business as well as the ongoing development of special products.

In terms of currencies, the operational forecast for 2018 is for goods to be purchased in the Polish facilities with an average PLN/€ exchange rate of 4.15 to 4.25. Currency hedges ensure that the requisite quantities of PLN can be acquired at an average exchange rate significantly higher than PLN/€ 4.30.

Feldkirchen, 18 April 2018

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# STEICO Group consolidated income statement

## 1 January - 31 December 2017

	2017	2016
	€	€
1. Revenues	230,307,079.65	208,941,228.73
2. Increase in finished goods and work in progress	1,347,405.18	1,398,565.14
3. Other own work capitalized	629,355.29	488,483.44
	<b>232,283,840.12</b>	<b>210,828,277.31</b>
4. Other operating income - of which from currency translation: € 3,197 thousand (previous year: € 3,322 thousand)	5,835,397.43	6,634,516.65
	<b>238,119,237.55</b>	<b>217,462,793.96</b>
5. Cost of materials		
a) Cost of raw materials, consumables and supplies and for purchased goods	-134,327,677.13	-123,092,170.42
b) Cost of purchased services	-1,367,064.63	-1,833,260.42
<b>6. Gross profits</b>	<b>102,424,495.79</b>	<b>92,537,363.12</b>
7. Personnel expenses		
a) Wages and salaries	-32,329,514.12	-27,151,141.68
b) Social security and expenses for retirement benefits - of which for retirement benefits: € 645 thousand (previous year: € 408 thousand)	-7,527,258.47	-6,820,314.02
8. Amortisation of intangible fixed assets and depreciation of tangible fixed assets	-15,886,934.71	-14,924,516.46
9. Other operating expenses - of which from currency translation: € 1,934 thousand (previous year: € 4,199 thousand)	-24,661,567.92	-25,328,991.74
<b>10. EBIT</b>	<b>22,019,220.57</b>	<b>18,312,399.22</b>
11. Other interest and similar income	566,905.16	533,774.35
12. Amortization of financial assets	0.00	-530,854.52
13. Interest and similar expenses	-1,698,171.10	-1,619,172.00
<b>14. Financial result</b>	<b>-1,131,265.94</b>	<b>-1,616,252.17</b>
<b>15. Earnings before taxes</b>	<b>20,887,954.63</b>	<b>16,696,147.05</b>
16. Income taxes	-3,693,907.90	-3,604,363.71
<b>17. Earnings after taxes</b>	<b>17,194,046.73</b>	<b>13,091,783.34</b>
18. Other taxes	-1,926,916.02	-1,531,420.75
<b>19. Consolidated net income</b>	<b>15,267,130.71</b>	<b>11,560,362.59</b>
20. Profit carried forward from previous year	23,210,009.32	13,954,213.73
<b>21. Consolidated profits</b>	<b>38,477,140.03</b>	<b>25,514,576.32</b>



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# STEICO Consolidated Balance Sheet as of 31 December 2017

## ASSETS

	31 Dec. 2017	31 Dec. 2016
	€	€
<b>A. NON-CURRENT ASSETS</b>		
<b>I. Intangible assets</b>		
1. Acquired concessions, industrial property rights and similar rights and assets	1,486,642.13	1,496,259.89
2. Advance payments made	112,811.98	0.00
	<b>1,599,454.11</b>	<b>1,496,259.89</b>
<b>II. Tangible assets</b>		
1. Land, land rights and buildings including buildings on third-party land	58,131,637.96	47,090,435.11
2. Technical plant and machinery	114,561,500.50	81,024,658.37
3. Other assets, operating and office equipment	2,238,882.29	2,291,734.34
4. Advances made and assets under construction	25,560,606.86	30,943,656.23
	<b>200,492,627.61</b>	<b>161,350,484.05</b>
<b>III. Financial assets</b>		
1. Interests in affiliated companies	2,137.90	2,024.81
2. Loans to affiliated companies	8,618.62	8,162.71
3. Other loans	211,700.00	211,700.00
	<b>222,456.52</b>	<b>221,887.52</b>
	<b>202,314,538.24</b>	<b>163,068,631.46</b>
<b>B. CURRENT ASSETS</b>		
<b>I. Inventories</b>		
1. Raw materials, consumables and supplies	19,701,537.91	15,369,266.71
2. Work in progress	1,551,738.21	1,131,737.67
3. Finished goods and merchandise	13,642,413.78	13,126,092.06
4. Advance payments made	117,593.61	68,825.92
	<b>35,013,283.51</b>	<b>29,695,922.36</b>
<b>II. Receivables and other assets</b>		
1. Trade receivables	20,878,931.17	17,659,065.94
2. Receivables from affiliated companies	8,119.62	4,208.22
3. Other assets	13,076,691.51	9,601,009.83
	<b>33,963,742.30</b>	<b>27,264,283.99</b>
<b>III. Securities</b>		
Other securities	43,247.15	53,871.01
<b>IV. Cash in hand and bank balances</b>		
	<b>25,528,972.69</b>	<b>17,610,081.41</b>
	<b>94,549,245.65</b>	<b>74,624,158.77</b>
<b>C. PREPAID EXPENSES</b>		
	<b>783,434.02</b>	<b>933,324.85</b>
<b>D. DEFERRED TAX ASSETS</b>		
	<b>1,057,860.97</b>	<b>1,131,260.18</b>
	<b>298,705,078.88</b>	<b>239,757,375.26</b>

## EQUITY AND LIABILITIES

	31 Dec. 2017	31 Dec. 2016
	€	
<b>A. EQUITY</b>		
I. Subscribed capital	14,083,465.00	12,803,150.00
II. Additional paid-in capital	104,911,923.60	81,226,096.15
III. Retained earnings Other retained earnings	7,050,000.00	7,050,000.00
IV. Difference in equity from currency translation	-3,510,567.38	-12,489,603.39
V. Consolidated profits	38,477,140.03	25,514,576.32
	<b>161,011,961.25</b>	<b>114,104,219.08</b>
<b>B. PROVISIONS</b>		
1. Provisions for pensions and similar obligations	2,654,868.25	2,210,712.60
2. Provisions for taxes	2,495,304.17	1,691,430.37
3. Other provisions	8,794,599.06	8,289,767.20
	<b>13,944,771.48</b>	<b>12,191,910.17</b>
<b>C. LIABILITIES</b>		
1. Liabilities to banks	90,651,559.11	84,148,761.00
2. Advance payments received on account of orders	129,592.50	207,065.70
3. Trade payables	22,715,554.38	18,206,350.03
4. Other liabilities - of which from taxes: € 1,798 thousand (previous year: € 1,732 thousand) - of which for social security: € 2,464 thousand (previous year: € 1,732 thousand)	8,807,131.88	9,166,720.75
	<b>122,303,837.87</b>	<b>111,728,897.48</b>
<b>D. DEFERRED INCOME</b>		
	6,818.01	185,691.17
<b>E. DEFERRED TAX LIABILITIES</b>		
	1,437,690.27	1,546,657.36
	<b>298,705,078.88</b>	<b>239,757,375.26</b>

# STEICO Consolidated cash flow statement for fiscal year 2017

	2017	2016
	€	€
<b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>		
1. Earnings for the period (consolidated net income/loss)	15,267,130.71	11,560,362.59
2. +/- Amortization/depreciation of non-current assets	15,886,934.71	15,455,370.98
3. +/- Increase/decrease in provisions	957,107.51	606,183.68
4. +/- Other non-cash expense/income	-629,355.29	-488,483.44
5. +/- Increase/decrease in inventories, trade receivables and other assets that are not allocated to investing or financing activities	-11,856,304.77	-5,298,111.61
6. +/- Increase/decrease in trade payables and other liabilities that are not allocated to investing or financing activities	3,893,269.12	7,924,174.44
7. +/- Gains/losses from the disposal of non-current assets	179,994.05	303,379.90
8. +/- Interest income/expense	1,026,857.94	1,066,254.56
9. +/- Income tax expense/income	3,693,907.90	3,604,363.71
10. +/- Income tax payments	-2,925,601.98	-1,814,365.53
<b>11. = Cash flow from operating activities</b>	<b>25,493,939.90</b>	<b>32,919,129.28</b>
<b>II. CASH FLOW FROM INVESTING ACTIVITIES</b>		
1. - Payments made for investments in intangible non-current assets	-1,168,749.03	-2,106,574.75
2. + Proceeds received from disposals of items of property, plant and equipment	243,289.63	2,728,093.38
3. - Payments made for investments in property, plant and equipment	-45,626,564.92	-28,003,994.81
4. + Proceeds received from disposals of financial assets	0.01	39,633.87
5. + Interest received	566,905.16	533,774.35
<b>6. = Cash flow from investing activities</b>	<b>-45,985,119.15</b>	<b>-26,809,067.96</b>
<b>III. CASH FLOW FROM FINANCING ACTIVITIES</b>		
1. Proceeds received from additions to equity by shareholders of the parent company	24,966,142.45	0.00
2. + Proceeds received from taking out (financial) loans	16,500,044.11	5,127,776.92
3. - Payments made from redeeming bonds and (financial) loans	-9,997,246.00	0.00
4. - Interest paid	-1,601,883.10	-1,511,332.91
5. - Dividends paid to shareholders of the parent company	-2,304,567.00	-1,920,472.50
<b>6. = Cash flow from financing activities</b>	<b>27,562,490.46</b>	<b>1,695,971.51</b>
<b>IV. CASH AND CASH EQUIVALENTS</b>		
1. Net change in cash and cash equivalents	7,071,311.21	7,806,032.83
2. +/- Exchange-rate related change in cash and cash equivalents	847,580.07	-563,380.95
3. + Cash and cash equivalents - start of period	17,610,081.41	10,367,429.52
<b>4.= Cash and cash equivalents - end of period</b>	<b>25,528,972.69</b>	<b>17,610,081.40</b>

# STEICO consolidated statement of changes in equity for fiscal year 2017

	Subscribed capital	Reserves		Difference in equity from currency translation	Consolidated profits	Consolidated equity
		Additional paid-in capital	Other retained earnings			
	€	€	€	€	€	€
<b>On 1 January 2016</b>	12,803,150.00	81,226,096.15	7,050,000.00	-7,599,608.67	15,874,686.23	109,354,323.71
Dividends paid					-1,920,472.50	-1,920,472.50
Currency translation				-4,889,994.72		-4,889,994.72
Consolidated net income					11,560,362.59	11,560,362.59
<b>On 31 December 2016</b>	12,803,150.00	81,226,096.15	7,050,000.00	-12,489,603.39	25,514,576.32	114,104,219.08
<b>On 1 January 2017</b>	12,803,150.00	81,226,096.15	7,050,000.00	-12,489,603.39	25,514,576.32	114,104,219.08
Dividends paid					-2,304,567.00	-2,304,567.00
Capital increase	1,280,315.00	23,685,827.45				24,966,142.45
Currency translation				8,979,036.01		8,979,036.01
Consolidated net income					15,267,130.71	15,267,130.71
<b>On 31 December 2017</b>	14,083,465.00	104,911,923.60	7,050,000.00	-3,510,567.38	38,477,140.03	161,011,961.25

# STEICO Notes to the consolidated financial statements as of 31 December 2017

## I. GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. LEGAL FOUNDATIONS

The regulations set out in Sections 294 ff. of the Handelsgesetzbuch (HGB - German Commercial Code) apply for the consolidated financial statements. The consolidated financial statements are prepared based on legal requirements.

STEICO SE is registered in the commercial register at Munich Local Court with number HRB 195871. The company's registered office is Otto-Lilienthal-Ring 30, 85622 Feldkirchen.

### 2. GROUP STRUCTURE AND GROUP OF CONSOLIDATED COMPANIES

STEICO SE is obliged to prepare consolidated financial statements. With regards to consolidation STEICO SE follows the provisions of Sections 290 ff of the HGB. The balance date for the consolidated financial statements is the balance date for the annual financial statements for the parent company (Section 299 (1) of the HGB). The annual financial statements for the companies included in the consolidated financial statements were also prepared as of the 31 December 2017 (Section 299 (2) of the HGB). The consolidated financial statements were prepared using the annual financial statements for the companies included in consolidation. Seven (previous year: seven) subsidiaries are fully consolidated in the consolidated financial statements. Seven (previous year: seven) affiliated companies were not included in consolidation.

### 3. CONSOLIDATED ACCOUNTING AND VALUATION METHODS

The Group applies the principles of the German Commercial Code for its accounting and valuation methods. According to Section 308 (1) of the HGB, the assets and liabilities included on the consolidated balance sheet are subject to a uniform valuation in line with the valuation methods which apply for the parent company's annual financial statements.

The consolidated balance sheet and consolidated income statement are classified according to Sections 266, 275 (2) of the HGB in connection with Section 298 of the HGB.

The following individual accounting and valuation methods were applied:

Internally generated intangible assets are capitalised at cost and subject to scheduled amortisation over their expected

useful lives. Patents, concessions, licenses and software are written down over 2-5 years, rights of usufruct are written down over 20 years.

Property, plant and equipment is valued at cost according to Section 253 of the HGB in connection with Section 255 of the HGB, less scheduled depreciation in line with the standard useful lives in the industry. During the year under review interest for borrowing which serves to finance technical equipment and machinery and which is due to their period of manufacture in the amount of € 265 thousand is capitalised as a component of manufacturing costs.

Buildings are depreciated using the straight-line method, with both the straight-line and declining balance methods being used for machines. Office equipment and IT hardware is written down using both the straight-line and declining balance methods.

Low-value items of property, plant and equipment have been written off immediately through profit and loss since 1 January 2011.

As a rule, financial assets are carried at cost or, in the event of permanent impairment, at their lower fair value on the balance sheet date.

If the reasons for maintaining a lower carrying amount no longer apply, these are written up according to Section 253 (5) sentence 1 of the HGB.

Inventories are measured at cost. Items with impaired marketability are written down to their lower fair value.

As a rule, receivables and other assets are carried at face value.

In order to cover the risk of default, individual and lump-sum write-downs are formed for receivables to the extent required. When forming individual write-downs, the company takes into account the fact that some receivables are covered by commercial credit insurance.

Securities under current assets are carried at acquisition cost or at their lower fair value.

Cash in hand and bank balances are carried at face value.

Expenses prior to the balance sheet date that relate to expenses for a limited period after the balance sheet date are carried as prepaid expenses. The accounting option offered in Section 250 (3) Sentence 1 of the HGB to form a discount has been used. The item is reversed using the straight-line method in line with time.

Deferred tax assets result from temporary differences between tax losses carried forwards and consolidation. The

tax relief resulting at an individual company level has been capitalised according to the option offered in Section 274 in connection with Section 306 of the HGB.

Provisions for pensions are calculated on the balance sheet date in line with Section 253 (2) of the HGB using the projected unit credit method based on an average market interest rate and an assumed residual period of 15 years. This is announced by Deutsche Bundesbank in line with the corresponding legal provisions. On the balance sheet date this liability was netted with the re-insurance in line with Section 246 (2) Sentence 2 of the HGB. The netted assets are valued at fair value according to Section 253 (1) Sentence 4 of the HGB.

Provisions for taxes and all other provisions are formed for all recognizable risks and uncertain liabilities in the amount required for fulfillment according to prudent commercial judgement. The amount required for fulfillment is calculated taking future price and cost increases into account.

Provisions with a remaining term of more than one year are discounted over their remaining term in line with the average market interest rate for the past seven fiscal years (Section 253 (2) Sentence 1 of the HGB).

Liabilities are included at their repayment amounts.

Deferred tax liabilities result from temporary differences to the carrying amounts in the tax base for the companies included.

#### 4. CURRENCY TRANSLATION

Receivables and liabilities denominated in foreign currencies are translated using the exchange rate on the date of the transaction. Assets and liabilities denominated in foreign currencies with a residual period of less than one year are subsequently valued on the balance sheet date using the average spot exchange rate on the balance sheet date.

Foreign statements prepared in foreign currencies for the Group's subsidiaries in Poland and England are translated using the "modified balance sheet date method" set out in Section 308a of the HGB.

With the exception of equity, items on the balance sheet are translated using the rate on the balance sheet date;

Items in the income statement are translated using the average exchange rate for the fiscal year;

Equity is translated using historical exchange rates.

The parent company's functional currency is the group's currency (euros).

Differences in the consolidation of liabilities resulting from exchange rates are taken directly to equity under Currency translation differences.

#### The exchange rates for PLN/€ are:

Closing rate on 31 December 2017:	4.17700
Average rate in 2017:	4.24274

#### The exchange rates for GBP/€ are:

Closing rate on 31 December 2017:	0.88723
Average rate in 2017:	0.87572

#### 5. CAPITAL CONSOLIDATION (SECTIONS 301, 309 OF THE HGB)

The capital of STEICO Sp. z o.o., SW Solar Czarna Woda Sp. z o.o., STEICO CEE Sp. z o.o., STEICO France SAS and STEICO UK Ltd. was consolidated according to Section 301 (1) No. 1 of the HGB according to the so-called book-value method. The capital of STEICO Casteljaloux SAS and STEICO JOIST Sp. z o.o. was consolidated according to Section 310 (1) sentence 2 of the HGB according to the so-called revaluation method.

#### 6. CONSOLIDATION OF INTERCOMPANY BALANCES (SECTION 303 OF THE HGB)

For the consolidation of intercompany balances the receivables and liabilities between the group companies were netted. Any exchange rate differences occurring during the consolidation of debt were taken directly to equity.

#### 7. TREATMENT OF INTERCOMPANY PROFITS (SECTION 304 OF THE HGB)

Intercompany profits from deliveries and services which are not realised from a Group perspective are eliminated in the consolidated financial statements.

#### 8. CONSOLIDATION OF INCOME AND EXPENSE

As part of the consolidation of income and expense all of the intra-group revenues from deliveries effected and services provided and other performance relationships are eliminated.

# STEICO Notes to the consolidated financial statements as of 31 December 2017

## II. INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 1. NON-CURRENT ASSETS

The changes in non-current assets in fiscal year 2017 can be seen in the statement of changes in non-current assets below (Section 284 (3) of the HGB).

#### Statement of changes in non-current assets

	Balance as of 1 January 2017	Acquisition and historical cost				Exchange rate diff. 2017	Balance as of 31 December 2017
		Additions 2017	Disposals 2017	Reclassifications 2017			
	€	€	€	€	€	€	
<b>I. INTANGIBLE ASSETS</b>							
1. Acquired concessions, industrial property rights and similar rights and assets as well as licenses for such rights and assets.	6,462,212.27	1,055,937.05	13,292.47	62,805.46	136,473.19	7,704,135.50	
2. Advance payments made	0.00	112,811.98	0.00	0.00	0.00	112,811.98	
<b>Total intangible assets</b>	<b>6,462,212.27</b>	<b>1,168,749.03</b>	<b>13,292.47</b>	<b>62,805.46</b>	<b>136,473.19</b>	<b>7,816,947.48</b>	
<b>II. TANGIBLE ASSETS</b>							
1. Land, land rights and buildings including buildings on third-party land	62,602,723.95	11,336,634.27	92,439.07	6,643.04	2,934,787.45	76,788,349.64	
2. Technical plant and machinery	155,894,561.79	41,134,852.07	1,466,014.95	-78,149.37	8,134,362.08	203,619,611.62	
3. Other assets, operating and office equipment	5,266,734.01	80,410.36	455,001.19	496,908.90	173,138.70	5,562,190.78	
4. Advances made and assets under construction	30,943,656.24	-6,295,976.49	208,793.00	-488,208.03	1,609,928.15	25,560,606.87	
<b>Total property, plant and equipment</b>	<b>254,707,675.99</b>	<b>46,255,920.21</b>	<b>2,222,248.21</b>	<b>-62,805.46</b>	<b>12,852,216.38</b>	<b>311,530,758.91</b>	
<b>III. FINANCIAL ASSETS</b>							
1. 1. Investments in affiliated companies	505,868.09	0.00	0.01	0.00	28,254.50	534,122.58	
2. Loans to affiliated companies	30,852.78	0.00	0.00	0.00	1,723.23	32,576.01	
3. Other loans	211,700.00	0.00	0.00	0.00	0.00	211,700.00	
<b>Total financial assets</b>	<b>748,420.87</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>29,977.73</b>	<b>778,398.59</b>	
<b>Total non-current assets</b>	<b>261,918,309.13</b>	<b>47,424,669.24</b>	<b>2,235,540.69</b>	<b>0.00</b>	<b>13,018,667.30</b>	<b>320,126,104.98</b>	



Balance as of 1 January 2017 €	Accumulated amortization/depreciation			Balance as of 1 January 2017 €	Carrying amounts	
	Additions 2017 €	Disposals 2017 €	Exchange rate diff. 2017 €		Carrying amount 1 January 2017 €	Carrying amount 31 December 2016 €
4,965,952.38	1,121,112.85	823.94	131,252.08	6,217,493.37	1,486,642.13	1,496,259.89
0.00	0.00	0.00	0.00	0.00	112,811.98	0.00
<b>4,965,952.38</b>	<b>1,121,112.85</b>	<b>823.94</b>	<b>131,252.08</b>	<b>6,217,493.37</b>	<b>1,599,454.11</b>	<b>1,496,259.89</b>
15,512,288.84	2,411,293.10	77,018.53	810,148.27	18,656,711.68	58,131,637.96	47,090,435.11
74,869,903.42	11,722,849.43	1,358,394.47	3,823,752.74	89,058,111.12	114,561,500.50	81,024,658.37
2,974,999.67	631,679.33	376,020.06	92,649.55	3,323,308.49	2,238,882.29	2,291,734.34
0.01	0.00	0.01	0.00	0.00	25,560,606.87	30,943,656.23
<b>93,357,191.94</b>	<b>14,765,821.86</b>	<b>1,811,433.07</b>	<b>4,726,550.56</b>	<b>111,038,131.29</b>	<b>200,492,627.62</b>	<b>161,350,484.05</b>
503,843.28	0.00	0.00	28,141.40	531,984.68	2,137.90	2,024.81
22,690.07	0.00	0.00	1,267.32	23,957.39	8,618.62	8,162.71
0.00	0.00	0.00	0.00	0.00	211,700.00	211,700.00
<b>526,533.35</b>	<b>0.00</b>	<b>0.00</b>	<b>29,408.72</b>	<b>555,942.07</b>	<b>222,456.52</b>	<b>221,887.52</b>
<b>98,849,677.67</b>	<b>15,886,934.71</b>	<b>1,812,257.01</b>	<b>4,887,211.36</b>	<b>117,811,566.73</b>	<b>202,314,538.25</b>	<b>163,068,631.46</b>

# STEICO Notes to the consolidated financial statements as of 31 December 2017

## 2. FINANCIAL ASSETS

The disclosure of interests in affiliated companies as well as loans to affiliated companies relates to several affiliated wind farm companies in Poland.

## 3. CURRENT ASSETS

### Inventories

The standard industry reservation of ownership applies to the stocks of raw materials, consumables and supplies and merchandise.

### Receivables and other assets

All receivables and other assets have a residual term of less than one year.

Other assets in the amount of € 13,077 thousand (previous year: € 9,601 thousand) includes VAT receivables in the amount of € 11,164 thousand (previous year: € 7,988 thousand), receivables from tax refunds in the amount of € 1,208 thousand (previous year: € 1,042 thousand), receivables from employees in the amount of € 268 thousand (previous year: € 235 thousand) and other assets in the amount of € 437 thousand (previous year: € 336 thousand).

## 4. PREPAID EXPENSES

Prepaid expenses include a difference according to Section 250 (3) of the HGB in the amount of € 551 thousand (previous year: € 779 thousand).

## 5. DEFERRED TAXES

On the balance sheet, deferred tax assets of € 1,058 thousand (previous year: € 1,131 thousand) were disclosed. In addition, there were deferred tax liabilities of € 1,438 thousand (previous year: € 1,547 thousand). These resulted from losses carried forwards and temporary differences to the tax base for the consolidated individual companies and are reflected in the following items on the balance sheet:

Balance sheet items in €	Deferred tax assets	Deferred tax liabilities
Land	0	605
Buildings	0	314
Technical plant and machinery	192	478
Inventories	25	0
Trade receivables	61	0
Provisions for pensions	305	40
Other provisions	198	1
Other liabilities	39	0
Trade payables	2	0

Balance sheet items in €	Deferred tax assets	Deferred tax liabilities
Tax loss carried forward	236	0
<b>Total</b>	<b>1,058</b>	<b>1,438</b>

Deferred taxes for the individual companies and for consolidation activities were identified using the country-specific tax rate for the companies included in which the temporary differences are to be balanced out in the coming years.

## 6. EQUITY

STEICO SE's share capital on 31 December 2017 totaled € 14,083 thousand. It comprises 14,083,465 no-par value bearer shares.

Authorised capital totaled € 5,121 thousand on 31 December 2017. The managing directors are authorised, with the approval of the Supervisory Board, to increase the share capital of STEICO SE within five years of the authorised capital being entered in the commercial register by a total of up to € 5,121 thousand via one or several issues of no-par value bearer shares with a theoretical interest of € 1.00 in the share capital against cash and/or non-cash contributions.

### Information on the majority shareholder according to Section 160 (1) No. 8 of the AktG.

In 2006 STEICO SE received the following notice from Schramek GmbH, Feldkirchen:

"According to Section 20 (1) and (4) of the AktG, we herewith inform you that we hold a direct majority interest in your company."

### Difference in equity from currency translation

The difference in equity from currency translation in the amount of € -3,511 thousand (previous year: € -12,490 thousand) mostly comprises the currency translation effects from the subsequent consolidation of the Polish subsidiaries and the UK subsidiary from the currency translation for the 2017 financial statements according to the modified closing price method as well as netting differences from the consolidation of intercompany balances.

## 7. PROVISIONS

### Provisions for pensions

The projected unit credit method was used to identify the actuarial amount to be carried as a liability. The interest rate, based on the corresponding average market interest rates for the past ten years, amounted to 3.68%; the interest rate from the past seven years is 2.8% ; the difference in the

amount of EUR 175 thousand is subject to the distribution block according to Section 253 (6) of the HGB. A salary trend did not have to be considered due to the contractual agreement with STEICO SE; a salary trend of 2.0% or 2.5% was used for the subsidiaries. In addition, standard mortality tables in the respective countries were used.

The plan assets at STEICO SE available to secure pension entitlements were netted on 31 December 2017 at the fair value (extrapolated cost) in the amount of € 568 thousand with the amount of the actuarial commitment for STEICO SE in the amount of € 1,265 thousand. Income of € 36 thousand were netted with expenses of € 141 thousand.

The plan assets are a re-insurance policy with Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft, which cannot be accessed by any of the other creditors as a result of a contractual agreement, and which serves exclusively to meet liabilities from the pension obligation.

#### Provisions for taxes

Provisions for taxes were formed in the amount of the anticipated tax payments and relate to income taxes for 2016 and 2017.

#### Other provisions

Other provisions in the amount of € 8,795 thousand (previous year: € 8,290 thousand) includes a provision for anniversary payments in the amount of € 297 thousand (previous year: € 255 thousand), provisions for bonus payments to customers in the amount of € 3,785 thousand (previous year: € 3,492 thousand), provisions for vacation entitlements in the amount of € 929 thousand (previous year: € 869 thousand), provisions for outstanding invoices in the amount of € 944 thousand (previous year: € 824 thousand) and the provision for preparation of the financial statements in the amount of € 113 thousand (previous year: € 109 thousand).

## 8. LIABILITIES

In € thousand (previous year)	Total			
	Thereof with a remaining term			more
	of up to 1 year	from 1 - 5 years		
Liabilities to banks (previous year)	90,652 (84,149)	13,122 (16,000)	77,529 (64,688)	0 (3,461)
Advance payments received from orders (previous year)	130 (207)	130 (207)	0 (0)	0 (0)
Trade payables (previous year)	22,715 (18,206)	22,715 (18,206)	0 (0)	0 (0)
Other liabilities (previous year)	8,807 (9,167)	8,588 (9,132)	219 (35)	0 (0)
<b>Total (previous year)</b>	<b>122,304 (111,729)</b>	<b>44,555 (43,545)</b>	<b>77,749 (64,723)</b>	<b>0 (3,461)</b>

Short and medium-term liabilities to banks include a liability of € 2.8 million which is secured by a land charge in favour of UniCredit Bank AG. The other short and medium term liabilities to banks in the amount of € 87.9 million are uncollateralised as part of the syndicated credit agreement concluded in July 2014 and amended in September 2016 as well as bilateral loan, with both STEICO SE as well as the French and Polish production companies being included as borrowers and guarantors.

Trade payables are not collateralised, with the exception of reservations of ownership standard in the industry.

Other liabilities include liabilities in the amount of € 2,015 thousand (previous year: EUR 3,518 thousand).

# STEICO Notes to the consolidated financial statements as of 31 December 2017

## III. INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

The total cost (nature of expense) method was applied in the preparation of the income statement.

### 1. REVENUES

Revenues are broken down as follows:

#### Revenues by geographic markets according to Section 285 (4) of the HGB (in € thousand)

In € thousand	2017
Germany	77,309
Other EU countries	126,903
Rest of world	26,095
<b>Total</b>	<b>230,307</b>

#### Revenues by activity according to Section 285 (4) of the HGB (in € thousand)

In € thousand	2017
Wood-fibre insulation materials	141,677
Construction products (joists)	31,999
Special products	14,077
Wood wholesale	11,219
Fibreboards	6,518
Construction products (Laminated veneer)	19,357
Miscellaneous	5,460
<b>Total</b>	<b>230,307</b>

### 2. OTHER OWN WORK CAPITALISED

Other own work capitalised in 2017 amounted to € 629 thousand (previous year: € 488 thousand) This disclosure mostly relates to intercompany performance in connection with the creation of machinery and equipment

### 3. OTHER OPERATING INCOME

In € thousand	2017
Exchange rate gains	3,197
Income from the sale of CO <sub>2</sub> emission rights	71
Income from insurance refunds	37
Offsetting non-cash payments	299
Income from the reversal of provisions	1,304
Income from the sale of property, plant and	166
Other operating income	761
<b>Total</b>	<b>5,835</b>

### 4. OTHER OPERATING EXPENSES

In € thousand	2017
Write-downs of receivables	93
Building costs, rent, cleaning	807
Insurance, contributions, fees	2,618
Repairs and maintenance	4,111
Vehicle costs	2,699
Sales costs, advertising and travel expenses	3,393
Commission expenses	222
Operating costs	1,807
Administrative costs, IT	1,927
Telecommunication	254
Legal and consulting costs, court costs	598
Costs of preparing the annual financial	171
Exchange rate differences and costs of	2,800
Miscellaneous other operating expenses	3,162
<b>Total</b>	<b>24,662</b>

The total amount of research and development costs for the fiscal year for the companies included in the consolidated financial statements totaled € 345 thousand. Other operating expenses include non-period expense which is of minor importance.

### 5. INTEREST RESULT

Interest expenses include expenses from discounting provisions in the amount of € 151 thousand (previous year € 57 thousand).

### 6. TAXES

Income taxes total € 3,694 thousand (previous year: € 3,604 thousand). This includes effective tax expenses of € 3,730 thousand (previous year: € 3,021 thousand), deferred tax liabilities of € 73 thousand (previous year: € 595 thousand) and deferred tax assets of € 109 thousand (previous year: € 12 thousand). Other taxes in the amount of € 1,927 thousand (previous year: € 1,531 thousand) mostly relate to property taxes in Poland and non-income related taxes in France.

#### IV. INFORMATION ON THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows how cash in the group has changed during the course of the reporting year due to net cash inflows and outflows.

Other non-cash expense/income relates to own work capitalised.

Cash and cash equivalents can be found directly in the balance sheet item "cash in hand and bank balances" and exclusively comprises cash in hand and bank balances. There are no restrictions on disposal. Three are non non-cash investments or financing or business transactions.

#### V. OTHER DISCLOSURES

##### 1. AUDITOR'S FEE

Information on the total fee charged by the auditor for the consolidated financial statements for fiscal year 2017 according to Section 314 (1) No. 9 of the HGB:

Auditing services: € 77.5 thousand  
Other services: € 13.5 thousand

##### 2. OTHER FINANCIAL OBLIGATIONS

Other key financial obligations include:

In € thousand	2017
Obligation from usufructuary rights (overall obligation of remaining term)	1,984
Obligations from rental agreements	397
Obligations from leasing	935
Obligations from contractually ordered capital expenditure	12,576
<b>Total</b>	<b>15,892</b>

Liabilities denominated in foreign currencies were translated using the average rate of exchange on the balance sheet date (PLN/€ 4.1770 GBP/€ 0.88723).

There are leasehold and usufructuary rights at STEICO Sp. z o.o for land with a term through to 2089. In the above list the respective overall obligations at the end of the term are shown based on the current conditions. The conditions may change over time.

The contractually ordered capital expenditure relates to property, plant and equipment (new construction and expansion of production capacity).

#### 3. DERIVATIVE FINANCIAL INSTRUMENTS AND VALUATION UNITS

As part of its ordinary business activities the Group is exposed to relevant exchange rate and interest risks. This mostly relates to future purchases of raw materials, consumables and supplies in PLN, in particular wood, electricity and coal or gas, as well as personnel expenses in PLN. In addition, this relates to future financial receivables from the sale of merchandise in GBP and USD. In addition, there are risks from variable interest loans.

The financial instruments used for hedging are structured currency forwards in PLN, sterling and US dollars with, in some cases variable nominal exchange rate options exercised prior to the balance sheet date and due in 2018, interest rate swaps with an exchange rate option and three interest rate swaps for the three-month EURIBOR.

On the balance sheet date there were exchange rate transactions in PLN, GBP and USD with a nominal volume of up to PLN 3,582.0 million, up to GBP 8.80 million, and up to USD 10.0 million. Of the existing 84 transactions (including one exchange rate option exercised), 12 transactions have a negative present value of € 0.55 million. The remaining 72 transactions have a positive present value of € 13.61 million. In addition, there were three interest rate swaps on the 3-month EURIBOR for an amount of two times € 10 million and one time € 12.50 million. These have one negative present value of € 54 thousand and two positive present values of € 6 thousand and € 72 thousand. In order to determine the present values valuations by banks were used which identified the market values using recognised, internal valuation methods (mark to model valuation) based on current market data.

The option was used to verify certain economic hedge relationships by forming valuation units.

In so doing, micro-valuation units are formed between (structured) currency forwards and future purchases of goods in PLN (highly probable transactions).

On the balance sheet date 52 (structured) currency forwards with a positive present value of € 9.37 million and a nominal volume of up to PLN 1,299.16 million were included in the valuation units. The highly probable transactions are the future purchase of goods and personnel expenses for the Polish subsidiaries STEICO Sp. z o.o and STEICO JOIST Sp. z o.o., which will take place between 1/18 and 7/20 and which will compensate for each other with regard to exchange rate effects with hedge transactions with congruent terms and volumes.

As a result of the business model, the business forecast and

# STEICO Notes to the consolidated financial statements as of 31 December 2017

the business volumes performed in the past these are to be regarded as being highly probable to secure.

In addition, micro-valuation units are formed between a structured interest rate swap and liabilities to hedge the risk of changes to the interest rate (EURIBOR) for a bullet investment loan. These relate to quarterly interest payments through to 3 July 2019 for a base amount of € 10 million.

These are shown on the balance sheet using the freeze method. Effectiveness is determined based on a critical term match.

#### 4. AMOUNTS TO BE ASSIGNED TO A DIFFERENT FISCAL YEAR

According to Section 285 No. 32 of the HGB, income in the amount of € 1,304 thousand from the reversal of provisions and in the amount of € 166 thousand from the disposal of property, plant and equipment is to be allocated to a different fiscal year.

#### 5. THERE WERE NO EVENTS OF PARTICULAR IMPORTANCE THAT OCCURRED AFTER THE BALANCE SHEET DATE.

No particular events occurred between the balance sheet date and preparation of the STEICO Group's consolidated financial statements.

#### 6. PROPOSAL FOR THE APPROPRIATION OF EARNINGS.

The managing directors propose that the net profits for the past year in the amount of € 12,877,821.63 be used to disburse a dividend of € 0.21 per dividend-entitled share. This corresponds to an amount of € 2,957,527.65, and the remaining amount of € 9,920,293.98 be carried forward to new account.

#### 7. SUPERVISORY BOARD

STEICO's Supervisory Board comprises 4 members.

Mr. Udo Schramek, Munich, Chairman, Managing Director and Chairman of the Supervisory Board

Mr. Uto Baader, Munich, banker, Deputy Chairman of the Supervisory Board

Ms Katarzyna Schramek, Munich, attorney

Dr. Jürgen Klass, Munich, attorney

According to the company's articles of association, in 2017 a total of € 90 thousand was paid to the members of the Supervisory Board.

#### 8. DIRECTORS

Mr. Udo Schramek, Munich, Chairman and Managing Director of STEICO SE

Managing director for Auditing, Marketing, Legal & HR, Research & Development, Technology, Quality Assurance, IT and Purchasing

Mr. Holger Jödecke, Munich, Managing Director for Processes and Quality Management, Legal, Personnel and IT (since 9 March 2017)

Mr. Uwe Klaus Lange, Berga, Managing Director for Investments and Equipment Technology

Dr. David Meyer, Munich, Managing Director for Finance, Accounting & Controlling

Mr. Milorad Rusmir, Kirchheim, Managing Director for Wood Wholesale

Mr. Heiko Seibert, Koblenz, Managing Director for Sales and Training

Mr. Steffen Zimny, Lubasz, Managing Director for Production

The directors received remuneration of € 4,411 thousand for their activities in 2017.

## 9. EMPLOYEES

The Group had an average of 1,540 employees in fiscal year 2017.

These are broken down as follows:

Division	Number of employees
Production	1,007
Sales	82
Administration	402
Assistants, temporary staff	49
<b>Total</b>	<b>1,540</b>

## 10. PARENT COMPANY AND GROUP COMPANIES INCLUDING LIST OF EQUITY INTERESTS

Name and registered office of parent company:

STEICO SE  
Otto-Lilienthal-Ring 30  
85622 Feldkirchen

The following subsidiaries are included in the consolidated financial statements:

Name	Registered office	Amount of
STEICO Sp. z o.o.	Czarnków, Poland	100%
SW Solar Czarna Woda Sp. z o.o.	Czarnków, Poland	100%
STEICO CEE Sp. z o.o.	Czarnków, Poland	100%
STEICO JOIST Sp.z o.o.	Czarnków, Poland	100%
STEICO UK Ltd.	Caddington, United Kingdom	100%
STEICO France SAS	Brumath, France	100%
STEICO Casteljaloux SAS	Casteljaloux, France	100%

The information is based on the last fiscal year 2017 and on 31 December 2017.

In addition, there are the following affiliated companies:

Company	Registered office	Interest	Equity	2017 Result
STEICO Windpark Sp. z o.o.	Czarnków, Poland	61%	€ 714 thousand	€ 0 thousand
SW Szydłowo Sp. z o.o.	Czarnków, Poland	100%	€ -4 thousand	€ 0 thousand
SW Huta I Sp. z o.o.	Czarnków, Poland	100%	€ -1 thousand	€ -1 thousand
SW Huta II Sp. z o.o.	Czarnków, Poland	100%	€ -1 thousand	€ -1 thousand
SW Lubasz I Sp. z o.o.	Czarnków, Poland	100%	€ 2 thousand	€ -1 thousand
SW Lubasz II Sp. z o.o.	Czarnków, Poland	100%	€ -0 thousand	€ -1 thousand

Company	Registered office	Interest	Equity	2017 Result
STEICO-ENERGIA Sp. z o.o.	Czarnków, Poland	100%	€ -3 thousand	€ -1 thousand

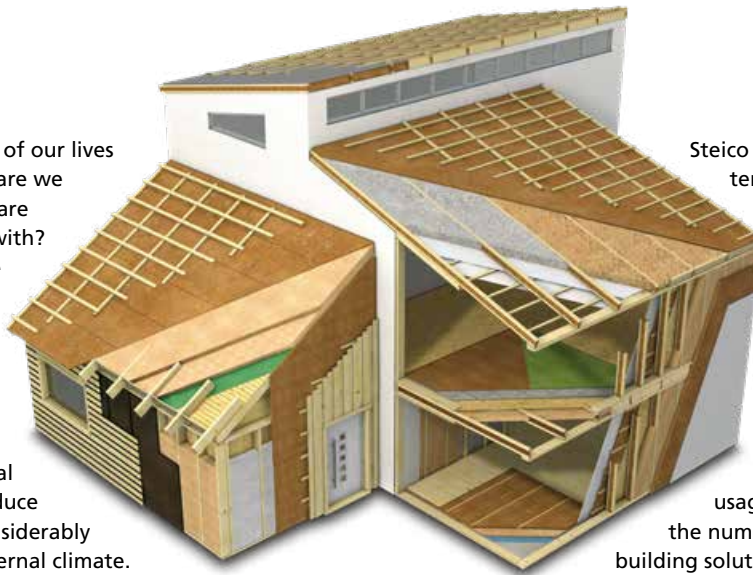
The affiliated companies are not fully consolidated due to the minor importance of the individual companies and the companies together according to Section 296 (2) of the HGB.

They are not carried at equity due to their minor importance according to Section 311 (2) of the HGB.

Feldkirchen, 18 April 2018

Udo Schramek    Holger Jödecke    Uwe Klaus Lange  
Dr. David Meyer    Milorad Rusmir    Heiko Seibert  
Steffen Zimny

We spend approx. 80 % of our lives in enclosed rooms. But are we always aware what we are surrounding ourselves with? STEICO has set itself the target of developing building products which consider the needs of both man and nature. Our products are therefore produced using sustainable natural materials. They help reduce energy use and add considerably to a natural healthy internal climate.



Steico insulation and construction materials, carry a number of distinguished 'seals of approval' which is a sign of high quality, healthy and functional building products. The raw materials used in Steico products are certified by FSC® (Forest Stewardship Council®) and PEFC® (Programme for the Endorsement of Forest Certification®), ensuring a traceable and fully sustainable usage of the raw materials. STEICO, the number 1 choice for your sustainable building solutions.

## Natural Insulation and Construction Systems for New Builds and Renovations – Roof, Ceiling, Wall and Floor

	Renewable raw materials without harmful additives		Excellent cold protection in winter		Excellent summer heat protection		Energy Saving and increased property worth
	Weather tight and breathable		Excellent Fire Protection		Excellent sound protection		Environmentally friendly and recyclable
	Light and easy to handle		Insulation for healthy living		Strong quality control		Compatible insulation and structural building systems



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