

**ANNUAL  
REPORT  
2013**

**klöckner & co**

multi metal distribution



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## 5 years in figures

(in € million)		2013	2012*	2011	2010	2009	Change in % 2013 – 2012
Turnover	Tto	6,445	7,068	6,661	5,314	4,119	-8.8
Sales		6,378	7,388	7,095	5,198	3,860	-13.7
EBITDA before restructuring		150	137	227	238	-68	+10.1
EBITDA		124	60	217	238	-68	+108.7
EBIT		-6	-105	111	152	-178	+94.3
EBT		-79	-185	27	84	-240	+57.4
EAT		-90	-203	10	80	-186	+55.5
Earnings per share (basic)	€	-0.85	-2.00	0.14	1.17	-3.61	+57.5
Earnings per share (diluted)	€	-0.85	-2.00	0.14	1.17	-3.61	+57.5
Free cash flow		107	67	-524	-196	528	+60.2
Cash flow from investing activities		-36	-34	-483	-188	-8	-4.1
Liquid funds		595	610	987	935	827	-2.4
Net working capital		1,216	1,407	1,534	1,017	637	-13.6
Net financial debt		325	422	471	137	-150	-22.9
Equity ratio	%	40.2	38.7	39.2	37.0	41.4	+1.5p
Balance sheet total		3,595	3,880	4,706	3,491	2,713	-7.3
Employees as of December, 31		9,591	10,595	11,381	9,699	9,032	-9.5

\* Amounts adjusted due to first time application of IAS 19 revised 2011.

## Review by quarter 2013

(in € million)		Q1 Jan. 1 – Mar. 31	Q2 Apr. 1 – Jun. 30	Q3 Jul. 1 – Sep. 30	Q4 Oct. 1 – Dec. 31
Turnover	Tto	1,646	1,690	1,617	1,492
Sales		1,625	1,698	1,600	1,455
EBITDA before restructuring		29	43	39	40
EBITDA		29	43	36	16
EBIT		2	17	10	-36
EBT		-16	-2	-8	-52
EAT		-16	-4	-11	-59

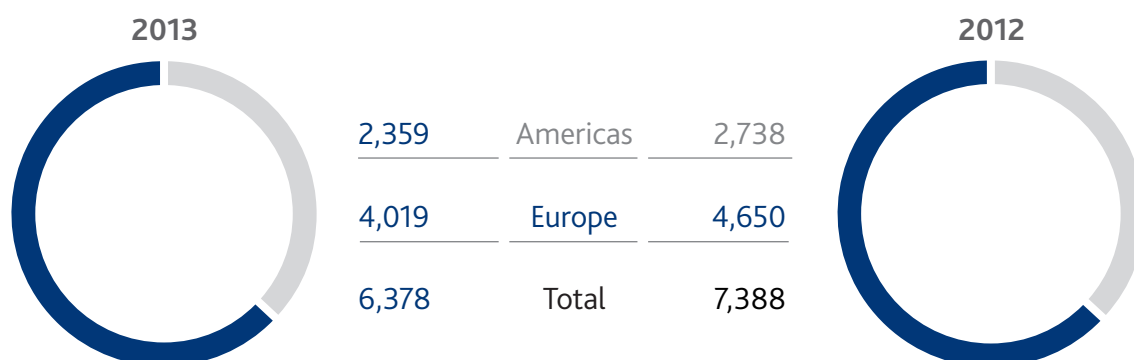


## All over the world



WE SUPPLY OVER 146,000 CUSTOMERS THROUGH AROUND 220 DISTRIBUTION AND SERVICE LOCATIONS WITH AROUND 9,600 EMPLOYEES IN 15 COUNTRIES.

## Sales by segments (in € million)





IN PARALLEL WITH SUCCESSFULLY COMPLETING OUR **KCO 6.0 RESTRUCTURING PROGRAM**, WE LAUNCHED THE **KCO WIN OPTIMIZATION PROGRAM** GEARED TO IMPROVING EARNINGS IN THE SHORT TERM. THE PROGRAM'S MEASURES DOVETAIL SEAMLESSLY WITH OUR "**KLÖCKNER & CO 2020**" THREE-PILLAR **LONG-TERM STRATEGY**, WHICH WE FINE-TUNED AND BROUGHT INTO LINE WITH MARKET CONDITIONS IN THE REPORTING PERIOD:

- **GROWTH** FOCUSED ON THE USA AND PROCESS **OPTIMIZATIONS**, NOTABLY IN PROCUREMENT AND SALES
- **DIFFERENTIATION** FROM COMPETITORS BY WAY OF A WIDE PRODUCT RANGE THROUGH OUR NETWORK, HIGHER VALUE-ADDED PROCESSING, AND INNOVATIVE SYSTEMS
- SELECTIVE PERSONNEL AND MANAGEMENT DEVELOPMENT COUPLED WITH IMPLEMENTATION OF STATE OF THE ART CONTROLLING AND IT SYSTEMS AS **ENABLING ACTIVITIES**



## LETTER TO THE SHAREHOLDERS



Gisbert Rühl  
CEO



*Dear Ladies and Gentlemen,  
Dear Shareholders,*

Fiscal 2013 was another year that presented us with major challenges. In Europe, steel demand was down yet again, falling to more than 30% below the pre-crisis level of 2007. In the USA, demand was likewise short of expectations, though it held level with the prior year.

The negative demand trend coupled with the discontinuation of low-margin business and our location closures in the course of restructuring made for an 8.8% drop in turnover. Further erosion in steel prices, especially in the first half year, meant sales were hit even harder, by 13.7%. This also put constant pressure on margins through the first half.

Against the backdrop of these developments, the substantial year-on-year improvement in earnings we had originally aimed for was unattainable. Nonetheless, thanks to systematic implementation of our restructuring measures, we were able to lift operating income (EBITDA) adjusted for restructuring expenses from €137 million to €150 million.

The end of 2013 saw us bring to completion as planned the KCO 6.0 restructuring program we had launched in September 2011 and extended several times in the interim. The measures involved cutting the workforce by some 2,200 and closing or selling off some 70 locations. That represents about a fifth of the workforce and one in four of our locations. The program included among other things a complete withdrawal from Eastern Europe and a radical cutback in our activities in Spain. Systematically implementing the measures meant we were able to more than offset the market-driven negative impact on operating income as early as in the second half year.

While we managed to achieve turnaround under our own power, our earnings are still unsatisfactory. In light of this, we have already – in the fall of 2013 – launched a follow-up program, KCO WIN, to unlock extra earnings potential in the short term. The program is slated to contribute €20 million to EBITDA as early as in 2014, before delivering its full €50 million positive earnings impact the year after.

In strategic terms, we continue to work under our “Klöckner & Co 2020” strategy to set ourselves more clearly apart, notably vis-à-vis small and mid-size competitors.

To that end, we follow three main thrusts:

1. Supplying customers to a greater extent through our network instead of via individual locations. This means we can deliver a wide range of steel and metal products to customers without adding extra inventory.
2. Stepping up investment in higher value-added processing such as 3D tube and pipe laser cutting to supplement our wide range of steel and metal products with ready-to-fit parts. Customers gain here with higher quality at lower cost, and integration into customer supply chains gives us higher margins while enhancing customer loyalty.
3. Ongoing augmentation of our service portfolio with innovations such as web shops, which benefit small customers most of all with 24/7 availability and improved order processing.

The USA continues to be our key growth market. Steel demand there not only stands to gain from the expected general economic upturn. Yet more short-term demand stimulus is anticipated from a recovery in commercial and industrial construction. In the medium to long run, steel demand will be primarily fueled by lower energy costs on the back of the shale gas boom and the ensuing resurgence of energy-intensive industries.



In Europe, we aim to lock in the high profitability levels at our successful units in the Swiss market and at Becker Stahl-Service in Germany while further accelerating their growth. Profitability at our other European country organizations will gain a major boost from the restructuring program implemented as well as further streamlining in the current year.

Acquisitions are once again an option for us as a growth accelerator. In line with our growth strategy, the focus here is on companies offering higher value-added processing and specialty products.

Our ambitious goals can only be achieved with a motivated and highly qualified workforce. Management and personnel development is therefore a key enabling activity within our strategy.

We have laid a sound basis for strategy implementation. Alongside the leaner cost base as an outcome of our restructuring program and the enhancements we have initiated, this is most clearly evident in the further improvement in our balance sheet ratios. For example, we further cut net financial debt from €422 million as of December 31, 2012 to €325 million at the end of the reporting period. The equity ratio has held very solid at 40% as of the 2013 year-end. Our borrowing is broadly diversified with an average term to maturity on the main instruments of almost three years.

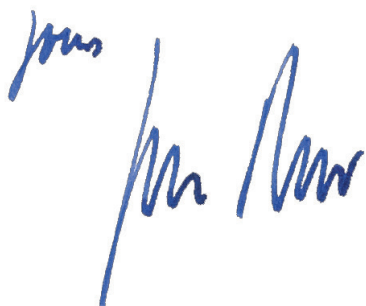
In 2013, our share price showed further gains, albeit from a low base. The €9.95 closing price at the end of 2013 marks an 11% gain on the end of the prior year. This share price performance was behind the DAX® and MDAX® but distinctly better than the sectoral index, Bloomberg Steel Europe.

In light of the poor earnings situation, the Management Board and Supervisory Board will be proposing the omission of a dividend for fiscal year 2013 at the Annual General Meeting. For the current fiscal year – even if the generally expected steel market recovery fails to materialize – we aim to generate positive net income again with the help of our internal restructuring measures and improvements. We will then also want our shareholders to participate in this in the form of a dividend.

Sincere thanks go to our workforce, who have shown magnificent commitment at a time of severe cutbacks and challenging markets and, in doing so, have made a vital contribution to stabilizing earnings and improving our Company's outlook.

On behalf of my colleagues on the Management Board, I would also like to thank you, our shareholders, for standing by us in turbulent times. Spurred by your confidence, we will resolutely continue to implement our corporate strategy and generate sustained growth in the value of Klöckner & Co SE.

Kind regards,



Gisbert Rühl  
CEO







## MANAGEMENT BOARD

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### GISBERT RÜHL

Chairman of the Management Board  
(CEO)

Born in 1959. CEO since November 1, 2009 and CFO from July 2005 to December 2012, appointed until December 31, 2017. He is responsible for the coordination of the Management Board and functionally responsible for the headquarter departments Corporate Development/M&A, Executive HR & Talent Management, Human Resources/Legal & Compliance and Investor Relations & Corporate Communications.




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### MARCUS A. KETTER

Chief Financial Officer  
(CFO)

Born in 1968. CFO since January 1, 2013, appointed until December 31, 2015. He is functionally responsible for the headquarter departments Corporate Controlling, Corporate IT, Corporate Taxes, Finance & Accounting and Internal Audit.




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### KARSTEN LORK

Member of the Management Board

Born in 1963. Member of the Management Board since February 1, 2013, appointed until January 31, 2016. He represents the European and Asian operations on the Management Board. He is functionally responsible for the headquarter departments International Product Management & Global Sourcing and Operations Europe.

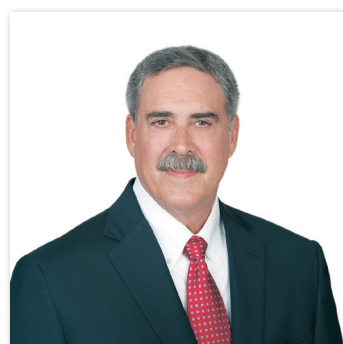



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### WILLIAM A. PARTALIS

Member of the Management Board

Born in 1953. Member of the Management Board since October 1, 2011, appointed until December 31, 2014. William A. Partalis represents the Americas segment on the Management Board. In addition, he is CEO of the US country organization.





# SUPERVISORY BOARD

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## SUPERVISORY BOARD

PROF. DR. DIETER H. VOGEL  
Managing Partner, Lindsay Goldberg Vogel GmbH,  
Düsseldorf,  
Chairman

DR. MICHAEL ROGOWSKI  
Former Chairman of the Management Board, Voith AG,  
Heidenheim,  
Deputy Chairman

ULRICH GRILLO  
Chairman of the Management Board, Grillo Werke AG,  
Duisburg

ROBERT J. KOEHLER  
Former Chairman of the Management Board,  
SGL CARBON SE, Wiesbaden

HAUKE STARS  
Member of the Management Board, Deutsche Börse AG,  
Frankfurt/Main

DR. HANS-GEORG VATER  
Former Member of the Management Board,  
HOCHTIEF AG, Essen

## Executive Committee

(also the Personnel Committee, the Committee for  
Urgent Matters and the Nomination Committee)

PROF. DR. DIETER H. VOGEL  
Chairman

DR. MICHAEL ROGOWSKI

DR. HANS-GEORG VATER  
(until May 24, 2013)

ULRICH GRILLO  
(since May 24, 2013)

## Audit Committee

DR. HANS-GEORG VATER<sup>1</sup>  
Chairman

DR. MICHAEL ROGOWSKI

PROF. DR. DIETER H. VOGEL

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<sup>1</sup> independent financial expert within the meaning of Section 100 (5)  
German Stock Corporation Act.



## REPORT OF THE SUPERVISORY BOARD

The Supervisory Board performed with due care the supervisory and advisory tasks required of it under the law, the Articles of Association and the Rules of Procedure. The Supervisory Board regularly advised the Management Board in directing the business, and continuously supervised the Management Board's governance of the Company, assuring itself that this was legally compliant, orderly and fit for purpose. In particular, the Management Board consulted closely with the Supervisory Board on its systematic response to the ongoing tough economic environment in the industry as well as on implementation of the restructuring measures. The Supervisory Board adopted resolutions as required by law, the Articles of Association and the Rules of Procedure, in each instance after thorough and careful appraisal. This notably included legal transactions and measures for which the Articles of Association or the Rules of Procedure require the Management Board to gain Supervisory Board approval; after full scrutiny, the Supervisory Board granted the approval thus required in each case in the year under review.

The Supervisory Board was involved on a timely basis in all matters of fundamental importance. To this end, the Management Board furnished written and verbal reports on planning, the Company's business and financial situation, and all transactions of importance to the Company and the Group, both in and between Supervisory Board meetings. The KCO 6.0 restructuring program had to be extended in scope once more in the reporting year to cushion the business as well as possible from adverse effects of the weak market environment. The restructuring program consequently accounted for a large part of Management Board reporting and the Supervisory Board's consultations. Risk exposure, risk management and compliance were also regularly covered in detail. The Management Board supplied the Supervisory Board with pertinent documentation in each case.

Topics reported on at all Supervisory Board meetings included the overall economic climate, the industry situation and the business performance of Klöckner & Co and its segments, with particular focus on Group key performance indicators and the performance of the Klöckner & Co share price. Both in plenary sessions and committee meetings, members of the Supervisory Board reviewed the Management Board's reports in detail and added their own suggestions. There was also a regular exchange of information between meetings. Written Management Board reporting in 2013 once again centered on detailed monthly Board Reports covering the turnover, sales, results of operations and cash flows of the Group and its segments and main operating units, on capital market developments and on the performance of the Klöckner & Co share price relative to the share prices of other companies in the steel and steel distribution sector. Furthermore, the CEO, in some cases together with the other Management Board members, held monthly meetings with the Chairman of the Supervisory Board to report on, discuss and consult about current business developments, current issues and upcoming decisions. Other such meetings related to one-time events needing urgent attention.

### ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD

The six-member Supervisory Board is wholly made up of shareholder representatives elected at the Annual General Meeting. The Supervisory Board has established two committees to carry out its duties: an Executive Committee and an Audit Committee, each with three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Michael Rogowski (Deputy Chairman), Ulrich Grillo, Robert J. Koehler, Hauke Stars and Dr. Hans-Georg Vater. All Supervisory Board members have longstanding experience on the management and supervisory boards of comparable entities together with expertise across the full range of responsibilities called for in the Company. Without exception, the members of the Supervisory Board meet the criteria of independence as laid down in Section 5.4.2 of the German Corporate Governance Code. No members of the Supervisory Board are former members of the Company's Management Board or representatives of a stakeholder group. The Chairman of the Supervisory Board, or in his absence the Deputy Chairman, is authorized on behalf of the Supervisory Board to make and accept declarations of intent needed to implement Supervisory Board resolutions. Up to the



May 24, 2013 by-election, the Executive Committee comprised Prof. Dr. Vogel (Chairman), Dr. Rogowski and Dr. Vater; since then it has been made up of Prof. Dr. Vogel (Chairman), Dr. Rogowski and Mr. Grillo. As in the prior year, the Audit Committee comprises Dr. Vater (Chairman), Dr. Rogowski and Prof. Dr. Vogel. Dr. Vater is a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG).

The committees carry out preparatory work in support of the Supervisory Board's responsibilities, agenda topics and resolutions. The Executive Committee also carries out the functions of a Personnel Committee, a Committee for Urgent Matters and a Nomination Committee. In its capacity as Personnel Committee, the Executive Committee proposes suitable candidates for the Supervisory Board to appoint as members of the Management Board and in particular makes proposals with regard to their compensation. In its role as Nomination Committee, the Executive Committee proposes suitable candidates for the Supervisory Board to nominate for election to the Supervisory Board at the Annual General Meeting. In urgent cases, the Executive Committee meets in its capacity as the Committee for Urgent Matters. Where permitted by law, certain decision-making powers have been delegated to the committees.

The Management Board is closely involved in the work of the Supervisory Board. Supervisory Board meetings are normally attended by the full Management Board; meetings of the Executive Committee are attended by the CEO, while those of the Audit Committee are attended by the CFO and, when financial reports are to be discussed, the CEO.

The Supervisory Board held a total of five plenary meetings in fiscal year 2013. There were four ordinary meetings plus one extraordinary meeting on the appointment of Karsten Lork as Member of the Management Board. On three occasions, the Supervisory Board also passed resolutions by the written procedure provided for in Section 5 (3) of its Rules of Procedure. The Audit Committee met five times in the reporting year, including three meetings with the CEO and CFO to discuss quarterly reports before publication. The Executive Committee held three meetings in fiscal year 2013. At the plenary meetings, the committee chairmen reported regularly and in-depth on the subject matter and outcomes of committee meetings. Except for one meeting which one member was unable to attend, all Supervisory Board and committee members attended all meetings in fiscal year 2013. Average attendance at all Supervisory Board meetings including committee meetings was thus 98.15%. A detailed member-by-member overview of meeting attendance in the reporting year can be viewed on the corporate website (<http://www.kloeckner.com/en/investor-relations/supervisory-board.php>).

## **SUPERVISORY BOARD MEETINGS AND RESOLUTIONS**

In the past fiscal year, the Supervisory Board regularly addressed the ongoing very weak state of steel demand, notably in Europe, and the resulting necessary further extension in scope of the KCO 6.0 restructuring program. Management Board matters and corporate governance issues were also on the agenda at several meetings. Besides the business and financial situation, topics discussed by the Supervisory Board at each meeting were as follows:

At the extraordinary meeting on January 8, 2013, the Supervisory Board mainly considered Management Board matters. On the Executive Committee's recommendation, the Supervisory Board appointed Karsten Lork as a member of the Company's Management Board for a three-year term with effect from February 1, 2013. Mr. Lork has since been responsible for European Operations and Asian Operations. At the same meeting, following in-depth discussion of the main terms and conditions and in line with the Executive Committee's recommendation, the Supervisory Board adopted a resolution on the signing of a contract of employment and an agreement on virtual stock options in the Company with Mr. Lork. The compensation arrangements correspond to the uniform compensation system that was modified in the prior year and has applied to the other members of the Management Board since the start of the reporting year. The modified compensation system was presented at the Annual General Meeting on May 24, 2013 and approved by a large majority (see Annual Report 2013, starting on page 27ff).



At its meeting on March 5, 2013, based on the Audit Committee's preliminary review and deliberations, and following intensive discussion with the Management Board and the auditors present, the Supervisory Board approved the Company's financial statements for 2012, the consolidated financial statements and the Management Board's proposal on the appropriation of net income available for distribution. The Supervisory Board also considered the Combined Management Report and the Corporate Governance Report, and passed a resolution on the Report of the Supervisory Board to the Annual General Meeting. Furthermore, the Supervisory Board adopted the motions for the Annual General Meeting. A major topic of discussion was the upcoming proposal of a candidate for election to the Supervisory Board at the Annual General Meeting. In accordance with the Executive Committee's recommendation, it was decided to put forward Robert J. Koehler, whose term ended with the Annual General Meeting 2013, for re-election at the Annual General Meeting. A further key topic was the motion to amend the Articles of Association provisions on Supervisory Board compensation, which was to be changed over from the previous part-variable compensation to wholly fixed compensation. The Supervisory Board also approved the signing of a Control and Profit and Loss Transfer Agreement between the Company and Klöckner Stahl- und Metallhandel GmbH. In addition, the Supervisory Board prepared the commissioning of the auditors for the auditing of the Company's separate financial statements and consolidated financial statements for 2013. Concurring with the Executive Committee's recommendations, the Supervisory Board set the annual bonus for Management Board members Gisbert Rühl and William A. Partalis for fiscal year 2012 together with the long-term bonus for CEO Gisbert Rühl for fiscal years 2010–2012. In accordance with the Executive Committee's recommendation, the Supervisory Board, based on the compensation system that was modified in the prior year, also laid down the Management Board members' annual bonus targets for fiscal year 2013. Besides addressing the business and financial situation as well as developments in fiscal year 2013 to date, the Supervisory Board further discussed with the Management Board the implementation status of the KCO 6.0 restructuring program and the need to extend the scope of the program, notably in view of the ongoing weak demand in France.

Between meetings, on April 9, 2013, the Supervisory Board approved by written resolution the agreement of a deductible for Supervisory Board members in the Company's D&O insurance retrospectively from January 1, 2013 and a correspondingly updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act. Once more using the written procedure, the Supervisory Board approved a time extension and modification to the Company's European ABS program on April 24, 2013. Finally, in a resolution adopted by written procedure on May 21, 2013, the Supervisory Board approved the refinancing of the Company's syndicated loan. The Supervisory Board resolutions adopted by written procedure were each supported by pertinent documentation.

The meeting of the Supervisory Board of May 24, 2013 was largely devoted to preparing for the Annual General Meeting. In this connection, the Supervisory Board discussed in depth the intentions of investor Dr. Albrecht Knauf – who had purchased a block of shares in Klöckner & Co shortly beforehand – together with options for collaboration with his steel distribution business, the Knauf Interfer Group, and the latter's strategic fit with the Company. At the same meeting, Ulrich Grillo was elected as a new member of the Executive Committee, Dr. Hans-Georg Vater having previously stepped down as member of the Executive Committee in order to dedicate himself more fully to his responsibilities as Chairman of the Audit Committee.

The Supervisory Board meeting of September 24, 2013 devoted considerable attention to corporate governance topics. With the consent of the Management Board members, changes were made to the Management Board members' employment contracts in light of amendments to management board compensation in the German Corporate Governance Code as adopted by the Government Commission on the Code in May 2013. Under the changes, each Management Board member's compensation – fixed salary, annual bonus (plus any special bonus awarded at the Supervisory Board's discretion to reward exceptional performance or accomplishment) and virtual stock options – is now subject to a cap. Once the Executive Committee had completed preparatory discussions, the Supervisory Board reviewed the efficiency of its activities. As scheduled, after an extensive review in the prior year, the Supervisory Board restricted itself to a cursory review in the



reporting year. No need for action was identified. The main focus of the meeting was twofold. First, the Supervisory Board discussed the implications of the current market environment for the Klöckner & Co 2020 strategy adopted by the Management Board in September 2010 – most of all with a view to the US market, this being of ever-increasing importance to the Group. Second, the Supervisory Board reviewed the status of the extended restructuring program launched by the Management Board in response to the ongoing weak steel demand in 2013.

In the course of addressing the Klöckner & Co Group's current business and financial situation, the Supervisory Board meeting on December 17, 2013 notably dealt with the forecasts of the Company's key performance indicators at year-end and the business planning for fiscal year 2014. The plenary Supervisory Board assured itself of the plausibility of, and gave its approval for, the budget presented by the Management Board. Discussions also centered on the Management Board's report on the largely completed KCO 6.0 restructuring program and the newly introduced KCO WIN action plan. The focus of KCO WIN is on efficiency-boosting measures with short-term earnings potential in sales and distribution, logistics and stockyard management. The Supervisory Board also addressed corporate governance topics. With a view to the latest Corporate Governance Code amendments on Management Board compensation, the Supervisory Board identified the relevant senior management and the relevant staff whose respective salary levels are to be used as benchmarks in the vertical comparison made in assessing the appropriateness of Management Board compensation. Alongside this, the Supervisory Board and the Management Board jointly adopted the annual Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act. In addition, the Supervisory Board discussed with the Management Board the Chief Compliance Officer's annual report. The Supervisory Board assured itself that the Company has a compliance management system capable of promoting lawful conduct within the Company, with precautionary measures to minimize the risk of violations and the capability for prompt identification, elimination and appropriate sanctioning of any violations that nonetheless occur.

## REPORTS FROM THE COMMITTEES

### Executive Committee:

The Executive Committee met in its capacity both as Personnel Committee and as Nomination Committee during the year under review. It did not meet in its role as Committee for Urgent Matters.

At its meeting in March, the Executive Committee in its capacity as Nomination Committee considered one nomination for election to the Supervisory Board at the 2013 Annual General Meeting. Robert J. Koehler's previous term ended with the Annual General Meeting 2013. He had indicated that he was available for a further term. Mr. Koehler not only has many years of experience on the supervisory boards of listed companies; he also has extensive operating experience as CEO of a listed company up to the end of 2013, and has already brought that experience to bear to the benefit of the Company. The Executive Committee therefore decided to recommend that the Supervisory Board should propose Mr. Koehler to the Annual General Meeting for re-election in order, in the interests of the business, to retain within the Company's Supervisory Board his great wealth of experience and his deep knowledge of the steel industry.

At the same meeting, the Executive Committee also discussed in its capacity as Personnel Committee the setting of annual ("short-term") bonuses for Management Board members Rühl and Partalis for fiscal year 2012 and the setting of the three-year ("long-term") bonus for the CEO for fiscal years 2010–2012. There was no need to set a long-term bonus for Management Board member Partalis as his contract had already been changed over to the new compensation structure with effect from fiscal year 2012. The new compensation structure has applied to all Management Board members since the start of the reporting year; in keeping with the statutory model for listed companies, it is geared to sustainable growth of the enterprise, among other things by requiring Management Board members to invest half their annual bonus in the Company's shares subject to a three-year vesting period (see Annual Report 2013, starting on page 27ff). The Executive Committee also formulated targets for the Management Board bonuses for fiscal year 2013. Likewise in its March meeting,



the Executive Committee addressed the topic of a change in the structure of Supervisory Board compensation. After in-depth review, the Executive Committee recommended to the plenary Supervisory Board that the previous Supervisory Board compensation arrangements should be dropped in favor of wholly fixed compensation at an increased rate.

The Executive Committee's consultations in its September meeting focused on proposals for the capping of Management Board compensation in line with the latest amendments to the German Corporate Governance Code of May 13, 2013 and on corresponding amendments to Management Board contracts. In the same meeting, the Executive Committee also conducted a cursory self-evaluation of the Supervisory Board's efficiency in the year under review.

At its December meeting, the Executive Committee put forward a proposal for the annual declaration of compliance with the German Corporate Governance Code. Also at its December meeting, the Executive Committee discussed further corporate governance topics, resulting in a proposal to the plenary Supervisory Board for the identification of the relevant senior management and the relevant staff, this being needed for the vertical comparison made in assessing the appropriateness of Management Board compensation.

#### Audit Committee:

The Audit Committee met five times, including three times before publication of the interim reports in order to confer with the CEO and CFO on the development of the Group's business and financial position as measured by key performance indicators.

In the two other meetings, the CFO and the Audit Committee went over risk management issues – including Internal Audit Department findings – and compliance issues, on which the Chief Compliance Officer reported directly to the committee. Discussions at the March meeting centered on the Company's annual and consolidated financial statements for 2012. The auditors reported to the committee in detail on the material findings of their audit of the annual and consolidated financial statements for fiscal year 2012. At the same meeting, the Audit Committee went into the proposal for the election of the auditors for 2013 and made the necessary preparations for the plenary Supervisory Board to commission them. In particular, the Audit Committee assessed the auditors' independence and fee offer. The Audit Committee did not see any need to recommend to the Supervisory Board more focal points for the auditors' activities beyond the statutory mandate. In its December meeting, the Audit Committee once more consulted at length on the Group's internal control system – this time with special regard to coverage of its US companies – and the introduction of a new IT-based risk management system. Key findings from Internal Audit were also discussed and the audit plan for fiscal year 2014 was adopted. The Audit Committee further consulted with the Company's CFO on the status of preparations for the 2013 annual financial statements.

## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

After in-depth discussion, the Supervisory and Management Boards issued the updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act on December 17, 2013. Permanently available to shareholders on the Company's website, the Declaration states that Klöckner & Co SE complies with the recommendations of the German Corporate Governance Code (the Code), as amended, with only three exceptions, for which reasons are given. Further information on corporate governance can be found on pages 20ff of this Annual Report.

The Management Board and the Supervisory Board keep up to date regarding changes to Code recommendations



and suggestions along with their implementation. In the year under review, this led to a joint Management Board and Supervisory Board resolution to follow in future the recommendation in Section 3.8 of the Code on a deductible in D&O insurance for Supervisory Board members. A deductible was hence agreed with effect from the start of fiscal year 2013. Furthermore, at the proposal of the Management Board and the Supervisory Board, an amendment to the Articles of Association modifying Supervisory Board compensation was passed at the Annual General Meeting on May 24, 2013. The previous variable compensation component, which was not geared to sustainable growth of the enterprise and so did not follow the recommendation in Section 5.4.6 of the Code as amended in May 2012, was dropped in favor of wholly fixed compensation (at a suitably higher rate), thus bringing Supervisory Board compensation back into line with the Code. With a view to the seventh sentence of Section 4.2.3 of the Code as amended on May 13, 2013, Management Board members' employment contracts were modified at short notice in such a way that Management Board compensation is now capped with regard to both variable compensation and compensation as a whole. The modifications prompted by amendments to the Code – the changes in Supervisory Board and Management Board compensation and the agreement of a deductible in D&O insurance for Supervisory Board members – gave rise to two interim updates to the joint Management Board and Supervisory Board Declaration of Conformity for 2012; these were published on April 9, 2013 and September 24, 2013.

## AUDIT OF THE 2013 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Klöckner & Co SE's annual financial statements for fiscal year 2013, consolidated financial statements and combined management report were audited and given an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditors elected by the Annual General Meeting and commissioned by the Supervisory Board. Klöckner & Co SE's annual financial statements and the combined management report for Klöckner & Co SE and the Group were prepared in accordance with German commercial law; pursuant to Section 315a of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The audit reports and further documentation relating to the financial statements were available in good time to all members of the Supervisory Board. The documents were appraised in detail by both the Audit Committee and the plenary Supervisory Board in the presence of the auditors.

At the Supervisory Board meeting held on March 4, 2014 to approve the annual financial statements, the Chairman of the Audit Committee reported on the Audit Committee's consultations on the annual and consolidated financial statements and the combined management report. The auditors took part in both the Audit Committee's discussions and the Supervisory Board meeting, reported on the material findings of their audit and answered questions. With regard to the risk detection system, the auditors stated that the Management Board had taken the measures required in Section 91 (2) of the German Stock Corporations Act in an appropriate manner – in particular for establishing a monitoring system – and that the monitoring system was capable of promptly identifying developments threatening the Company's ability to continue as a going concern. The Supervisory Board noted and approved the auditors' findings and the explanations provided by the Chairman of the Audit Committee. On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the Combined Management Report, as well as in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on March 4, 2014, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted. The Supervisory Board discussed with the Management Board the latter's proposal on the appropriation of net income available for distribution and, after its own examination taking into account the Company's results of operations and cash flows, endorsed the Management Board's proposal to allocate the net income available for distribution to other revenue reserves.



## CHANGES ON THE BOARDS

Robert J. Koehler's term as a member of the Company's Supervisory Board ended with the Annual General Meeting on May 24, 2013. At the recommendation of the Nomination Committee, the Supervisory Board nominated Mr. Koehler for re-election; he was elected to the Supervisory Board for a further term at the Annual General Meeting on May 24, 2013.

As reported elsewhere, on January 8, 2013 the Supervisory Board appointed Karsten Lork as a member of the Company's Management Board for a period of three years with effect from February 1, 2013. Mr. Lork is responsible for the operating business in Europe and Asia, for which Mr. Rühl as CEO of the Company had taken on temporary responsibility following the departure of Mr. Becker in September 2012.

The Supervisory Board would like to thank the Management Board, all employees and the employee representatives of Klöckner & Co SE as well as of all Group companies for their hard work and dedication in a tough operating environment during the past fiscal year.

Duisburg, March 4, 2014

The Supervisory Board



Prof. Dr. Dieter H. Vogel  
Chairman







## 1. KLÖCKNER & CO ON THE CAPITAL MARKET

### Klöckner & Co shares

ISIN DE000KC01000 – German Securities Code (WKN) KC0100

Stock exchange symbol: KCO

Bloomberg: KCO GR

Reuters Xetra: KCOGn.DE

MDAX® listing since January 29, 2007

### Share price performance

The Klöckner & Co share price started the first quarter of 2013 moving sideways. The report of an increase over threshold by Interfer Holding GmbH in mid-February, however, caused the share price to spike. Our shares kept on rising thereafter to reach their highest closing price for the year at €11.50 on March 6. But as the second quarter went on, they were unable to decouple from the weak share price performance being turned in by steel stocks and, on June 24, fell to €8.15, their lowest level of the year. The resurgent outlook for the steel industry and progress in implementing our restructuring program then saw the share price recover from that level. Despite a consolidating trend in November and December, our shares closed the year at €9.95, up some 11% on December 31, 2012.

### Key data – Klöckner & Co share

		2013	2012	2011	2010	2009
Share capital	€	249,375,000	249,375,000	249,375,000 <sup>1)</sup>	166,250,000	166,250,000 <sup>2)</sup>
Number of shares	in shares	99,750,000	99,750,000	99,750,000 <sup>1)</sup>	66,500,000	66,500,000 <sup>2)</sup>
Closing price (Xetra, Close)	€	9.95	8.97	9.92	21.01	17.85
Market capitalization	€ million	992	895	990	1,397	1,187
High (Xetra, Close)	€	11.50	12.02	23.42 <sup>1)</sup>	23.46	18.93 <sup>2)</sup>
Low (Xetra, Close)	€	8.15	6.62	8.28 <sup>1)</sup>	13.65	4.87 <sup>2)</sup>
Earnings per share (basic)	€	- 0.85	2.00 <sup>4)</sup>	0.14	1.17	- 3.61
Average daily trading volume	in shares	646,743	1,101,199	1,539,240 <sup>1)</sup>	935,942	761,087
Dividend per share <sup>3)</sup>	€	-	-	-	0.30	-
Dividend yield based on closing stock price	%	-	-	-	1.4	-
Total dividend paid	€ million	-	-	-	20.0	-

1) Adjusted in light of the capital increase on June 8, 2011.

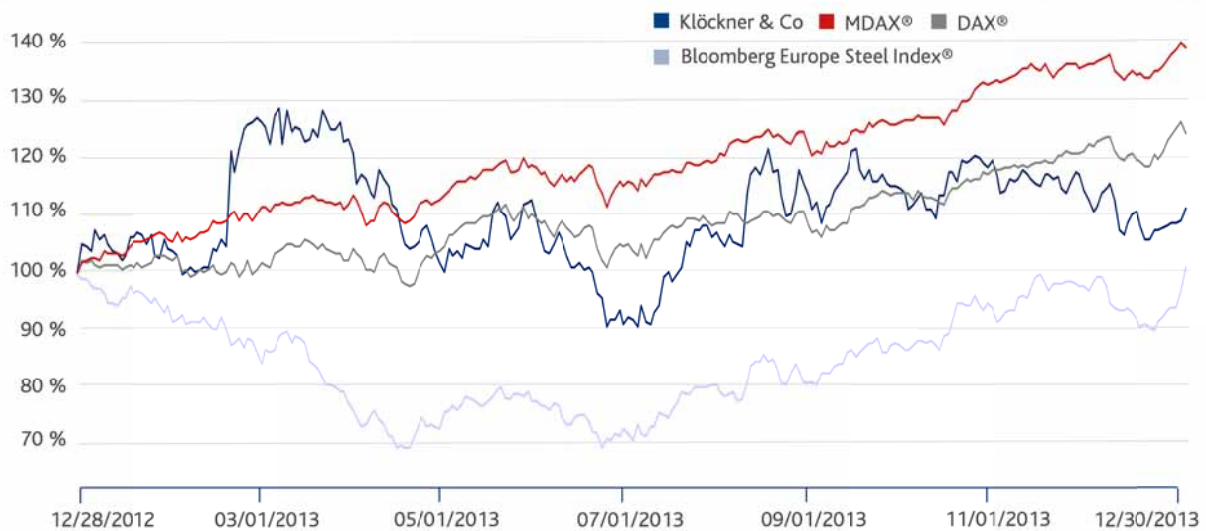
2) Adjusted in light of the capital increase on September 18, 2009.

3) In each case for the fiscal year.

4) As restated for the initial application of IAS 19 (Employee benefits) rev. 2011.



*Performance of Klöckner & Co shares compared with DAX®, MDAX® and Bloomberg Europe Steel Index® (values indexed)*



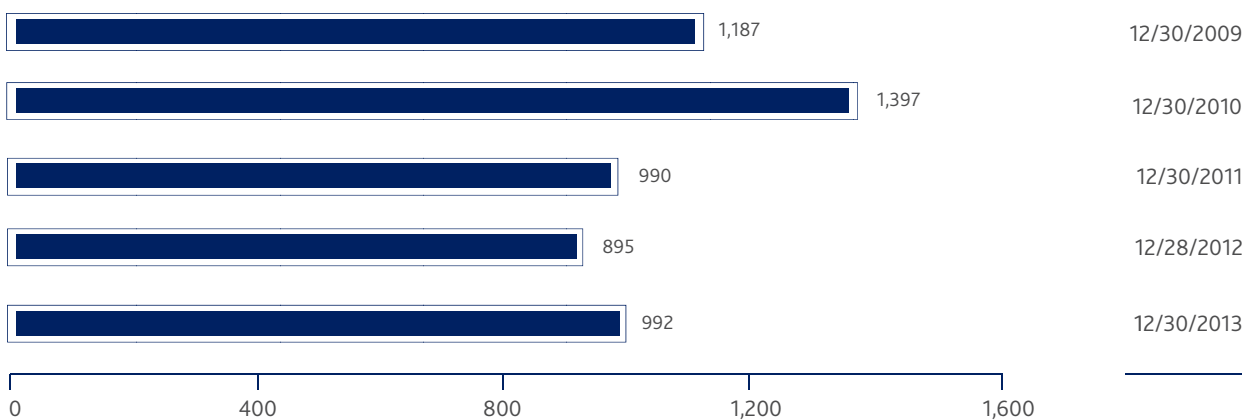
On The Bloomberg Europe Steel Index® often used as a benchmark for Klöckner shares gained only 1% over the same period of time. The MDAX® gained around 39% and the DAX® around 25% compared with year-end 2012. In Deutsche Börse AG's MDAX® ranking for December 2013, Klöckner&Co ranked forty-fifth on free float market capitalization and thirty-second on trading volume.

#### Market capitalization

The market capitalization was approximately €992 million at the end of the fiscal year compared with €895 million a year earlier.

#### Market capitalization

*in € million*





*Klöckner & Co convertible bonds: key data*

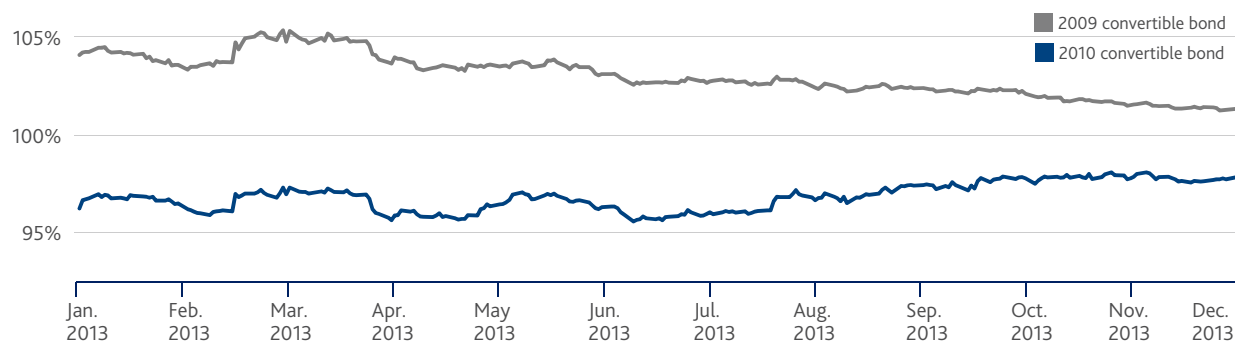
	2009 Convertible Bond	2010 Convertible Bond
German securities code	A1AHTR	A1GKFA
ISIN	DE000A1AHTR5	DE000A1GKFA1
Volume	€97.9 million	€186.2 million
Issue date	June 9, 2009	December 22, 2010
Maturity date	June 9, 2014	December 22, 2017
Coupon p. a.	6.0 %	2.5 %
Conversion price	€16.47 <sup>1)</sup>	€25.10 <sup>2)</sup>
Standard & Poor's rating	B+ (Long-term rating)	B+ (Long-term rating)

<sup>1)</sup> Adjusted in light of 2011 dividend payment and 2009 and 2011 capital increases.

<sup>2)</sup> Adjusted in light of 2011 dividend payment and 2011 capital increase.

*Performance of Klöckner & Co convertible bonds*

On December 30, 2013, the 2009 convertible bond was trading at around 101% and the 2010 convertible bond at around 98%. The actual underlying yield was therefore 2.569% and 3.049% respectively.

*Performance of Klöckner & Co convertible bonds**(Month-end figures)**2013 Annual General Meeting*

The seventh Annual General Meeting of Klöckner & Co SE took place in Düsseldorf on May 24, 2013. Around 300 shareholders and shareholder representatives attended this event. In all, approximately 38% of the voting capital took part in voting. Shareholders approved all of the resolutions proposed by the Supervisory and Management Boards by large majorities. Robert J. Koehler, who was standing for re-election to the Supervisory Board, was confirmed in his post by the Annual General Meeting.

In 2013, an online service was once again available to the shareholders in the run-up to the Annual General Meeting. Shareholders were able to register for the Annual General Meeting on our website at [www.kloeckner.com](http://www.kloeckner.com), where an online tool ensured that they were able to order an admission ticket, submit authorizations and instructions for proxy holders and order postal voting documents quickly and easily. The tool also allows shareholders to request the invitation to the Annual General Meeting electronically through the e-mail service ("electronic delivery"). Compared to the previous year, the tool was used more widely among shareholders this time. Whereas in 2012 only 14% of admission tickets were ordered online, this figure rose to 25% in 2013. In the coming years, e-mail delivery will replace postal delivery for registered participants.



### Group of analysts expands

Klöckner & Co continues to attract strong interest from the financial community. Last year saw three international banks and securities houses join the group of analysts covering the Company. Klöckner & Co's shares were therefore being watched and rated by 31 analysts at year-end. These analysts published a total of 150 research reports in the past fiscal year. At the end of 2013, fifteen securities houses gave our shares a "buy" recommendation, eleven gave a "hold" recommendation and five a "sell" recommendation. We provide an up-to-date overview of investment recommendations on our website under "Investors/Share/Analysts".

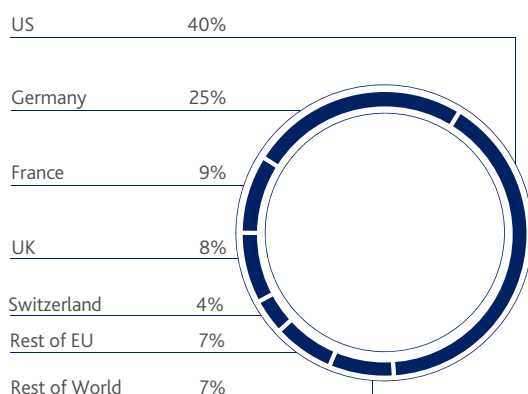
Klöckner & Co shares are analyzed by the following banks and securities houses:

Baader Bank	Jefferies International Equities
Bankhaus Lampe	JP Morgan Securities
Bank of America Merrill Lynch	Kepler Equities
Berenberg Bank	LBBW (new in 2013)
BHF Bank	Macquarie Capital Europe Ltd. (new in 2013)
Citigroup	MainFirst Bank
Close Brothers Seydler Research	Metzler Equity Research
Commerzbank	M. M. Warburg
Credit Suisse	Montega
Deutsche Bank	Morgan Stanley
DZ Bank	National Bank
Exane BNP Paribas	Nomura Equity Research
Goldman Sachs International (new in 2013)	NordLB
Hauck & Aufhäuser (new in 2014)	SRH AlsterResearch
HSBC Trinkaus & Burkhardt	Steubing
Independent Research	UBS Equities

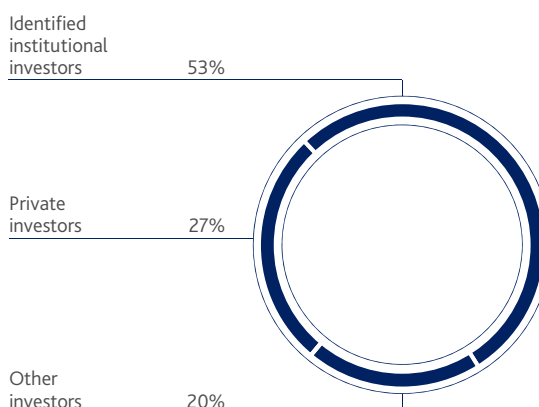
### Ownership Structure

Last year, Klöckner & Co once again commissioned regular shareholder identification analyses in order to gain an up-to-date overview of the regional distribution of its investors. The data enable investor relations work to be targeted appropriately and roadshows and conferences to be planned effectively. The most recent analysis was conducted in January 2014 and identified around 89% of shareholders. This most recent analysis showed that the institutional investors identified held 53% of the share capital and private individuals 27%.

#### Geographic breakdown of identified institutional investors of Klöckner & Co SE



#### Shareholder structure of Klöckner & Co SE





At the time of preparation, our largest shareholders were, with a shareholding of each between 5% and 10%, Interfer Holding GmbH, and with shareholdings of between 3% and 5% each, Franklin Templeton Investments Corp., Dimensional Holdings Inc./Dimensional Fund Advisers LP, Templeton Investment Counsel, LLC, Allianz Global Investors Europe GmbH, and Franklin Mutual Advisors. At the present time, we have received no notification that any other shareholder has exceeded or fallen below the statutory notification thresholds. Based on Deutsche Börse AG's definition, the free float stands at 92.2% due to the shares held by Interfer.

#### Open and continuous communications

At Klöckner&Co, Investor Relations is all about transparent and continuous communications with private and institutional investors. In 2013, members of the Management Board and the IR team once again kept international investors informed about the Klöckner&Co Group's results and potential, not only at the Annual General Meeting, but also at a total of twelve roadshows and eighteen conferences in all the major financial centers in Europe and the Americas, as well as at more than 30 additional individual meetings. The talks with investors focused primarily on the strategy and progress in the ongoing restructuring measures and the changes in shareholder structure along with the Klöckner&Co Group's current results.

In addition to its contact with institutional investors, Klöckner&Co attaches particular importance to direct dialogue with private investors. The CEO and the IR team sought to engage in an open exchange of views and information with private investors at events held by shareholder protection organizations.

To supplement the direct contact with investors, our website at [www.kloeckner.com](http://www.kloeckner.com) forms an integral part of our financial communications efforts. Interested parties can find all relevant information about Klöckner&Co shares and the convertible bonds in the Investors section of our website at [www.kloeckner.com/en/investors](http://www.kloeckner.com/en/investors). This includes, among others, financial reports, the financial calendar, information on corporate governance as well as current data on share and convertible bond performance. All information about Klöckner&Co SE's Annual General Meeting, which this year will be held in Düsseldorf on May 23, also appears on the website.

Our newsletter keeps shareholders and other interested parties abreast of current developments in the Group. You are welcome to sign up for this newsletter at [ir@kloeckner.com](mailto:ir@kloeckner.com).

The Investor Relations team would be happy to communicate with you at any time by telephone, e-mail or letter and looks forward to your questions and suggestions.

## 2. CORPORATE GOVERNANCE

In the section that follows, the Management Board reports jointly with and on behalf of the Supervisory Board on Corporate Governance at Klöckner & Co in accordance with Section 3:10 of the German Corporate Governance Code. The section also includes the Remuneration Report.

The entire section 2 Corporate Governance is an integral part of the Management Report.



## 2.1 CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

The Management Board and Supervisory Board of Klöckner & Co SE are required under Section 161 of the German Stock Corporations Act (AktG) to submit an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code (the "Code") published by the Federal Ministry of Justice in the official section of the Federal Gazette have been and continue to be complied with, or listing those recommendations that have not been or will not be complied with and the reasons why. The Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention in the year under review to meeting the recommendations and implementing the suggestions of the Code, and in particular to the amendments adopted by the responsible Government Commission on May 13, 2013. The last annual declaration was submitted in December 2013. It is reprinted below and is also available on the Klöckner & Co SE website. All Declarations of Conformity previously submitted are also available on the website.

### **2013 Joint Declaration of Conformity with the German Corporate Governance Code by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporations Act**

The recommendations of the German Corporate Governance Code, as currently amended (hereinafter referred to as the "Code"), have been and continue to be complied with apart from the following exceptions:

#### **Section 4.2.3 Sentence 8 of the Code (stock options and similar arrangements)**

The virtual stock option program (phantom stocks) for the Management Board does not make reference to comparison parameters because in Europe there are no suitable comparable companies in the steel distribution sector from which such comparison parameters could be derived.

#### **Section 4.2.3 Sentence 14 of the Code (payments promised in the event of premature termination of a Management Board member's contract due to a change of control)**

The payments promised in the event of premature termination of the Management Board members' contracts due to a change of control have not been, and are not formally, limited to 150% of the severance payment cap. If a board member terminates his or her Management Board activity due to a change of control, the remaining outstanding tranches of the virtual stock option program will be allocated to him or her. As a precautionary measure only and in view of the uncertainty regarding treatment and valuation of (virtual) stock options in applying this recommendation, the Company assumes that this compensation component may cause the threshold of 150% of the severance payment cap to be exceeded.

#### **Section 5.4.5 of the Code (number of Supervisory Board mandates in non-group listed companies)**

One member of the Supervisory Board of the Company, who is a member of the management board of a listed company, is, apart from his seat on the Supervisory Board of Klöckner & Co SE, also a member of two other supervisory boards of non-group listed companies as well as of one company with similar requirements. The recommended number of a total of three such mandates has thus been and is exceeded. However, we do not believe that this detracts from the ability of the individual concerned to diligently perform his duties as a member of the Company's Supervisory Board. As of December 31, 2013, the Supervisory Board member in question was no longer a member of the management board of the listed company, meaning that all Supervisory Board members are now in compliance with the recommendations of Section 5.4.5 of the Code.

Duisburg, December 17, 2013

The Supervisory Board

The Management Board



### Application of the German Corporate Governance

Responsible corporate governance is given high priority at Klöckner & Co. Good corporate governance denotes responsible business management and control geared to long-term value creation. Corporate governance relates to the responsible management and control of the business by the Management Board and Supervisory Board with a view to ensuring the Company's sustained growth in value.

In the year under review, the Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention to meeting the recommendations and suggestions of the Code. In applying the recommendations and suggestions of the Code, as amended, as our fundamental guidance, we advance the objective incumbent on listed companies of promoting the confidence of international and national investors, customers, employees, and the general public in the management and supervision of the Company. The current Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG) states three points in which the Company departs, with reason, from recommendations contained in the Code. In general, the Management Board and Supervisory Board treat suggestions in the German Corporate Governance Code no differently from recommendations. All suggestions in the Code as amended on May 13, 2013 have been complied with. Pursuant to the revisions to Section 3.7 of the Code, in the case of a takeover offer, the Management Board should convene an extraordinary General Meeting at which shareholders discuss the takeover offer and may decide on corporate actions (former version: only "in appropriate cases"). Convening a General Meeting poses organizational challenges – even considering the reduced notification periods provided for in the Securities Acquisition and Takeover Act (WpÜG) – and ties up considerable personnel and financial resources. It appears questionable whether the expense involved would also be justified in those cases in which no such corporate actions are planned. For this reason, extraordinary General Meetings will continue to be convened in appropriate cases only.

### Guiding Principles of Corporate Governance

Klöckner & Co SE is a European Company under German law whose Articles of Association stipulate a two-tier management system as for a German stock corporation (Aktiengesellschaft). The two-tier system is characterized by strict separation, with no shared membership, between the executive decision-making body (the Management Board) and the advisory and supervisory body (the Supervisory Board). The Management Board and the Supervisory Board work closely together to further the Company's interests. Intensive ongoing dialogue between the two decision-making bodies provides a sound basis for responsible and efficient corporate management.

### Management Board

The Management Board of Klöckner & Co SE has full responsibility for management of the Group and the Group holding company. It sets the targets and the strategies for the Group, its segments, and the country organizations and defines the guidelines and principles for the resulting corporate policy. The Management Board develops the corporate strategy in consultation with the Supervisory Board and coordinates and supervises all significant activities. It is in charge of executive development and deployment, distributing resources as well as deciding on Group financial management and reporting. It discharges its management responsibility as a collegiate body with joint responsibility for management of the Company. The members of the Management Board keep each other informed of important measures and developments in their portfolios. Notwithstanding the overall responsibility of all Management Board members, the individual members each manage their allotted portfolios on their own responsibility within the framework of Management Board resolutions.

The Management Board of Klöckner & Co SE currently consists of four individuals who are appointed and replaced by the Supervisory Board in accordance with the European Companies Regulation, the German Stock Corporations Act (AktG), and the Articles of Association: Chairman of the Management Board Gisbert Rühl; Chief Financial Officer (CFO) Marcus A. Ketter; Karsten Lork, who is in charge of the operating business in Europe and Asia; and William A. Partalis, who is responsible for the operating business in North and South America.



The work of the Management Board is governed, among other things, by Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure state the responsibilities in each Management Board portfolio, matters that are reserved for the full Management Board and decision-making procedures as well as the rights and obligations of the Chairman of the Management Board. They also contain rules on reporting to the Supervisory Board and a list of transactions for which the Management Board requires Supervisory Board approval. Such approval is necessary for all significant, high-risk or unusual transactions as well as for decisions of fundamental importance to the Company. The Rules of Procedure require the Management Board in particular to hold meetings at least once a month, although the Management Board usually meets twice a month. At such meetings, the Management Board coordinates its work and makes joint decisions. In addition to the 21 meetings held in the year under review, members of the Management Board held coordinating discussions on numerous occasions and met or held telephone conferences with the management teams of the major country organizations of the segments.

### Supervisory Board

The Supervisory Board of Klöckner & Co SE advises the Management Board and oversees the latter's management of the Company. The Supervisory Board comprises six members, all of whom represent shareholders and are elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel; his deputy is Dr. Michael Rogowski. Both have extensive experience in managing and supervising international corporations and, like all members of the Supervisory Board, possess the high level of professional expertise required to carry out their duties. All Supervisory Board members are independent within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and Section 5.4.2 of the Code.

The Supervisory Board is directly involved in decisions of fundamental importance to the Company. It also consults with the Management Board on the Company's strategic positioning and regularly discusses the status of business strategy implementation with it. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings of the plenary Supervisory Board. The Supervisory Board maintains an ongoing, intensive dialogue with the Management Board to ensure that it stays abreast of business policy, corporate planning and strategy. The Supervisory Board approves the annual budget, the sources of finance and the annual financial statements of Klöckner&Co SE and the Klöckner&Co Group as well as the combined Management Report, taking into account the auditor's reports as well as the Corporate Governance Statement and the Corporate Governance Report.

The Management Board provides regular, timely and comprehensive written and verbal reports to the Supervisory Board. Written reporting centers around the monthly Board Report. This furnishes information on the financial position, cash flows and results of operations of the Group as well as of the Europe and Americas operating segments. The report also covers capital market developments, macroeconomic indicators relevant to Klöckner&Co, an assessment of the Company's situation compared with the rest of the industry as well as trends in steel and metal prices. Items on the agenda at all Supervisory Board meetings include the overall economic situation, the industry situation, the business performance of the Group and its operating segments and the performance of the Klöckner & Co share price relative to industry peers.

The plenary Supervisory Board holds at least four, and the Executive Committee at least three regular meetings per year. The Audit Committee holds at least five regular meetings per year. These bodies also hold meetings on an ad-hoc basis as needed. In the year under review, the Supervisory Board held five meetings, the Executive Committee three, and the Audit Committee five. The committees' chairmen provide the plenary Supervisory Board with regular and comprehensive reporting on the agendas and outcomes of committee meetings. The Management Board always provides relevant documentation for the meetings of the Supervisory Board and its committees.

In accordance with the Supervisory Board Rules of Procedure, resolutions are adopted by simple majority unless otherwise stipulated by law or by the Articles of Association. As in past years, all resolutions were adopted unanimously in the year under review.

The Supervisory Board evaluates and reviews the efficiency of its own activities once a year. Additional committees have not been set up thus far in view of the relatively small number of Supervisory Board members and the resulting high level of efficiency in plenary work. The Supervisory Board does not consider any changes to be necessary in the preparation, running or agendas of its meetings. It considers the division of its work to be well balanced between strategic issues, advisory and supervisory activities. The Supervisory Board itself reports annually in detail on its work and the main focus of its activities in each fiscal year in its report to the Annual General Meeting (see the 2013 Annual Report, p. 8 et seq.).



### Committees of the Supervisory Board

The plenary work of the Supervisory Board is supplemented by the activities of a three-member Executive Committee and a three-member Audit Committee.

#### Executive Committee

The Executive Committee is composed of the Chairman of the Supervisory Board, who chairs the committee, his Deputy Chairman and one additional member. Thus the Chairman of the Executive Committee is Supervisory Board Chairman Prof. Dr. Dieter H. Vogel. The remaining members of the Executive Committee are Dr. Michael Rogowski, Deputy Chairman of the Supervisory Board, and, since May 24, 2013, Mr. Ulrich Grillo. Before such date, Dr. Hans-Georg Vater was a member of the Executive Committee.

In accordance with the Rules of Procedure, the Executive Committee also acts as a Personnel Committee for the purpose of preparing staffing decisions at Management Board level. The Executive Committee proposes suitable candidates for the Supervisory Board to appoint as members of the Management Board and in particular makes proposals with regard to their compensation. It also advises on long-term succession planning for the Management Board. In addition, the Executive Committee acts with decision-making power as a Committee for Urgent Matters. It furthermore fulfills the function of a Nomination Committee. In this capacity, it proposes suitable Supervisory Board candidates to the plenary Supervisory Board to nominate for election at the Annual General Meeting.

#### Audit Committee

The Audit Committee primarily reviews the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the audits of the financial statements (notably the independence of the auditor), the services additionally rendered by the auditor, the engagement of the auditor, the matter of establishing focal points of the auditor's activities, fee arrangements and compliance. The Audit Committee is also entrusted by the Supervisory Board with discussing half-year and quarterly financial reports with the Management Board ahead of publication. The Chairman of the Audit Committee, Dr. Vater, is an independent financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the Code and, based on his many years of service as the Chief Financial Officer of a listed major international construction group, has specific expertise and experience in applying financial reporting principles and internal control procedures. The Audit Committee meets at least five times a year, including three meetings held to discuss the interim reports. Alongside Dr. Vater, the Committee Chairman, the other members of the Audit Committee are Chairman of the Supervisory Board Prof. Dr. Vogel and his deputy, Dr. Rogowski.

#### Goals for the composition of the supervisory board and status of implementation

The Supervisory Board is required to be composed such that, taken together, its members possess the knowledge, skills and professional experience required for the proper execution of their duties. When proposing candidates to the Annual General Meeting, the Supervisory Board's Rules of Procedure stipulate that, alongside factors qualifying a potential candidate such as management experience and industry knowledge, fundamental consideration must also be given to diversity in the composition of the Supervisory Board. It is therefore taken into account in the nomination process that the Supervisory Board should, where possible, also include members who are female, who are under the age of 60 and who live or work in a country other than Germany that is of particular relevance to the Company. In addition, to avoid potential conflicts of interest, the Supervisory Board members should not be employed with major creditors, competitors, customers or suppliers unless such parties are controlling shareholders of the Company. Another objective laid out in the Rules of Procedure is that two-thirds of the members of the Supervisory Board be independent within the meaning of Section 5.4.2 of the German Corporate Governance Code. Finally, the nomination must take into account that the Supervisory Board should, if possible, have at least one financial expert to satisfy the requirements of Section 100 (5) of the German Stock Corporations Act (AktG).

All objectives in this regard have, in the estimation of the Supervisory Board, been met based on the current composition of the Supervisory Board. In assessing the independence of its members, the Supervisory Board refers to the criteria specified in the recommendation by the European Commission of February 15, 2005 (Appendix 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees (2005/162/EC)). The current financial expert is Dr. Hans-Georg Vater.



### Annual general meeting

The shareholders of Klöckner & Co SE exercise their rights, including their voting rights, at the Annual General Meeting. The most recent Annual General Meeting took place in Düsseldorf on May 24, 2013. The next will likewise be held in Düsseldorf, on May 23, 2014. The Management Board and Supervisory Board have provided that the shareholders receive all support and information in accordance with the law, the Articles of Association and the recommendations and suggestions contained in the Code. We publish the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on our website. The opening of the Annual General Meeting by the Chairman of the Meeting, the CEO's speech and the report by the Supervisory Board are broadcast live online and are made available on the internet in recorded form after the Annual General Meeting.

### Directors' Dealings

Under Section 15a of the German Securities Trading Act (WpHG), members of the Management Board and Supervisory Board as well as closely associated individuals and legal entities are required by law to disclose to Klöckner & Co SE and to the German Federal Financial Supervisory Authority (BaFin) any significant purchases or disposals of shares, or related financial instruments, including derivatives, to the extent that the value of the transactions reaches or exceeds €5,000 in one calendar year. Such disclosures are published immediately by the Company. Klöckner & Co sends the corresponding documentation to the German Federal Financial Supervisory Authority (BaFin); the information is saved in the company register. The reports are also available on the Company's website.

There were two such transactions between January 1, 2013 and February 24, 2014.

The table below summarizes the main information from disclosures during the period.

Date	Name	Position	Instrument	Purchase/ Sale	Quantity	Price per unit	Total price
04/02/2013	William A. Partalis	Management Board	Shares	Purchase	6,180	€10.86	€67,128.40
09/17/2013	Gisbert Rühl	Management Board	Call Option	Sale	200	€1.41	€28,200.00

The transaction involving William A. Partalis was a share purchase based on his obligation to invest in shares in the Company (see the Remuneration Report of the 2013 Annual Report, p. 27 et seq.).

According to information provided to the Company by the members of the Management Board and the Supervisory Board, their total holdings in shares of Klöckner & Co SE or related financial instruments accounted for less than 1% of the shares in circulation as of the reporting date.

### Financial reporting and audit of the financial statements

Financial reporting by the Klöckner & Co Group is performed in accordance with International Financial Reporting Standards (IFRS). The financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB). For reasons of simplicity and clarity, the Management Report takes the form of a combined management report covering the separate and consolidated financial statements. By law, the auditor of the separate and consolidated financial statements is elected by the Annual General Meeting. The audit mandate for the separate and consolidated financial statements is prepared by the Audit Committee and then discussed and issued by the Supervisory Board. The Management Board provides a detailed report on opportunity and risk management in the Klöckner & Co Group as section 7.3 of this Combined Management Report.



### Transparency

Reporting on the Group's situation and on significant events relating to the Group is provided in the Annual Report containing the financial statements and the Management Report as well as other statutory and voluntary disclosures. Other elements of reporting include the half-year financial report in August, the first-quarter interim report in May and the third-quarter interim report in November of each year. A financial statements press conference as well as an analysts' and investors' conference are held on publication of the Annual Report. We hold teleconferences for journalists, analysts and investors on publication of the quarterly and half-year reports. At the same time, we organize events and numerous consultations with financial analysts and investors in Germany and internationally, as well as with journalists. Regular dates and events relating to Klöckner & Co are listed in the financial calendar on our website. We use the Internet as our main channel of communication for providing shareholders and the public with equal access to timely, comprehensive information. Roadshow presentations for financial analysts and investors are made available to the general public on our website soon after each roadshow. We also publish press releases as needed.

Specific information likely to have significant influence on the Klöckner & Co share price is additionally published in ad-hoc announcements as required by the German Securities Trading Act (WpHG). Such matters are governed by a Group policy and an internal committee of experts (ad-hoc committee) who obtain outside advice (particularly on legal issues) as needed.

### Fundamental corporate practices and compliance

Ensuring adherence to international regulations and fair conduct toward our business partners and competitors is among our Company's guiding principles. In following these principles, Klöckner & Co sees itself as bound not only to statutory and other legal provisions; obligations entered into voluntarily and ethical principles also constitute integral components of our corporate culture. Observance of such regulations by Group companies, their decision-making bodies and workforces is a fundamental management and supervisory responsibility at Klöckner & Co.

To this end, a compliance program that today centers on antitrust law, anti-corruption policies, data protection and export control was introduced some years ago. The program is regularly reviewed, developed and supplemented. Employees are each called upon to work actively toward implementing the compliance program in their areas of responsibility.

A compliance system has been established to manage and implement the program and continue its development. As part of this system, compliance officers hold regular training sessions in which employees learn about the relevant law and internal policies, and serve as points of contact for individual questions as they arise. Classroom training is complemented by a Group-wide interactive e-learning program.

Within our compliance program, we have adopted extensive measures to ensure adherence in particular to anti-corruption and antitrust rules and regulations as well as to Group policies based on them. The Management Board of Klöckner & Co SE has unequivocally expressed its non-acceptance of antitrust violations and corruption in "Tone from the top," published on the Klöckner & Co intranet and on its website. Antitrust violations and violations of provisions prohibiting corruption are not tolerated in any way and result in sanctions against the offending employees. As an additional compliance element, Klöckner & Co has launched a Compliance Helpdesk for whistleblowers. Accessible from the Klöckner & Co website, the whistleblower helpdesk is available for Group employees and outsiders to report potential compliance violations at Group companies. The helpdesk can be accessed from anywhere in the world, is free of charge, and can also be used anonymously.

The Code of Conduct published on the Company website and elsewhere sets out basic principles and rules for our corporate and social responsibility. It is supplemented by a range of Group policies and procedural instructions. Members of the Management Board and all managerial personnel lead by example and have heightened responsibility for ensuring that the Code of Conduct is put into practice.



Other compliance measures relate to areas such as capital market laws and relevant Group policies. Statutory provisions prohibiting insider trading are supplemented by a Group insider-trading policy governing dealings with information that could potentially impact the price of Company shares as well as transactions in Company securities by board members and employees. Individuals who have legitimate access to insider information as part of their work are listed in an insider list.

## 2.2 REMUNERATION REPORT

The Remuneration Report summarizes the salient features of the compensation systems for the Management Board and the Supervisory Board and explains the structure and amount of the compensation. The Remuneration Report takes into account the recommendations of the German Corporate Governance Code.

### Management Board compensation

The compensation system was presented to the 2013 Annual General Meeting and approved by 94.4% of the votes cast. Compared with the last vote on the compensation system at the 2011 Annual General Meeting, this represents an increase of more than 5 percentage points following the revision in the course of 2012 of the bonus provisions, which are geared toward the Company's sustainable growth.

Compensation for Management Board members consists of non-performance-related and performance-related components. The non-performance-related components comprise a basic (fixed) salary, ancillary benefits and pension benefits. The performance-related components of Management Board compensation consist of a variable annual bonus and a virtual stock option (VSO) program. Only half of the variable annual bonus is paid out, however. The other half, after deducting income tax at a fixed rate, is converted into a personal investment in Company shares by the Management Board member in question for a term of at least three years and is therefore linked to the Company's sustainable growth. The performance-related components thus give mainly long-term performance incentives, gearing the compensation structure toward the Company's sustainable growth.

In the past fiscal year, the annual fixed salary for ordinary members of the Management Board was €480,000, or €420,000 for the Management Board members appointed for the first time in 2013. The total annual compensation (fixed salary plus bonus) was €840,000, or €780,000, subject to 100% target attainment. The fixed salary for the CEO in the past fiscal year was €720,000 and the total compensation (fixed salary plus bonus) was €1,260,000 subject to 100% target attainment. Virtual stock options and ancillary benefits are provided in addition. The ancillary benefits primarily consist of insurance premiums and private use of company cars, together with a driver for the CEO. In addition to the compensation components set out above, Management Board members Mr. Rühl and Mr. Lork have defined-benefit pension plans in accordance with the rules of Essener Verband, and Management Board member William A. Partalis has a comparable pension plan commensurate with the arrangements applicable to him at the US subsidiary prior to his appointment to the Management Board. Instead of pension benefits, Mr. Ketter receives a fixed amount each year which he must use to provide for his own retirement income (defined contribution plan).

Minor changes were again made to the employment contracts of the Management Board members in light of the amendments to the German Corporate Governance Code adopted by the Government Commission on the Code in May 2013. Under the changes, the compensation for each Management Board member, comprising a fixed salary, an annual bonus (if applicable, including a special bonus to be awarded at the Supervisory Board's discretion to reward exceptional performance or exceptional achievements) and virtual stock options, is subject to a cap. It is capped at €2,140,000 for Mr. Lork and Mr. Ketter, at €2,700,000 for Mr. Partalis and at €4,822,500 for Mr. Rühl.



### Bonuses

The compensation system provides for an annual bonus that is calculated based on the achievement of targets set jointly with the Supervisory Board at the beginning of each fiscal year. Only half is paid directly to the Management Board member, however. The Management Board member must use the second half for a personal investment in Company shares with a vesting period of three years. For the purposes of the annual bonus, target figures were set in the reporting period, among other things, for EBITDA and operating cash flow based on the Group's budget, just as they were under the previous compensation system. For the purposes of the calculation, each of these target figures accounts for 35%. The achievement and implementation of other targets and measures is factored into the bonus calculation at a total weighting of 30%. In the reporting period, the latter related primarily to the implementation of the KCO 6.0 restructuring program. The annual bonus for ordinary members of the Management Board is €360,000 subject to 100% target attainment and a maximum of €720,000 (subject to 200% target attainment). The annual bonus for the CEO is €540,000 and a maximum of €1,080,000. Under the Management Board members' employment contracts, the Supervisory Board has discretionary power to award special bonuses to individual members for exceptional performance or exceptional achievements. In total, the special bonus and annual bonus may not exceed the cap on the annual bonus.

### Virtual stock options (VSOs)

The Management Board members additionally receive virtual stock options. These VSOs entitle them to a cash payment from the Company commensurate with the rise in the price of Klöckner & Co shares between the date of issue and the date of exercise. The strike price is equal to the average price of Klöckner & Co shares over the last 30 trading days of the year before allocation of the respective tranche. For the first third of the tranche, the vesting period is three years, for the second third of the tranche four years, and for the last third of the tranche five years from the date of issue. The individual tranches are allocated annually. The cash payment a Management Board member is entitled to receive from Klöckner & Co SE is equal to the difference between the average price (Xetra trading, Deutsche Börse AG, Frankfurt am Main) over the last 30 trading days prior to the exercise of the option and the underlying strike price, but is capped at €25 per virtual stock option. Mr. Ketter and Mr. Lork, the Management Board members appointed for the first time in 2013, each receive 40,000 VSOs annually, Mr. Partalis receives 60,000 VSOs annually and the CEO, Mr. Rühl, receives 120,900 VSOs annually. The VSO program and the use of 50% of the annual bonus for personal investment in Company shares ensure that, through these compensation components, Management Board members participate in the Company's long-term performance. For further information, refer to Note 22 (Share-based payment) of the notes to the consolidated financial statements.

### Other arrangements

Management Board contracts provide for compensation on early termination of office other than for good cause. This compensation depends on the remaining term of the contract, but is capped at two years' annual compensation. Under a change-of-control provision, the members of the Company's Management Board have a special right of termination if the threshold of 30% of the voting rights is exceeded. On exercising this right, they are entitled to payment of their target income until the end of the term of their contract, capped at three times the total compensation they received in the last fiscal year ended prior to the termination date. In addition, all virtual stock options not yet granted up to that date are then deemed granted and may also be exercised prior to the end of the contractual vesting period. The requirement for the personal investment is waived for the remainder of the period. Those personal investment shares still vesting are unlocked and released to the Management Board member in question. The Company has D&O insurance, including for members of the Management Board. Management Board members have a deductible of 10% of any claim, subject to a maximum of one-and-a-half times their fixed annual compensation. Mr. Partalis, who is in charge of the Americas segment, has his main residency in the United States. His employment contract, which provides for compensation in euros, therefore includes an anti-devaluation clause to limit the impact of exchange rate changes.



### Appropriateness

Criteria determining the appropriateness of Management Board compensation include the individual Management Board member's responsibilities, his or her personal performance, the business situation, earnings and future prospects of the Company, the extent to which the compensation matches that of industry peers, and the compensation structure adopted by the Company. Both positive and negative developments are taken into account in the performance-related compensation components. Compensation levels are set overall to be internationally competitive as well as to give incentives geared to the Company's sustainable growth and a sustained increase in its value in a dynamic environment. To aid the Supervisory Board in setting and regularly reviewing the fixed and variable components in Management Board contracts, a horizontal comparative survey of compensation is carried out based, among other things, on an independently compiled study of regular management board member and CEO compensation at other MDAX® companies. Due to the lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies are also included in the analysis. Horizontal comparison of the Management Board compensation with other companies showed Klöckner & Co to be in the normal range regarding the amount and structure of the compensation, while an international comparison shows it to be below average. In addition, a vertical comparison is carried out with the compensation for senior management and the Group workforce as a whole. In this case, the Supervisory Board determined that the structure and amount of the total compensation for Management Board members is commensurate with their duties and performance as well as with the situation of the Company, is geared to the Company's sustainable growth and does not exceed normal levels.

### Previous compensation system

In fiscal year 2012, the previous compensation system approved by the 2011 Annual General Meeting still applied to Mr. Rühl (and former Management Board member Ulrich Becker). In contrast to the current compensation model, which provides only for the award of an annual bonus, the bonus under the previous compensation system was divided into an annual bonus and a three-year bonus based on the achievement of specified long-term targets. For Mr. Rühl, the three-year bonus for 2010 to 2012 was paid in the reporting period. Given the extreme volatility of the economic environment, however, setting long-term targets had not proven effective. Due to the discontinuation of the previous long-term bonus, the annual bonus under the current compensation model was increased accordingly such that the total compensation in the previous and the current compensation systems remained unchanged when taking the target bonus as a basis.



### Compensation for 2013

The table below shows the individual compensation entitlements of Management Board members for 2013 (prior-year figures in brackets).

(€ thousand)	Fixed components	Bonus <sup>4)</sup>	Other remunerations <sup>7)</sup>	Total excluding share based compensation	Share-based payment <sup>5)</sup>	Total	Issued VAO tranche (number of rights)	Expense from VAO <sup>6)</sup>	Present value of benefit obligation	Change in benefit obligation
Gisbert Rühl	720	629	35	1,384	476	1,860	120,900	270	3,102	452
	(720)	(838)	(33)	(1,591)	(449)	(2,040)	(120,900)	(-210)	(2,650)	(807)
Marcus A. Ketter <sup>1)</sup>	420	419	127	966	142	1,108	40,000	34	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Karsten Lork <sup>2)</sup>	385	384	26	795	142	937	40,000	34	51	51
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
William A. Partalis	480	436	17	933	208	1,141	60,000	120	3,728	- 461
	(480)	(273)	(17)	(770)	(241)	(1,011)	(60,000)	(110)	(4,189)	(882)
Ulrich Becker <sup>3*)</sup>	-	-	-	-	-	-	-	-	-	-
	(360)	(164)	(38)	(562)	(226)	(788)	(60,000)	(20)	(-)	(-)
<b>Total</b>	<b>2,005</b>	<b>1,868</b>	<b>205</b>	<b>4,078</b>	<b>968</b>	<b>5,046</b>	<b>260,900</b>	<b>458</b>	<b>6,881</b>	<b>42</b>
	<b>(1,560)</b>	<b>(1,275)</b>	<b>(88)</b>	<b>(2,923)</b>	<b>(916)</b>	<b>(3,839)</b>	<b>(240,900)</b>	<b>(-80)</b>	<b>(6,839)</b>	<b>(1,689)</b>

1) From January 1, 2013.

2) From February 1, 2013.

3) Until September 30, 2012.

4) The medium-term incentive arises from having to invest half of his bonus in shares of Klöckner & Co SE with a three-year vesting period (modified compensation system).

5) Fair value on the grant date of each VSO tranche.

6) The expense (+) or income (-) results from the adjustment to provisions necessary under IFRS, due among other things to the change in fair value of the underlying shares in Klöckner & Co.

7) Includes for Mr. Ketter €100,000 in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.



No VSOs were exercised and consequently no amounts paid out in the reporting period or in the previous fiscal year. The accounting disclosures on total Management Board compensation in the separate financial statements and the consolidated financial statements of Klöckner & Co SE, in accordance with Section 285 No. 9 and Section 314 (1) No. 6 of the German Commercial Code (HGB), are provided in Note 32. Pension benefit obligations for former Management Board members amounted to €113,503 in the reporting period.

### Supervisory Board

The structure and amount of the compensation paid to the Supervisory Board are governed by Article 14 of the Articles of Association available on the Company's website. In the reporting period, this article was amended by resolution of the Annual General Meeting on May 24, 2013. The resolution was adopted by a majority of 98.81%. In addition to fixed compensation, the previous article governing compensation provided for performance-related compensation that was not geared to the Company's sustainable growth. This meant that it was no longer in line with the recommendation contained in the German Corporate Governance Code as amended on May 15, 2012. As announced in the Declaration of Conformity dated December 4, 2012, the Management Board and the Supervisory Board therefore proposed to the Annual General Meeting that the Supervisory Board compensation be changed to comply with the new recommendation contained in the German Corporate Governance Code. With effect from the start of the reporting period, the award of a performance-related compensation component was discontinued and the fixed compensation increased accordingly. Fixed-only compensation better reflects the oversight function to be performed by the Supervisory Board without regard for the Company's short-term performance. The increase in the fixed compensation was based on the five-year average of the previous performance-related compensation component as well as on supervisory board compensation at other MDAX® companies. At the same time, the multiples for the Chairman and the Deputy Chairman of the Supervisory Board were each reduced by 0.5. In addition, compensation for the Chairman of the Audit Committee was adjusted (multiple of 1.25) in line with the increase in the level of responsibility and workload associated with that post over the last few years.

Compensation has since consisted mainly of fixed compensation allocated pro rata temporis in the event of personnel changes during the fiscal year. An attendance fee is also paid and reasonable out-of-pocket expenses and value-added tax are reimbursed. The fixed basic compensation per fiscal year is €40,000. The Chairman of the Supervisory Board receives two-and-a-half times, his or her deputy one-and-a-half times and the Chairman of the Audit Committee one-and-a-quarter times the fixed compensation. The attendance fee is €2,000 per meeting. The Chairman of the Supervisory Board and any Chairman of a Supervisory Board committee each receive two-and-a-half times this amount and their deputies one-and-a-half times this amount. Pursuant to Section 314 (1) No. 6 of the German Commercial Code (consolidated financial statements) and Section 285 No. 9 of the German Commercial Code (separate financial statements), Supervisory Board compensation totaled €480 thousand in 2013 (2012: €338 thousand). The table below shows the individual compensation entitlements of Supervisory Board members for 2013 in accordance with Section 5.4.6 sentence 6 of the German Corporate Governance Code. All payments are due after the close of the Annual General Meeting in 2014. No compensation or benefits were granted for services provided individually, in particular advisory and agency services.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	50,000	150,000
Dr. Michael Rogowski (Deputy Chairman)	60,000	31,000	91,000
Robert J. Koehler	40,000	10,000	50,000
Ulrich Grillo	40,000	14,000	54,000
Hauke Stars	40,000	8,000	48,000
Dr. Hans-Georg Vater	50,000	37,000	87,000
	330,000	150,000	480,000



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\* For the Remuneration Report and the Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (HGB), which are integral parts of the Group Management Report, please see the Corporate Governance section on pages 20–30 of this report.



# GROUP MANAGEMENT REPORT

Klöckner & Co SE

Combined Management Report for Fiscal Year 2013

## 1. HIGHLIGHTS

- Prior-year EBITDA before restructuring expenses exceeded despite ongoing market contraction in Europe
- KCO 6.0 restructuring program completed
- KCO WIN optimization program launched with annual EBITDA contribution of €50 million
- Further marked reduction in net financial debt to €325 million (2012: €422 million)
- Key financing instruments extended to 2016



## 2. FUNDAMENTAL INFORMATION ABOUT THE GROUP

### 2.1 GROUP STRUCTURE

Klöckner & Co SE is the parent and ultimate holding company of the Klöckner & Co Group. It controls the management companies of the Europe and Americas segments with their operational country organizations. Except for the sale of the Eastern European operations, there was no change in the Group's legal and financial structure relative to the prior year. Klöckner & Co SE primarily complies with the provisions of the European Company Regulation, its Articles of Association, and the German SE Implementation Act. In particular, it is also subject to the provisions of the German Stock Corporations Act.

Klöckner & Co SE's subscribed capital remains unchanged at a total of €249.4 million, composed of 99.75 million no-par-value registered shares carrying full voting rights. Since the initial public offering at the end of June 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard). They have been a component of Deutsche Börse AG's MDAX® index since January 2007.

#### **Business activities/business model**

Klöckner & Co is the largest producer-independent, stockholding steel and metal distributor and one of the leading steel service center companies operating in Europe and the Americas. We act as a connecting link between steel producers and consumers. As we are not tied to any particular steel producer, our customers benefit from our centrally coordinated procurement activities and wide range of national and international sourcing options spanning around 70 main suppliers worldwide. Our key competitive factors are economies of scale in global procurement, our large product portfolio, customer access provided by an extensive logistics and distribution network, a diverse range of prefabrication services, and high product availability. The Klöckner & Co network spans some 15 countries and provides customers with local access to around 220 distribution and service locations. Our high product availability levels largely eliminate the need for customers to hold their own inventories. Concentrated mainly in the construction industry as well as the machinery and mechanical engineering industries, our customer base comprises more than 146,000 mostly small to medium-sized steel and metal consumers. We also supply intermediate products for the automotive, shipbuilding, and consumer goods industries, and offer customers an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual deliveries and 24-hour service.

Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented into wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and 1,200 in the more consolidated North American market. Our market share in steel and metal distribution is some 7% in Europe and around 3% in the USA. In all the European markets in which we operate as well as in the USA, we are one of the top three distributors and service centers.

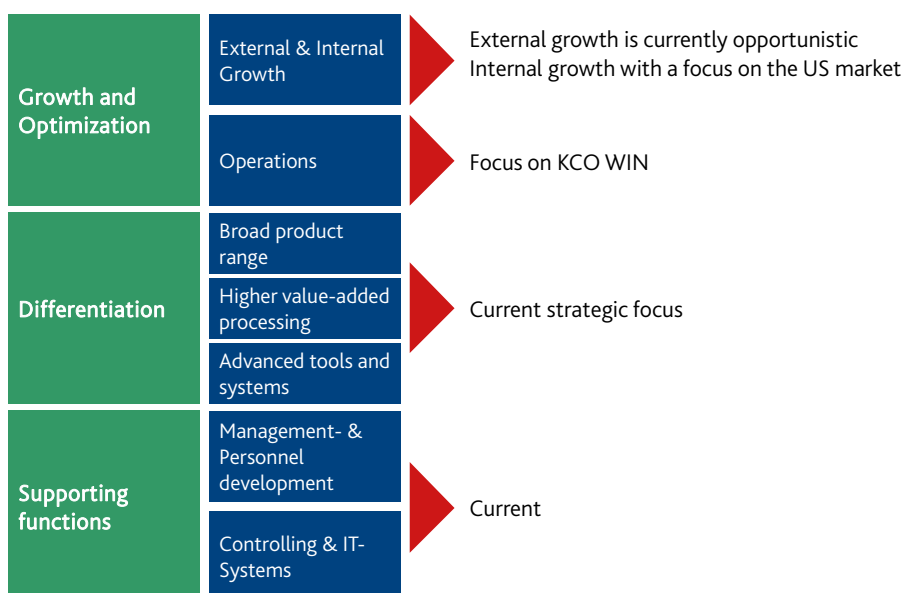


## 2.2 CORPORATE STRATEGY

### “Klöckner & Co 2020” long-term growth strategy

We further developed our “Klöckner & Co 2020” long-term growth strategy during the reporting period, adapting it to the altered market conditions.

The main focus of measures on the strategy front is currently on process improvements under KCO WIN and differentiate ourselves apart most notably vis-à-vis our many small and mid-size competitors. Following the successful completion of our KCO 6.0 restructuring program, acquisitions are once again on the agenda, although mostly on an opportunistic basis for the time being. We continue to press ahead with flanking activities.



### Growth with focus on the USA

In terms of regional growth opportunities, we continue to see the USA as our most attractive market. We expect steel demand to grow faster there than in Europe. For the main part, we anticipate stimulus for robust growth in steel demand from commercial construction and the comparatively low energy prices, which will likely fuel a resurgence of energy-intensive industries. We have already boosted US turnover to 43% of total turnover in the reporting period, and we aim to raise this to over 50% in the medium term. Our entry into the attractive American automotive industry segment with the opening of our new service center in Alabama in the fall of 2013 will take us closer to that goal. We can also capitalize on the established customer relationships and know-how of our German subsidiary Becker Stahl-Service, which for decades has been a reliable supplier of flat steel to the European automotive industry.

In Europe, we aim to lock in the high profitability levels at our Swiss country organization and Becker Stahl-Service while further expanding the volume of their business. With the restructuring taking full effect for the first time in the current year as well as through other enhancement measures, we are working to achieve a substantial improvement in profitability at all other European country organizations.

We also plan to push growth in China and Brazil in the medium term in line with the development of their markets. The launch of activities in the two regions in 2010 and 2011 respectively and the local knowledge acquired as a result provide a sound basis for such growth.



Acquisitions are once again an option for us as a growth accelerator, although mostly on an opportunistic basis for the time being. In line with our strategy of external growth, the focus here is on companies offering extensive higher value-added processing as well as a large proportion of specialty products.

#### Workflow and process improvements with KCO WIN

A main focus of the measures is on improvements in sales. Our prime objective in this area is to fine-tune pricing in order to raise our gross profit margin. As part of this, we are linking variable remuneration for our sales staff more closely to gross profit generated, while stipulating product-specific minimum margins to prevent unprofitable sales from the outset. Introduction of KliCC sales software will give sales staff fast, remote access to key customer data for greater effectiveness in preparing sales pitches. The newly developed Sales Playbook additionally supports our sales force in selective customer relationship development.

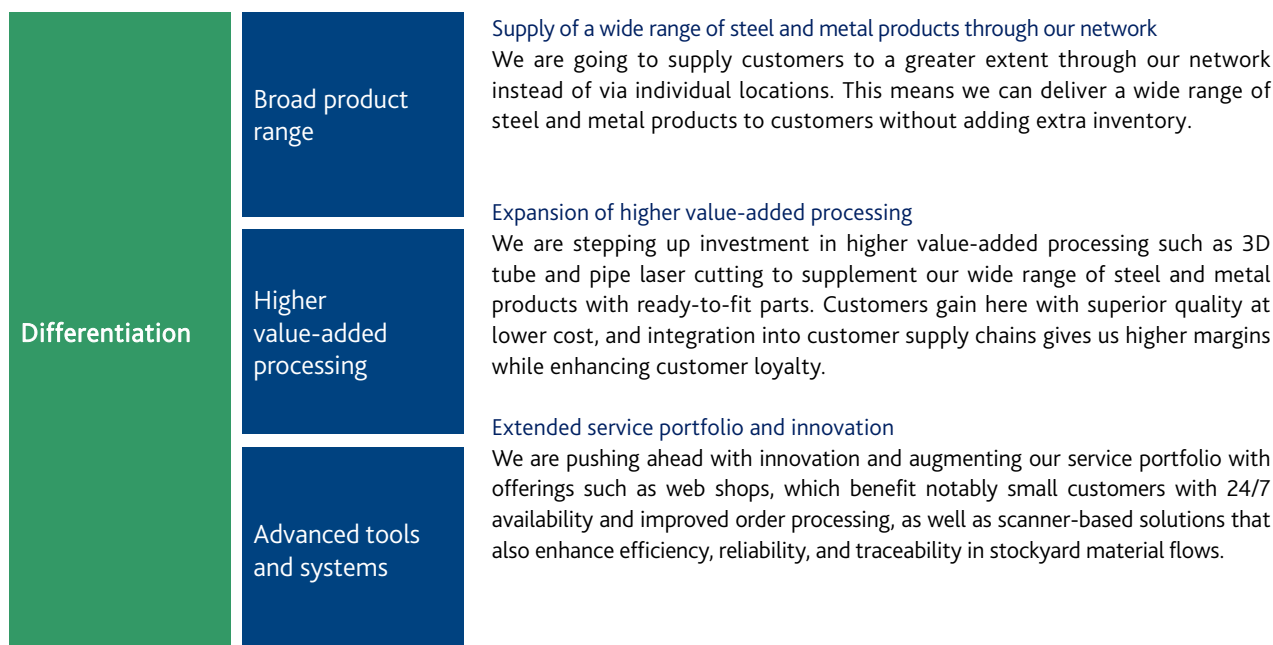
In procurement, we plan to better leverage the economies of scale we enjoy compared with many competitors by extending centrally controlled procurement activities to additional product ranges. To this end, we will also forge strategic alliances with producers in order to secure a high level of material availability and favorable terms – also in case demand picks up again.

At the same time, we are planning a range of enhancements in the areas of logistics and stockyard management. These include lasting improvements to workflows and structures in internal logistics, prefabrication, and transportation logistics.

KCO WIN is set to contribute around €20 million to EBITDA as early as in the current year. It is then expected to make its full annual contribution to EBITDA of around €50 million for the first time in 2015.

#### Differentiation – most of all from small and mid-size competitors

To enhance our differentiation, primarily from the many small and mid-size competitors, we follow three main thrusts:





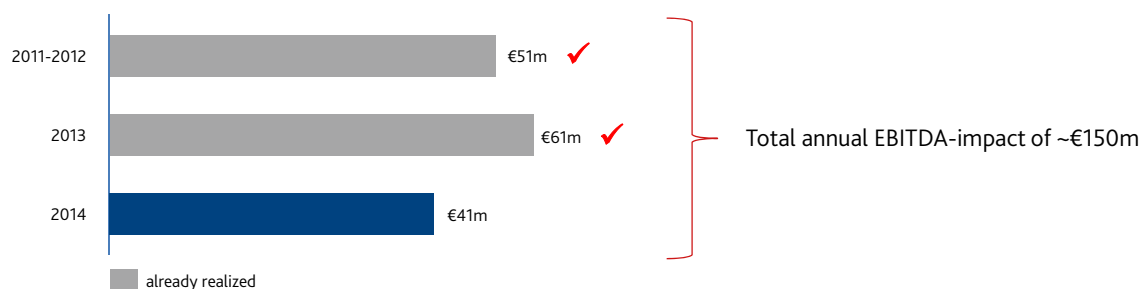
### Sustaining momentum with flanking activities

The goals outlined can only be attained with a motivated and highly qualified workforce. Management and personnel development is therefore a key enabling activity within our strategy. The latest controlling and IT systems are likewise mission-critical when it comes to making entrepreneurial decisions in our volatile markets on the basis of full and current information and being a successful market player long term.

### Restructuring program finished

We acted decisively on the impending decline in demand as early as September 2011, launching a comprehensive restructuring program, KCO 6.0. Subsequently extended in view of the further drop in demand for steel in Europe, this program was successfully completed by the 2013 year-end. Action taken included a complete withdrawal from Eastern Europe and a radical cutback in activities in Spain.

Overall, we sold or closed some 70 persistently unprofitable locations and reduced the workforce by approximately 2,200 (including temporary workers) under the program. This will deliver its full annual contribution to EBITDA of around €150million for the first time in fiscal year 2014. The boost from the measures in 2013 allowed us to increase operating income year on year despite a further market contraction in Europe. In the current year, the additional positive impact of €41 million should contribute substantially to the expected increase in earnings.



## 2.3 MANAGEMENT SYSTEM

The key performance indicators (KPIs) used in the management of Klöckner & Co's business are turnover, gross profit (and gross profit margin), EBITDA (earnings before interest, taxes, and depreciation and amortization including impairments and impairment reversals on intangible assets and property, plant and equipment), net working capital, and net financial debt. The central KPIs are reported and monitored at the level of the Group as a whole as well as at segment level.

As marginal costs are relatively low, turnover is an important indicator of the Company's results of operations. Turnover at Klöckner & Co is closely dependent on the development of the market environment. We therefore constantly monitor turnover in comparison with the distribution market where the appropriate data is available.

Turnover is the key driver of the next KPI, gross profit or the gross profit margin. Gross profit is sales less cost of goods sold and is thus an important indicator of the Company's profitability. Given the time lag between the setting of procurement and selling prices, we support our analysis by keeping a close watch on price trends in procurement markets. The gross profit margin (gross profit as a percentage of sales) is particularly sensitive to windfall effects. In the medium term, our strategy of marketing premium products and more prefabrication services is geared to boosting our gross profit margin to a higher level with smaller fluctuations.

The most important KPI for our results of operations is operating income (EBITDA), which takes into account all costs subject to short-term operational influence. The EBITDA margin – EBITDA as a percentage of sales – is an important indicator in steel distribution and in the capital markets, as well as a crucial element in our management incentive system.



This indicator is currently presented before restructuring expenses to focus attention on operating performance as well as for better comparability of earnings between reporting periods. In addition to the above indicators, we monitor KPIs relating to the use of capital in the business. Fixed asset intensity ratios tend to be low in steel distribution, while current asset intensity tends to be very high. We therefore keep a close eye on net working capital. In the Klöckner & Co Group, net working capital is defined as inventories plus trade receivables less trade payables. From a risk perspective, we therefore place special emphasis on trade receivables while fine-tuning inventories less trade payables.

Just-in-time procurement by customers means that high availability in our merchandise inventories and hence high stockholding levels are closely tied to turnover and our results of operations. For this reason, we also keep a constant watch on net working capital in light of changes in EBITDA. The second KPI for the use of capital in the business is net financial debt, a key influence on which is again net working capital. Net financial debt (financial liabilities less cash and cash equivalents) is an important indicator in corporate finance management. Changes in net financial debt also reflect cash generated by the business. Net financial debt also plays a major role in connection with Klöckner & Co's assessment by rating agencies. The capital markets, too, look to net financial debt in determining the value of our stock.

These key performance indicators are the basis of management processes and decision making at strategic and operating level, including for purposes such as investment and acquisition decisions. Changes in the key performance indicators in the year under review are reported on in the "Results of operations, cash flows and financial position" section.

It should be noted that, in accordance with German Accounting Standard 20 (GAS 20), only the most significant key performance indicators form part of the "Forecast" section and, based on this, of the comparison with the actual performance of the business in the subsequent year.

### 3. ECONOMIC REPORT

#### 3.1 MACROECONOMIC CONDITIONS

##### **Economic environment**

##### **Macroeconomic situation**

Global economic growth was around 2% in 2013, mainly driven by emerging markets and the USA. Persistent levels of great uncertainty, however, meant that neither region met its original growth expectations.

Economic performance in the eurozone was significantly weaker, with a decline of 1.2% in the first quarter and 0.6% in the second. As a result of the slight growth in demand from abroad, the downward trend slowed in the third quarter, meaning that the economy contracted by just 0.3%. In the fourth quarter, the eurozone recorded positive growth for the first time at 0.4%. On an annual basis, economic output thus declined by just 0.4% compared with a fall of 0.7% in the prior year. A north-south divide in economic development was evident within Europe, as in previous years.

Growth rates in the USA remained short of expectations overall due to uncertainties arising from fiscal and budget issues. Confidence gradually improved in the course of the year, however. After 1.1% growth in the first quarter, the US economy grew by 2.5% in the second quarter compared with the first. At 4.1%, growth in the third quarter was also much higher than in the prior quarter. In the fourth quarter, the economy grew by 3.2%. On an annual basis, this means growth of 1.9%.



The rate of expansion of the Chinese economy remained relatively high. At 7.7%, the growth rate nonetheless failed to reach the level of prior years and also fell short of expectations. Economic growth in China continues to be driven largely by government investment. The Brazilian economy grew by 2.3% in the reporting period. The main growth drivers were the agricultural sector and the recovery of government investment activity, while weaker domestic demand and low foreign investment dragged down on the economy.

Development of GDP in our core countries (in percent)	2013 vs 2012
<b>Europe<sup>*)</sup></b>	– 0.4
Germany	<b>0.4</b>
United Kingdom	<b>1.9</b>
France	<b>0.2</b>
Spain	– <b>1.3</b>
Switzerland	<b>1.9</b>
<b>China</b>	<b>7.7</b>
<b>Americas</b>	
United States	<b>1.9</b>
Brazil	<b>2.3</b>

Source: Bloomberg, estimates (in some cases provisional).

\*) Eurozone.

## Industry-specific situation

### Steel production and turnover at the distribution level

Worldwide steel production increased by 3.5% in 2013, setting a record volume of 1,607 million tons of raw steel, albeit once again with considerable regional differences. While production in the EU and North America declined by around 2% in 2013 according to the World Steel Association, production in China grew by 7.5%. According to Eurometal, the distribution level in Europe was affected even more by this development due to the weak demand situation, with a decline of 7%. By contrast, turnover in distribution in the USA remained more or less constant, increasing 0.3%, according to the Metals Service Center Institute (MSCI), with the second half of the year developing much more dynamically than the first.

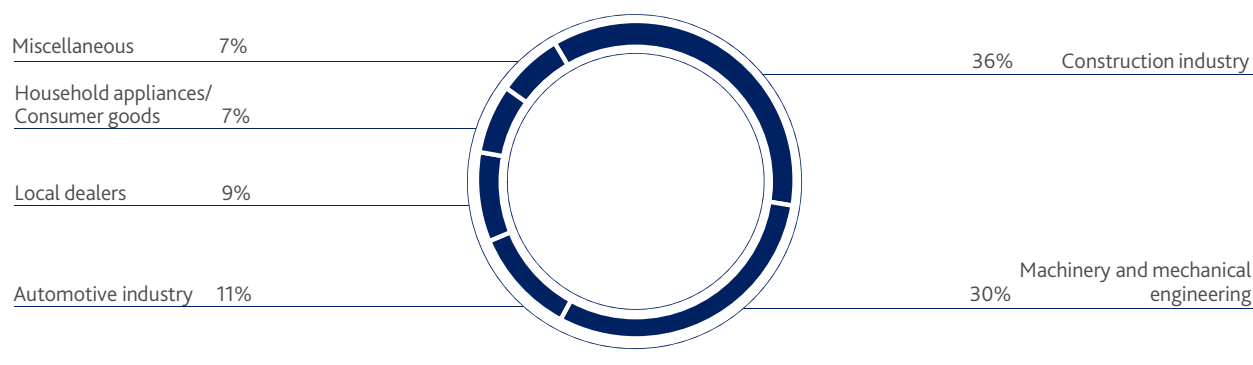
Despite growth in a number of regions, excess production capacities globally remain a major problem. Above all in China and Europe, there is significant excess capacity, preventing a stable balance between supply and demand. At the end of December, the capacity utilization of steel producers in Europe and the USA stood at just under 69% and 74% respectively. There are also considerable excess capacities at distribution level which need to be eliminated.



**Steel production**

(In million tons)	2013	2012	Variance
France	15.7	15.6	+ 0.5%
Germany	42.6	42.6	0.0%
Spain	13.7	13.6	+ 0.7%
United Kingdom	11.9	9.6	+ 23.8%
<b>EU-27, total</b>	<b>165.6</b>	<b>168.6</b>	<b>- 1.8%</b>
Rest of Europe	36.6	37.8	- 3.3%
C.I.S.	108.7	110.8	- 1.9%
United States	86.9	88.7	- 2.0%
Rest of North America	32.4	32.9	- 1.5%
<b>North America, total</b>	<b>119.3</b>	<b>121.6</b>	<b>- 1.9%</b>
<b>South America, total</b>	<b>46.0</b>	<b>46.4</b>	<b>- 0.8%</b>
Africa	15.7	15.0	+ 4.7%
Middle East	25.9	24.2	+ 6.9%
China	779.0	724.7	+ 7.5%
Rest of Asia	280.2	274.2	+ 2.2%
<b>Asia, total</b>	<b>1,059.2</b>	<b>998.9</b>	<b>+ 6.0%</b>
<b>Oceania, total</b>	<b>5.5</b>	<b>5.8</b>	<b>- 4.5%</b>
Other countries	24.7	23.7	+ 4.2%
<b>Total</b>	<b>1,607.2</b>	<b>1,552.9</b>	<b>+ 3.5%</b>

Source: World Steel Association (January 2014).

**3.2 SECTOR ENVIRONMENT****Customer sectors of Klöckner & Co SE (sales)**

In the past fiscal year, the construction industry accounted for 36% of sales, followed by machinery and mechanical engineering (30%). The automotive industry was the third-largest customer industry in the past fiscal year, with an 11% share of sales.



## Trend in key customer industries

### Construction industry

The global trend in steel consumption continues to be substantially affected by construction activity. In Europe, the development of the industry in the first half of the year was impacted by the unfavorable weather conditions in Central and Southern Europe as well as by the ongoing sovereign debt crisis. There were no signs of growth for the construction industry in the second half of the year either, due to the usual seasonal slowdown. According to Eurofer, construction activity in Europe declined accordingly by 2.9% over the full year, while in the USA construction volume increased by 4.8% over the same period. However, this was attributable to the less steel-intensive residential housing construction in the USA, which meant that steel distribution was stimulated only to a limited extent by the construction sector. Construction activity in China rose only slightly due to the economic slowdown.

### Machinery and mechanical engineering

The picture is also varied in relation to demand for machinery and mechanical engineering. Due to economic weakness in some eurozone countries as well as the declining order volume coming from Asia, orders were significantly lower than expected in some regions of Europe. According to the European steel industry association Eurofer, demand fell by 3.6% overall. In the USA, by contrast, demand increased again, driven primarily by the oil and gas industry. In China, too, moderate growth was seen in machinery and mechanical engineering.

### Automotive industry

The economic situation in the international automotive industry varied from region to region in 2013. In Europe, for example, automotive demand declined by 1.8% according to the German Association of the Automotive Industry (VDA). It was particularly weak in southern European countries. In the USA, however, there was a very strong uptrend, with turnover increasing by 7.5% on the back of lower interest rates and high levels of replacement demand. In China, turnover once again showed very dynamic growth at 23.1%. Conversely, Brazil recorded a decline of 1.5%.

## 3.3 COMPARISON OF THE ACTUAL BUSINESS PERFORMANCE WITH THE FORECAST FROM THE PRIOR YEAR

Our forecasts in the Annual Report 2012 for the reporting period were based on assumptions that the steel market in Europe was stabilizing and demand in North America was rising.

Contrary to our expectations, however, demand in Europe was down once again and merely remained at the prior-year level in the USA. Volume growth failed to materialize in the USA and volumes in Europe declined, driven not only by restructuring, as expected, but also by the market. As a result, our turnover did not remain stable, as forecast, but rather declined by 8.8% to 6.4 million tons (2012: 7.1 million tons).

Since weak demand put steel prices under additional pressure, notably in the first half of the year, sales declined to €6.4 billion (2012: €7.4 billion), falling even further short of the similar forecast of a stable trend than turnover. The unexpectedly low volumes and falling prices had an especially negative impact on our earnings figures, as a result of which we had to adjust our forecast of operating income (EBITDA) before restructuring expenses of €200 million. We ultimately exceeded the new target, issued with the publication of our figures for the first half in August 2013, of operating income before restructuring expenses at the prior-year level of around €140 million, with an actual result of €150 million. This was primarily attributable to the fact that there was no further turmoil on the steel markets following the revised guidance, as well as to one-time income from the sale of a property and the rising earnings contribution from our restructuring measures. Despite the rise in operating income in the second half of the year, net income remained negative, contrary to our original forecast. This was also due to additional restructuring expenses not planned at the time of the forecast.

We cut net financial debt significantly from €422 million as of December 31, 2012 to €325 million at the end of the reporting period. The main factors here were our restructuring measures and the further optimization of net working capital. This allowed us to reduce financial leverage, i.e., the ratio of net financial debt to EBITDA before restructuring expenses, to 2.2x. We are thus already within our targeted maximum of 2.5x.



### 3.4 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The key performance indicators for the results of operations, financial position and net assets for fiscal 2013 – as presented under “Management system” starting on page 37 – are as follows:

#### *Most significant key performance indicators according to DRS 20*

(€ million)	2013	2012 <sup>*)</sup>
Turnover (Tt)	<b>6,445</b>	7,068
Gross profit	<b>1,188</b>	1,288
Gross profit margin	<b>18.6 %</b>	17.4 %
EBITDA	<b>124</b>	60
EBITDA before restructuring expenses	<b>150</b>	137
Net working capital	<b>1,216</b>	1,407
Net financial debt	<b>325</b>	422

\*) Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

#### *Other key performance indicators*

(€ million)	2013	2012 <sup>*)</sup>
Sales	<b>6,378</b>	7,388
Gearing (Net financial debt/shareholders' equity <sup>**)</sup> )	<b>23 %</b>	29 %
Leverage (Net financial debt/EBITDA before restructuring expenses)	<b>2.2x</b>	3.1x

\*) Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

\*\*) Consolidated shareholders' equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2013.

Group turnover in fiscal 2013 was 6.4 million tons. Turnover was thus 8.8% down on the prior year (7.1 million tons), due in roughly equal parts to market factors and restructuring. While both operating segments registered a drop in turnover, the decline was smaller in the Americas segment than in the Europe segment.

The latter saw a 12.5% fall in turnover compared with fiscal 2012, primarily due to the economic environment but also as an outcome of portfolio streamlining as part of the KCO 6.0 restructuring program. All country organizations were affected, with France and Spain hit especially hard. Turnover at Becker Stahl-Service (BSS), which serves the automotive business, was also slightly down year on year due to the weak European automotive industry. The ongoing solid trend in the Swiss construction industry was a key factor enabling our country organization in Switzerland to generate turnover almost on a par with the prior year.

Turnover in the Americas segment was down by a total of 3.7% compared with the prior year, with a 2.9% decrease in the USA. This fall in turnover is caused by a weaker than expected market environment coupled with a stronger focus on boosting margins than adding volume.

Due to lower price levels compared with the prior year, sales went down at a sharper rate than turnover in 2013, dropping by a total of 13.7% to €6.4 billion. That applied above all in the Americas segment, where sales went down by 13.9%, mostly as a result of declining prices in the first half year. In the Europe segment, the 13.6% drop in sales was only slightly bigger than the decline in turnover.



**Results**

(€ million)	2013	2012 <sup>*)</sup>
Sales	6,378	7,388
Gross profit	1,188	1,288
EBITDA	124	60
Restructuring expenses	26	77
EBITDA before restructuring expenses	150	137
Earnings before interest and taxes (EBIT)	- 6	- 105
Earnings before taxes (EBT)	- 79	- 185
Net income	- 90	- 203

\*) Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

The rise in the gross profit margin from 17.4% in the prior year to 18.6% meant that gross profit dropped less steeply, by 7.7% to €1,188 million (2012: €1,288 million). The positive effects of the KCO 6.0 restructuring program and other cost savings from the third quarter onward meant it was possible to offset the market-driven decrease in gross profit. Operating income (EBITDA) adjusted for restructuring expenses was €150 million (2012: €137 million). EBITDA includes €25 million in one-off income from disposal of a property in France as well as from the reversal of pension provisions in the Netherlands.

**EBITDA before restructuring expenses by segments**

(€ million)	2013	2012 <sup>*)</sup>	Q4 2013	Q4 2012 <sup>*)</sup>
Europe	102	85	34	16
Americas	74	80	13	16
Headquarters	- 26	- 28	- 7	- 10
<b>Klöckner &amp; Co Group</b>	<b>150</b>	<b>137</b>	<b>40</b>	<b>22</b>

\*) Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

EBITDA before restructuring expenses came to €102 million in the Europe segment, up from €85 million a year earlier. The first half of 2013 was notably affected by the long winter. In addition, overcapacity at every link in the value chain continued to make for strong competitive pressure and, in the first half year, for lower prices. BSS and the Swiss country organization continue to be the main drivers of segment EBITDA, even though their own EBITDA showed a market-driven decrease on prior-year levels. Segment EBITDA includes a €13 million one-off income item from the sale of a property at our French subsidiary and another of €14 million from the reversal to income of pension provisions at our Dutch country organization in connection with the switch from a defined benefit pension plan to a defined contribution plan.

Americas segment EBITDA adjusted for restructuring expenses went down from €80 million in the prior-year period to €74 million. During the year, the business situation improved markedly, most of all in the USA, but it was ultimately not possible to make up for the weak results of operations in the first two quarters. The main impact was from weak turnover and low prices due to competitive pressure in heavy plate and long products.

Headquarters EBITDA of €- 26 million showed a tangible improvement on the prior year (€- 28 million), although segment EBITDA contains €2 million in expenses on derecognition of step-up amounts in connection with the above-mentioned sale of a property at our French country organization.



*Reconciliation to net income*

(€ million)	2013	2012 <sup>*)</sup>
<b>EBITDA including restructuring expenses</b>	<b>124</b>	<b>60</b>
Depreciation, amortization and impairments	– 130	– 165
Financial result	– 73	– 80
Income taxes	– 12	– 18
<b>Net income</b>	<b>– 90</b>	<b>– 203</b>

\*) Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

Due to the ongoing tough market environment in Brazil, the intangible assets recognized mainly for customer relationships from the Frefer acquisition were written off with an impairment loss of €16 million. Impairments totaling a further €7 million were recognized on goodwill and other intangible assets at our country organization in the United Kingdom. The goodwill recognized on the Frefer acquisition had already been written off with an impairment loss of €36 million in the prior year.

Despite this impact, earnings before interest and taxes (EBIT), amounting to a loss of €6 million, nonetheless showed a major improvement on the prior year (2012: loss of €105 million).

The financial result also improved, from a negative €80 million to a negative €73 million. The main alleviating factor here was in interest expense (a decrease in expense of €11 million) following redemption of a convertible bond in 2012. The prior-year figure also included the positive effect in the amount of €17 million from reversal of the put option liability from the Frefer acquisition; the corresponding effect in the year under review came to only €3 million.

Earnings before taxes (EBT) amounted to a loss of €79 million (2012: loss of €185 million).

Deducting the tax expense of €12 million, the Group's net loss came to €90 million (2012: net loss of €203 million). The tax expense mainly relates to valuation allowances recognized against deferred tax assets for tax loss carryforwards and to non-recognition of deferred tax assets for tax losses in the year under review in light of weak growth in various European economies. Benefits from future utilization of tax loss carryforwards are only recognized as assets if we deem utilization probable. Nonetheless, depending on economic developments, it is possible that utilization of the existing tax loss carryforwards will result in substantial relief from tax. When analyzing the tax expense, it should also be kept in mind that it is not possible to offset tax losses in one European country with taxable profits in others or with taxable profits in the United States.

Basic earnings per share came to a negative €0.85, compared with a negative €2.00 in the prior-year period.

**Cash flows, financing, and liquidity***Financing and financial management*

Group financing is generally centrally managed through Klöckner & Co SE. We back the liquidity of Group companies with central and bilateral credit facilities using an international cash pooling system. Centralized financing strengthens our negotiating position with banks and other lenders, making it easier to implement a uniform finance policy and limit financing risk.

Financing for the Group is generally secured on a flexible and diversified basis using a portfolio including convertible bonds, promissory notes, a syndicated loan, an asset-based lending facility, ABS programs, and bilateral loan agreements.



### Convertible bonds

Our issued convertible bonds make up a key part of our long-term Group financing.

The 2009 convertible bond was issued to institutional investors with a principal amount of €98 million, a term of five years to June 9, 2014 and a 6% coupon. It is guaranteed by Klöckner & Co SE and the issuer is Klöckner & Co Financial Services S.A., Luxembourg. When the bond was issued, the conversion price was €21.06 (35% above the reference price of €15.60); it has since been adjusted to €16.47 to reflect rights issues and dividend.

A further convertible bond for €186 million was issued in December 2010. This bond is likewise guaranteed by Klöckner & Co SE and the issuer is once again Klöckner & Co Financial Services S.A. The bond has a seven-year term. The coupon was set at 2.5% p.a. Under the bond terms, holders are entitled to require early redemption after five years at par value plus accrued interest. The conversion price was set at €28.00, equivalent to a 35.07% premium over the reference price of €20.73. The conversion price has been adjusted to €25.10 reflecting the rights issue and dividend payment.

### Syndicated loan

In the reporting year, the syndicated loan – a revolving credit facility – was extended to May 2016 in combination with a reduction in the facility amount from originally €500 million to €360 million. The facility is provided by a syndicate of eleven banks. The balance sheet-based covenants have been retained. Drawings stood at €160 million at the year-end.

Under the covenants, net financial debt must not exceed adjusted equity (equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 23, 2013) by more than a factor of 1.5. Adjusted equity must be at least €800 million. By way of virtual collateral, the scope for drawings on the syndicated loan is also tied to the current totals for unrestricted receivables and inventories less merchandise payables.

All covenants were complied with throughout the reporting period.

### Promissory notes

The promissory notes issued in 2010 and 2011 were for an initial total amount of €343 million. An amount of €108 million was redeemed in 2013, leaving a nominal amount of €235 million at December 31, 2013.

The promissory notes, which have maturities of initially between three and five years, are based on straightforward, standard documentation using the same financial covenants as the syndicated loan. Of the total outstanding amount, €89 million is fixed-interest-bearing and €146 million has variable interest rates.

### Asset-backed securitization programs

Group working capital funding is additionally secured through a centrally managed European Asset-Backed Securitization (ABS) program launched in 2005. The term of the European ABS program was likewise extended in the reporting year, to May 2016; the principal amount of €360 million stayed unchanged. A further ABS program is in place for our country organization in the USA. The principal amount is unchanged at USD 275 million, with a term to the end of 2017.

Utilization under the two programs totaled €190 million as of the reporting date. The covenants on both the European and the US ABS programs were complied with throughout the reporting period.

### Bilateral credit facilities and asset-based lending

The bilateral credit facilities for a total of approximately €536 million were only 12% drawn at the end of 2013. Alongside the ABS program, the US country organizations have a USD 325 million asset-based lending facility that expires at the end of 2017.



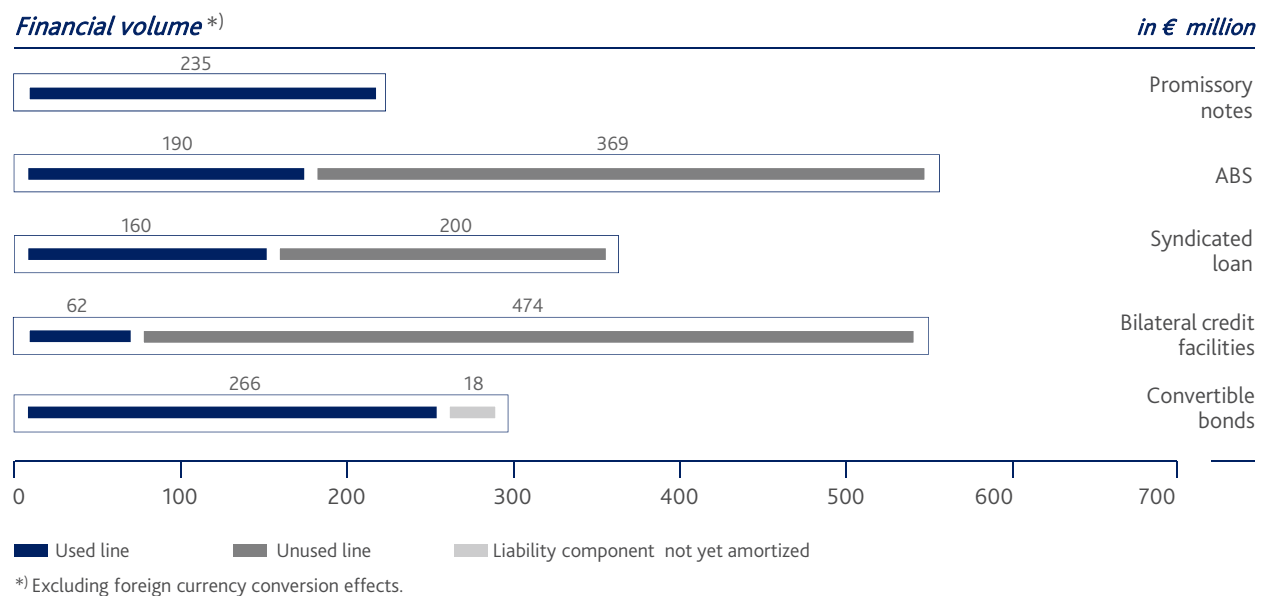
### Liquidity management and inter-company settlements

The Group uses an international cash pooling system to handle inter-company settlements and cash management. Our country organizations in Switzerland and the Americas segment are not included in this system, as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2013.

### Financial headroom and net financial debt

Following the enlargements and extensions to the available facilities, Klöckner & Co has at its disposal credit facilities totaling around €2.0 billion. The average remaining term of central financing instruments is currently around three years.

As shown below, drawings as of December 31, 2013 totaled approximately €0.9 billion, representing only 47% of the total facility amounts.



The table below shows the changes during the year under review in key financial debt indicators used by the Group:

<b>Net financial debt</b>		
<b>(€ million)</b>	<b>December 31, 2013</b>	<b>December 31, 2012<sup>*)</sup></b>
Net financial debt	<b>325</b>	422
Gearing (Net financial debt/shareholders' equity <sup>**</sup> )	<b>23%</b>	29%
Leverage (Net financial debt/EBITDA before restructuring expenses)	<b>2.2x</b>	3.1x

<sup>\*)</sup> Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

<sup>\*\*</sup>) Consolidated shareholders' equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2013.

Net financial debt, at €325 million, was significantly down on the prior-year figure (€422 million). Gearing was 23% as of the fiscal year-end, well within the 150% limit under the syndicated loan. Leverage, at 2.2x, was likewise below our internal target of 2.5x.



Klöckner & Co's operating business entails interest-rate, currency, and credit risk. The instruments used to hedge and manage this risk and its potential impact on earnings are described in detail in the notes to the consolidated financial statements under the notes on financial instruments.

We safeguard liquidity both with rigorous inventory and receivables management and by keeping to internally stipulated ratios. The latter include a minimum limit for the equity ratio and a maximum limit for gearing. Financial risk management is governed by a Group-wide financial guideline. We use derivative financial instruments to hedge interest-rate and currency risk. Derivatives are used exclusively to hedge risk related to underlying transactions and do not serve any speculative purpose. Foreign currency exposure in Group companies is generally hedged against currency risk at corporate level, or, where applicable, via local forex trading lines with banks. We also centrally monitor and hedge interest-rate risk.

#### Cash flow analysis

The consolidated statement of cash flows shows the sources and uses of cash flows during the fiscal year. The full consolidated statement of cash flows is presented on page 77 as part of the consolidated financial statements. Cash and cash equivalents in the consolidated statement of cash flows correspond to cash and cash equivalents in the consolidated statement of financial position.

#### *Consolidated statement of cash flows*

(€ million)	2013	2012
Cash flow from operating activities	143	101
Cash flow from investing activities	- 36	- 34
<b>Free cash flow</b>	<b>107</b>	<b>67</b>
Cash flow from financing activities	- 117	- 440

Cash flow from operating activities was €143 million, compared with €101 million in the prior year. The year-on-year improvement reflects the lower level of resources tied up in working capital, which also offset the €26 million in payments for the restructuring measures launched in the prior year.

Investing activities generated a cash flow of €- 36 million in 2013, versus €- 34 million in the prior year; this included €57 million in payments for intangible assets, property, plant and equipment (2012: €57 million), which was countered by €21 million in proceeds from divestments (2012: €23 million). The remaining free cash flow came to €107 million, as against €67 million in the prior year.

Cash flow from financing activities – a cash outflow of €117 million (2012: €440 million) – includes redemptions of promissory notes with a principal amount of €108 million.



## Financial position and balance sheet structure

*Consolidated balance sheet*

(€ million)	December 31, 2013	December 31, 2012 <sup>*)</sup>
Long-term assets	977	1,107
Current assets		
Inventories	1,166	1,254
Trade receivables	687	787
Other current assets	170	122
Liquid funds	595	610
<b>Total assets</b>	<b>3,595</b>	<b>3,880</b>
Equity	1,445	1,502
Non-current liabilities		
Financial liabilities	727	914
Other non-current liabilities	350	470
Current liabilities		
Financial liabilities	184	110
Trade payables	637	634
Other current liabilities	252	250
<b>Total equity and liabilities</b>	<b>3,595</b>	<b>3,880</b>

\*) Comparative amounts for 2012 restated due to first-time adoption of IAS 19 rev. 2011. Further information can be taken from Note 4 to the consolidated financial statements.

Total assets stood at €3,595 million as of December 31, 2013. This represented a 7% decrease on the €3,880 million prior-year figure. The main changes in the structure of the balance sheet relate to a decrease in non-current assets and in net working capital.

Non-current assets decreased from €1,107 million to €977 million (down 12%) as of December 31, 2013. The €130 million decrease mainly reflected reductions in intangible assets (€86 million) and property, plant and equipment (€37 million). Of the decrease, €26 million is accounted for by impairment of goodwill and other intangible assets.

Mainly as a result of the net loss in the year under review, equity went down from €1,502 million to €1,445 million. Due to the lower figure for total assets, the equity ratio was a sound 40% at the end of the reporting year, compared with 39% in the prior year.

The equity-to-fixed-assets ratio stood at approximately 151% as of December 31, 2013 (2012: 139%). Adding in non-current liabilities, the excess of equity and non-current liabilities over non-current assets amounted to €1,545 million, compared with €1,779 million in 2012.



Net working capital developed as follows:

### *Net working capital*

(€ million)	December 31, 2013	December 31, 2012
Inventories	1,166	1,254
Trade receivables	687	787
Trade payables	– 637	– 634
<b>Net working capital</b>	<b>1,216</b>	<b>1,407</b>

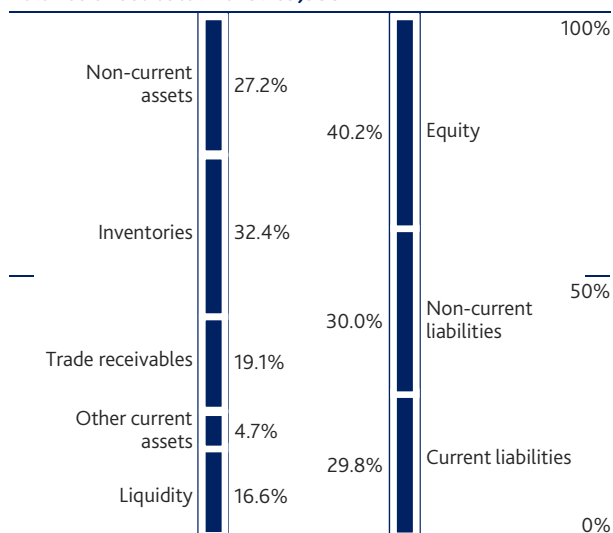
Net working capital, at €1,216 million, was lower than the €1,407 million at the end of the 2012 fiscal year as an outcome of active working capital management.

Despite partial redemptions of promissory notes totaling €108 million, cash and cash equivalents, at €595 million, stayed close to their prior-year level (2012: €610 million).

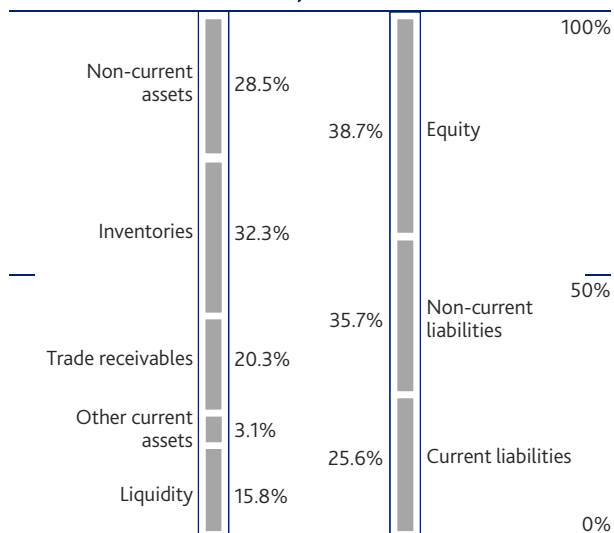
Largely due to redemptions of promissory notes, financial liabilities in the consolidated statement of financial position decreased from €1,024 million in the prior year to €911 million. Deducting cash and cash equivalents as well as transaction costs, net financial debt came to €325 million.

Pension provisions went down from €318 million in the prior year to €236 million. This reflects a slight increase in the discount rate and the changeover at our Dutch country organization from a defined benefit to a defined contribution plan.

### *Balance sheet total 2013: €3,595m*



### *Balance sheet total 2012: €3,880m*





### 3.5 OVERALL ASSESSMENT OF THE BUSINESS SITUATION

The Klöckner & Co Group closed fiscal year 2013 with unsatisfactory overall performance in terms of net income, despite the improvement in operating income. Key factors in this included the further decline in European steel demand and the failure of demand to pick back up in the USA. There was a particularly sharp decline in Europe in the first quarter, when the exceptionally harsh, long winter put a stop to much construction work.

The renewed overall decrease in demand coupled with our location closures in the course of restructuring made for a significant drop in turnover. A further, demand-driven erosion in steel prices, especially in the first half year, meant that sales were hit even harder.

Successful implementation of our restructuring program has already produced a tangible improvement in the gross profit margin. In terms of operating income, the restructuring measures meant we could largely offset the market-driven negative impacts on price and turnover – in the second half, we even more than offset them – to ultimately exceed the prior year on EBITDA before restructuring expenses. Net income was still negative, however, and at the Annual General Meeting the Management Board and Supervisory Board will consequently be proposing that the Company omit a dividend.

We continue to regard our finances as very stable. By means of location closures and additional improvements, we further reduced net working capital in step with sales, enabling us once more to generate a positive free cash flow and further reduce net financial debt. Our borrowing is broadly diversified, with an average term to maturity on the main instruments of almost three years. The equity ratio has held very solid at 40% as of the 2013 year-end.



## 4. INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

### 4.1 NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

As the parent company of the Klöckner & Co Group, Klöckner & Co SE is in charge of the Group's operating management. It coordinates central Group financing and directly holds the ownership interests in most management companies heading the Group's national and international country organizations, as well as in individual country operating organizations themselves.

#### *Balance sheet of Klöckner & Co SE (condensed)*

(€ thousand)	December 31, 2013	December 31, 2012
Intangible assets and property, plant & equipment	7,164	9,812
Financial assets	1,106,339	1,284,685
<b>Fixed assets</b>	<b>1,113,503</b>	<b>1,294,497</b>
Receivables from affiliated companies	542,356	545,024
Other receivables	43,946	6,557
Securities	50,009	-
Cash and cash equivalents	367,563	440,880
<b>Current assets</b>	<b>1,003,874</b>	<b>992,461</b>
Prepaid expenses	22,793	30,890
<b>Total assets</b>	<b>2,140,170</b>	<b>2,317,848</b>
Equity	1,306,977	1,290,817
Provisions for pensions and similar obligations	100,924	93,776
Other provisions	35,211	51,298
Bonds	284,100	284,100
Liabilities to affiliated companies	11,015	84,310
Liabilities to banks	400,153	510,212
Other liabilities	1,790	3,335
<b>Total equity and liabilities</b>	<b>2,140,170</b>	<b>2,317,848</b>

The annual financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

Klöckner & Co SE's financial position reflects its holding company character and its function as the Group's central financing company. The opportunities and risks of Klöckner & Co SE correspond to those of the Group and primarily affect the carrying amounts of investments and the future scope for dividend distributions. Fixed assets consists almost entirely of financial assets. These mostly comprise the investments in management companies heading the Group's national and international country organizations, the investments in individual country operating organizations, and long-term loans to those companies.



Other major items in the balance sheet relate to convertible bond issues and liabilities to banks, which include drawings on the syndicated loan and the promissory notes. The change in liabilities to banks relates to redemptions of promissory notes in a principal amount of €108 million.

In line with the significantly smaller figure for total assets, Klöckner & Co SE's equity ratio went up to 61.1% as of December 31, 2013 (2012: 55.7%).

*Income statement of Klöckner & Co SE (condensed)*

(€ thousand)	2013	2012
Income from investments	216,041	75,726
Impairment of investments	– 155,584	-
Interest income, net	– 18,445	– 31,882
Other income and expenses, net	– 25,659	– 34,731
<b>Result from ordinary activities</b>	<b>16,353</b>	<b>9,113</b>
Taxes	– 193	– 1,851
<b>Net Income</b>	<b>16,160</b>	<b>7,262</b>
Unappropriated profits carried forward	7,262	13,484
Appropriation to other revenue reserves	– 7,262	– 13,484
<b>Unappropriated profits</b>	<b>16,160</b>	<b>7,262</b>

Klöckner & Co SE's income from investments consists of profit distributions and profit transfers from subsidiaries:

(€ thousand)	2013	2012
Income from profit transfer agreements	36,745	46,826
Expenses from loss transfer agreements	– 11,352	-
Dividends received from affiliated companies	190,648	28,900
	<b>216,041</b>	<b>75,726</b>

The dividends consist of dividends from Becker Stahl-Service GmbH, Duisburg, Germany, and Debrunner Koenig Holding AG, St. Gallen, Switzerland. Income from profit transfer agreements relates to agreements with Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner European Operations GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg, and Becker Besitz GmbH, Duisburg.

The ongoing negative earnings trend at our subsidiaries in France, Germany, the United Kingdom, and China led to the recognition of impairment losses of €117 million. In addition, a loan to our French subsidiary was written off with an impairment loss of €39 million.

The negative balance on other income and expenses, net, narrowed from €34.7 million in 2012 to €25.7 million in 2013, although it should be noted that the prior-year figure was swelled by €5 million in impairments on receivables in connection with the disposal of the Eastern European activities.



Net income – the most significant key performance indicator – came to €16.2 million in 2013, compared with €7.3 million in 2012. We will be proposing at the Annual General Meeting to allocate the unappropriate profits for the year under review in its entirety to other revenue reserves.

As a holding company, the performance of Klöckner & Co SE is largely determined by the performance and dividend policies of its holdings. In light of the potential for the distribution of reinvested profits at subsidiaries as well as the profit transfer agreements we have in place, we once again expect net income in 2014 to be at least equal in amount to the year under review, thus allowing us to distribute an appropriate dividend.

The complete annual financial statements including the auditor's unqualified opinion are published by Klöckner & Co SE in the company register. Interested parties can obtain the annual financial statements at the Company's headquarters and in the Internet at [www.kloeckner.com](http://www.kloeckner.com).

## 4.2 TAKEOVER LAW DISCLOSURES

### **Report pursuant to Section 289 (4) and Section 315 (4) of the German Commercial Code read in conjunction with Section 176 (1), sentence 1 of the German Stock Corporations Act and Article 52 of the European Company Regulation**

#### **Structure of share capital**

As of December 31, 2013, Klöckner & Co SE's subscribed share capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares have the same rights and obligations. Each share has one vote.

#### **Restrictions on voting rights and the transfer of shares**

The Management Board is not aware of any restrictions on voting rights or the transfer of shares, including any agreements between shareholders.

#### **Interests in share capital exceeding 10% of voting rights**

As of December 31, 2013, no direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of voting rights had been reported to the Company.

#### **Shares with special control rights**

There are no shares with special control rights.

#### **Exercise of voting rights by employees owning shares in the Company**

Shares held by employees of the Klöckner & Co Group are not subject to any rules controlling voting rights.

### **Legislation and provisions of the Articles of Association governing the appointment and replacement of members of the Management Board and amendments to the Articles of Association**

The Management Board of Klöckner & Co SE consists of one or more members who are appointed and replaced by the Supervisory Board (Article 9 (1) c, Article 39 (2), and Article 46 of the European Company Regulation; Sections 84 and 85 of the German Stock Corporations Act; Section 6 of the Articles of Association). Under Article 59 (1) of the European Company Regulation, amendments to the Articles of Association always require a two-thirds majority of votes cast, unless the German Stock Corporations Act requires or permits a greater majority. Under Article 59 (2) of the European Company Regulation and Section 51, sentence 1 of the German SE Implementation Act (SEAG), read in conjunction with Section 19 (2), sentence 2 of the Klöckner & Co SE Articles of Association, amendments can be implemented with a simple majority of votes cast if at least one half of the share capital is represented. Article 51, sentence 2 of the SEAG exempts from this rule amendments to the Company's business purpose, resolutions on cross-border relocation of the Company's headquarters, and cases for which a larger majority representing capital is mandatorily required by law. For resolutions that require a three-fourths majority of capital under the German Stock Corporations Act, a three-fourths majority of votes cast is also necessary at Klöckner & Co SE.

Under Section 21 of the Articles of Association, the Supervisory Board is authorized to make certain formal changes to the Articles of Association itself as and when required.



#### Powers of the Management Board to issue and repurchase shares

The Management Board of Klöckner & Co SE has the following authorizations to issue and repurchase shares:

The Management Board is authorized, subject to approval from the Supervisory Board, to increase the Company's share capital by May 24, 2017 by up to a total of €124,687,500 by issuing, on one or more occasions, up to 49,875,000 new no-par-value registered shares against cash or non-cash contributions. For further details, see Section 4 (3) of the Articles of Association (Authorized Capital 2012).

The Management Board has been authorized to issue warrant-linked and/or convertible bonds or combinations of such instruments at any time up to May 23, 2018, on one or more occasions, in one or more separate tranches, and to grant holders option or conversion rights on up to 19,950,000 no-par-value registered shares in the Company with a proportionate amount of the share capital of up to €49,875,000.

There are three authorizations for contingent capital increases of €16,625,000, €16,625,000 and €49,875,000, respectively, which may only be carried out upon exercise of the conversion rights from the convertible bonds that were issued by the Company or its subsidiaries under authorization by the Annual General Meeting on May 26, 2009 or under authorization by the Annual General Meeting on May 26, 2010, or will be issued under authorization by the Annual General Meeting on May 24, 2013. For further details, see Section 4 (4), Section 4 (5), and Section 4 (6) of the Articles of Association.

Under Section 71 (1) No. 8 of the German Stock Corporations Act, and in accordance with the resolution of the Annual General Meeting on May 25, 2012, the Company is also authorized to acquire treasury stock of up to 10% of the Company's share capital in issue at the time of the resolution of the Annual General Meeting of May 25, 2012 or, if lower, the Company's share capital in issue at the time the authorization is exercised. The Management Board is additionally authorized to acquire treasury stock using derivatives (put options, call options, or forward contracts). The authorization may be utilized in whole or part, on one or more occasions, by the Company or by affiliates of the Company or by third parties acting on the Company's account or on the account of affiliates of the Company. The authorizations are valid until May 24, 2017.

#### Significant agreements to which the Company is party and which are conditional on a change of control following a takeover bid

The terms and conditions of the convertible bonds issued in June 2009 and December 2010 totaling €97.9 million and €186.2 million, respectively, allow for early redemption by the holder at par value plus accrued interest in the event of a change of control. Under the terms and conditions of each bond issue, change of control is deemed to have occurred if, among other things, a person or persons acting in concert directly or indirectly obtain(s) legal or beneficial ownership of more than 50% of the voting rights in the Company. Bondholders are also each entitled to exercise their conversion rights at an adjusted conversion price. Under largely the same conditions, lenders under the €360 million syndicated revolving credit facility agreed in May 2013 may each demand repayment of any loan outstanding they have disbursed. The same provision applies to holders of various promissory notes issued by Group companies totaling €235 million. Other material loan agreements and the Group's European ABS program also contain customary change-of-control clauses. In addition, virtual stock options granted to Group managers include a provision under which the options may be exercised immediately if a threshold of 30% of voting rights is exceeded.

#### Agreements between the Company and members of the Management Board or employees providing for compensation in the event of a takeover bid

If a threshold of 30% of voting rights is exceeded, members of the Management Board have the right to early termination of their service contracts. Should they exercise this right, they will be entitled to payment of their budgeted salary (fixed component plus budgeted bonus) up to the end of the contract term, capped at three times their total compensation received in the last full fiscal year before termination of their service contracts. The personal investment requirement is waived. Any personal investment shares still vesting are unlocked and released to the Management Board member in question. In addition, all virtual stock options not yet granted are deemed granted and may be exercised at the end of the contractual vesting period or three years from the issue date, whichever is sooner.



### 4.3 DIVIDEND PLANNING

For the year under review, in view of the large consolidated net loss, the Management Board and the Supervisory Board will propose to the Annual General Meeting on May 23, 2014 the appropriation of net income available for distribution to other revenue reserves and, in light of the uncertain economic environment, the omission of a dividend in order to conserve liquidity. In general, Klöckner & Co SE follows a dividend policy of distributing 30% of net income before one-time items. The Company plans to return to this normal dividend policy in the future given an appropriate earnings situation in the Group.

## 5. RESPONSIBILITY

Due to its size and international presence, Klöckner & Co SE's business activities impact a number of stakeholders inside and outside the Company. We aim to build responsible, long-term relationships that reflect the interests of all sides. At Klöckner & Co, sustainable steel distribution involves optimum working conditions for employees, the efficient use of resources, social responsibility throughout the value chain, and active corporate citizenship in the regional vicinity of the Company's sites.

Since 2012, our sustainability activities and information have concentrated on four focal points, namely employees, the environment, the value chain, and corporate citizenship. Our website provides interested members of the public with regular updates on new activities and projects at the country organizations and the holding company. We also play an active part in the social debate on values and corporate responsibility.

### Employees

Every day, some 9,600 employees at what currently number 220 locations in 15 countries apply their skills and enthusiasm for their work to meeting the wishes and requirements of our more than 146,000 customers. Some 73% of our workforce is employed in Europe and over a quarter now in the Americas.

Highly motivated and qualified employees are a key factor in our success as a service provider. Our customers and we ourselves expect our service to be the best possible. This aim is underpinned by our Group-wide human resources strategy based on the pillars of management and corporate culture, systematic performance, talent and succession management, improvements to make us a more attractive employer as well as occupational health and safety initiatives.

In 2013, we refined and stepped up management development interviews and the feedback process for managerial staff below Group Management Board level introduced in 2012.

Our own aim is to boost the share of female managers to 20% by 2020. At the end of fiscal year 2013, women already made up 14% of our management staff. In contrast, the share of female managers was 8% at the end of 2010, and 10% at the end of 2011. Our efforts are not limited solely to advancing female staff, however. In general, we strive to promote diversity in our workforce and therefore to grow creativity and innovativeness in the Company through various cultural backgrounds, lifestyles, and values.

With a view to keeping our employees' qualifications up to date, developing their skills, and nurturing new talent within our own ranks, Klöckner & Co places considerable emphasis on continuing professional development. Our employees have access to job-specific, in-house training sessions, language courses, and personal support to assist them with their own continuing education plans. Klöckner & Co offers students internships and working student positions, where they can apply and gain a deeper understanding of content from their studies in real business situations.



As a steel distributor with a high percentage of wage earners employed in the warehouses, occupational health and safety are particularly important. The "Safety 1st" occupational safety management system introduced by our QHSE (Quality, Health, Safety, and Environment) committee is intended to methodically lower accident risk, thereby reducing the number of days employees are absent from work due to accidents. We would like to cut our accident rate in half in the coming years with the help of an extensive range of measures to hold management staff more accountable and encourage greater participation by employees in health and safety at work.

The world-leading British occupational health and safety standard BS OHSAS 18001 has been implemented at our Swiss country organization for five years now and, in the reporting period, was rolled out at branches of our German and French country organizations. There are plans to implement certification at other international locations in the coming years.

Our employees at nearly all country organizations were once again offered health protection and preventative services, including voluntary medical consultations, cancer screening, and annual flu vaccinations, in the year under review. These measures help us keep the illness rate at the European and American country organizations comparatively low.

### Environment

By using efficient, responsibly designed processes, Klöckner & Co aims to minimize the impact of its business activities on the environment and thus preserve resources for future generations. Quality, occupational safety, and the environment are given equal consideration as part of this integrated approach.

International working groups of logistics and quality managers meet regularly to exchange transnational best-practice solutions in these areas as well as to develop and pursue joint projects. Successful projects, such as installing energy-conserving LED lighting in the United Kingdom or a program aimed at fuel-efficient truck driving in the Netherlands, are reviewed for feasibility in other countries, and if suitable, are implemented there.

At several European country organizations, our sites have been certified to environmental standard ISO 14001 and, at the US country organization, a number of sites already have an environmental management system.

We once again participated in the Carbon Disclosure Project (CDP) in 2013. In the reporting period, we improved our transparency on climate issues in CDP's assessment. The CDP was initiated by institutional investors and enterprises with the aim of evaluating long-term opportunities and risks at the participating enterprises and supporting the development of measures to reduce CO<sub>2</sub> emissions in a sustainable manner.

In the current fiscal year, 90% of the paper the Group holding company used was recycled, a clear sign of our interest in using resources efficiently in our business. This way, we conserve wood as well as saving water and energy.

### Corporate citizenship

Active as a multi metal distributor in 15 countries worldwide, Klöckner & Co at the same time sees itself as part of the community in the immediate vicinity of the Company's sites. Our aim is therefore to permanently combine both an international and regional focus. We strive to fulfill this particular corporate responsibility through active involvement in the direct neighborhood of our headquarters and branches. Together with "Initiativkreis Ruhr", we have also launched a program to foster children's musical and artistic development at different types of schools and implemented it for the first time at two schools in 2012. This successful partnership continued in the 2013 fiscal year.



Alongside selected scientific, sports, art, and cultural initiatives, the focus of our activities for several years has been on supporting education projects and meeting the basic needs of socially disadvantaged children in Duisburg, where our headquarters are located. In the Marxloh neighborhood, which has a large immigrant population, Klöckner & Co is helping schools and a youth center in ways such as providing healthy meals.

At the kick-off to the "Dialogue with Youth 2013" event series, CEO Gisbert Rühl talked with high school students from the region and provided insights into the work of the Klöckner & Co Group. Klöckner & Co SE also supported an exchange of information about workplace health as part of an event organized by the Chamber of Commerce and Industry. At this conference, participants had the opportunity to obtain information about best practice solutions and discuss the issues with our experts in these fields.

Our country organizations can best assess the individual requirements in their regions and therefore carry out their donation and sponsorship activities independently. They do so within the framework of a procedure applicable Group-wide, reporting to the Group's headquarters on major donations and sponsorships. We thus ensure that, while our activities have a common thrust, they are at the same time tailored to our markets. For some years, we have been supporting the Germany Scholarship together with the German Federal Ministry of Education and Research. This scholarship notably assists talented and high-achieving college students and gives consideration to all nationalities as well as specific family and social circumstances. Our aim here is to provide support so that students can excel academically, at home and socially.

#### Value chain

Klöckner & Co regards sustainability as a 360-degree concept spanning the Group's entire value chain as well as adjacent links in the value chain. From procurement through warehousing and numerous services to distribution, improving workflows and results in the interests of our customers is especially important.

Continuous improvements in service and product quality are key to sustained customer satisfaction. Our quality management activities center on process optimization, occupational safety, and the environment. Projects to optimize the internal value chain are carried out in close cooperation with the country organizations. We make the successful outcomes of our measures visible externally as well. For several years, many branches of our country organizations have been certified to the global quality standard ISO 9001. In addition, sites with strong ties to the automotive industry are frequently also certified to the automotive standard ISO TS 16949.

#### Compliance with Code of Conduct

As an international corporation with business activities in 15 countries and numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity and responsibility both within the Company and in its interactions with partners outside the Company as well as to build responsible relationships with contractual partners outside the Company. The Code of Conduct that applies to all country organizations throughout the Group as well as internal compliance guidelines and procedural instructions serve as a frame of reference and guide for our employees.

All employees receive our Code of Conduct and confirm in writing that they have understood and will abide by its content. In addition, line managers have a responsibility to explain the principles of the Code of Conduct and lead by example. On-site trainings and e-learning programs familiarize new employees with the content of the Code of Conduct and raise their awareness of compliance-related issues such as anti-trust law, corruption risks, and fraud. In 2013, we conducted refresher e-learning sessions throughout the Group to keep employee knowledge up to date and address specific, compliance-related issues arising from their day-to-day activities by way of example. If they ever have any questions about the correct form of conduct in a business situation, employees can approach a contact within our compliance organization at the holding company or locally at their country organization. Moreover, the compliance organization conducts ongoing compliance audits and risk analyses of compliance issues at our country organizations in cooperation with the Internal Audit Department, thereby checking compliance with statutory provisions as well as our in-house rules and regulations. We also expect our contractual partners outside the Company to comply with the principles and standards enshrined in our Code of Conduct or a comparable code of conduct, and to implement them in their organization.



In challenging economic times of great change, clear rules offer our employees unambiguous instructions and guidance. To prevent corruption risks, we have established strict rules on hiring third-party brokers. We review these external partners before entering into any new contract and do so subsequently at regular intervals. To increase legal security and achieve a uniform level of data protection throughout the Group, a Group-wide guideline on protecting personal data was drawn up and implemented. Export controls were included as an additional priority area of the compliance management system in 2013. In 2013, Klöckner & Co again supported the work of Transparency International Deutschland, thereby setting an example in the fight against corruption.

## 6. SUBSEQUENT EVENTS

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

## 7. MACROECONOMIC OUTLOOK INCLUDING KEY OPPORTUNITIES AND RISKS

### 7.1 EXPECTED GLOBAL ECONOMIC GROWTH

While the development of the global economy is still bound up with various uncertainties, the overall outlook has improved. Private sector consolidation in the USA has come a long way, the structural measures taken in the eurozone are starting to bear fruit, and growth in China seems to be settling down. For 2014, the International Monetary Fund (IMF) estimates growth of 3.6% for the world economy. All the same, there is still a substantial risk of a relapse, as many problems such as the European sovereign debt and banking crisis remain unresolved.

The eurozone economy shows an upward trend, although recovery is expected to remain slow initially; this may pick up, however, from mid-2014. The IMF forecasts overall growth of 1.0% for Europe in 2014. The growth expectations for the USA are higher at 2.6% due to the more dynamic economy supported by lower energy costs. However, growth could be hurt by lower than forecast infrastructure investments and a higher than expected unemployment rate. The Chinese economy is expected to grow by 7.3%, on a par with the previous year. Brazil is projected to put in relatively low growth for an emerging market, at 2.5%, despite the upcoming major sporting events as well as the development of large oil and gas deposits on the Atlantic coast.

Expected development of GDP in our core countries (In percent)	2014
<b>Europe<sup>*)</sup></b>	1.0
Germany	1.4
United Kingdom	1.9
France	1.0
Spain	0.2
Switzerland	2.1
<b>China</b>	7.3
<b>Americas</b>	
United States	2.6
Brazil	2.5

Source: IMF, Bloomberg.

\*) Eurozone.



### Expected sector trend

The World Steel Association predicts that global steel consumption will grow by 3.3% in 2014. For the European Union, the Association expects an increase of 3.0%, while the North American Free Trade Agreement (NAFTA) region is anticipated to grow by 3.1%, South and Central America by 5.0%, and China by 3.0%.

## 7.2 EXPECTED TREND IN OUR CORE CUSTOMER SECTORS

### Construction industry

According to Euroconstruct estimates, construction industry sales will grow only marginally (by approximately 0.5%) in Europe in the coming year due to the fact that public sector spending for transportation infrastructure will presumably increase only slightly in some countries. In the USA, an increase of 1.6% is expected for 2014, with positive impetus anticipated from commercial construction for the first time in years. Due to budget constraints, however, order volumes from the public sector overall will remain low for a while yet. Growth of 8.5% is projected for China due to the further increase in demand for residential housing arising from the nationwide process of urbanization, which will necessitate a high level of infrastructure investments.

### Machinery and mechanical engineering

The German Engineering Federation (VDMA) is anticipating a 5% increase in global machinery and mechanical engineering turnover in 2014. After years of comparatively low demand, this cyclical sector is entering a growth phase. Even in crisis-ridden Europe, experts are predicting expansive tendencies to prevail once again with growth of 2.9%. The USA is also likely to benefit from the cyclical recovery, with growth of 2% forecast. In China, a much more substantial increase of 7% is anticipated.

### Automotive industry

Growth of around 4% compared with the previous year is expected for the global automotive market. In Europe, forecasts indicate growth of 2% based on low interest rates and a gradual recovery of the labor markets. For the USA, a further rise of 3% is predicted for 2014 due to strong replacement demand and low interest rates. China will likely be able to maintain its high growth rate with an increase of more than 4%. In Brazil, however, automobile production is expected to increase only slightly by approximately 0.7%.

## 7.3 RISKS AND OPPORTUNITIES

The primary challenges in the reporting period were the renewed fall in demand in Europe following a weak prior year, more or less flat demand in the USA, the development of market prices, and sustained insecurity in the global economy.

### Risk policy

Risks are frequently unavoidable in our business activities if we are to leverage market opportunities. Our aim is therefore to optimize rather than minimize the Company's risk position, as otherwise opportunities fail to be given consideration. Risk and opportunity management is thus an integral part of our management process. Our Risk Management System (RMS) is supplemented by our Group-wide Internal Control System (ICS) and our Compliance Management System (CMS).

A uniform understanding of risk has been established and developed within the Group on the basis of central authority to issue guidelines as well as workshops that were held at a country and corporate department level in the past fiscal year. Our risk management system is a comprehensive system that supports structured risk analysis across the entire Group. Its flexible structure enables the system to be adapted to changing company requirements and to be continually improved. Both our RMS and our ICS are based on generally accepted standards, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and the additions to said framework, COSO ERM (Enterprise Risk Management) for enterprise risk management. It should be noted, however, that even with an appropriate and properly functioning system in place, there can be no absolute guarantee that risks will be fully identified and managed and their potential negative impact entirely averted.



### Risk management system

The primary objectives of the RMS are to identify and assess material opportunities and risks and to eliminate going concern risk. Any significant risks identified are continually monitored in our risk management system, enabling us to prevent or limit their potential negative impact.

On January 1, 2013, responsibility for risk management was consolidated in a dedicated department within the Corporate Internal Audit Department. The revised RMS was implemented throughout the Group with the help of workshops designed to further improve risk transparency and information quality. Web-based risk management software was used to facilitate and enhance the efficiency of data collection and data updating as well as to improve documentation.

### Risk management structure



The structure of our RMS is geared toward promoting risk awareness throughout the Group and ensuring the effectiveness and efficiency of the RMS. The Management Board bears overall responsibility for the RMS, while the Supervisory Board monitors its effectiveness. The Audit Committee is involved in the process via regular reporting and also makes assessments of the risk strategy and the RMS. The corporate risk management department reviews, validates and evaluates the risks identified and assessed by the risk owners from the perspective of the Company as a whole and prepares the reports for the Management Board and Supervisory Board.

Of the significant types of risk in our Group, strategic and direct operational risks are the responsibility of the full Management Board and/or the management of the country organizations. Further significant risks fall within the responsibilities of the Corporate Headquarters Departments. In addition to Group financing and Group accounting, these departments also indirectly support the

country organizations' operating responsibilities. Cross-border risks are managed centrally so as to protect the overall interests of the Group.

In contrast with the scope of the consolidated financial statements, the scope of risk consolidation only extends to the Group. The primary risks relating to the steel distribution and steel service center business are by and large identical in both the Europe and the Americas segments. Thus a representation by segment is not considered expedient for risk management purposes.

### Risk management process

The risk management process mainly involves the following four components:

1. **Risk identification** – A risk field matrix showing the key risk fields along pre-defined risk categories is used to identify material risks in a structured manner and to enable risk to be recorded systematically and uniformly at both a country and corporate department level. The result of this process is a risk inventory, which is updated at regular intervals.
2. **Risk assessment** – The relevance of the risks is assessed using a five-level scale. Relevance represents the overall significance of a risk and thus combines various aspects such as expected value, realistic maximum loss, and risk duration. Relevance classifies identified risks and shows their potential impact on earnings before interest, taxes, depreciation and amortization (EBITDA) – this being one of our key performance indicators – at the time of risk analysis and before risk mitigation measures (gross analysis):



*Relevance scale*

Relevance	Degree of influence	Definition	Potential Impact (€m)
1	Insignificant risk	Insignificant risks that cause barely noticeable deviations from the operating result.	< 6
2	Intermediate risk	Intermediate risks which cause significant deviations from the operating result.	≥ 6
3	Significant risk	Significant risks that greatly affect the operating result or have long-term effects.	≥ 18
4	Serious risk	Serious risks which lead to large deviations from the operating result or have substantial long-term significant impact.	≥ 60
5	Critical risk	Critical risks that could potentially jeopardize the continued existence of the Company (threat to going concern).	≥ 180

- Both local risk managers and corporate risk management at Group level are responsible for managing and controlling risks classified as "significant," "serious," or "critical".
- Internal monitoring – The above processes are monitored internally by the Group-wide risk committee, which is headed by the CFO of Klöckner & Co SE. The other committee members consist of representatives from the corporate departments and the operating units.

**Risk reporting**

Each half year, a risk report documents risks identified, making it one of our key risk management tools. This report is supplemented as and when necessary by ad hoc reporting on any material risks emerging at short notice. The report addresses risks at the overall Group level as well as at the level of the individual country organizations and is intended primarily for the Management Board and the Supervisory Board.

In addition, the CFO of Klöckner & Co SE reports regularly on changes in significant risks and opportunities at meetings of the Supervisory Board's Audit Committee. Furthermore, at the regular monthly meeting, the Chairman of the Supervisory Board is provided with a detailed overview of the Company's results of operations and cash flows as well as the related risks and opportunities.

**Internal control system**

The internal control system (ICS) comprises the principles, processes and measures applied to assure the effectiveness and profitability of business operations, compliance of the accounting system with generally accepted principles and adherence to the applicable legal provisions. The objective of the ICS is to use the controls that have been implemented to obtain reasonable assurance that risks can be monitored and managed, thereby enabling the Company to guarantee that its objectives will be met.

The process-integrated monitoring measures are a key element of the internal monitoring system. These comprise organizational safeguards such as the stipulation of guiding principles, clearly defined responsibilities and application of the dual control principle, under which no significant transaction is entered into by Klöckner & Co without further cross-checking. The ICS promotes the separation of functions between approval, execution, administrative and settlement duties. System-based (IT-based) controls also form a key component of process-integrated monitoring.

In addition, process-integrated monitoring measures are ensured by specific Group functions such as Corporate Legal & Compliance and Corporate Controlling. For instance, the country organizations' control units produce monthly reports, which Corporate Controlling aggregates at Group level. All notable and quantifiable factors impacting results at the country level are discussed at regular meetings of the country organizations' management with the Management Board of Klöckner & Co SE.



Monitoring measures not tied to a process are carried out by the Corporate Internal Audit Department, which regularly examines the organizational structures and processes, thereby supplementing the system of process-integrated monitoring measures. Most recently in 2012, a quality assessment carried out by a certified, independent external auditor confirmed our compliance with international quality standards for internal auditing promulgated by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision e.V. [DIIR]).

The activities of the auditor also form a key component of monitoring measures that are not tied to a process, particularly with respect to the accounting process. Moreover, at its meetings, the Supervisory Board's Audit Committee reviews the effectiveness of the internal control system on a regular basis once a year and additionally when necessary.

### **Compliance Management System**

Our Group-wide compliance management system (CMS) stresses value-driven management based on ethical and law-abiding conduct. Our clear goal is to ensure that conduct toward employees, customers and suppliers is responsible and respectful. We have set up an online whistleblower system on our website that makes it easier for both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. The implementation and effectiveness of our CMS is continuously reviewed by the Corporate Internal Audit Department.

We expect to prevent compliance violations to a greater extent with the aid of the CMS. Our focus here is on prevention through information within a corporate culture of trust. Despite the extensive measures taken, however, we cannot rule out the possibility that isolated violations will occur or have occurred. Any suspicions will be fully investigated by the Corporate Compliance Office wherever possible and the necessary action taken by the Management Board or by the management of country organizations.

In the reporting period, we continued to carry out training in order to raise employee awareness of compliance-related issues and thus prevent any kind of violation. In addition to classroom training, the measures primarily include an e-learning tool that is mandatory throughout the Group. A key element of our CMS is the Group-wide introduction of our Code of Conduct and other compliance-related Group guidelines, which are published on the Internet and elsewhere and relate in particular to measures geared to combating corruption and to antitrust law. Our aim here is to maintain a clear, unambiguous stance on ethical, law-abiding conduct both internally and externally, which, among other things, will help to prevent risk. Since the CMS was introduced, the system has been regularly reviewed, developed and supplemented, which has led to the addition of data protection and export control as additional focal areas.

The Management Board of Klöckner & Co SE has unequivocally expressed its policy of zero tolerance toward antitrust violations and corruption in its "Tone from the top" on the Group's intranet and on the Internet. In the event of any antitrust violation, Klöckner & Co will take action in labor law against the employees involved and may hold them personally liable for any loss (such as fines) incurred. We also notify employees that anyone involved in bribery or other corruption may even be subject to criminal prosecution. All employees are called upon to work actively toward implementing the CMS in their areas of responsibility.

### **Presentation of individual risks**

As part of the RMS, we have identified material risks, classified them by risk category and assessed their relevance. On the whole, our primary risks fall into the category of strategic risk and market risk. These types of risk are described in more detail below. We subsequently discuss the most significant risks in each risk category.

#### **Strategic risk**

Our most serious strategic risks relate to our dependence on the construction industry and on commodity products as well as the success of acquisitions in addition to risk arising from a resurgence of the financial crisis. High sovereign debt in a number of industrial countries represents another significant risk that could additionally burden the economies in our sales markets.



We are countering our dependence on the construction industry by diversifying our international presence, targeting other customer sectors such as machinery and mechanical engineering and the automotive supplier industry, and streamlining our portfolio in the low-margin construction business. We are reducing our proportion of commodity products by expanding prefabrication services and increasing sales of premium products. The most recent example of this is the opening of our new steel service center in Calvert, Alabama (USA) in order to further strengthen our flat steel business, to promote expansion to the attractive automotive supplier industry and, in addition, to allow us to take on contract manufacturing for the adjacent steel plant.

Like all M&A activities, acquisitions are governed by a comprehensive M&A policy, compliance with which we monitor centrally. In selecting acquisition targets, we do not enter into any going concern risk. All acquisitions undergo thorough due diligence prior to purchase. No later than three years after an acquisition, the Corporate Internal Audit Department carries out an investment review. In an ongoing process, we also identify new risks emerging from past acquisitions so that we can respond to those risks quickly and appropriately. Nevertheless, we are unable to entirely prevent negative developments from occurring, as the business situation of acquirees is subject to the same strategic risks as our own.

We counter the risk of a potential resurgence of the financial crisis by means of solid balance sheet ratios and a diversified financing portfolio. This is demonstrated in our stable equity base (40% equity ratio), our comparatively low net financial liabilities (23% gearing), and our available working capital facilities. Liquidity is assured based on our European ABS program and a syndicated loan, both amounting to €360 million and maturing in May 2016. As a result of the financial crisis, we also continue to hold substantial reserves of cash and cash equivalents. We have invested these with the Group's prime-rated core banks, which generally belong to a deposit insurance fund. Banks' creditworthiness is regularly reviewed by monitoring spreads on credit default swaps.

We responded promptly to the economic situation in our sales markets and the attendant fall in demand by adjusting the size of the workforce and the structure of our site networks under the KCO 6.0 restructuring program. In addition, under our KCO WIN program, we have initiated improvements aimed at boosting earnings in the short term. The focus here is primarily on improvements in sales, but also in procurement, logistics, and stockyard management.

#### Market risk

A serious market risk to Klöckner & Co as a stockholding, supplier independent, multi metal distributor ensues from the economic situation, as we are highly dependent on the economic cycle due to our high share of commodity products and the structure of our customer sectors. Given the importance of the USA as a growth market, an economic slowdown there in particular represents a market risk. Above and beyond this, the primary market risks for Klöckner & Co result from trends in demand and prices as well as, to a significant extent, from the competitive situation.

Cyclical risk also results from the sustained mood of uncertainty on financial markets on account of high sovereign debt levels in a number of European countries and the USA, as well as an additional decrease in capital investment leading to a further decline in demand for steel.

Although demand trends vary, demand continues to entail high risk in our core sectoral markets due to their predominantly cyclical nature; these include the construction industry, machinery and mechanical engineering, the automotive industry and local dealers as well as household appliances and consumer goods. With regard to the construction industry as the customer sector making up the highest share of our turnover, the risk exists that this sector could experience a downturn due, for instance, to a decline in public-sector spending.



We sell most of our products at spot market prices. The time span of up to several months between procurement price setting and sales invoicing means we are constantly exposed to inventory and valuation risk. Excessive inventory values can have a negative impact on current earnings (negative windfall effect). When preparing the financial statements, it may also be necessary to write down inventories with effect on profit or loss. Given the global surplus capacity in steel production, there is the recurrent threat of price collapse, which would have a negative impact on earnings performance each time. No large-scale capacity adjustment is currently anticipated, so the structural imbalance between production capacity and actual demand will persist for the time being. This is especially the case in Europe, where only moderate demand growth is expected in the years ahead – meaning that prices and margins can come under pressure time and again.

There is also overcapacity in steel distribution, which has led to keener competition. For example, excess inventories or a downtrend in prices may prompt individual competitors to introduce special offers, leading to additional price pressure in the market, which can have a negative impact on earnings. We therefore monitor our competitive environment very closely.

Analyzing trends and leading indicators along with available forecasts enables us to respond to market change as quickly as possible, for instance, by taking specific measures in inventory management. Price trends in scrap, iron ore, and coking coal act as the main early warning indicators, such as for the price of steel.

We adjust to market circumstances in the short and medium term by focusing on improving sales effectiveness and reducing costs. One of the primary challenges here is adapting our existing organizational structure to make it leaner and more effective so that we can better compete with small- to medium-sized enterprises. Additional approaches to minimizing market risk involve setting ourselves apart from our competition and offering a graded service package to enable us to better adapt our service range to differing customer needs. Our focus in both organic and external growth is on expanding premium prefabrication services and increasing sales of premium products.

Our Group continues to place special emphasis on price and inventory risk management based on a comprehensive set of tools and very close, continual monitoring of price trends in regional, national and international markets. We collect price information using a price information system and exchange it online within the Group. Procurement is coordinated internationally, enabling us to respond quickly to changing situations in the procurement market. In this way, we are able to manage our portfolio of suppliers and obtain preferential prices, quantities and terms. Procurement coordination is supported by our centralized monitoring function for inventories and orders. Price trends are also identified regularly in order to determine the risk of write-downs on individual products. This information is incorporated into the quarterly inventory valuation. Our inventory and product range policy, which is tailored to demand and logistically optimized, also reduces price risk.

Inventory management and valuation are also central elements of the monthly reporting process. Our reporting system allows us to quickly detect major discrepancies and immediately initiate the necessary countermeasures.

#### Financial risk

The Corporate Finance & Accounting Department manages the financial risk of Klöckner & Co SE and ensures the liquidity of the Group companies. Financial risk management is governed by a Group-wide financial guideline that stipulates the scope of action, responsibilities and the necessary controls. In the following, we present the risks classified as significant and intermediate. For information on credit risk or price fluctuation risk, such as interest rate and currency risk or liquidity risk, please refer to Note (29) "Additional information on financial instruments" or Note (30) "Derivative financial instruments" in the notes to the consolidated financial statements of Klöckner & Co SE.



Klöckner & Co SE is currently rated by two rating agencies, Moody's and Standard & Poor's. In light of the critical assessment of the steel sector, particularly in Europe, and the Group's weaker earnings, our creditworthiness is presently rated B1 (outlook stable) by Moody's and B+ (outlook negative) by Standard & Poor's. Our convertible bond issue was likewise rated B+ by Standard & Poor's.

No financing instrument is currently linked to our rating in the form of a covenant. However, downgrades in the ratings assigned by the agencies usually lead to higher refinancing costs and limit market access to certain financial instruments, while upgrades generally have a positive impact. We regard the risk of a downgrade in our rating with effects on our Group financing and liquidity as intermediate.

Risk related to credit standing results from our cooperation with banks, particularly our core banks in the syndicated loan and ABS programs, as well as with respect to investing cash and cash equivalents. Default on the part of one or more of our core banks poses an intermediate risk. As explained above, we regularly review the credit standing of our core banks. We also avoid concentration risk and give priority to secure investments when investing cash and cash equivalents.

In past fiscal years, we acquired several target companies based on the growth strategy of Klöckner & Co. In measuring the value of these companies, we made assumptions regarding the Company's future financial performance. There is a significant risk of actual developments diverging from these assumptions. Such divergences could, for example, necessitate impairment losses on intangible assets recognized in purchase price allocation by the Corporate Finance & Accounting Department, which would negatively impact the Company's financial position and profit or loss. We recognize goodwill impairment losses on target companies, for instance, in order to reflect all identifiable risks. Even though it does not affect our key performance indicator EBITDA, this is rated a significant risk overall as it has a major impact on net income and hence our ability to declare dividends.

The Group recognizes pension provisions for current and future benefits to eligible current and former employees. Defined benefit or defined contribution plans have been put in place depending on the legal, economic and tax environment in each country. The risk associated with defined benefit pension obligations corresponds to the expenditure necessary to meet the obligation. This is calculated on the basis of actuarial assumptions and also requires the use of estimates. Benefit costs may increase or – in the case of funded plans – additional contributions to fund assets may be necessary due to tighter legal requirements.

In the case of funded pension obligations, such as in the USA and the UK, the fund assets set aside to cover benefits are exposed to capital market risk. We consider this risk to be intermediate on the whole.

As part of our risk analysis, we regularly commission independent experts to produce asset/liability studies and, where necessary, we adapt our investment policy accordingly. Worldwide, decisions on the allocation of funds to pension schemes are made centrally by the Klöckner Global Retirement Benefits Committee. These decisions require the approval of the Group's Management Board. New commitments are on a defined contribution basis only so as to minimize the financial risk arising from pension commitments.

#### Legal, tax and compliance risks

Steel distribution is a sector in which the legal risk generally tends to be lower than in other sectors. One intermediate legal risk that we have identified is unfavorable terms in loan agreements, which could lead to substantial additional costs or even premature termination of agreements. We counter this risk through close cooperation between our own experts in the various central departments and, where necessary, seek legal advice from qualified external specialists.

In the area of taxes, the risk of changes in tax legislation or the administrative interpretation of tax matters poses an intermediate risk. Based on the guidelines and directives in force, our Corporate Tax Department is involved in the legal assessment of such matters in Germany and abroad. We constantly monitor the situation to detect any changes early on. This allows us to take suitable measures to minimize risk and recognize provisions as appropriate.



We regard the risk of antitrust violations as significant, particularly the risk of collusion with competitors – for instance, involving price fixing, market allocation as well as agreeing on production, procurement and supply quantities, etc. Please refer to the information on our CMS with regard to the measures to reduce such risk.

We also view the risk of violations of US law as a significant compliance risk in light of the potentially very high penalties and fines. This relates not only to antitrust law but also to the extensive human resources legislation in place, for example, covering discrimination, workplace mobbing and sexual harassment. In addition to the measures available under our CMS, particularly with respect to the Code of Conduct, we counter this risk by regularly reviewing legislative changes as well as through training sessions, clearly defined communications and the corresponding processes.

#### IT risks

Our business processes depend heavily on the installed IT systems. In addition to our administrative systems, these primarily include the systems in procurement, sales and logistics.

Project risks may arise when implementing IT projects or, for instance, switching IT service providers, thus impairing regular operations. We counter this intermediate risk through strict project monitoring to identify and avoid project risks early on and, if necessary, make adjustments to the scope of the project. Another intermediate risk is insufficient documentation of IT systems. Incomplete documentation can lead to substantial additional costs with IT providers. Incorrect or missing documentation can lead to substantial time delays in diagnosing and remedying malfunctions, for example, or make them impossible to remedy. We therefore identify critical IT systems so that we can review the quality of the existing documentation and improve it if necessary.

#### Personnel risks

As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees. In the industry and regions in which we operate, competition for eager, dedicated and highly qualified employees and executives remains fierce. Therefore, the loss of employees in key positions, particularly when integrating newly acquired companies, poses an intermediate risk.

We have designed our remuneration systems to retain and motivate employees; the same applies to our personnel development programs and measures. Our HR tools help us to safeguard existing expertise and new talent and at the same time ensure that our resources are transparent. In addition, we regularly identify potential personnel risks through our internal monitoring process.

#### Risks arising from management processes

In addition to ongoing process adjustments, the huge decline in the market and in turnover in Europe has already necessitated massive structural adjustments. It is of critical importance for our future success that our structures and processes meet the demands of the market and customers in the best possible manner.

There is thus an intermediate risk that if demand declines further, it might become necessary to make additional structural adjustments that would no longer allow our existing business model to be sustained without restriction in some countries. In most countries, it would only be possible to adjust costs in proportion to quantities to a limited extent due to the substantial proportion of fixed costs and the widespread trend toward small production volumes.

We will therefore continue to monitor market trends very closely so that we can make fast, systematic decisions on the structure of our site networks and take account of their impacts.

#### Opportunities and opportunity management

At the holding company, the systematic identification as well as the coordination and control sides of opportunity management are primarily the responsibility of the Corporate Controlling & Development/M&A Department. Financing and implementation of the strategic direction laid down by the Management Board are supported by Corporate Headquarters and the country-level management teams. Strategic projects are managed and monitored at country level together with the holding company management.



A secure financial structure, steadily increasing efficiency, effective procurement and inventory management as well as human resources management geared to unlocking innovative potential provide the basis for us to leverage opportunities.

#### Strategic opportunities

We are holding in principle to our long-term growth strategy, "Klöckner & Co 2020". The volatility of our markets, however, means that we must be able to adapt our strategy to the situation whenever needed. In Europe, this was necessary once again in 2013 in response to the further fall in demand in steel distribution. In 2014, by contrast, the projections for economic growth and steel consumption in Europe and especially in the USA indicate a positive trend.

Following the completion of our restructuring measures by the end of 2013, we do not rule out acquisitions if they involve specialized providers of premium merchandise and prefabrication services with superior added value.

We continue to focus our long-term growth strategy primarily on the USA, where we see opportunities above all in connection with the increasing reindustrialization that is occurring as a result of the low energy costs based on the development of shale gas and oil and the similarly low wage costs. The USA also aims to become independent in supplying itself with energy. This will require billions in investment in infrastructure and new industrial facilities, from which we intend to benefit by selectively expanding our product range. Our highly profitable companies in Switzerland as well as Becker Stahl-Service GmbH in Germany are pursuing the goal of further growth while maintaining their earnings at a high level. After completing the restructuring measures, we plan to improve the profitability of our steel distribution business in Europe, most of all by means of our KCO WIN optimization program as well as by expanding premium prefabrication services.

#### Operational opportunities

Whereas our extensive KCO 6.0 restructuring program primarily focused on measures to cut administration and sales overhead expenses along with closing unprofitable branches and discontinuing business activities that were persistently lacking in sufficient profitability, KCO WIN focuses on enhancement measures geared to boosting earnings largely in the short term. In addition, KCO WIN features the two elements of differentiation and enabling activities.

KCO WIN currently focuses on short-term measures to increase efficiency in sales, which is where we see the greatest scope for improvement. Most of all, we have the opportunity to implement differentiated pricing and improve sales management.

In procurement, we plan to better leverage the economies of scale we have over many competitors by extending centrally controlled procurement activities to additional product ranges.

At the same time, we are implementing numerous measures in the areas of logistics and warehouse management, including sustained optimization of workflows and structures in internal logistics, prefabrication and transport logistics by means of a system called the 10 Commandments of Operations that we have rolled out on a wide scope. This system acts to harmonize processes, exchange best practice across borders and ensure a continuous improvement process. Implementation of the measures is monitored in the course of assessments of the individual operations carried out by headquarters, while improvements in performance are supported using a uniform key indicator system. Systematically maintaining the "10 Commandments of Operations" system improves supplier performance, efficiency and occupational safety. We are also working to implement paperless processes in our operations following the successful pilot at our Duisburg warehouse in 2013. Preparations are under way to extend this system to all internal logistics processes and roll it out at other country organizations. Additional projects to improve the supply chain are currently being defined.



To set ourselves apart from competitors, we are increasingly supplying customers from our network rather than solely from individual locations. This enables us to offer a wider range of steel and metal products, especially in comparison with smaller and mid-size competitors, without adding to inventories. We are also expanding our prefabrication services with the aim of offering customers greater added value and, for our most attractive customers, enabling greater integration with their supply chains. Notably compared with small- and medium-sized competitors, our wide range of products and services across our extensive network of site locations gives us advantages that we intend to utilize to a greater extent.

Another way in which we distinguish ourselves from our competitors is through our state-of-the-art technologies and systems, which we continuously improve. We harness these to professionalize our customer service, for example, by means of our new KliCC CRM solution implemented in the United Kingdom in 2013. Via our new web shop, we open the way for customers to place orders around the clock (pilot in Q1/2014 in the Netherlands). In-house, we are using global collaboration solutions to improve the exchange of information as well as the efficiency and effectiveness of collaboration. Furthermore, we ensure continuous improvement of our management potential via a structured management review process.

#### **Key features of the internal control and risk management system in relation to the financial reporting process, in accordance with Section 289 (5) and Section 315 (2) no. 5 of the German Commercial Code (HGB)**

##### **Elements of internal control and risk management systems in relation to the financial reporting process**

Our internal management and control system is primarily the responsibility of the Corporate Finance & Accounting, Corporate Controlling and Corporate Internal Audit Departments, assisted by the Corporate Tax and Corporate Legal Departments. The Group's Supervisory Board, in particular as represented by the Audit Committee, is also an integral part of our control system. The objective of the internal control and risk management system in relation to the financial reporting process is to ensure that, in the course of preparing consolidated financial statements in compliance with IFRS and single-entity financial statements in compliance with the requirements of the German Commercial Code (HGB), all risks are identified and appropriately appraised.

The controls in our Group take place both as part of an integrated process and on an ad hoc basis. In addition to system-based (IT-based) controls, we also use manual controls such as application of the four-eye principle. Administrative, execution, invoicing and approval functions are separated, reducing the possibility of fraudulent acts.

##### **Financial reporting risks**

Specific financial reporting risks include complex and/or non-routine accounting issues such as the presentation of changes in the composition of the consolidated Group (business combinations and disposals) and new Group financing measures. The application of management judgment in financial statement preparation, such as in annual impairment testing, harbors increased potential for errors. Potential risks from derivative financial instruments are presented in detail in the notes to the consolidated financial statements.

##### **IT systems in financial reporting**

Financial accounting for the subsidiaries included in the consolidated financial statements and Klöckner & Co SE is carried out mainly through the standardized use of SAP software. We continue to use SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. The local financial accounting data are entered into BOFC and supplemented with additional reporting data. All eliminations in the course of the consolidation process are prepared, entered and documented in the central consolidation software. These include consolidation of investments, elimination of inter-company payables and receivables, elimination of inter-company revenue and expense and elimination of inter-company profit and loss.

Access restrictions and defined user profiles protect both the original financial accounting data and the consolidation software from unauthorized access and prevent inappropriate read and/or write access to the systems.



### Control activities to ensure compliance with generally accepted accounting principles

Our control activities aimed at ensuring reliability and compliance with generally accepted accounting principles make sure that we present transactions in full, reliably and in a timely manner. Transactions are recorded in the Group's accounts and the single-entity financial statements in accordance with legal requirements. The accounts of the entities included in the Group are kept correctly and in full and in compliance with generally accepted accounting principles. Information on inventories and assets is systematically verified by stocktaking. Other assets and liabilities are recognized and presented correctly and measured appropriately in the financial statements. Each quarter, we use a centrally managed, standardized procedure to verify the accuracy of intra-Group financial and trading balances for the Group companies concerned.

Appropriate control mechanisms are in place to reduce the probability of errors in working procedures and detect any errors that do occur. Selected items are examined for this purpose using analytical methods such as ratio analyses. Our Corporate Internal Audit Department and the external Group auditor promptly review the migration of IT systems and the effects of other changes in the Company, such as from business activities, restructurings and changes in the economic or legal environment.

We prepare Klöckner & Co SE's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In doing so, the Group accounting guidelines, continuously updated by the Corporate Finance & Accounting Department, ensure that the IFRS are applied uniformly throughout the Group. All accounting guidelines, which are binding on every Group company, are made available to the employees involved at the relevant reporting units through an Internet portal. The guidelines are supplemented by a standardized Group chart of accounts, which is maintained and updated exclusively by Klöckner & Co SE's Corporate Finance & Accounting Department. A standardized Group reporting package is used for all subsidiaries to ensure the completeness and uniformity of the necessary additional information published in the notes to the consolidated financial statements. We use IFRS checklists to verify the disclosures in the consolidated financial statements.

At the level of the reporting units, plausibility checks integrated into the SAP consolidation software validate the formal consistency of data in all Group reporting packages transferred to the Group accounting software. In addition to this automated quality assurance procedure, the Corporate Finance & Accounting Department carries out substantive checks and arranges for any necessary corrections to be made or makes corrections centrally. In doing so, it also considers the audit opinions of local auditors.

The Corporate Finance & Accounting and Corporate Controlling Departments carry out annual goodwill impairment tests under IAS 36 on a centralized basis. We thus ensure that the cash-generating units are measured and management judgment is used uniformly. Share-based payment is also determined centrally with the assistance of an external expert, while pension obligations are computed locally with the assistance of actuarial experts. The calculation parameters are approved by the Corporate Finance & Accounting Department. An additional actuary coordinates the overall process of presenting pension obligations for overall assurance with regard to the quality of the complex calculations and disclosures.

The effectiveness of financial reporting control and management systems is constrained by management judgment and the possibility of mistakes in checking and deliberate criminal circumvention. Through the processes and controls we have put in place, we obtain reasonable assurance that both the process of preparing the consolidated financial statements and the process of preparing the single-entity financial statements are carried out in accordance with IFRS, the German Commercial Code (HGB) and other financial reporting-related rules and pronouncements. There can, of course, be no absolute guarantee that all items will be fully and correctly included in the consolidated financial statements.

### Overall statement on the risk situation of the Group

In the past fiscal year, the risk management system was revised extensively and a risk management software introduced. The Management Board is confident that the risk management system is effective.

The overall risk situation of Klöckner & Co SE has not changed significantly compared with the previous year. Newly emerging risks were identified at an early stage and suitable measures implemented to counter them insofar as necessary or economically expedient. Moreover, the Management Board believes that Klöckner & Co has recognized sufficient provisions to cover all risks required to be accounted for when preparing the financial statements. Based on the measures taken and planned, in particular to ensure liquidity, the Management Board is not currently able to identify, either individually or taken as a whole, any risks that jeopardize the Company's ability to continue as a going concern.



## 8. FORECAST

Steel demand in Europe appears to have bottomed out in the reporting year, leading to expectations of a slight increase in the current year in line with general economic output. We are expecting growth to amount to between 1 and 2%, driven above all by machinery and mechanical engineering along with the automotive industry.

In the USA, we anticipate that steel demand will grow by 3 to 4%. This is above the generally expected 2 to 3% GDP growth, largely because of the anticipated upturn in commercial construction and sustained strong demand in automotive production. We expect an additional boost for the sector from the lower energy costs, which ought to stimulate the addition of new capacity in energy-intensive industries.

The turnover decline due to the discontinuation of low-margin business as part of our restructuring program, which has only now taken full effect, will presumably be more than compensated for by expected growth in quantities at the remaining locations, notably in the USA. Accordingly, turnover and sales are expected to rise slightly. Sales, however, will depend heavily on the respective price levels.

The US share of total turnover will increase further with the expected rise in steel demand and the lagged effects of the restructuring measures in Europe. Over the medium term, we are aiming for an additional increase in this share from the 43% attained in the reporting period to more than 50%.

Overall, we expect that successful completion of the KCO 6.0 restructuring program, the KCO WIN follow-up program, and the more positive market outlook spell a significant improvement to the earnings situation. A tangible increase in gross profit combined with lower costs means that operating income (EBITDA) before restructuring expenses ought to substantially exceed the €150 million prior-year figure, even though the latter figure was swelled by non-recurring effects from the reversal of pension provisions and the sale of property in the total amount of €25 million. The main earnings drivers will be the planned, incremental contributions to EBITDA of €41 million from the completed KCO 6.0 restructuring program and of €20 million from the KCO WIN optimization program.

Our interest cost will further decrease due to reductions in financial liabilities. Depreciation, amortization and impairments will also be much lower on the whole than in 2013 based on the completion of amortization for some acquisitions and the fact that we do not anticipate having to recognize any new impairment losses in 2014. We are therefore assuming that we will generate positive net income in 2014 and will again be able to pay a dividend for the fiscal year.

Our net working capital is expected to rise only slightly in line with sales, although a temporary increase in excess of sales growth cannot be ruled out. Accordingly, we expect a slight rise in net financial debt, after the marked decrease in the prior year. Net financial debt, however, is expected to increase at a lower rate than EBITDA, thus leverage is expected to further decrease by the end of 2014.

Acquisitions are again an option for us in the current year, although mostly on an opportunistic basis. In line with our growth strategy, our focus here is on companies offering higher value-added processing as well as a large proportion of specialty products.

Duisburg, February 24, 2014

The Management Board



# FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

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# KLÖCKNER & CO SE

## Consolidated statement of income for the 12-month period ending December 31, 2013

(€ thousand)	Notes	2013	2012 <sup>*)</sup>
Sales	7	6,377,610	7,388,015
Other operating income	8	43,324	31,626
Change in inventory		5,094	– 11,194
Own work capitalized		71	15
Cost of materials	9	– 5,194,811	– 6,089,224
Personnel expenses	10	– 578,967	– 659,258
Depreciation and amortization		– 130,391	– 164,508
<i>thereof impairment losses</i>	15	– 26,008	– 55,474
Other operating expenses	11	– 527,855	– 600,456
<b>Operating result</b>		<b>– 5,925</b>	<b>– 104,984</b>
<b>Income from investments</b>		<b>– 5</b>	<b>125</b>
Finance income		4,786	20,835
Finance expenses		– 77,570	– 100,618
<b>Financial result</b>	12	<b>– 72,784</b>	<b>– 79,783</b>
<b>Income before taxes</b>		<b>– 78,714</b>	<b>– 184,642</b>
Income taxes	13	– 11,527	– 18,050
<b>Net income</b>		<b>– 90,241</b>	<b>– 202,692</b>
<i>thereof attributable to</i>			
<i>– shareholders of Klöckner &amp; Co SE</i>		<b>– 84,605</b>	– 200,009
<i>– non-controlling interests</i>		<b>– 5,636</b>	– 2,683
<b>Earnings per share (€/share)</b>	14		
– basic		– 0.85	– 2.00
– diluted		– 0.85	– 2.00

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



# KLÖCKNER & CO SE

## Statement of comprehensive income for the 12-month period ending December 31, 2013

(€ thousand)	2013	2012 <sup>*)</sup>
<b>Net income</b>	<b>– 90,241</b>	<b>– 202,692</b>
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	<b>68,780</b>	– 54,928
Related income tax	<b>– 14,974</b>	6,459
<b>Total</b>	<b>53,806</b>	<b>– 48,469</b>
Other comprehensive income reclassifiable		
Foreign currency translation	<b>– 22,245</b>	– 8,688
Gain/loss from net investment hedges	<b>– 3,070</b>	– 4,054
Gain/loss from cash flow hedges	<b>6,547</b>	2,568
Reclassification of cash flow hedges to profit and loss	<b>– 379</b>	1,767
Reclassification to profit and loss due to sale of foreign subsidiaries	<b>– 12</b>	– 239
Related income tax	<b>– 1,305</b>	– 244
<b>Total</b>	<b>– 20,464</b>	<b>– 8,890</b>
<b>Other comprehensive income</b>	<b>33,342</b>	<b>– 57,359</b>
<b>Total comprehensive income</b>	<b>– 56,899</b>	<b>– 260,051</b>
<i>thereof attributable to</i>		
<i>– shareholders of Klöckner &amp; Co SE</i>	<b>– 50,072</b>	– 255,776
<i>– non-controlling interests</i>	<b>– 6,827</b>	– 4,275

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



# KLÖCKNER & CO SE

## Consolidated statement of financial position as of December 31, 2013

### Assets

(€ thousand)	Notes	December 31, 2013	December 31, 2012 <sup>*)</sup>	January 1, 2012 <sup>*)</sup>
<b>Long-term assets</b>				
Intangible assets	15 a	374,874	461,237	559,874
Property, plant and equipment	15 b	569,214	605,773	639,481
Investment property	15 c	10,486	10,486	10,486
Financial assets		1,547	2,415	2,664
Other assets	18	14,525	11,680	13,748
Deferred tax assets	13	6,103	14,824	69,440
<b>Total non-current assets</b>		<b>976,749</b>	<b>1,106,415</b>	<b>1,295,693</b>
<b>Current assets</b>				
Inventories	16	1,166,505	1,253,989	1,362,191
Trade receivables	17	686,721	786,504	921,758
Current income tax receivable	13	61,944	11,466	31,899
Other assets	18	92,203	97,535	105,203
Cash & Cash equivalents	19	595,393	610,215	986,632
Assets held for sale	20	15,170	13,462	3,610
<b>Total current assets</b>		<b>2,617,936</b>	<b>2,773,171</b>	<b>3,411,293</b>
<b>Total assets</b>		<b>3,594,685</b>	<b>3,879,586</b>	<b>4,706,986</b>

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



## Equity and liabilities

(€ thousand)	Notes	December 31, 2013	December 31, 2012 <sup>*)</sup>	January 1, 2012 <sup>*)</sup>
<b>Equity</b>				
Subscribed capital		249,375	249,375	249,375
Capital reserves		900,759	900,759	900,759
Retained earnings		266,925	368,375	568,803
Accumulated other comprehensive income		12,500	– 38,878	16,867
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>		<b>1,429,559</b>	<b>1,479,631</b>	<b>1,735,804</b>
Non-controlling interests		15,913	22,740	28,345
<b>Total equity</b>	<b>21</b>	<b>1,445,472</b>	<b>1,502,371</b>	<b>1,764,149</b>
<b>Non-current liabilities and provisions</b>				
Provisions for pensions and similar obligations	23	235,575	317,599	268,006
Other provisions and accrued liabilities	24	16,900	29,769	29,060
Financial liabilities	25	726,991	913,762	1,067,862
Other liabilities	27	6,326	47,221	85,077
Deferred tax liabilities	13	90,981	74,568	155,470
<b>Total non-current liabilities</b>		<b>1,076,773</b>	<b>1,382,919</b>	<b>1,605,475</b>
<b>Current liabilities</b>				
Other provisions and accrued liabilities	24	123,171	140,378	114,091
Income tax liabilities	13	55,261	29,999	19,014
Financial liabilities	25	184,149	110,284	377,327
Trade payables	26	636,972	633,523	749,816
Other liabilities	27	72,887	76,314	77,114
Liabilities associated with assets held for sale	20	-	3,798	-
<b>Total current liabilities</b>		<b>1,072,440</b>	<b>994,296</b>	<b>1,337,362</b>
<b>Total liabilities</b>		<b>2,149,213</b>	<b>2,377,215</b>	<b>2,942,837</b>
<b>Total equity and liabilities</b>		<b>3,594,685</b>	<b>3,879,586</b>	<b>4,706,986</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).







# KLÖCKNER & CO SE

## Consolidated statement of cash flows 2013

(€ thousand)	2013	2012 <sup>*)</sup>
Net income	– 90,241	– 202,692
Income taxes	11,527	18,050
Financial result	72,784	79,783
Depreciation and amortization	130,391	164,508
Other non-cash expenses/income	– 2,046	3,763
Gain on disposal of non-current assets	– 12,143	2,802
Change in net working capital		
Inventories	59,852	80,963
Trade receivables	85,084	117,186
Trade payables	18,166	– 106,754
Change in other operating assets and liabilities	– 54,549	2,217
Interest paid	– 55,754	– 63,903
Interest received	3,490	10,125
Income taxes paid	– 23,984	– 5,066
<b>Cash flow from operating activities</b>	<b>142,577</b>	<b>100,982</b>
Proceeds from the sale of non-current assets and assets held for sale	14,346	7,323
Proceeds from the sale of consolidated subsidiaries	6,705	15,206
Payments for intangible assets, property, plant and equipment	– 56,703	– 56,761
<b>Cash flow from investing activities</b>	<b>– 35,652</b>	<b>– 34,232</b>
Dividend payments to non-controlling interests	–	– 1,307
Borrowings	83,154	213,032
Repayment of financial liabilities	– 199,876	– 652,164
<b>Cash flow from financing activities</b>	<b>– 116,722</b>	<b>– 440,439</b>
<b>Changes in cash and cash equivalents</b>	<b>– 9,797</b>	<b>– 373,689</b>
Effect of foreign exchange rates on cash and cash equivalents	– 5,025	– 1,753
Cash and cash equivalents at the beginning of the period	610,215	986,632
<b>Cash and cash equivalents at the end of the period</b>	<b>595,393</b>	<b>611,190</b>
thereof included in "Assets held for sale"	–	– 975
<b>Cash and cash equivalents at the end of the reporting period as per statement of financial position</b>	<b>595,393</b>	<b>610,215</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



# KLÖCKNER & CO SE

## Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings	
<b>Balance as of January 1, 2012</b>	<b>249,375</b>	<b>900,759</b>	<b>568,803</b>	
Initial application of IAS 19R*)				
<b>Balance as of January 1, 2012 as restated for effects of IAS 19R</b>	<b>249,375</b>	<b>900,759</b>	<b>568,803</b>	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Gain/loss from cash flow hedges				
Reclassification of cash flow hedges to profit and loss				
Actuarial gains and losses (IAS 19)				
Related income tax				
<b>Other comprehensive income</b>				
Reclassification to profit and loss due to sale of foreign subsidiaries				
Net income			- 200,009	
<b>Total comprehensive income</b>				
Change of non-controlling interests			- 419	
Dividends				
<b>As of Dec. 31, 2012</b>	<b>249,375</b>	<b>900,759</b>	<b>368,375</b>	
<b>As of January 1, 2013</b>	<b>249,375</b>	<b>900,759</b>	<b>368,375</b>	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Gain/loss from cash flow hedges				
Reclassification of net investment hedges to profit and loss				
Actuarial gains and losses (IAS 19)				
Reclassification pursuant to IAS 19.122			- 16,845	
Related income tax				
Reclassification to profit and loss due to sale of foreign subsidiaries				
<b>Other comprehensive income</b>				
Net income			- 84,605	
<b>Total comprehensive income</b>				
<b>Balance as of December 31, 2013</b>	<b>249,375</b>	<b>900,759</b>	<b>266,925</b>	

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



## Accumulated other comprehensive income

	Currency translation adjustment	Actuarial gains and losses (IAS 19)	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	Total
	101,393		- 5,594	1,814,736	28,503	1,843,239
		- 78,932		- 78,932	- 158	- 79,090
	101,393	- 78,932	- 5,594	1,735,804	28,345	1,764,149
	- 7,230			- 7,230	- 1,458	- 8,688
			- 4,054	- 4,054		- 4,054
			2,568	2,568		2,568
			1,767	1,767		1,767
		- 54,794		- 54,794	- 134	- 54,928
		6,459	- 244	6,215		6,215
				- 55,528	- 1,592	- 57,120
	- 239			- 239		- 239
				- 200,009	- 2,683	- 202,692
				- 255,776	- 4,275	- 260,051
	22			- 397	- 23	- 420
					- 1,307	- 1,307
	93,946	- 127,267	- 5,557	1,479,631	22,740	1,502,371
	93,946	- 127,267	- 5,557	1,479,631	22,740	1,502,371
	- 21,022			- 21,022	- 1,223	- 22,245
			- 3,070	- 3,070		- 3,070
			6,547	6,547		6,547
			- 379	- 379		- 379
		68,748		68,748	32	68,780
		16,845		-		-
		- 14,974	- 1,305	- 16,279		- 16,279
	- 12			- 12		- 12
				34,533	- 1,191	33,342
				- 84,605	- 5,636	- 90,241
				- 50,072	- 6,827	- 56,899
	72,912	- 56,648	- 3,764	1,429,559	15,913	1,445,472



# KLÖCKNER & CO SE

## Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg, as of December 31, 2013

### (1) COMPANY INFORMATION

Klöckner & Co SE is a listed corporation domiciled in Duisburg, Am Silberpalais 1. Klöckner & Co SE is entered in the commercial register of the Duisburg Local Court under HRB 20486. The consolidated financial statements of Klöckner & Co SE and its subsidiaries ("Klöckner & Co" or "Group") were authorized for issuance to the Supervisory Board by way of resolution of the Management Board on February 24, 2014. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it approves the consolidated financial statements.

The Klöckner & Co Group is the largest mill-independent multi metal distributor in the combined market Europe and America. Alongside trading of steel, aluminum and various industrial products, it also provides a range of associated services.

The shares of Klöckner & Co SE were listed in the MDAX® on January 29, 2007.

### (2) ACCOUNTING POLICIES

The consolidated financial statements as of December 31, 2013 were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, and the additional requirements of the German Commercial Code ("HGB" – Handelsgesetzbuch) pursuant to Section 315a para 1 HGB. All binding IFRS and the associated interpretations of the IFRS Interpretations Committee ("IFRIC") as of December 31, 2013 were applied.

The financial statements or interim financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2013, are based on uniform accounting policies.

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (€ thousand). Deviations from the unrounded amounts may arise.

With the exception of certain financial instruments that are accounted for at fair value, the consolidated financial statements have been prepared on the historical cost basis.



### (3) SCOPE AND PRINCIPLES OF CONSOLIDATION

#### Scope of consolidation

The consolidated financial statements incorporate the financial statements of Klöckner&Co SE and the companies controlled by Klöckner&Co SE ("subsidiaries"). Control is achieved if Klöckner&Co holds the majority of the voting rights or by other means is able to govern the financial and operating policy of an entity in order to obtain the economic benefit from its activities.

Under the Group's European asset-backed securitization program ("ABS program") a total of four special-purpose entities exist. None of the Group companies holds an equity interest in these special-purpose entities. However, they were established for the sole purpose of purchasing and collecting receivables of Klöckner&Co subsidiaries. As such, the economic substance of the relationship between Klöckner&Co and these special-purpose entities indicates that these companies are also controlled by Klöckner&Co and are therefore to be included in the consolidated financial statements.

A further currently dormant special-purpose entity of the European program, as well as an additional special-purpose entity that is responsible for the acquisition of trade receivables under the American ABS program, are consolidated under the general consolidation rules.

The financial statements of subsidiaries acquired or disposed of in the course of the financial year are included in the consolidated financial statements from the time control is achieved to the time it is surrendered.

Intercompany receivables, liabilities and intercompany results, as well as intercompany income and expenses, are eliminated in consolidation. Consolidation entries are subject to deferred taxes. Deferred tax assets and liabilities are offset against each other, if the term and levying taxation authority are identical.

The scope of consolidated companies changed as follows during the year under review:

	2013	2012
Consolidated entities at the beginning of the financial year <sup>*)</sup>	82	102
+ newly formed/consolidated companies	2	1
– mergers	– 2	– 4
– disposals and liquidations	– 10	– 17
<b>Consolidated entities at the end of the financial year</b>	<b>72</b>	<b>82</b>
<i>thereof domestic entities including Klöckner &amp; Co SE<sup>*)</sup></i>	<u>12</u>	12

<sup>\*)</sup> Including consolidated special-purpose entities.

3 (2012: 3) subsidiaries without a significant impact on the Group's net assets, financial results and results of operations are not consolidated. Net income of these entities represents only 0.01% (2012: – 0.01%) of consolidated net income. The impact on the Group's equity amounts to – 0.03% (2012: – 0.93%). Such subsidiaries are accounted for as financial assets at cost as their fair values cannot be determined reliably.

A list of affiliated companies included in the consolidated financial statements is attached as annex to the notes.



#### (4) SIGNIFICANT ACCOUNTING POLICIES

##### **Business combinations**

Business combinations are accounted for under the purchase method whereby the consideration transferred for the investment is offset against the investee's net assets, which are remeasured to fair value. The net assets are based on the fair values of the assets and liabilities, including identifiable intangible assets and contingent liabilities to be recognized as liabilities as of the date of acquisition.

If published exchange or market prices cannot be obtained for allocating the purchase price, the fair values are calculated on the basis of suitable valuation techniques. Generally, the discounted cash flow method is used in such cases. Under this method, the expected future cash flows that can be generated by the asset are discounted to the date of the initial consolidation using a discount rate reflecting the inherent risk associated with the asset.

Any remaining excess of the consideration transferred for the acquired business over its proportional share of net assets is recognized separately as goodwill; any negative difference is, upon reassessment of the acquired assets and liabilities, directly recognized in the income statement. Non-controlling interests are measured at their proportional share of the fair values of the acquired net assets, i.e., the full goodwill method is not applied. Audit and consulting fees incurred in business combinations are expensed as incurred.

Subsequent changes in interests in consolidated subsidiaries that do not result in a change of the method of consolidation are treated as equity capital transactions.

##### **Foreign currency translation**

Transactions denominated in foreign currency are translated using the exchange rate at the time of the transaction. Monetary items are translated using the current exchange rate at the balance sheet date. Irrespective of any currency hedges, gains or losses from the remeasurement of monetary assets (excluding foreign currency translation of net investments) and monetary liabilities are recognized in the income statement as other operating income or expenses.

Applying the functional currency concept, the annual financial statements of the foreign subsidiaries prepared in foreign currency are translated into euros using the modified closing rate method. The functional currency is determined by the primary economic environment in which the entity operates. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency for those entities is the local currency. Assets and liabilities of subsidiaries are translated at the middle rate on the reporting date, while income and expenses are translated at the average exchange rate of the reporting period. Differences arising from such translations applied to the assets, liabilities and components of net income are reported as a separate component of equity and accordingly do not have an impact on net income. Such differences are recognized in net income when the subsidiary is sold.



The exchange rate changes for the main currencies of the Group developed as follows:

1 € =	Closing rate		Average rate	
	December 31, 2013	December 31, 2012	2013	2012
Brazilian Real (BRL)	<b>3.2576</b>	2.7036	<b>2.8687</b>	2.5085
Pound Sterling (GBP)	<b>0.8337</b>	0.8161	<b>0.8493</b>	0.8109
Swiss Franc (CHF)	<b>1.2276</b>	1.2072	<b>1.2311</b>	1.2053
US Dollar (USD)	<b>1.3791</b>	1.3194	<b>1.3281</b>	1.2848

### Revenue recognition

Revenues from sales of goods are recognized when the material risks and rewards associated with ownership have been transferred to the buyer and the amount of revenues can be reliably measured. This is generally the time of delivery. Prior to delivery, revenues are only recognized when goods have not been delivered at the request of the buyer but ownership has been transferred and the buyer has accepted billing and goods are available and stored separately. Sales are reported net of allowances such as commissions, trade discounts and rebates.

Interest income is accrued on a time basis by reference to the principal amount and the effective interest rate. Dividend income is recognized when the right to receive payment has been legally established.

### Share-based payment

The Group's share-based compensation plans are virtual stock option plans with cash settlement ("VSO"). As of the respective reporting date, a provision is recognized pro rata temporis in the amount of the fair value of the payment obligation; any subsequent change in the fair value is recognized in profit or loss. The fair value of the virtual share options is calculated using an option pricing model based on a Monte Carlo simulation using the following parameters:

In %	December 31, 2013	December 31, 2012
Risk-free rate of return	<b>0.1– 2.1</b>	0.0– 1.2
Expected volatility	<b>36.0</b>	37.0

The expected volatility is based on market-traded options on Klöckner & Co shares.

### Earnings per share

Basic earnings per share are calculated by dividing consolidated net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period. The dilutive, potential shares of the outstanding convertible bonds are only included in the calculation of diluted earnings to the extent that such shares are not anti-dilutive.



### Income taxes

Income tax expense represents the total of current and deferred tax expenses.

Current tax expenses are calculated on the basis of the taxable income for the financial year. The taxable income differs from the income before taxes for the year reported in the income statement as it does not include income or expenses that will not be taxable or tax deductible until later financial years, if at all. Tax liabilities are measured at the amount for which payment to the taxation authorities is expected. The liabilities are measured at the tax rates that have been enacted at the balance sheet date.

Deferred taxes are calculated in line with the concept of the balance sheet liability method. Deferred taxes result from temporary differences in the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits (temporary differences) and from consolidation entries. The calculation is based on tax rates that have been enacted or substantively enacted due to an almost concluded legislative procedure. Such deferred taxes or liabilities are not recognized, if the temporary differences arise from goodwill (as long as these differences were not considered for tax purposes) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable profits nor the accounting profits.

A deferred tax asset is also recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow part of, or the entire, deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and a previously unrecognized deferred tax asset is recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated using tax rates that are applicable at the date of the reversal of temporary differences respectively the use of loss carryforwards and that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would result from the manner in which Klöckner & Co expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right to set off exists and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority and a net settlement is intended.

Current and deferred taxes are recognized in income unless they relate to items that are recognized directly in equity or in other comprehensive income. In such cases, they are also charged or credited to equity or other comprehensive income.

### Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairments, if the use of the asset entails an economic benefit and the costs of the asset can be reliably determined.

Intangible assets are amortized on a straight-line basis in line with their estimated useful life over a period generally between one and 15 years. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rates between four and 15 years.



The useful life is reviewed annually and future expectations are adjusted, if necessary. Intangible assets with an indefinite useful life – at Klöckner & Co only goodwill – are reviewed for impairment annually or more frequently, if indications for impairment arise.

### Property, plant and equipment

Property, plant and equipment is carried at acquisition or manufacturing cost less accumulated depreciation. The manufacturing costs comprise all direct costs as well as attributable overheads. Administrative costs are only capitalized to the extent that they relate to production.

Maintenance and repair costs are expensed as incurred.

Property, plant and equipment subject to depreciation is generally amortized on a straight-line basis. On disposal or retirement, the cost and the corresponding accumulated depreciation are derecognized, any gain or loss is recognized in income.

Depreciation is based on the following useful lives:

	Useful life in years
Office building, factory and warehouse buildings	10–50
Plant facilities similar to buildings	8–33
Warehouse and crane equipment and other technical equipment	2–20
Operating and office equipment	1–15

### Leases

For leasing transactions, the Company differentiates between finance lease and operating lease transactions. Transactions in which the Klöckner & Co Group bears all significant risks and benefits are classified as finance leases. All other lease arrangements, in which Klöckner & Co is the lessee are accounted for as operating leases.

Assets held under finance leases are initially recognized at fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability for future lease payments is included in the balance sheet as financial liability. Such liabilities are subsequently accounted for under the effective interest method. Assets held under finance leases are depreciated over their expected useful lives or, if shorter, the term of the underlying lease.

For operating lease arrangements in which the Group is lessee, lease payments are recognized as straight-line expense over the lease term.

### Investment property

Land and buildings held to earn rentals or for capital appreciation rather than for use in the delivery of goods or for providing services or for administrative purposes are presented as investment property. Measurement of such property follows the cost model. The fair values of such property are disclosed in Note 15 (Intangible assets, property, plant and equipment and investment property).

Depreciation methods and useful lives are similar to those applied to property, plant and equipment.



### Impairments

At each balance sheet date, the Group reviews its tangible and intangible assets as well as its investment properties to determine if there is any indication of impairment. If such indication exists the recoverable amount of the asset is estimated to determine the extent of the impairment loss. The recoverable amount is the higher value of the fair value less cost to sell and the value in use. In case a recoverable amount for the specific asset can be estimated the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. Where an impairment loss subsequently reverses (unless related to goodwill), the carrying amount of the asset or cash-generating unit is increased to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income.

Goodwill arising in business combinations is tested for impairment at least annually. The impairment test is performed at the level of the cash-generating unit to which the goodwill has been assigned. Cash-generating units are the lowest reporting level in the Group at which management monitors goodwill for internal reporting purposes. Except for the Becker Stahl-Service group (BSS) the national sub-consolidation groups represent the cash-generating units. The annual impairment test for goodwill is performed in the fourth quarter of each financial year – or more frequently in case of an indication that the unit may be impaired. If the carrying amount exceeds the recoverable amount an impairment loss is recognized in the amount of the difference and cannot be reversed in subsequent periods.

The recoverable amount is the higher value of fair value less cost to sell and value in use. The value in use represents the discounted cash flow of the asset or cash-generating unit, respectively. Value in use or fair value less cost to sell is usually determined using a discounted cash flow approach. The estimated cash flows are based on the Company's current three-year business plan, based on management's estimates for the respective business unit. The interest rates used reflect the risk specific to the underlying business and the country in which the business is operated. Among other things, interest rates are based on Peer Group data. The composition of the Peer Group is regularly reviewed and adjusted, if deemed necessary.

Impairment losses are reported in the income statement under impairment losses. Reversals of impairment losses are included in other operating income.

### Government grants and government assistance

Government grants are only recognized, if it is reasonably assured that the Company complies with the conditions and the grants are actually received. The grants are recognized in net income in the same period in which the respective expenses are recognized.

Government grants related to assets, mainly property, plant and equipment, are deducted from the cost of the asset.

Grants becoming receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future-related costs are recognized as other operating income in the period in which they become receivable for Klöckner & Co.



### Inventories

Inventories are stated at the lower of cost or net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and estimated cost to make the sale. The manufacturing costs comprise production-related costs calculated on the basis of normal capacity.

In addition to the directly attributable costs, adequate material and production overhead expenses including production-related depreciation are reflected in the manufacturing costs (e.g., certain coil inventory). Cost is generally assigned to inventories on the basis of the monthly moving average method. In selected cases the specific identification method is applied.

### Financial instruments

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group's financial assets primarily consist of cash and cash equivalents, financial instruments available for sale, trade receivables and derivative financial instruments with positive fair values. The Group's financial liabilities include bonds, liabilities due to banks, trade payables, finance lease liabilities and derivative financial instruments with negative fair values.

The Klöckner & Co Group recognizes all regular-way contracts as of the settlement date regardless of their classification. For derivative financial instruments classified as "held for trading" the Group applies trade date accounting.

The fair value option provided by IAS 39 (Financial Instruments: Recognition and Measurement) is not applied.

Financial instruments are initially measured at fair value, including transaction costs directly attributable to the acquisition or issue unless such financial instruments are classified at fair value through profit or loss. Subsequent measurement of financial assets and liabilities depends on the financial instruments classification to categories of IAS 39.

#### a) Financial assets and financial liabilities and equity instruments issued by Klöckner & Co

Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value and are stated at nominal value. Foreign currency balances are converted into euros at the mid-rate on the balance sheet date.

Financial assets at fair value through profit or loss include financial assets initially classified as "held for trading". In the Klöckner & Co Group, this classification only applies for derivative financial instruments unless designated in a documented hedge. Such instruments are presented as other assets in the consolidated financial statements.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost using the effective interest method. Also assigned to this category are non-current loans and non-current securities that do not have a quoted market price in an active market, which are measured at amortized cost.



All identifiable risks are allowed for by making appropriate valuation adjustments to reflect the risk of default, taking into account the credit insurances in place. The carrying amounts of financial assets are assessed for impairment, if there is objective material evidence, such as substantial financial difficulty on the part of the obligor, knowledge of insolvency proceedings or being overdue. Valuation allowances are recorded on separate accounts.

Non-derivative financial assets that are not assigned to any of the other categories described in IAS 39 are classified as "available for sale financial assets" and are measured at fair value. Such assets also include shares in non-consolidated subsidiaries and other equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are accounted for at cost. If required, valuation allowances are established through profit or loss to account for an impairment loss. Impairment losses are reversed when the reasons for such impairment losses no longer apply unless they relate to "available for sale financial assets," which are accounted for at cost for which no reversal of impairment losses is allowed.

Financial instruments are initially recognized as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. An equity instrument is recognized in the amount of the proceeds received from the issuance less directly attributable transaction costs.

The components of compound financial instruments such as the convertible bonds are recognized separately as financial liabilities and equity. At the date of issuance, the fair value of the liability component is calculated using a market interest rate for equivalent financial instruments without conversion rights. Subsequent accounting of the liability component as a financial liability will be on an amortized cost basis until conversion or maturity of the bond. In line with the residual method the remaining difference represents the equity component, which is reported within capital reserves with no subsequent adjustment.

Financial liabilities are either classified as liabilities at fair value through profit or loss or as other financial liabilities.

Klöckner & Co Group only classifies derivative financial instruments that are not designated as hedge and are effective as liabilities measured at fair value through profit or loss. The negative fair value of such instruments is reported under other liabilities.

Other financial liabilities, including borrowings, are initially recognized at fair value less transaction costs. After initial recognition, other financial liabilities are generally measured at amortized cost using the effective interest method.

An exchange of debt instruments with substantially different terms between Klöckner & Co and a lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Taking qualitative aspects into consideration, terms are deemed to be materially different, if the discounted present value of the future cash flows under the new terms differs from the discounted present value of the future cash flows under the original terms by more than 10%.

#### b) Derivative financial instruments

The Group uses a variety of derivative financial instruments to manage its exposure to interest and foreign exchange rate risks. These include forward exchange transactions, currency swaps, cross-currency swaps, interest rate swaps and interest rate caps. Further information is disclosed in Note 30 (Derivative financial instruments).



Derivative financial instruments are initially reported at fair value at the conclusion of the agreement. The fair value is adjusted at each subsequent balance sheet date. Any gain or loss arising from a change in the fair value of a derivative financial instrument that is not part of a cash flow hedge, or hedge of a foreign net investment relationship, and for which the hedging relationship is effective, is recognized in the income statement. For derivative financial instruments designated in a hedging relationship the timing of the recognition of gains or losses is depending on the nature of the hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. In addition, hedge accounting is applied for certain unrecognized firm commitments.

Forward exchange transactions are valued on an item-by-item basis at the forward rate of the balance sheet date, and exchange rate differences arising due to the contracted forward exchange rate are included in the income statement. Interest rate swap amounts from interest rate swap agreements are recognized in the income statement at the payment date or at the balance sheet date. In addition, interest rate swap agreements as well as interest rate caps are carried at their fair value as of the balance sheet date, and changes in the fair values are recognized in the income statement for the current reporting period provided that no hedge accounting is applied.

Derivative financial instruments designated in hedging transactions are classified as non-current assets or liabilities, if the remaining term of the hedging relationship exceeds twelve months or as current assets or liabilities, respectively, if the remaining term of the hedging relationship is less than twelve months.

Derivative financial instruments not designated in a hedging relationship are classified either as current assets or liabilities.

#### c) Hedge accounting

Depending on volume, term and risk structure, the Klöckner & Co Group designates individual derivative financial instruments as cash flow hedges or hedge of a foreign net investment.

The relationship between the hedged item and the hedging instrument including the risk management objectives and the strategy for undertaking the hedge transaction are documented at the inception of the hedge. In addition, at the inception of a hedging transaction and over its term, the Company regularly reviews and documents whether the hedge is highly effective in terms of compensating the changes in the cash flows of the hedged item or the net investment. Information on the fair values of these derivative financial instruments is provided in Note 30 (Derivative financial instruments); changes in the reserve for fair value adjustments of financial instruments within other comprehensive income can be derived from the statement of changes in equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment hedges is recognized in equity; the ineffective portion is recognized directly in income or loss. The amounts recognized in equity are reclassified to profit or loss in the period in which the hedged item is recognized in income.

In contrast to the previous year, fair value changes of hedged items in net investment hedges are netted against the changes in the fair value changes of the hedging instruments. Corresponding adjustments have been made to the amounts reported for the previous year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or is no longer deemed effective. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative profit or loss deferred in equity is immediately recognized in income or expense.



**Non-current assets held for sale, disposal groups and associated liabilities**

Non-current assets or groups of such assets, which are disposed of in a single transaction (disposal groups) including the associated liabilities are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the disposal is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Depreciation and amortization is no longer recognized on assets held for sale. They are carried at the lower of the carrying amount or fair value less costs to sell.

**Provisions for pensions and similar obligations**

Pension obligations arising from defined benefit plans are determined using the projected unit credit method. The expected benefits, including dynamic components (e.g., increases in wages and salaries and retirement benefits), are recognized over the total service period of the respective employee. Actuarial advice is obtained.

Actuarial gains or losses resulting from deviations between forecast and actual changes in plan beneficiaries as well as actuarial assumptions are recorded with no effect on income during the period in which they arise in other comprehensive income, and are stated separately in the statement of comprehensive income.

Service costs are reported in personnel expenses. Interest costs resulting from the accretion of the defined benefit obligation as well as return on plan assets are stated as net interest expenditure of the obligation in the financial result under application of the discount rate of the obligation.

Any surplus of the assets over the liabilities to be recognized is limited to the cumulative, unrecognized, net actuarial losses and past service cost, plus the present value of any available refunds and the reduction of future contributions to the plan.

Past service cost is recognized in profit or loss.

Employer contributions made by the Klöckner & Co Group to an independent entity under defined contribution plans, and to which no further legal or constructive payment obligations may arise, are expensed as incurred.

**Other provisions**

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and with IAS 19 (Employee Benefits), if applicable, other provisions allow for all identified obligations and anticipated losses as well as all uncertain liabilities, provided they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and that a reliable estimate can be made of the amount of the obligation. A provision is only established for legal or constructive obligation against third parties.

Provisions are recognized at the amount representing the best estimate of the expenditure required to settle the present obligation. Any reimbursement is treated as a separate asset and accordingly is not offset against the provision. The settlement amount also includes expected future cost increases. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The present value is calculated using interest rates that reflect current market assessments and the risks specific to the liability.

Warranty provisions are accrued based on the expected development of the loss. Provisions for onerous purchase or sales contracts are established when the projected total future costs exceed the expected sales.



Restructuring provisions are only recognized, if a detailed formal restructuring plan is established and communicated to the parties involved.

Provisions for onerous contracts are recognized, if unavoidable expenses from the contract exceed the expected benefit.

### **Contingent liabilities**

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or those representing present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Unless the possibility of any outflow in settlement is remote, a description of the nature of the contingent liability is provided.

### **Presentation of the consolidated statement of financial position and consolidated statement of income**

Individual items have been combined in the consolidated statement of financial position and the consolidated statement of income; further information is provided separately in the notes to the consolidated financial statements. Assets as well as liabilities realized within twelve months of the reporting date will be settled within one year of the reporting date and are classified as current.

The consolidated statement of income is prepared according to the nature of expense method.

### **Presentation of interest paid and received in the cash flow statement**

Interest paid and received is included in cash flow from operating activities.

### **Use of estimates**

The preparation of the consolidated financial statements requires the Klöckner & Co Group to make assessments, estimates and assumptions influencing the application of accounting policies in the Group and the reporting of assets, liabilities, income and expenses. The actual amounts may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates are recognized in the period in which the estimate is revised, if the change affects only that period and the period of the revision and subsequent periods, if more than one period is affected.

For intangible assets and property, plant and equipment, estimates are in particular required for assets arising from business combinations under IFRS 3. In these instances, management is required to estimate fair values and expected useful economic lives of such assets. For material business combinations the Company usually obtains actuarial advice. The estimates are accompanied by management's forecasts of the future benefits for the respective assets, which are also reflected in the projections of future cash inflows from the assets.

For each reporting date management is required to assess, for tangible and intangible assets as well as for investment property, whether triggering events that could give rise for an impairment loss exist. If triggering events are identified the recoverable amount must be estimated. For goodwill an impairment test is required at least on an annual basis regardless of the existence of triggering events. The recoverable amount is usually determined using discounted cash flows. The projected cash inflows largely depend on the expected future gross profit margins and turnover under consideration of the general economic development as well as on the assessment of the appropriate discount rates including future growth rates. The discount rates are based on the Capital Asset Pricing Model (CAPM). Its main inputs are the risk-free rate of return, the beta factor of the Klöckner & Co share and assumptions with regard to leverage and the market risk premium for the return on equity.

Inventories are to be reported at the lower of cost or net realizable value. In order to calculate the net realizable value management is in particular required to estimate sales prices and future costs to be incurred to make the sale.



The Group operates in various countries. The Group's income is therefore subject to various tax jurisdictions. For each taxable subject tax assets and tax liabilities as well as temporary differences and tax losses and the resulting deferred taxes must be calculated individually. Management is required to make estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their actual realization is probable. This realization of deferred taxes is in particular dependent on sufficient future taxable profits in the respective tax jurisdiction and tax type. In assessing if sufficient future taxable profits exist, management, among other things, considers historical earnings, budgets, loss carryforward restrictions and tax planning strategies. At each reporting date the recognition of deferred taxes is assessed once again.

Post employment benefits are accounted for using actuarial methods. The actuarial assumptions include discount rates, mortality rates and, if applicable, expected returns on plan assets. The actual amounts of such assumptions may differ significantly from the projected amounts due to changes in the economies and stock markets and may therefore have a material impact on the benefit obligation and future benefit costs.

Accounting for other provisions embodies assessment of the facts and circumstances, raised claims and estimates of the range of potential settlement amounts, and the probability of occurrence.

### New accounting standards and interpretations

In 2013, the Klöckner & Co Group initially applied the following standards:

Standard/Interpretation
IFRS 13 Fair Value Measurement
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IAS 19 Employee Benefits (rev. 2011)
Government Loans (Amendments to IFRS 1)
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
Annual Improvements to IFRSs - 2009-2011 cycle - various standards
Recovery of underlying assets (Amendments to IAS 12)
Amendments to IAS 36 Recoverable Amount Disclosure for Non-Financial Assets <sup>*)</sup>

<sup>\*)</sup> Early adopted.

IFRS 13 provides guidelines for fair value measurement and thus replaces the ones from various other standards by just one single standard. Furthermore, additional explanatory information is required in the notes to the financial statement. The standard has no significant impact on the Klöckner & Co SE's annual financial statement.

IAS 1 requires separate subtotals for items that are recyclable or that are non-recyclable into the income statement. The presentation of such items was revised accordingly.

The amendments to IAS 36 ease the additional disclosures for fair value information of cash generating units introduced by IFRS 13.



By amending IAS 19 rev. 2011 (Employee Benefits) the option to defer the recognition of actuarial gains and losses, known as the "corridor method" was eliminated. These changes of assets and liabilities, including the requirement of remeasurements, are now to be presented in the other comprehensive income.

The amendment to IAS 12 clarified that deferred taxes on investment properties have to be measured based on the rebuttable assumption that existing temporary differences will only be reversed at disposal.

The changes had the following impact on the financial statements:

(€ thousand)	As previously reported	Initial application of IAS 19R	As restated after initial application of IAS 19R
<b>Balance as of January 1, 2012</b>			
Other assets	37,955	– 24,207	<b>13,748</b>
Deferred tax assets	44,092	25,348	<b>69,440</b>
Provisions for pensions and similar obligations	182,745	85,261	<b>268,006</b>
Deferred tax liabilities	160,500	– 5,030	<b>155,470</b>
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>	<b>1,814,736</b>	<b>– 78,932</b>	<b>1,735,804</b>
<b>Total equity</b>	<b>1,843,239</b>	<b>– 79,090</b>	<b>1,764,149</b>
<b>Balance as of December 31, 2012</b>			
Other assets	40,717	– 29,037	<b>11,680</b>
Deferred tax assets	11,415	3,409	<b>14,824</b>
Provisions for pensions and similar obligations	176,699	140,900	<b>317,599</b>
Deferred tax liabilities	108,697	– 34,129	<b>74,568</b>
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>	<b>1,611,758</b>	<b>– 132,127</b>	<b>1,479,631</b>
<b>Total equity</b>	<b>1,634,770</b>	<b>– 132,399</b>	<b>1,502,371</b>
Personnel expenses	– 657,268	– 1,990	<b>– 659,258</b>
Financial result	– 75,650	– 4,133	<b>– 79,783</b>
Income taxes	– 19,060	1,010	<b>– 18,050</b>
<b>Net income attributable to shareholders of Klöckner &amp; Co SE</b>	<b>– 194,876</b>	<b>– 5,133</b>	<b>– 200,009</b>
<b>Net Income</b>	<b>– 197,579</b>	<b>– 5,113</b>	<b>– 202,692</b>
Earnings per share (€/share)			
– basic	– 1.95	– 0.05	<b>– 2.00</b>
– diluted	– 1.95	– 0.05	<b>– 2.00</b>

Initial application of the remaining standards not described individually had no influence on the Klöckner & Co SE annual financial statements.



The following overview summarizes all issued standards and interpretations, which have not yet been applied in the Klöckner & Co Group:

Standard/Interpretation	Mandatory application <sup>*)</sup>
IFRS 10 Consolidated Financial Statements	2014
IFRS 11 Joint Arrangements	2014
IFRS 12 Disclosure of Interests in Other Entities	2014
Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance	2014
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	2014
Amendments to IAS 27 Separate Financial Statements	2014
Amendments to IAS 28 Investments in Associates and Joint Ventures	2014
IFRIC Interpretation 21 (Levies)	2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	2014
IFRS 9 Financial Instruments (2009/2010, 2013)	outstanding
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures	outstanding
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	2014
Improvements to IFRS 2010-2012	2015
Improvements to IFRS 2011-2013	2015
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	2015

\*) Related to the financial year of Klöckner & Co SE. The EU endorsement is partly outstanding.

IFRS 10 introduced a new and comprehensively revised definition of control. If an entity has control over another entity the parent company must consolidate its subsidiary. Under the revised concept, control is deemed to exist when the potential parent company has the power to direct decisions of the subsidiary via majority voting rights or by other means, when the parent company participates in variable positive or negative returns and is able to influence these returns with its decision power.

IFRS 11 revises the accounting for joint arrangements. Under the new standard an entity is required to assess whether an arrangement is a joint operation or a joint venture.

IFRS 12 governs disclosure for interests in other entities. The disclosure requirements under the new standard are more comprehensive than those previously listed in IAS 27, IAS 28 and IAS 31.

The amendments to IFRS 10, IFRS 11 and IFRS 12 include clarification and certain transition alleviations when adopting these standards. The additional amendments to these standards provide a definition of investment entities and scope out such entities from the application of IFRS 10.

By issuing IFRS 10, regulations with regard to the definition of control and the preparation of consolidated financial statements were removed from IAS 27. As a result, IAS 27 only contains regulations for the accounting of subsidiaries, associates and joint ventures in stand-alone IFRS financial statements from now on.



By issuing IFRS 11, also modifications were made to IAS 28. IAS 28 governs the application of the equity method of accounting. The scope of IAS 28 was significantly extended as it now also includes joint ventures in addition to investments in associates. The proportional method of consolidation is no longer applicable.

IFRIC 21 regulates the closing date of public taxes accrued either upon threshold limits (e.g., revenues) or accrued irregularly within one year and not being subject to IAS12 (Income Taxes).

The IAS 39 (Financial Instruments Recognition and Measurement) alignment "Novation of Derivatives and Continuation of Hedge Accounting" provides for constant hedge accounting in case of novation of a hedging instrument provided that specified conditions are complied with.

The amendments of IFRS 9 (Financial Instruments) published by the IASB in November 2013 include, among other things, a revision of hedge accounting significantly improving presentation of risk management, whereas simultaneously, detailed notes are required. In addition, the obligatory first-time adoption of IFRS 9 (January 1, 2015) was cancelled. A new first-time adoption initiation will be set as soon as the entire IFRS 9 project is completed.

As part of the Annual Improvement Project, modifications were made to seven (2010–2012) respectively four (2011–2013) standards were made. The editorial changes in selected IFRS will clarify existing regulations.

Also in November 2013, the changes to IAS 19 (Employee Benefits) were published. They include limited adjustments regarding service cost entries of contributions by employees or third parties.

Klöckner & Co is currently analyzing the impact of the amended standards on the annual financial statements.



**(5) ACQUISITION AND DISPOSALS**

The Group structure changed as listed below as a result of the following acquisitions and disposals during the financial years 2013 and 2012.

**Acquisition 2013 and 2012**

There were no business combinations consummated in 2013 and 2012.

**Acquisition of minority interests and other changes in shareholding****2013**

In 2013, neither non-controlling interests were acquired nor did any other changes in interests in subsidiaries take place.

**2012**

By contract dated November 19, 2012, ODS B.V., Barendrecht, The Netherlands, increased its interest in ODS do Brasil Sistemas de Medicao Ltda., Campinas, São Paulo, Brazil, to 100 percent. The purchase price amounted to €0.4 million.

**Disposals****2013**

After finalization of the closing of the sale of UAB Klöckner Baltija, Klaipeda, Lithuania, and Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland, signed on November 30, 2012, these two companies were disposed of the scope of consolidation on February 28, 2013 and April 1, 2013, respectively. The purchase prices set by contract amounted to a total of €7.1 million. Reduced by the disposed net assets, the gain on sale amounted to €0.2 million. Both companies were classified as disposal groups on December 31, 2012, thus, further information can be taken from Note 20 (Non-current assets held for sale and disposal groups). The disposals refer to the balance sheet positions "Assets held for sale" in the amount of €13.5 million and to "Liabilities associated with assets held for sale" in the amount of €6.4 million. These disposal groups consist of the following assets and liabilities:

(€ thousand)	2013
Long-term assets	– 520
Inventories	– 6,305
Trade receivables	– 4,924
Cash & cash equivalents	– 168
Other assets	– 1,545
<b>Assets within disposal group</b>	<b>– 13,462</b>
Current liabilities/provisions	– 6,391
– thereof financial liabilities	– 808
– thereof trade payables	– 4,721
<b>Liabilities within disposal group</b>	<b>– 6,391</b>



## 2012

Effective February 1, 2013, Klöckner Stahl- und Metallhandel GmbH, Duisburg sold Edelstahlservice Frankfurt in form of an asset deal as well as the interest in its subsidiary Edelstahlservice Mágocs Nemesacélfeldolgozó Kft., Mágocs, Hungary. The sales price was approximately set to the transferred net assets of €3.4 million.

On November 30, 2012, a contract was signed for the sale of interest in the companies Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland, UAB Klöckner Baltija, Klaipeda, Lithuania, Klöckner Romania S.R.L., Bucharest, Romania, and Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic ("Signing"). The sale of Klöckner Romania S.R.L. Bucharest, Romania, and Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic, was closed on December 20, 2012 ("Closing"). The consideration for these two companies less cost to sell amounted to €4.8 million. The result of this transaction was a disposal loss of €3.5 million net financial liabilities as well as an impairment of fixed assets in the amount of €1.0 million.

By agreement dated December 4, 2012, the interests in Klöckner Metalsnab AD, Sofia, Bulgaria, were sold. The purchase price amounted to €6.8 million and corresponded to the disposed assets and liabilities. In connection with this transaction impairments on non-current assets of €3.5 million were recorded.

Based on the carrying amounts as of the disposal date the transactions had the following impact on the Group's statement of financial position in 2012:

(€ million)	
Assets	
Property, plant and equipment	– 5.3
Inventories	– 10.5
Trade receivables	– 8.5
Cash and cash equivalents	– 0.2
<b>Assets disposed</b>	<b>– 24.5</b>
Liabilities and provisions	
Other non-current liabilities	– 0.3
Deferred tax liabilities	– 0.6
Trade payables	– 4.3
Other current liabilities	– 0.8
<b>Liabilities disposed</b>	<b>– 6.0</b>
<b>Net assets disposed</b>	<b>– 18.5</b>



## NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

### (6) SPECIAL ITEMS IN RESULT

The 2013 and 2012 results were particularly burdened by restructuring expenses and impairments. In addition, a gain on sale of property in France including a subsequent lease back, the reductions of benefits and the subsequent conversion of the Dutch defined benefit plan to a defined contribution plan had a positive impact on the result.

#### 2013

##### Restructuring measures

The comprehensive restructuring program (KCO 6.0) initiated already in 2011 was continued and extended in the fiscal year 2013. The focus of the measures is the close-down of unprofitable locations and the discontinuation of sustainingly unprofitable business activities apart from reduction of general selling and administrative costs.

Since the inception of the program in September 2011, approx. 70 locations were closed. The number of employees was reduced by approximately 2,100 (incl. temporary workforce 2,200) employees as an integral part of the restructuring measures. The Group Holding's redimensioning as well as streamlining the administration in the country organizations contributed to this.

In 2013, the measures burdened EBITDA with €26 million.

##### Impairments

As a result of the continuously weak development of the British market and thus the linked impact of the decreasing profitability in Great Britain, goodwill impairments and impairments of other intangible assets in the amount of €7 million of this cash-generating unit were required. It is disclosed in the "Europe" segment.

In addition, impairment losses were incurred on customer-related intangible assets and trade names of activities in Brazil based on varying expected earnings contributions from these assets were enforced. In this context (put liability), the corresponding impairment in the amount of €16 million is disclosed in the segment Americas. The carrying amount from the acquisition of the resulting put liability, varying according to the company's future earnings, was reduced by €3 million.

##### Transition of the Dutch defined benefit pension plan to a defined contribution plan

In the year under review, the defined benefit pension plan in the Dutch country organization was converted into a defined contribution commitment. The restructuring of the agreement was achieved in two stages. In a first step, benefits were curtailed in the amount of €7 million and in a second step €7 million were settled. Thus, the amount of €14 million was recognized as a non-recurring reduction in personnel expenses.

##### Sale and lease back of the location La Courneuve

In December 2013, the land and buildings of the French La Courneuve location were sold under a lease back transaction. Under the terms of the contract the premises can be used for a five-year term. The gain of the sale amounted to €11 million and is included in other operating income.



**2012****Restructuring measures including expenses in connection with the sale of the East European activities**

The restructuring expenses, including impairments from the disposal of Eastern European activities of €93 million, mainly relate to the Europe segment.

The measures relate to the close-down of unprofitable locations, personnel redundancies and adjustments in administrative areas. In the Spanish country organization, eight locations were closed during 2012 and the personnel was reduced by about 180 employees. In addition, substantial cutbacks were introduced in Germany, France and Great Britain with a close-down of about 20 locations and a reduction of approximately 550 employees. The expenses relate to stock devaluations of €8 million, personnel reduction expenses of €41 million and to other expenses of €18 million.

In connection with the disposal of Eastern European activities, impairments on intangible assets and property, plant and equipment of the Eastern European companies amounting to €11 million were incurred. Since the contracted sales prices were lower than the net assets disposed, the result was burdened by further expenses of €7 million, which are included in other operating expenses together with the loss from final consolidation of €3 million.

**Impairment Brazil including reversal of put liability**

The constantly declining economic environment in Brazil and the related negative impact on the earnings power of Kloeckner Metals Brasil Group (former Frefer Group) triggered a goodwill impairment test in the amount of €36 million. It was recorded in the Americas segment. In this context, the put liability was reduced accordingly. The resulting income of €17 million was reported in the financial result.



In total, net income was affected as listed below:

(€ million)	Restructuring expenses	Other material non-recurring items	2013	2012 <sup>*)</sup>
Stock write-downs	- 3,869	-	- 3,869	- 7,727
Personnel expenses	- 14,528	-	- 14,528	- 41,324
Other restructuring expenses <sup>*)</sup>	- 7,732	-	- 7,732	- 17,693
Gain/loss from disposal of consolidated subsidiaries	172	-	172	- 10,237
Settlement pension plan Netherlands	-	14,099	14,099	-
Income from sale of location La Courneuve	-	11,112	11,112	-
<b>EBITDA effects<sup>**)</sup></b>	<b>- 25,957</b>	<b>25,211</b>	<b>- 746</b>	<b>- 76,981</b>
<b>Asset impairments</b>				
- Eastern Europe	-	-	-	- 10,816
- Spain, Germany, United Kingdom	- 1,202	-	- 1,202	- 5,665
- Brazil	- 16,446	-	- 16,446	-
<b>Goodwill impairments</b>				
- Brazil	-	-	-	- 36,396
- France	-	-	-	- 2,597
- Great Britain	- 5,867	-	- 5,867	-
<b>Impact on operating result</b>	<b>- 49,472</b>	<b>25,211</b>	<b>- 24,261</b>	<b>- 132,455</b>
Reversal put option	2,577	-	2,577	16,804
Tax effects (regular tax rate)	6,391	- 7,228	- 837	922
<b>Total impact on net income</b>	<b>- 40,504</b>	<b>17,983</b>	<b>- 22,521</b>	<b>- 114,729</b>

\*) Also includes reversal of provisions.

\*\*) For definition of EBITDA please see Note 34 (Segment reporting).

## (7) SALES

The Group's sales are broken down by region as follows:

(€ thousand)	2013	2012
Germany	1,311,255	1,522,649
<b>EU excluding Germany</b>	<b>1,722,137</b>	<b>2,093,656</b>
Rest of Europe	879,350	904,307
North America	2,254,611	2,650,821
Central and South America	128,729	115,214
Asia/Australia	22,741	26,351
Africa	58,787	75,017
<b>Sales</b>	<b>6,377,610</b>	<b>7,388,015</b>



## (8) OTHER OPERATING INCOME

(€ thousand)	2013	2012
Reversal of provisions	9,773	7,121
Foreign currency exchange gains	2,654	4,853
Income from written-off receivables	3,331	4,585
Rental income	4,061	4,297
Gain on sale of non-current assets and assets held for sale	14,028	1,559
Gain on sale of consolidated subsidiaries	180	171
Other income	9,297	9,040
<b>Other operating income</b>	<b>43,324</b>	<b>31,626</b>

Other income comprises €997 thousand (2012: €1,570 thousand) excess customer payments for which the statute of limitation is exceeded, or credits that are not offset from/to customers and uncharged supplier deliveries and services, as well as several income items, each in the amount of less than €1.5 million.

The results of reversal of provisions include reversal of previous year's accruals for restructuring provisions in the amount of €4,824 thousand (2012: €8 thousand).

The gain on the sale of the La Courneuve site in France is included in the gain on the sale of assets held for sale in the amount of €11,112 thousand.

## (9) COST OF MATERIALS

(€ thousand)	2013	2012
Cost of materials, supplies and purchased merchandise	5,185,627	6,081,882
Cost of purchased services	9,184	7,342
<b>Cost of materials</b>	<b>5,194,811</b>	<b>6,089,224</b>



## (10) PERSONNEL EXPENSES

(€ thousand)	2013	2012 <sup>*)</sup>
Wages and salaries	468,411	530,169
Social security contributions (including welfare benefits)	98,942	109,640
Retirement benefit cost	11,614	19,449
<b>Personnel expenses</b>	<b>578,967</b>	<b>659,258</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

The majority of the personnel expenses relate to remuneration, which comprises wages, salaries, compensation and all other remuneration for work performed by employees of the Group in the financial year. The mandatory statutory contributions to be borne by the Company, including in particular social security contributions, are reported under social security contributions.

Wages and salaries also include expenses for social plans in connection with the restructuring measures described in Note 6 (Special items in result).

Retirement benefit expenses relate to active and former staff or their surviving dependents. These expenses include net periodic pension costs, employer contributions to supplementary occupational pension plans and retirement benefit payments. The expenses for pension plans were reduced by €14 million due to the change of the defined benefit pension plan into a defined contribution plan of the Dutch country organization as described in Note 6 (Special items in result).

In 2013, the following average staff was employed by Klöckner & Co Group in accordance with Section 314 para 1 no. 4 HGB:

	2013	2012
Salaried employees	5,368	5,920
Wage earners	4,286	4,819
Apprentices	249	273
<b>Employees</b>	<b>9,903</b>	<b>11,012</b>



## (11) OTHER OPERATING EXPENSES

(€ thousand)	2013	2012
Forwarding cost	144,737	154,858
Rental and leasing expenses	75,100	81,324
Third-party services	72,295	81,499
Supplies	54,434	59,351
Repair and maintenance	40,211	44,404
Other taxes	21,646	26,023
Travel expenses	17,331	19,210
Audit fees and consulting	14,265	17,511
Restructuring expenses	11,713	17,693
Postal charges and telecommunication	9,019	11,415
Bad debt expenses	11,397	13,170
Other insurance	8,392	9,746
Credit insurance	7,512	8,586
Advertising and representation expenses	7,024	7,669
Impairments on non-current assets held for sale	2	7,114
Foreign currency exchange losses	5,066	4,975
Loss on sale of consolidated subsidiaries	148	3,493
Other expenses	27,563	32,415
<b>Other operating expenses</b>	<b>527,855</b>	<b>600,456</b>

Further information regarding the restructuring expenses is provided in Note 6 (Special items in result).

Other expenses relate to fringe benefits, office materials, expenses arising from secondary business and incidental bank charges.



## (12) FINANCIAL RESULT

(€ thousand)	2013	2012 <sup>*)</sup>
Income from long-term loans	7	13
Other interest and similar income	4,779	20,822
Interest and similar expenses	- 68,260	- 89,707
Interest cost for post-employment benefits	- 9,310	- 10,911
<b>Financial result</b>	<b>- 72,784</b>	<b>- 79,783</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

Interest income in 2012 includes an amount of €2,577 thousand (2012: €16,804 thousand) resulting from the fair value adjustment of the put liability assumed in the acquisition of Kloeckner Metals Brasil Group (former Frefer Group). The decline in net financial expenses is also linked to the repayment of the 2007 convertible bond in the third quarter of 2012 and the related decrease of €11,297 thousand in tax expenses. Also lower drawings under the holding facility and repayments of promissory notes contributed to this improvement.

Included in the financial result is €66,193 thousand (2012: €85,439 thousand) net interest accounted for under the effective interest method.

## (13) INCOME TAXES

**Income taxes in the income statement**

Income tax benefit/expense for the Klöckner & Co Group are broken down as follows:

(€ thousand)	2013	2012 <sup>*)</sup>
<b>Current income tax expense (+)/benefit (-)</b>	<b>- 902</b>	<b>37,486</b>
<i>thereof related to prior periods</i>	<i>- 1,674</i>	<i>4,187</i>
Domestic	- 167	3,517
Foreign	- 735	33,969
<b>Deferred tax expense (+)/benefit (-)</b>	<b>12,429</b>	<b>- 19,436</b>
Domestic	- 32	21,399
Foreign	12,461	- 40,835
<b>Income tax expense/benefit</b>	<b>11,527</b>	<b>18,050</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

Due to the composition of the German fiscal unity, the combined income tax rate remains unchanged from 2012 at 31.6%, comprising the corporate income tax (including solidarity surcharges) of 15.8% and trade tax of 15.8%. Foreign tax rates vary between 10.0% and 40.0%.



The Company incurred current tax benefit of €902 thousand (2012: expenses €37,486 thousand). However, it has to be considered that the cross-border offsetting of tax income and tax losses is not possible. Especially, negative tax results of some European countries cannot be offset against tax profits in some other European countries or in the USA.

Deferred tax expenses or benefits, respectively, include the following components:

(€ thousand)	2013	2012 <sup>*)</sup>
<b>Deferred tax expense (+)/benefit (-)</b>	<b>12,429</b>	<b>- 19,436</b>
<i>thereof from</i>		
– temporary differences	591	- 39,900
– loss carry forwards	11,838	20,464

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

The expected tax benefit/expense is reconciled to the actual tax benefit/expense as follows:

(€ thousand)	2013	2012 <sup>*)</sup>
<b>Expected tax rate</b>	<b>31.6%</b>	<b>32.3%</b>
<b>Income before taxes</b>	<b>- 78,714</b>	<b>- 184,642</b>
Expected tax expense/benefit at domestic tax rate	- 24,874	- 59,639
Foreign tax rate differential	- 5,596	- 3,033
Tax rate changes	1,836	- 801
Reduced tax rate	- 705	- 392
Tax reduction due to tax free income	- 4,178	- 3,045
Tax increase due to non-deductible expenses	7,867	9,527
Current income tax levied or refunded for prior periods	- 1,674	4,187
Goodwill impairment charges	1,019	9,230
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	- 1,575	- 788
Tax increase due to non-capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	39,008	63,048
Other tax effects	399	- 244
<b>Effective income tax benefit/expense</b>	<b>11,527</b>	<b>18,050</b>
<b>Effective tax rate</b>	<b>- 14.6%</b>	<b>- 9.8%</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

The 2013 tax rate is largely impacted by a non-deductible impairment of deferred taxes on tax loss carry forwards as well as non-recognition of deferred tax assets on operating losses mainly due to the weak economic development in some European countries.



**Taxes recognized directly in equity**

Current and deferred taxes are generally recognized as income or expense and are included in the net profit or loss for the period, except for taxes arising from a transaction or event that is recognized, in the same or a different period, directly in equity.

(€ thousand)	December 31, 2013	December 31, 2012 <sup>*)</sup>
<b>Change in deferred tax assets and liabilities (net), not affecting net income</b>	<b>- 16,279</b>	<b>6,215</b>
<i>thereof reported</i>		
<i>- in other comprehensive income</i>	<b>- 16,279</b>	<i>6,215</i>

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

Deferred taxes on adjustments on pension provisions not affecting net income in accordance with IAS 19 rev. 2011 the changes in the fair values of derivative financial instruments designated in hedge accounting and on net investment hedges are reported in other comprehensive income.

**Deferred tax assets and liabilities**

Deferred tax assets and liabilities arise from the following:

(€ thousand)	December 31, 2013	December 31, 2012 <sup>*)</sup>
Deferred tax assets	<b>6,103</b>	14,824
Deferred tax liabilities	<b>90,981</b>	74,568
<b>Deferred taxes, net</b>	<b>- 84,878</b>	<b>- 59,744</b>

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

### Deferred tax assets

(€ thousand)	December 31, 2013	December 31, 2012 <sup>*)</sup>
from temporary differences and consolidations		
Intangible assets	12,894	16,148
Property, plant and equipment	7,759	10,255
Non-current investments	6,073	907
Inventories	4,345	17,955
Receivables and other current assets	6,148	10,398
Provisions for pensions and similar obligations	44,493	74,320
Other provisions and accrued liabilities	13,349	13,690
Liabilities	4,700	18,514
<b>Gross amount</b>	<b>99,761</b>	<b>162,187</b>
Valuation allowance	- 36,165	- 27,917
<b>Net amount</b>	<b>63,596</b>	<b>134,270</b>
Tax loss carryforwards	1,942	13,780
Offsetting	- 59,435	- 133,226
<b>Deferred tax assets</b>	<b>6,103</b>	<b>14,824</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

### Deferred tax liabilities

(€ thousand)	December 31, 2013	December 31, 2012 <sup>*)</sup>
from temporary differences and consolidations		
Intangible assets	42,386	61,601
Property, plant and equipment	68,312	73,158
Financial assets	4	11
Inventories	16,108	24,787
Receivables and other current assets	6,103	16,274
Provisions for pensions and similar obligations	-	13,933
Other provisions and accrued liabilities	11,039	10,830
Other liabilities	6,464	7,200
<b>Gross amount</b>	<b>150,416</b>	<b>207,794</b>
Offsetting	- 59,435	- 133,226
<b>Deferred tax liabilities</b>	<b>90,981</b>	<b>74,568</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



Deferred tax assets on unused tax loss carryforwards and deductible temporary differences were not recognized because their realization cannot be reliably guaranteed:

(€ million)	December 31, 2013	December 31, 2012
Unrecognized tax losses		
– Corporate income tax	680	523
– Trade tax and similar taxes	277	243
Temporary differences	113	87

The major part of the loss carryforwards does not expire under the current tax regulations, unless specific circumstances arise (e.g., change of control). To the extent unrecognized loss carryforwards do expire, this will largely occur according to the following overview:

(€ million)	December 31, 2013	December 31, 2012
Until December 31, 2030	104	81
After December 31, 2030	25	26

#### Current tax receivables and liabilities

The following current tax receivables and current tax liabilities are reported in the statement of financial position:

(€ thousand)	December 31, 2013	December 31, 2012
Current income tax receivable	61,944	11,466
Income tax liabilities	55,261	29,999

#### (14) EARNINGS PER SHARE

Earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the period. In accordance with IAS 33.41, 13,364 thousand (2012: 16,253 thousand) potential dilutive shares of the convertible bonds were not included in the computation of diluted earnings per share for 2013 as this would have resulted in higher earnings per share.

		2013	2012 <sup>*)</sup>
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	– 84,605	– 200,009
Weighted average number of shares	(thousands of shares)	99,750	99,750
<b>Basic earnings per share</b>	<b>(€/share)</b>	<b>– 0.85</b>	<b>– 2.00</b>
<b>Diluted earnings per share</b>	<b>(€/share)</b>	<b>– 0.85</b>	<b>– 2.00</b>

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (15) INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

#### a) Intangible assets

(€ thousand)	Licenses, similar rights and other intangible assets	Software	Goodwill	Total intangible assets
Cost as of January 1, 2012	396,119	55,083	277,696	<b>728,898</b>
Accumulated amortization and impairments	– 133,469	– 27,618	– 7,937	<b>– 169,024</b>
<b>Balance as of January 1, 2012</b>	<b>262,650</b>	<b>27,465</b>	<b>269,759</b>	<b>559,874</b>
Exchange rate differences	– 5,774	– 135	– 5,314	<b>– 11,223</b>
Additions	99	4,216	35	<b>4,350</b>
Disposals	– 23	– 26	-	<b>– 49</b>
Depreciation, amortization and impairments	– 39,774	– 12,948	– 38,993	<b>– 91,715</b>
Transfers	– 164	164	-	<b>-</b>
<b>As of Dec. 31, 2012</b>	<b>217,014</b>	<b>18,736</b>	<b>225,487</b>	<b>461,237</b>
Cost as of December 31, 2012	382,047	53,420	269,809	<b>705,276</b>
Accumulated amortization and impairments	– 165,033	– 34,684	– 44,322	<b>– 244,039</b>
<b>As of January 1, 2013</b>	<b>217,014</b>	<b>18,736</b>	<b>225,487</b>	<b>461,237</b>
Exchange rate differences	– 8,096	– 116	– 9,493	<b>– 17,705</b>
Additions	2,426	4,987	-	<b>7,413</b>
Disposals	– 56	– 30	-	<b>– 86</b>
Depreciation, amortization and impairments	– 54,804	– 15,314	– 5,867	<b>– 75,985</b>
Transfers	– 283	283	-	<b>-</b>
<b>Balance as of December 31, 2013</b>	<b>156,201</b>	<b>8,546</b>	<b>210,127</b>	<b>374,874</b>
Cost as of December 31, 2013	355,868	57,024	254,426	<b>667,318</b>
Accumulated amortization and impairments	– 199,667	– 48,478	– 44,299	<b>– 292,444</b>

Material goodwill exceeding 10% of the total carrying amount relates to €201million (2012: €210million) to the cash-generating unit (CGU) North America.

Trigger-based and regular annual impairment tests performed on CGU level in the fourth quarter of the financial year led to impairment losses of €5,867 thousand in the British country organization, being part of the segment Europe, due to the lowered earnings expectations for this CGU. The calculation of the value in use is based on a pre-tax discount rate of 11.5%. Prior-year amounts included €36,396 thousand impairment losses on goodwill of the Brazilian Kloeckner Metals Brasil Group (former Frefer Group) and €2,597 thousand on goodwill of the French country organization.



The impairment on other intangible assets includes impairments on customer relations and trade names of €16,446 thousand of Kloeckner Metals Brasil Group (former Frefer Group), due to the continuously difficult business conditions in Brazil. The calculation of the carrying amount is based on a pre-tax discount rate of 16.2%. The impairment charge was included in the Americas segment in profit and loss. In addition, further intangible assets were impaired in Great Britain (€1,024 thousand) and software licenses at the headquarters in the amount of €2,492 thousand.

The recoverable amount of a CGU is calculated as value in use using a discounted cash flow method, which is based on "bottom-up" planning approved by the corporate bodies in the fourth quarter. The planning period generally covers a three-year period. The last year of the detailed planning period is used to extrapolate the sustainable future cash flows into perpetuity.

Klößner & Co utilizes a uniform planning model with similar input parameters for all CGUs. Input parameters include, among other things, macroeconomic data such as expected GDP growth and expected inflation as well as salary trends. The planning also makes reference to expected demand for our products. These references are derived from macroeconomic and sector studies and CGU-specific modified. A further main driver for profitability is the expected gross profit per ton. This is projected based on normalized gross profit per ton.

In the planning period, an increase of turnover above the market growth and an increase in EBITDA is planned for the CGU North America. For this CGU, the recoverable amount exceeds the carrying amount by more than €100 million. A sensitivity analysis assuming an increase in turnover only at the overall expected market rate did not indicate any impairment. Also a reduction of EBITDA in the terminal value up to 10% or an increase of the discount rate by 50 bp would also not have resulted in a recoverable amount lying below the net assets of the CGU North America.

For the reporting period, a pre-tax discount rate of 12.2% (2012: 13.8%) was applied for the CGU North America. To calculate sustainable future growth of the goodwill-carrying CGU, a general growth rate of 1% is used.

The Company operates in a volatile environment with forecasting uncertainty. Management, however, does not expect that negative changes in the material assumptions will occur.



## b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total property, plant and equipment
Cost as of January 1, 2012	806,629	338,868	279,264	13,715	1,438,476
Accumulated amortization and impairments	– 374,540	– 217,394	– 207,061	-	– 798,995
<b>Balance as of January 1, 2012</b>	<b>432,089</b>	<b>121,474</b>	<b>72,203</b>	<b>13,715</b>	<b>639,481</b>
Exchange rate differences	– 415	– 721	– 27	– 149	– 1,312
Additions	8,640	12,857	12,985	16,876	51,358
Disposals	– 7,503	– 2,609	– 786	– 63	– 10,961
Depreciation, amortization and impairments	– 31,000	– 23,010	– 18,562	– 221	– 72,793
Transfers	5,078	7,111	2,487	– 14,676	-
<b>As of Dec. 31, 2012</b>	<b>406,889</b>	<b>115,102</b>	<b>68,300</b>	<b>15,482</b>	<b>605,773</b>
Cost as of December 31, 2012	792,745	342,758	286,353	15,482	1,437,338
Accumulated amortization and impairments	– 385,856	– 227,656	– 218,053	-	– 831,565
<b>As of January 1, 2013</b>	<b>406,889</b>	<b>115,102</b>	<b>68,300</b>	<b>15,482</b>	<b>605,773</b>
Exchange rate differences	– 6,370	– 3,061	– 1,270	– 290	– 10,991
Additions	11,367	17,822	9,608	11,671	50,468
Disposals	– 5,871	– 596	– 468	– 166	– 7,101
Depreciation, amortization and impairments	– 17,607	– 20,819	– 15,980	-	– 54,406
Transfers	3,859	3,299	7,310	– 14,468	-
Reclassification to assets held for sale	– 14,211	– 315	– 3	-	– 14,529
<b>Balance as of December 31, 2013</b>	<b>378,056</b>	<b>111,432</b>	<b>67,497</b>	<b>12,229</b>	<b>569,214</b>
Cost as of December 31, 2013	752,060	335,025	300,783	12,229	1,400,097
Accumulated amortization and impairments	– 374,004	– 223,593	– 233,286	-	– 830,883

Property, plant and equipment with a carrying amount of €62,569 thousand (2012: €72,578 thousand) was used as collateral to secure borrowings of the Group in the form of liens, denominated at €23,484 thousand (2012: €24,526 thousand).

In 2013, impairment losses of €179 thousand were incurred (2012: €16,476 thousand), of which € 5.665 thousand related to the closure and resizing of a location in Germany, Spain and the United Kingdom in the preceding year. Further impairments of €10,811 thousand were incurred in the context of the exit from the Eastern Europe activities.

The 2012 impairments €12,169 thousand mainly relate to land and buildings.



### Assets held under finance leases

The Group holds various assets under finance leasing contracts, the majority of which contain purchase options. As of the reporting date, the carrying amounts of capitalized assets were as follows:

(€ thousand)	Carrying amounts	
	December 31, 2013	December 31, 2012
Real estate	11,463	10,453
Technical equipment and machinery	-	236
<b>Total</b>	<b>11,463</b>	<b>10,689</b>

The described leasing objects mainly relate to Spain.

Upon completion of the lease term, assets under finance lease arrangement for which title passes to Klöckner & Co are reclassified from assets under finance leases to the respective asset class within property, plant and equipment.

#### c) Investment property

Investment property is only related to a Valencia premise. An official permit to now use the property for other than only industrial use was obtained. The appraised fair value of the premise amounts to €15.7 million and is based on a third-party appraisal. There was no rental income due to the fact that the building was demolished in 2010. The disclosed cost exclusively relates to land. Operating expenses attributable to the premises were neither incurred in 2013, nor in 2012.

### (16) INVENTORIES

(€ thousand)	December 31, 2013	December 31, 2012
Raw materials and supplies	335,675	335,353
Work in progress	2,877	1,912
Finished goods and merchandise	818,702	911,331
Advance payments	9,251	5,393
<b>Inventories</b>	<b>1,166,505</b>	<b>1,253,989</b>

Raw materials and supplies also include coils of steel service centers.

Of the inventories recognized as of December 31, 2013, €332,843 thousand (2012: €445,841 thousand) is stated at net realizable values. Allowances for write-downs to the net realizable value amount to €40,017 thousand (2012: €43,964 thousand). The amount expensed for inventory is equivalent to the cost of materials.

In addition to customary reservations of title, inventories with a carrying amount of €516,944 thousand (2012: €523,449 thousand) serve as collateral for financial liabilities. As of December 31, 2013, these credit lines were not used (2012: €47,946 thousand).



**(17) TRADE RECEIVABLES**

Trade receivables are generally invoiced in the local currency of the relevant Group company; in general export receivables in foreign currencies are hedged.

The Klöckner & Co Group regularly sells trade receivables under two ABS programs. The trade receivables are sold by the participating Group companies to special-purpose entities (SPE).

As the programs do not qualify for derecognition under the requirements of IAS 39, the receivables are reported on the Group's consolidated statement of financial position. The risks inherent to these receivables reside with Klöckner & Co.

The refinancing of the purchased receivables by the SPEs is therefore reported in the consolidated financial statements as loans from the conduits.

The carrying amount of the receivables of the Group companies participating in the ABS programs as of December 31, 2013 amounts to €441 million (2012: €516 million).

For further information to the ABS programs see Note 25 (Financial liabilities).

The following table provides information on the extent of credit risks attributable to trade receivables:

**Trade receivables**

Of which overdue by days as of the reporting date

(€ thousand)	Of which not overdue as of the reporting date	1–30 days	31–60 days	61–90 days	91–120 days	>120 days	Write-downs	Carrying amount
<b>December 31, 2013</b>								
709,936	542,839	113,438	23,303	6,859	2,865	20,632	– 23,215	<b>686,721</b>
<b>December 31, 2012</b>								
807,755	598,309	150,233	25,416	8,525	8,021	17,251	– 21,251	<b>786,504</b>

As of December 31, 2013, trade receivables in the amount of €5,196 thousand (2012: €5,344 thousand) of entities that do not participate in the Group's ABS programs were used as collateral for bank loans.



## (18) OTHER ASSETS

(€ thousand)	December 31, 2013		December 31, 2012 <sup>*)</sup>	
	Current	Non-current	Current	Non-current
<b>Other financial assets</b>				
Fair value of derivative financial instruments	439	-	919	-
<b>Other non-financial assets</b>				
Receivables from insurance companies	2,209	280	4,676	293
Commission claims	51,461	-	52,368	-
Reinsurance claims for pension obligations	-	3,994	-	4,205
Claims for other taxes	12,204	-	19,021	-
Prepaid expenses	12,519	3,545	9,698	56
Miscellaneous other assets	13,371	6,706	10,853	7,126
<b>Other assets</b>	<b>92,203</b>	<b>14,525</b>	<b>97,535</b>	<b>11,680</b>

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

Commission claims are primarily due to refunds and discounts from suppliers of inventory.

Miscellaneous other current assets include, among other things, debit balances in accounts payable of €1,528 thousand (2012: €1,274 thousand) and receivables on sale of properties in 2013 of €2,660 thousand (2012: €0 thousand).

## (19) CASH AND CASH EQUIVALENTS

Cash and cash equivalents predominantly include cash bank balances and short-term deposits. As of the reporting date none of these funds were restricted.

## (20) NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

As discussed in Note 5 (Acquisitions and disposals), the Group entered into an agreement to dispose of, among others, its subsidiaries Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland, and UAB Klöckner Baltija, Klaipeda, Lithuania, on November 30, 2012, which were not closed until 2013. The transaction met the classification criteria from the disposal group in accordance with IFRS 5.4. The final disposal gain amounted to €172 thousand. The carrying amounts of the non-current assets held for sale on the disposal date amounted to €13,462 thousand, respectively €6,391 thousand liabilities from the disposal groups.

Apart from disposal groups, assets that are no longer required are stated as held for sale.



The allocation of assets held for sale, disposal groups and connected liabilities to the segments is as follows:

(€ thousand)	December 31, 2013	December 31, 2012
<b>Europe segment</b>		
Land and buildings	13,164	1,129
Other non-current assets	-	534
Current assets	-	9,904
<b>Total assets</b>	<b>13,164</b>	<b>11,567</b>
– thereof cash and cash equivalents	-	975
Current liabilities/provisions	-	3,798
<b>Total liabilities</b>	<b>-</b>	<b>3,798</b>
– thereof financial liabilities	-	165
<b>Net assets</b>	<b>13,164</b>	<b>7,769</b>
<b>Americas segment</b>		
Land, buildings and machines	2,006	1,895

The increase in land and buildings held for sale by €10,995 thousand is due to the reclassification of property in the Netherlands.

Land and buildings of the Europe segment with a net profit of €693 thousand (2012: Segment Europe: €269 thousand) were sold. In addition, impairments on land and buildings of €370 thousand are included in the 2012 result.

## (21) EQUITY AND NON-CONTROLLING INTERESTS

### a) Subscribed capital

The subscribed capital of Klöckner & Co SE remains unchanged to the prior year at €249,375,000 and is divided into 99,750,000 no-par-value shares with the pro rata amount of €2.50 each of the share capital.

### Acquisition of treasury stock

Until May 24, 2017, the Management Board has permission to acquire up to 10% of the existing subscribed capital at the date of the Annual General Meeting on May 25, 2012 or – in case the amount is lower – the existing subscribed capital as of the date the permission is exercised. In addition, the Management Board was empowered to acquire the own shares also by use of derivative financial instruments (put options, call options or futures). The permission may be exercised in full or in part, in one single or multiple installments by the Company or subsidiaries, or by third parties on behalf of the Company or its subsidiaries. The permission may be exercised for any legal purpose; trading with treasury stock is prohibited. No use of this permission has yet been made.



### Conditional capital

Based on resolutions of the Annual General Meetings in 2009 to 2013, the Company's share capital was conditionally increased or modified as follows:

#### Conditional capital 2009

By resolution of the Annual General Meeting on May 26, 2010, the conditional capital 2009 established by the Annual General Meeting on May 26, 2009 in the amount of initially €11,625,000 and 4,650,000 shares, respectively, was adjusted so that the share capital is now conditionally increased by up to €16,625,000 by issue of up to 6,650,000 newly signed no-par-value shares. The corresponding Articles of Association are to be found in Section 4 para 4 (Conditional capital 2009).

#### Conditional capital 2010

The Annual General Meeting on May 26, 2010 also resolved that the subscribed capital was conditionally increased by up to €33,250,000 by issue of up to 13,300,000 new no-par-value shares. By resolution of the Annual General Meeting on May 20, 2011, Klöckner & Co's conditional share capital 2010 was modified so that the conditional increase was only up to €16,625,000 by issuance of up to 6,650,000 newly registered no-par-value shares. The corresponding Articles of Association are to be found in Section 4 para 5 (Authorized capital 2010).

#### Conditional capital 2011

By resolution of the Annual General Meeting on May 24, 2013, the conditional capital 2011 was revoked. The amendment of the Articles of Association was registered in the German Commercial Register on August 10, 2013.

#### Conditional capital 2013

The Annual General Meeting on May 24, 2013 also resolved that the share capital was conditionally increased up to €49,875,000 by issuance of up to 19,950,000 newly registered no-par-value shares. The corresponding Articles of Association are to be found in Section 4 para 6 (Authorized capital 2013).

The newly registered no-par-value shares are each entitled to profits from the beginning of the business year in which they are issued. The conditional capitals serve to grant subscription and/or conversion rights to the holders of option bonds and/or convertible bonds that are or were issued by the Company or a Group company in accordance with the authority of the respective Annual General Meeting of the Company.

### Authorized capital

By resolution of the Annual General Meeting on May 25, 2012, the Management Board was authorized until May 24, 2017 to increase the share capital in one or more occasions by €124,687,500 against cash or non-cash contributions by issuance of 49,875,000 no-par-value shares. The corresponding provisions in the statutes are to be found in Section 4 para 3 (Authorized capital 2012).



### Information pursuant to Section 21 para 1 and Section 22 para 1 German Securities Trading Act (WpHG – Wertpapierhandelsgesetz)

As of the date the financial statements were authorized for issuance, the following shareholdings in Klöckner & Co SE were held as per notifications received in accordance with Section 21 para 1 and Section 22 para 1 Securities Trading Act (WpHG):

Notifying Institutions	Domicile	Voting Interest in percent	Date on which threshold was met
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	3.01 <sup>*)</sup>	February 20, 2014
Allianz Global Investors Europe GmbH	Frankfurt am Main, Germany	3.047 <sup>*)</sup>	January 24, 2014
Interfer Holding GmbH	Dortmund, Germany	7.82	February 18, 2013
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	4.985 <sup>*)</sup>	January 4, 2013
Dimensional Holdings, Inc.	Austin, Texas, USA	3.064 <sup>*)</sup>	February 2, 2012
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	3.040 <sup>*)</sup>	December 29, 2011

\*) Partly attributed holding.

A full listing of notifications of increase over or decrease below threshold in accordance with Section 21 para 1 and Section 22 para 1 Securities Trading Act (WpHG) is attached as appendix to the notes to the consolidated financial statements.

#### b) Capital reserves

As of December 31, 2013 the capital reserves amount unchanged to €900,759 thousand.

#### c) Retained earnings

Retained earnings include the accumulated undistributed earnings of the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, as well as effects on equity from consolidation.

#### d) Accumulated other comprehensive income

Accumulated other comprehensive income comprises foreign currency translation adjustments resulting from the translation of the financial statements of foreign subsidiaries as well as net investments hedges in foreign subsidiaries and changes in the fair value of cash flow hedges as well as changes in actuarial gains and losses of pension commitments according to IAS 19, net of deferred taxes.

#### e) Non-controlling interests

Non-controlling interests represent third-party interest in consolidated subsidiaries.

#### f) Profit allocation

The Management Board and Supervisory Board propose to the Shareholder's Meeting to allocate the 2013 unappropriated profit of €16 million calculated in accordance with the German Commercial Code (HGB) in total to other revenue reserves.

The development of the individual components of controlling and non-controlling interests for the fiscal years 2013 and 2012 is presented in the summary of changes in equity.



**(22) SHARE-BASED PAYMENTS**

In 2006, the Group established share-based payment programs. Eligible for share-based payments are Management Board members as well as certain members of the senior management throughout the Group. The Group's plans are cash-settled virtual stock option plans.

**Management Board program**

The members of the Management Board are entitled to yearly virtual stock options ("VSOs"). The contracts provide for a cash payment to the beneficiary upon exercise of the option. The strike price is based on the average Klöckner & Co share price of the last 30 stock market trading days of the year prior to the issuance of the respective tranche. The cash payment amounts to the difference between the average share price (XETRA trading, Deutsche Börse AG, Frankfurt a. M., Germany) of the last 30 trading days prior to exercising the option and the respective strike price of the tranche. The settlement amount is capped at a maximum amount of €25 per option after adjustment of dividend payments made in the meantime and potential dilutive effects of capital increases. There are 130,200 outstanding VSOs from an existing contract with a cap of €37 per option. The vesting period for the first third of a tranche amounts to three years, for the second third four years and for the third part of the tranche five years as of its allocation. The tranches are allocated annually.

**Senior management programs**

In addition to the Management Board programs, 163,500 (2012: 164,000) virtual stock options for 2013 were granted and allotted to certain members of the senior management throughout the Group during the first half year of 2013. The conditions are largely identical to the Management Board program of Klöckner & Co SE. The vesting period amounts to four years.

The total number of outstanding rights developed as follows:

(Number of virtual stock options)	Management Board programs <sup>*)</sup>	Other executives	Total
<b>Outstanding at the beginning of the year</b>	<b>722,700</b>	<b>457,500</b>	<b>1,180,200</b>
Granted	260,900	163,500	<b>424,400</b>
Forfeited	– 60,000	– 5,000	<b>– 65,000</b>
<b>Outstanding at the end of the reporting period</b>	<b>923,600</b>	<b>616,000</b>	<b>1,539,600</b>
<i>thereof exercisable at the reporting date</i>	<i>40,300</i>	<i>25,000</i>	<i><b>65,300</b></i>
<i>weighted average remaining contractual lifetime (months)</i>	<i>63</i>	<i>52</i>	<i><b>59</b></i>
<i>range of strike prices (€/VSO)</i>	<i>8.53– 18.06</i>	<i>8.53– 18.06</i>	<i><b>8.53– 18.06</b></i>
<i>weighted average strike price (€/VSO)</i>	<i>10.92</i>	<i>11.64</i>	<i><b>11.21</b></i>

\*) Including 180,000 options of Ulrich Becker (2012: 240,000 VSOs) who left Klöckner & Co in 2012.

Neither in the 2013 financial year nor in 2012 were virtual stock options exercised. Accordingly, no payments for share-based compensation were made. The pro rata provision for share-based payments to the Management Board and senior management amounts to €2,210 thousand at the reporting date (2012: €1,340 thousand), the intrinsic value of the rights exercisable as of the reporting date amounted to €0 thousand (2012: €46 thousand). The additions to provision for share-based payments amounted to €860 thousand (2012: reversal of provisions €200 thousand).



### (23) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Klöckner & Co applied IAS 19 (revised 2011) for the first time in fiscal year 2013. The effects of first-time application of the revised standard on the consolidated financial statements are described in Note 4 (Significant accounting policies). Most employees in the Klöckner & Co Group have pension benefits, with the type of provision varying from country to country according to the national legal, economic and tax situation. Pension plans in the Group include both defined contribution and defined benefit plans as follows:

Depending on their year of entry, employees in Germany either have a defined benefit entitlement equaling a percentage of eligible salary for each qualifying year of service or, for new entrants from 1979, are entitled to a fixed capital amount scaled by salary band for each qualifying year of service. There are also individual entitlements for executive staff in accordance with various Essener Verband benefits plans. Older entitlements among these are employer-funded entitlements to pension benefits, while the more recent pension plans are defined contribution plans in which employees are able to add employee-funded contributions. The more recent entitlements feature a choice between a lump sum payment and an annuity. The total defined benefit obligation for all defined benefit plans in Germany is €178,462 thousand (2012: €176,899 thousand). This is partly offset by plan assets of €16,706 thousand (2012: €14,352 thousand), leaving a net defined benefit liability of €161,756 thousand (2012: €162,547 thousand).

Defined benefit plans in France include a collectively negotiated IFC plan that provides for a lump sum payment according to length of service and salary. There is also a final salary plan, closed to new entrants since 1989, for employees taken over from a former state corporation (IRUS plan). The total defined benefit obligation for all plans in France at the end of 2013 is €26,789 thousand (2012: €28,131 thousand). Some companies have voluntarily funded obligations with plan assets in the form of insurance policies in the amount of €612 thousand at the end of 2013 (2012: €507 thousand). This leaves a net defined benefit liability of €26,177 thousand (2012: €27,624 thousand).

In the United Kingdom, post-2003 new entrants have a defined contribution plan with equal employer and employee contributions at a fixed percentage of basic salary. Pre-2003 entrants instead have defined benefit entitlements through two legally independent pension funds that pay a life annuity. Both plans pay final salary benefits dependent on length of service. Governance of each plan is by a Board of Trustees. Both plans are required by law to fund the obligations with plan assets. There is an agreement with the Board of Trustees to make up any pension shortfall over the long term. Under the current investment strategy, equities account for 70% to 75%. The total defined benefit obligation for both defined benefit plans at the end of 2013 is €79,506 thousand (2012: €76,852 thousand). This is partly offset by plan assets of €66,414 thousand at the end of 2013 (2012: €61,358 thousand). This leaves a net defined benefit liability of €13,092 thousand (2012: €15,494 thousand).

In the Netherlands, the previous defined benefit plan was transitioned effective September 30, 2013 to a defined contribution plan and prior obligations settled by conversion into defined contribution entitlements. Existing provisions were reversed accordingly. Contributions are made both by the employer and employees. Contributions are a percentage of basic salary on a rising scale by age group. The restructuring was realized in two steps resulting in a curtailment in the amount of €7 million and a settlement of €7 million. The release of provisions led to a non-recurring discharge of personnel expenses in the amount of €14 million.

Swiss Group companies and their employees fund pensions through a pension fund with both employer and employees subject to contributions that rise with employee age. On retirement, the accumulated capital is converted into a life annuity using a conversion factor. The fund's internal governance is by a Board of Trustees (Stiftungsrat). As the pension fund is required under Swiss law to guarantee a minimum level of benefits on the capital paid in and, in the event of a pension shortfall, can impose restructuring measures that may be at the expense of the employer, the plan is accounted for as a defined benefit plan in accordance with IAS 19. The total defined benefit obligation in Switzerland at the end of 2013 is the equivalent of €404,274 thousand (2012: €404,315 thousand). This is partly offset by plan assets of €403,454 thousand at the end of 2013 (2012: €386,531 thousand). This leaves a net defined benefit liability of €820 thousand (2012: €17,784 thousand).



In the USA, pension benefits are provided in the form of a defined contribution plan and several defined benefit plans. A 401(k) plan gives employees the option to pay a set percentage of their basic salary into a fund, thus entitling them to a subsidy from the employer. Employees who joined the Company by December 31, 2013, have a defined benefit plan that provides a life annuity equaling a set percentage of eligible salary for each qualifying year of service. Alongside the aforesaid regular pension plans in the USA, there is also a retiree welfare plan, likewise closed to new entrants, with post-retirement health-care benefits for former employees of an acquired company. All of the above are funded plans. The pension plan bylaws provide for minimum funding if the funding quota drops below 80%, or 75% under at-risk assumptions. The retiree welfare plan is financed entirely out of provisions. The total defined benefit obligation is the equivalent of €135,614 thousand (2012: €157,828 thousand), compared with plan assets of €103,014 thousand (2012: €93,535 thousand). This leaves a net defined benefit liability of €32,600 thousand (2012: €64,293 thousand).

#### Risks associated with defined benefit plans

The main risk other than normal actuarial risk – including longevity risk and foreign exchange risk – relates to financial risk associated with plan assets.

On the pension liability side, this mostly means inflation risk on plans with salary-linked benefits (notably final salary plans); a marked rise in pay would increase the obligation under these plans. At Klöckner, plans of this kind exist only on a small scale or are largely closed to new entrants.

Regarding increases to pensions currently in payment, with one exception there is no pension arrangement within the Klöckner & Co Group that carries an obligation to increase the benefit amount in excess of inflation or in excess of the surplus generated on plan assets. Only for a number of entitlements for executive staff in Germany is there a commitment to increase benefits by 1% a year from retirement regardless of actual inflation.

The return on plan assets in accordance with IAS 19 R (2011) is assumed on the basis of the discount rate for the defined benefit obligation. If the actual rate of return is below the discount rate, the net liability goes up. For the funded plans, however, notably given the share of plan assets invested in equities, we expect that long-term returns will exceed the discount rate. Nonetheless, short- to medium-term fluctuations cannot be ruled out, with a corresponding effect on the net liability.

With the defined contribution plans, the Company pays contributions to private or state pension funds under statutory or contractual obligations. The Company's employee benefit obligations are settled on payment of the contributions. The amount recognized as expense for this purpose in the fiscal year was €6,823 thousand (2012: 7,428 thousand). This does not include employer contributions to the statutory pension insurance scheme. These come to €6,332 thousand in Germany (2012: €7,137 thousand).



In the fiscal year, the following actuarial assumptions were used in the actuarial calculations performed by third-party actuaries:

### 2013

In %	Germany	Switzerland	The Netherlands <sup>*)</sup>	United Kingdom	France	United States
Discount rate	3.40	2.00	3.50	4.50	3.40	4.19–4.86
Salary trend	2.50	1.50	2.00	2.35	2.00	3.50
Pension trend	2.00	0.00	1.20	3.20	1.25–2.00	0.00

<sup>\*)</sup> Upon switch to defined contribution plan.

### 2012

In %	Germany	Switzerland	The Netherlands	United Kingdom	France	United States
Discount rate	3.00	2.00	3.00	4.70	3.00	3.34–4.01
Salary trend	2.50	1.50	2.00	up to 2.50	2.00	up to 3.50
Pension trend	2.00	0.00	1.20	2.90	1.25–2.00	0.00

The discount rates reflect the bond markets' interest rates of the respective jurisdiction for high-quality corporate bonds with corresponding maturities. A uniform discount rate was selected for the eurozone.

The mortality assumptions used for pension accounting in the various countries show no change compared with the prior year and are as follows:

	2013	2012
Germany	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2010	BVG 2010
United Kingdom	PCMA00; SAPS	PCMA00; SAPS
France	INSEE 07–09; TPGH05	INSEE 07–09; TPGH05
United States	Retirement Plan 2000	Retirement Plan 2000



Provisions for defined benefit plans are consequently as follows:

(€ thousand)	December 31, 2013	December 31, 2012 <sup>*)</sup>
Defined benefit obligation of unfunded plans	193,122	195,742
Defined benefit obligation of fully or partly funded defined benefit plans	632,575	779,826
Fair value of plan assets	– 590,200	– 657,969
<b>Funded status</b>	<b>235,497</b>	<b>317,599</b>
IFRS 14 effect	78	-
<b>Provisions for pensions and similar obligations</b>	<b>235,575</b>	<b>317,599</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

There are also reimbursement rights – primarily life insurance policies and claims under other insurance policies – used to fund pension obligations. These changed as follows in the fiscal year:

(€ thousand)	2013	2012
<b>Reimbursement rights as of January 1</b>	<b>4,205</b>	<b>4,315</b>
Expected return	122	189
Actuarial gains and losses	3	-
Benefits paid	– 299	– 299
Disposals	– 37	-
<b>Reimbursement rights as of December 31</b>	<b>3,994</b>	<b>4,205</b>



The net provision changed as follows:

	Present value of benefit obligation		Fair value of plan assets		Net provision	
(€ thousand)	2013	2012 <sup>*)</sup>	2013	2012 <sup>*)</sup>	2013	2012 <sup>*)</sup>
As of January 1	975,568	877,140	- 657,969	- 609,134	317,599	268,006
<b>Included in statement of income</b>						
Service cost	18,404	16,436			18,404	16,436
Interest cost for pension plans	26,053	31,430			26,053	31,430
Interest income from plan assets			- 16,621	- 20,323	- 16,621	- 20,323
Administration expenses			1,219	1,206	1,219	1,206
	-					
Settlements/amendments	122,166	- 6,426	106,785	-	- 15,381	- 6,426
	- 77,709	41,440	91,383	- 19,117	13,674	22,323
<b>Included in other comprehensive income</b>						
Actuarial gains and losses due to change in demographic assumptions	- 5,527	- 7,191			- 5,527	- 7,191
Actuarial gains and losses due to change in financial assumptions	- 30,198	95,509			- 30,198	95,509
Experience gains and losses	- 2,736	- 1,226			- 2,736	- 1,226
Actuarial gains and losses			- 30,395	- 32,156	- 30,395	- 32,156
Foreign currency exchange rate differences	- 14,487	1,169	12,106	- 1,868	- 2,381	- 699
IFRS 14 effect					78	
	- 52,948	88,261	- 18,289	- 34,024	- 71,159	54,237
<b>Other</b>						
Employee contributions	17,344	16,752	- 17,344	- 16,752	-	-
Employer contributions			- 23,752	- 16,635	- 23,752	- 16,635
Benefits paid	- 47,015	- 47,830	35,771	37,693	- 11,244	- 10,137
Change in scope of consolidation and other transfers	10,457	- 195	-	-	10,457	- 195
	- 19,214	- 31,273	- 5,325	4,306	- 24,539	- 26,967
<b>As of December 31</b>	<b>825,697</b>	<b>975,568</b>	<b>- 590,200</b>	<b>- 657,969</b>	<b>235,575</b>	<b>317,599</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies). Adjustments in Switzerland are due to future employee contributions reducing the DBO under the new risk sharing regulations of IAS 19.93 (revised 2011). Also, administration costs in the USA and United Kingdom were taken into account increasing the service cost and reducing the actuarial gains/losses.



The table below shows how the defined benefit obligation would have been affected by changes in key actuarial assumptions:

(€ thousand)	2013
<b>Present value of benefit obligation if</b>	
discount rate would be higher by 50 basis points	772,791
discount rate would be lower by 50 basis points	885,437
the expected salary trend would be higher by 0.5%	831,958
the expected salary trend would be lower by 0.5%	820,535
pension increase would be higher by 0.5%	860,370
pension increase would be lower by 0.5%	812,041
longevity would be 1 year longer	844,730

The table below disaggregates plan assets into classes of asset:

(€ thousand)	December 31, 2013			December 31, 2012		
	Price quote from active market	No price quote from active market	Total	Price quote from active market	No price quote from active market	Total
Shares	191,230	38,498	229,728	215,904	32,676	248,580
Bonds	114,314	41,683	155,997	185,667	37,966	223,633
Real estate	29,036	104,943	133,979	32,014	103,253	135,267
Other assets	51,535	18,961	70,496	31,198	19,291	50,489
<b>Fair value of plan assets as of December 31</b>	<b>386,115</b>	<b>204,085</b>	<b>590,200</b>	<b>464,783</b>	<b>193,186</b>	<b>657,969</b>

Plan assets do not include any of the entity's own transferable financial instruments; plan assets that are property occupied by, or other assets used by, the entity totals €21,501 thousand in the fiscal year (2012: €15,770 thousand).



Pension expenses consist of personnel expenses and interest expenses, which are included in interest income, net:

(€ thousand)	2013	2012 <sup>*)</sup>
Service cost	– 18,419	– 16,436
Settlements/amendments	15,381	6,426
Interest expense on benefit obligation	– 26,053	– 31,430
Interest income from plan assets	16,621	20,323
Expected return on reimbursement rights	122	189
Administration expenses	– 1,219	– 1,206
<b>Net periodic benefit expense for defined benefit plans</b>	<b>– 13,567</b>	<b>– 22,134</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

The actual return on plan assets was €47,016 thousand in the fiscal year (2012: €52,479 thousand). The actual return on reimbursement rights was €125 thousand (2012: €189 thousand).

Experience adjustments (gains) to the present value of the defined benefit obligation in the year under review were €2,736 thousand (2012: €1,226 thousand); experience adjustments to the fair value of plan assets were €30,395 thousand (2012: €32,156 thousand).

The weighted average duration was 14 years. Employer contributions to plan assets for fiscal year 2014 are expected to amount to €17,486 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2014	32,504
- due in 2015	32,638
- due in 2016	33,786
- due in 2017	34,686
- due in 2018	36,332
- due 2019–2023	201,293



## (24) OTHER PROVISIONS AND ACCRUED LIABILITIES

Other provisions developed as follows:

(€ thousand)	As of January 1, 2013	Additions	Accretion	Utili- zation	Reversals	Other changes <sup>*)</sup>	As of December 31, 2013
<b>Other provisions</b>							
Other taxes	4,665	2,388	-	- 101	-	- 74	<b>6,878</b>
Personnel-related obligations							
– early retirement schemes	2,177	1,146	40	- 2,537	-	-	<b>826</b>
– anniversary payments	10,696	471	174	- 825	- 9	- 62	<b>10,445</b>
– other	43	84	-	-	- 30	- 3	<b>94</b>
Onerous contracts	8,934	1,791	-	- 3,168	- 197	- 85	<b>7,275</b>
Restructuring expenses	41,585	16,452	-	- 26,406	- 4,824	- 1,888	<b>24,919</b>
Litigation and other risks	15,129	1,372	-	- 11,045	- 675	- 4	<b>4,777</b>
Miscellaneous provisions	18,869	4,042	118	- 4,595	- 1,670	52	<b>16,816</b>
	<b>102,098</b>	<b>27,746</b>	<b>332</b>	<b>- 48,677</b>	<b>- 7,405</b>	<b>- 2,064</b>	<b>72,030</b>
<b>Other accrued liabilities</b>							
Personnel-related obligations	49,146	31,103	-	- 29,550	- 1,568	- 359	<b>48,772</b>
Outstanding invoices	18,003	13,249	-	- 11,124	- 800	- 856	<b>18,472</b>
Miscellaneous accrued liabilities	900	33	-	- 86	-	- 50	<b>797</b>
	<b>68,049</b>	<b>44,385</b>	<b>-</b>	<b>- 40,760</b>	<b>- 2,368</b>	<b>- 1,265</b>	<b>68,041</b>
<b>Other provisions and accrued liabilities</b>	<b>170,147</b>	<b>72,131</b>	<b>332</b>	<b>- 89,437</b>	<b>- 9,773</b>	<b>- 3,329</b>	<b>140,071</b>

\*) Change in scope of consolidation, foreign currency adjustments, reclassification and transfers to/from third parties.



Breakdown by maturities:

	December 31, 2013		December 31, 2012	
(€ thousand)	Non-current	Current	Non-current	Current
<b>Other provisions</b>				
Other taxes	18	6,860	-	4,665
Personnel-related obligations				
– early retirement schemes	733	93	2,032	145
– anniversary payments	10,445	-	10,697	-
– other	25	69	-	43
Onerous contracts	322	6,953	1,158	7,776
Restructuring expenses	-	24,919	-	41,585
Litigation and other risks	-	4,777	10,528	4,601
Miscellaneous provisions	5,357	11,459	5,354	13,514
	16,900	55,130	29,769	72,329
<b>Other accrued liabilities</b>				
Personnel-related obligations	-	48,772	-	49,146
Outstanding invoices	-	18,472	-	18,003
Miscellaneous accrued liabilities	-	797	-	900
	-	68,041	-	68,049
<b>Other provisions and accrued liabilities</b>	16,900	123,171	29,769	140,378

The provision for onerous contracts is based on procurement and sale contracts for goods and other contractual obligations.

The provisions for restructuring relate to obligations in respect of termination benefits granted in redundancy programs and other restructuring expenses. Further information regarding restructuring measures can be found in Note 6 (Special items in result).

Miscellaneous provisions include an amount of €1,072 thousand (2012: €1,559 thousand) for compensation payments to former employees of a subsidiary acquired in 2000 due to the insolvency of the relevant insurance company. Furthermore, provisions for environmental remediation including decontamination and other risks are included under this caption.

Last year's non-current provisions for legal fees and litigation and other risks included €10,479 thousand for guarantee obligations assumed in connection with the disposal of the steel trading business in the year 2000. Due to the incurment of the guarantee obligation, the provision was reclassified to provisions for pensions without affecting profit and loss.

Accrued liabilities for employee-related obligations include bonus payments of €29,915 thousand (2012: €29,801 thousand) and accrued vacation and accrued overtime of €15,939 thousand (2012: €16,314 thousand).



## (25) FINANCIAL LIABILITIES

The details of financial liabilities are as follows:

(€ thousand)	December 31, 2013				December 31, 2012			
	Up to 1 year	1–5 years	Over five years	Total	Up to 1 year	1–5 years	Over five years	Total
Bonds	98,114	169,809	-	267,923	12,389	250,223	-	262,612
Liabilities to banks	30,918	184,829	-	215,747	16,846	234,524	885	252,255
Promissory notes	53,543	183,474	-	237,017	79,592	266,947	-	346,539
Liabilities under ABS programs	502	188,444	-	188,946	392	159,675	-	160,067
Finance lease liabilities	1,072	435	-	1,507	1,065	1,508	-	2,573
	<b>184,149</b>	<b>726,991</b>	<b>-</b>	<b>911,140</b>	<b>110,284</b>	<b>912,877</b>	<b>885</b>	<b>1,024,046</b>

Financial liabilities of €23,484 thousand (2012: €24,526 thousand) are secured by mortgages. Furthermore, inventories listed in Note 16 (Inventories) as well as trade receivables according to Note 17 (Trade receivables) serve as collateral.

Transaction costs directly attributable to the issue of financial liabilities in the amount of €9,561 thousand (2012: €8,898 thousand) were offset against the respective liabilities.

**Bonds****Convertible bond 2010**

On December 22, 2010 Klöckner & Co issued a senior unsecured convertible bond with a volume of €186.2 million to institutional investors outside of the USA only.

The bond has a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond are entitled to require early redemption after five years at the principal amount plus accrued interest. Klöckner cannot call the bond within the first five years. After five years, Klöckner & Co may call the bond, if the Klöckner share price (over a certain period) exceeds 130% of the then prevailing conversion price. The original conversion price was set at €28.00, which represented a premium of 35.07% above the reference price of €20.73. The conversion price was reduced to €25.10 as a result of the 2011 capital increase and a dividend payment.

**Convertible bond 2009**

In June 2009, Klöckner & Co issued a bond with a nominal value of €97.9 million with a coupon of 6 % and an original maturity of five years until June 9, 2014. The initial conversion price was adjusted to €16.47 as a result of the subsequent capital increases and dividend payments. The bond cannot be called by the issuer within the first three years, and is callable thereafter, if Klöckner & Co's share price (over a certain period) exceeds 130% of the conversion price.

The obligor under the convertible bonds is Klöckner & Co Financial Services S.A., a wholly owned Luxembourg subsidiary. Payments under the bonds are guaranteed by Klöckner & Co SE. The bonds are convertible into existing or new shares of Klöckner & Co SE.



### Liabilities due to banks

In May 2013, the volume of the syndicated loan of €500 million was reduced to €360 million. It is provided by a syndicate of 11 banks. The previous term until May 2014 was extended to May 2016. The covenants require that gearing may not exceed 150% and the equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 23, 2013 may not decrease below €800 million. Violation of such financial covenants would not automatically result in an event of default but would require repayment of all outstanding amounts. Subsequent drawings would then be available, if the covenants are again met. Throughout the fiscal year 2013, the Group consistently complied with all covenants.

The existing Asset Based Lending facility in the USA amount to USD 325 million and has a maturity until the end of 2017.

Further liabilities due to banks exclusively comprise of bilateral borrowings of country organizations, which are primarily used to finance net working capital.

### Promissory notes

The time to maturity of the promissory notes issued in 2010 and 2011 is ranging between three and five years. The terms are also based on balance sheet-oriented covenants. Throughout the fiscal year 2013, the Group consistently complied with all covenants. €89 million of the total volume have a fixed interest rate and €146 million have a variable interest rate.

### Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group operates a European ABS program. In April 2013, the program with an original term until May 2014 was extended until May 2016. The volume of €360 million remained unchanged. The covenants agreed upon are also based on balance sheet-related.

The current United States ABS program has a maximum volume of USD 275 million (€199 million) and matures at the end of 2017.

At the end of the reporting period, the utilization of the program amounts to €190 million including interest and breaks down as follows:

(€ million)	December 31, 2013	December 31, 2012
European program		
– utilization	48	25
– maximum volume	360	360
American program		
– utilization <sup>*)</sup>	142	136
– maximum volume <sup>*)</sup>	199	208

<sup>\*)</sup> Translated at closing exchange rate.

The utilization of the programs is to be accounted for as secured borrowings given that the requirements for derecognition under IAS 39 of the receivables transferred were not met.



**Liabilities under finance leases**

Liabilities under finance leases have the following terms:

(€ thousand)	December 31, 2013	December 31, 2012
Due within one year	1,084	1,099
Due between one and five years	438	1,529
<b>Future minimum lease payments</b>	<b>1,522</b>	<b>2,628</b>
Due within one year	12	34
Due between one and five years	3	21
<b>Interest included in future minimum lease payments</b>	<b>15</b>	<b>55</b>
Due within one year	1,072	1,065
Due between one and five years	435	1,508
<b>Total present value of future minimum lease payments</b>	<b>1,507</b>	<b>2,573</b>

**(26) TRADE PAYABLES**

(€ thousand)	December 31, 2013	December 31, 2012
Advance payments received	1,488	902
Trade payables	635,284	632,621
Bills payable	200	-
<b>Trade payables</b>	<b>636,972</b>	<b>633,523</b>



## (27) OTHER LIABILITIES

(€ thousand)	December 31, 2013		December 31, 2012	
	Non-current	Current	Non-current	Current
<b>Other financial liabilities</b>				
Negative fair value of derivative financial instruments	3,445	17,547	41,756	13,480
Put option from business combinations	982	-	3,091	-
<b>Other non-financial liabilities</b>				
Social security contributions	-	9,895	-	10,075
Customers with credit balances	-	14,132	-	9,798
Liabilities to employees	-	1,231	-	1,684
Value-added tax liabilities	-	19,409	-	24,771
Other tax liabilities	-	5,545	-	6,596
Miscellaneous other liabilities	1,899	5,128	2,374	9,910
<b>Other liabilities</b>	<b>6,326</b>	<b>72,887</b>	<b>47,221</b>	<b>76,314</b>

For a potential subsequent transfer of the minority interest in the Brazilian Kloeckner Metals Brasil Group (former Frefer Group), put and call options were negotiated. The put option constitutes a financial liability and is subsequently to be measured at fair value through profit and loss.

Negative fair values of derivative financial instruments of €20,179 thousand (2012: €53,456 thousand) are attributable to cross-currency swaps designated as net investment hedges and interest rate swaps designated as cash flow hedges for which fair value changes, to the extent attributable to the effective portion of the hedging relationship, are directly recognized in equity and thus do not effect net income.

The decrease in non-current derivative financial instruments compared with the prior year is due to a significant variance in the underlying exchange rate, the settlement of a hedging instrument in 2013 and the reclassification of another hedging instrument from non-current to current.



## OTHER INFORMATION

### (28) INFORMATION ON CAPITAL MANAGEMENT

The Group determines the amount of its capital in relation to risk. The capital structure is managed and, if necessary, adjusted in line with changes in the economic environment. Options for maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

The capital management is based on gearing. Gearing is calculated as the ratio of net financial debt to equity attributable to shareholders of Klöckner & Co SE as stated in the statement of financial position less goodwill from business combinations subsequent to May 23, 2013. Net financial debt is calculated as the difference between financial liabilities (adjusted by transaction costs) and cash and cash equivalents reported on the statement of financial position. The Group's target is to maintain a gearing below 150% in order to be able to obtain financing at reasonable conditions.

Further information with regard to minimum equity capital requirements are provided in Note 25 (Financial liabilities).

Gearing – based on consolidated equity attributable to shareholders of Klöckner & Co SE – is calculated as follows:

(€ thousand)	December 31, 2013	December 31, 2012 <sup>*)</sup>	Variance
Financial liabilities	911,140	1,024,046	– 112,906
Transaction costs	9,561	8,898	663
Liquid funds	– 595,393	– 610,215	14,822
Net financial debt of disposal groups	-	– 810	810
<b>Net financial debt (before deduction of transaction cost)</b>	<b>325,308</b>	<b>421,919</b>	<b>– 96,611</b>
Consolidated shareholders' equity	1,445,472	1,502,371	– 56,899
Non-controlling interests	– 15,913	– 22,740	6,827
<b>Adjusted shareholders equity</b>	<b>1,429,559</b>	<b>1,479,631</b>	<b>– 50,072</b>
<b>Gearing</b>	<b>23%</b>	<b>29%</b>	

<sup>\*)</sup> Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. In addition, the 2012 amount was adjusted to the new loan agreement.



## (29) ADDITIONAL INFORMATION FOR FINANCIAL INSTRUMENTS

The carrying amounts and fair values by category of financial instruments are as follows:

**Financial assets as of  
December 31, 2013**

	Measurement in accordance with						
			IAS 39		IAS 17		
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
<b>Non-current financial assets</b>							
<i>Financial assets</i>	1,547	1,547	-	-	-	-	1,547
Loans and receivables	899	899	-	-	-	-	899
Financial assets available for sale	648	648	-	-	-	-	648
<i>Other non-current assets</i>	14,525	10,531	-	-	-	3,994	10,531
Loans and receivables	10,531	10,531	-	-	-	-	10,531
Not covered by the scope of IFRS 7	3,994	-	-	-	-	3,994	-
<b>Current financial assets</b>							
<i>Trade receivables</i>	686,721	686,721	-	-	-	-	686,721
Loans and receivables	686,721	686,721	-	-	-	-	686,721
<i>Other current assets</i>	92,203	79,321	439	-	-	12,443	79,760
Loans and receivables	79,321	79,321	-	-	-	-	79,321
Derivative financial instruments not designated in hedge accounting (held for trading)	439	-	439	-	-	-	439
Not covered by the scope of IFRS 7	12,443	-	-	-	-	12,443	-
<i>Liquid funds</i>	595,393	595,393	-	-	-	-	595,393
Loans and receivables	544,928	544,928	-	-	-	-	544,928
Financial assets available for sale	50,465	50,465	-	-	-	-	50,465
<b>Total</b>	<b>1,390,389</b>	<b>1,373,513</b>	<b>439</b>	<b>-</b>	<b>-</b>	<b>16,437</b>	<b>1,373,952</b>



**Financial liabilities as of  
December 31, 2013**

	Measurement in accordance with						
			IAS 39		IAS 17		
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
<b>Non-current financial liabilities</b>							
<i>Non-current financial liabilities</i>	726,991	726,556	-	-	435	-	741,467
Liabilities measured at amortized costs	726,556	726,556	-	-	-	-	741,032
Liabilities under finance leases	435	-	-	-	435	-	435
<i>Other non-current liabilities</i>	6,326	1,899	1,106	3,321	-	-	6,326
Liabilities measured at amortized costs	1,899	1,899	-	-	-	-	1,899
Derivative financial instruments not designated in hedge accounting (held for trading)	1,106	-	1,106	-	-	-	1,106
Derivative financial instruments designated in hedge accounting	3,321	-	-	3,321	-	-	3,321
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
<b>Current financial liabilities</b>							
<i>Current financial liabilities</i>	184,149	183,077	-	-	1,072	-	185,231
Liabilities measured at amortized costs	183,077	183,077	-	-	-	-	184,159
Liabilities under finance leases	1,072	-	-	-	1,072	-	1,072
<i>Current trade liabilities</i>	636,972	636,972	-	-	-	-	636,972
Liabilities measured at amortized costs	636,972	636,972	-	-	-	-	636,972
<i>Other current liabilities</i>	72,887	20,477	689	16,858	-	34,863	38,024
Liabilities measured at amortized costs	20,477	20,477	-	-	-	-	20,477
Derivative financial instruments not designated in hedge accounting (held for trading)	689	-	689	-	-	-	689
Derivative financial instruments designated in hedge accounting	16,858	-	-	16,858	-	-	16,858
Not covered by the scope of IFRS 7	34,863	-	-	-	-	34,863	-
<b>Total</b>	<b>1,627,325</b>	<b>1,568,981</b>	<b>1,795</b>	<b>20,179</b>	<b>1,507</b>	<b>34,863</b>	<b>1,608,020</b>



**Financial assets as of  
December 31, 2012<sup>\*)</sup>**

		Measurement in accordance with					
		IAS 39		IAS 17			
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
<b>Non-current financial assets</b>							
<i>Financial assets</i>	2,415	2,415	-	-	-	-	2,415
Loans and receivables	906	906	-	-	-	-	906
Financial assets available for sale	1,509	1,509	-	-	-	-	1,509
<i>Other non-current assets</i>	11,680	7,475	-	-	-	4,205	7,475
Loans and receivables	7,475	7,475	-	-	-	-	7,475
Not covered by the scope of IFRS 7	4,205	-	-	-	-	4,205	-
<b>Current financial assets</b>							
<i>Trade receivables</i>	786,504	786,504	-	-	-	-	786,504
Loans and receivables	786,504	786,504	-	-	-	-	786,504
<i>Other current assets</i>	97,535	77,148	919	-	-	19,468	78,067
Loans and receivables	77,148	77,148	-	-	-	-	77,148
Derivative financial instruments not designated in hedge accounting (held for trading)	919	-	919	-	-	-	919
Not covered by the scope of IFRS 7	19,468	-	-	-	-	19,468	-
<i>Liquid funds</i>	610,215	610,215	-	-	-	-	610,215
Loans and receivables	609,926	609,926	-	-	-	-	609,926
Financial assets available for sale	289	289	-	-	-	-	289
<b>Total</b>	<b>1,508,349</b>	<b>1,483,757</b>	<b>919</b>	<b>-</b>	<b>-</b>	<b>23,673</b>	<b>1,484,676</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).



**Financial liabilities as of  
December 31, 2012**

	Measurement in accordance with						
			IAS 39		IAS 17		
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
<b>Non-current financial liabilities</b>							
<i>Non-current financial liabilities</i>	913,762	912,255	-	-	1,507	-	947,498
Liabilities measured at amortized costs	912,255	912,255	-	-	-	-	945,991
Liabilities under finance leases	1,507	-	-	-	1,507	-	1,507
<i>Other non-current liabilities</i>	47,221	2,373	3,479	41,369	-	-	47,221
Liabilities measured at amortized costs	2,373	2,373	-	-	-	-	2,373
Derivative financial instruments not designated in hedge accounting (held for trading)	3,479	-	3,479	-	-	-	3,479
Derivative financial instruments designated in hedge accounting	41,369	-	-	41,369	-	-	41,369
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
<b>Current financial liabilities</b>							
<i>Current financial liabilities</i>	110,284	109,218	-	-	1,066	-	110,284
Liabilities measured at amortized costs	109,218	109,218	-	-	-	-	109,218
Liabilities under finance leases	1,066	-	-	-	1,066	-	1,066
<i>Current trade liabilities</i>	633,523	633,523	-	-	-	-	633,523
Liabilities measured at amortized costs	633,523	633,523	-	-	-	-	633,523
<i>Other current liabilities</i>	76,314	21,378	1,392	12,087	-	41,457	34,857
Liabilities measured at amortized costs	21,378	21,378	-	-	-	-	21,378
Derivative financial instruments not designated in hedge accounting (held for trading)	1,392	-	1,392	-	-	-	1,392
Derivative financial instruments designated in hedge accounting	12,087	-	-	12,087	-	-	12,087
Not covered by the scope of IFRS 7	41,457	-	-	-	-	41,457	-
<b>Total</b>	<b>1,781,104</b>	<b>1,678,747</b>	<b>4,871</b>	<b>53,456</b>	<b>2,573</b>	<b>41,457</b>	<b>1,773,383</b>



The fair values of current financial assets are largely identical to their carrying amounts. The fair values of financial liabilities reflect the current market environment as of December 31, 2013 for the respective financial instruments. The fair value is not reduced by transaction costs. For current financial liabilities for which no transaction costs are to be considered, the carrying amount approximates fair value.

Derivative financial instruments not designated in hedge accounting include a put liability incurred in the acquisition of the Brazilian Kloeckner Metals Brasil Group (former Frefer Group) for a possible transfer of the remaining non-controlling interests. The value is based on the discounted future profits. The projected results are derived from the business plan. The changes in the value of liabilities during the business year amounted to €2,109 thousand and are included in the financial result.

Any assets and liabilities recognized are accounted for at fair value and are regularly remeasured.



## Fair values by fair value hierarchy levels

Fair value measurement at the end of the reporting period by hierarchy

(€ thousand)	December 31, 2013	Level 1	Level 2	Level 3
<i>Non-current investments</i>	<b>1,547</b>		1,547	
Loans and receivables	<b>899</b>		899	
Financial assets available for sale	<b>648</b>		648	
<i>Other non-current assets</i>	<b>10,531</b>		10,531	
Loans and receivables	<b>10,531</b>		10,531	
<i>Trade receivables</i>	<b>686,721</b>		686,721	
Loans and receivables	<b>686,721</b>		686,721	
<i>Other current assets</i>	<b>79,760</b>		79,760	
Loans and receivables	<b>79,321</b>		79,321	
Derivative financial instruments not designated in hedge accounting (held for trading)	<b>439</b>		439	
<i>Liquid funds</i>	<b>595,393</b>		595,393	
Loans and receivables	<b>544,928</b>		544,928	
Financial assets available for sale	<b>50,465</b>		50,465	
<b>Total</b>	<b>1,373,952</b>	-	<b>1,373,952</b>	-
<i>Non-current financial liabilities</i>	<b>741,467</b>		741,467	
Liabilities measured at amortized costs	<b>741,032</b>		741,032	
Liabilities under finance leases	<b>435</b>		435	
<i>Other non-current liabilities</i>	<b>6,326</b>		5,344	982
Liabilities measured at amortized costs	<b>1,899</b>		1,899	
Derivative financial instruments not designated in hedge accounting (held for trading)	<b>1,106</b>		124	982
Derivative financial instruments designated in hedge accounting	<b>3,321</b>		3,321	
<i>Current financial liabilities</i>	<b>185,231</b>		185,231	
Liabilities measured at amortized costs	<b>184,159</b>		184,159	
Liabilities under finance leases	<b>1,072</b>		1,072	
<i>Current trade liabilities</i>	<b>636,972</b>		636,972	
Liabilities measured at amortized costs	<b>636,972</b>		636,972	
<i>Other current liabilities</i>	<b>38,024</b>		38,024	
Liabilities measured at amortized costs	<b>20,477</b>		20,477	
Derivative financial instruments not designated in hedge accounting (held for trading)	<b>689</b>		689	
Derivative financial instruments designated in hedge accounting	<b>16,858</b>		16,858	
<b>Total</b>	<b>1,608,020</b>	-	<b>1,607,038</b>	<b>982</b>



## Fair value measurement at the end of the reporting period by hierarchy

(€ thousand)	December 31, 2012	Level 1	Level 2	Level 3
<i>Non-current investments</i>	<b>2,415</b>		2,415	
Loans and receivables	<b>906</b>		906	
Financial assets available for sale	<b>1,509</b>		1,509	
<i>Other non-current assets</i>	<b>7,475</b>		7,475	
Loans and receivables	<b>7,475</b>		7,475	
<i>Trade receivables</i>	<b>786,504</b>		786,504	
Loans and receivables	<b>786,504</b>		786,504	
<i>Other current assets</i>	<b>78,067</b>		78,067	
Loans and receivables	<b>77,148</b>		77,148	
Derivative financial instruments not designated in hedge accounting (held for trading)	<b>919</b>		919	
<i>Liquid funds</i>	<b>610,215</b>		610,215	
Loans and receivables	<b>609,926</b>		609,926	
Financial assets available for sale	<b>289</b>		289	
<b>Total</b>	<b>1,484,676</b>	<b>-</b>	<b>1,484,676</b>	<b>-</b>
<i>Non-current financial liabilities</i>	<b>947,498</b>		947,498	
Liabilities measured at amortized costs	<b>945,991</b>		945,991	
Liabilities under finance leases	<b>1,507</b>		1,507	
<i>Other non-current liabilities</i>	<b>47,221</b>		44,130	3,091
Liabilities measured at amortized costs	<b>2,373</b>		2,373	
Derivative financial instruments not designated in hedge accounting (held for trading)	<b>3,479</b>		388	3,091
Derivative financial instruments designated in hedge accounting	<b>41,369</b>		41,369	
<i>Current financial liabilities</i>	<b>110,284</b>		110,284	
Liabilities measured at amortized costs	<b>109,218</b>		109,218	
Liabilities under finance leases	<b>1,066</b>		1,066	
<i>Current trade liabilities</i>	<b>633,523</b>		633,523	
Liabilities measured at amortized costs	<b>633,523</b>		633,523	
<i>Other current liabilities</i>	<b>34,857</b>		34,857	
Liabilities measured at amortized costs	<b>21,378</b>		21,378	
Derivative financial instruments not designated in hedge accounting (held for trading)	<b>1,392</b>		1,392	
Derivative financial instruments designated in hedge accounting	<b>12,087</b>		12,087	
<b>Total</b>	<b>1,773,383</b>	<b>-</b>	<b>1,770,292</b>	<b>3,091</b>



Financial instruments for which the fair value is obtained from quoted prices for similar instruments are classified as Level 1. If fair values are derived from directly observable market inputs those instruments are included in Level 2. Financial instruments for which the fair values are not based on observable market data are assigned to Level 3. The put liability agreed in connection with the Kloeckner Metals Brasil Group (former Frefer Group) acquisition, as described in Note 6 (Special items in result), is classified as a Level 3 financial instrument.

### Net income by measurement categories

Cash and cash equivalents, trade receivables and other receivables predominantly are of short-term maturity. Therefore, the carrying amounts at the reporting date closely approximate fair values.

The net result for the measurement category "Loans and receivables" consists of:

(€ thousand)	December 31, 2013	December 31, 2012
Exchange rate differences	- 2,400	79
Valuation allowance	- 8,723	- 9,835
<b>Subtotal</b>	<b>- 11,123</b>	<b>- 9,756</b>
Net income credit insurance	- 6,764	- 7,205
<b>Net result</b>	<b>- 17,887</b>	<b>- 16,961</b>

Calculation of net result listed in measurement category liabilities at amortized cost is based on the foreign currency exchange calculation. In financial year 2013, a net loss of €11 thousand (2012: €201 thousand) was incurred.

There were no impairment losses for non-current financial assets in 2013. The impairment loss for trade receivables in 2013 amounted to €12,054 thousand (2012: €14,421 thousand).

### Credit risks

The Company's exposure to credit risks mainly arises from its operating business. A credit risk is defined as an unexpected loss of financial assets, e.g., in case a customer is unable to meet its obligations within the appropriate period. Throughout the operating business, receivables are locally monitored on an ongoing basis. Valuation allowances are recorded to reflect credit risks.

The maximum exposure to credit risk is reflected by the carrying amounts of the financial assets reported in the statement of financial position. Klöckner & Co counters the credit risk with its own credit management and with credit insurance. In 2013, 54% (2012: 56%) of the trade receivables were covered by credit insurance.



### (30) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are accounted for at fair value in compliance with IAS 39.

In operating its business the Group is exposed to interest and currency risks. Such risks are hedged using derivative financial instruments.

The Group only uses standard instruments for which sufficient liquid markets exist. Derivative financial instruments are entered into and managed in compliance with internal directives that govern the scope of action, responsibilities and control systems. According to these directives, the use of derivative financial instruments is a key task of the Corporate Finance department of Klöckner & Co SE, which manages and coordinates such use. The transactions are concluded exclusively with counterparts with first-class credit ratings. Derivative financial instruments cannot be used for speculative purposes, but exclusively for hedging risks associated with underlying transactions.

IFRS 7 requires an entity to provide disclosure that enables users of financial statements to evaluate the nature and the extent of risks arising from financial instruments. These risks encompass, among others, credit risk, market risk and liquidity risk.

Information with regard to credit risk is provided in Note 29 (Additional information for financial instruments).

#### **Information on interest rate risk**

Klöckner & Co is exposed to interest rate changes due to the use of financial instruments. The hedging policy is designed to cover interest rate changes of variable interest rate bearing financial liabilities. The Group is facing interest rate exposure with regard to its central financing instruments in the eurozone as well as to bilateral lines of credit of its US subsidiaries. In addition, interest rate risks relate to the short-term deposits of liquid funds at banks. The central finance department monitors and controls the exposure of financial liabilities by using derivative interest rate financial instruments.

As part of the central Group financing, long-term financing needs in the eurozone are primarily refinanced by capital market instruments, such as convertible bonds with fixed coupons. Under the Group's hedging policy, variable interest bearing loans used for long-term financing are synthetically converted to a fixed rate using interest rate swaps. Due to their term and volume, these instruments qualify for cash flow hedge accounting.

Changes in interest levels will have an impact on the reserve for fair value adjustments of financial instruments included in equity, and are therefore separately recognized in the sensitivity analysis.

Under consideration of the convertible bonds, promissory notes and the fixed rate bilateral credit arrangements as of December 31, 2013, approximately 45% or €416.4 million (2012: €432.6 million) of the financial indebtedness before transaction costs was of a fixed rate nature. If hedging instruments are incorporated in the analysis, the amount of a fixed interest debt included in the financial indebtedness before deduction of transaction costs amounts to approximately 63%.

Under IFRS 7 interest rate risk and chances are assessed using sensitivity analyses in which the impact of interest rate changes on interest income and expense and equity as of the end of the reporting period is assessed. Interest rate risk is measured as cash flow risk.



The Group assesses equity and income statement effects with sensitivity analyses in which parallel shifting of the euro and US dollar yield curves are assumed within a scenario analysis. The cash flow impact from the parallel shifting only refers to interest income and interest expense in the following reporting period.

If interest rate levels for the relevant foreign currencies as of December 31, 2013 had been exceeded by 100 basis points, the financial result driven from financial liabilities and hedging instruments for the following year would have been impacted negatively by €3.5 million. Likewise, the value of derivative financial instruments designated as cash flow hedges would have been positively increased by €0.8 million, if the market interest level had increased by 100 basis points. This would have been reflected in equity in the reserve for fair value adjustments of financial instruments.

With regard to the liquidity reserves, the inside potential results from increasing interest rates. A higher market interest level of 100 basis points and an assumed term of one year would have a positive effect in the amount of €6.0 million.

#### Information on foreign currency exchange risk

Klößner & Co is exposed to foreign currency exchange risk resulting from financing activity, Group internal dividend payments and acquisitions of subsidiaries, as well as from operating activity.

The Group operates a central foreign currency exchange management. Foreign and domestic subsidiaries are required to identify foreign currency exposure and to communicate the exposure to the central finance department, or within certain thresholds, hedge the exposure with financial institutions. The hedging transactions, cover the exposure from actual and forecast transactions. With regard to forecast transactions compensating effects resulting from operating measures or market developments – so-called natural hedging – are taken into consideration when defining the hedging strategy.

At the end of the reporting period no material foreign currency exchange risks from the operating business or acquisitions were identified.

Foreign exchange risk in financing arises from foreign currency loans and net investments of the holding companies. As part of the central Group financing, these loans denominated in pounds sterling and US dollars, with a volume of €592.4 million (2012: €617.4 million), were granted to subsidiaries at year-end and were fully hedged.

Due to the volume, two US dollar financing arrangements (net investments) are hedged and designated as net investment hedges within the scope of hedge accounting.

Loans granted predominantly in US dollars and pounds sterling were hedged including interest payments via forward contracts and foreign currency swaps.

The impact of changes of foreign currency rates on foreign exchange gains and losses as well as on the Group's equity as of the balance sheet date is monitored by a sensitivity analysis. The exposure is assessed as cash flow risk for the following year.

The sensitivity analysis identifies compensating income effects of forward exchange contracts and swaps, since their maturity is consistent to the maturity of the underlying transaction.

Cross-currency swaps designated as net investment hedge may result in changes in the reserves for fair values of financial instruments included in equity. Increases or decreases in the US dollar to euro exchange rate would, if assessed in isolation, lead to changes of such reserves. However, compensating changes in the value of the underlying transaction would also be recorded in equity, because the underlying transaction is a net investment in a foreign subsidiary.



**Information on liquidity risk**

The demand for liquidity is constantly monitored by the Corporate Finance department to ensure appropriate levels of liquidity for the Klöckner & Co Group.

In the second quarter of 2013, the European ABS program was extended for two years until May 2016. At the same time, its volume remained unchanged at €360 million.

The syndicated loan was also extended until May 2013. The credit volume now also amounts to €360 million.

Liquid funds are invested in short-term deposits as well as in one bearer bond in the amount of €50 million. The bearer bond has a daily right of redemption at nominal value and was issued by a bank with first-class rating. The short-term deposits were invested with the Group's core banks. The solvency of these financial institutions is monitored on a regular basis.

Including the convertible bonds with a nominal amount of €284 million (2012: €284 million), the promissory notes of €235 million (2012: € 343 million) and finance leasing of approximately €1.5 million (2012: €3 million), the Group has facilities of approximately €2.0 billion (2012: €2.3 billion). Financial liabilities before deduction of transaction costs amounted to €921 million, (2012: €1,033 million) representing 47% (2012: 45%) of the credit facilities. This amount includes, among bilateral credit facilities, also the convertible bonds and drawings under the syndicated loan, for which hedge accounting is applied in accordance with IAS 39.

The volume of the promissory notes was reduced by €108 million in the year under review. The reduction includes scheduled repayments in the amount €75 million as well as early redemption in the amount of €34 million. In this respect, redemption agreements with two investors were signed for two tranches, which original maturity was mainly in 2014 and 2015.



The following table illustrates the contractual undiscounted interest and principal payments of the non-derivative and derivative financial instruments for the periods indicated.

December 31, 2013		Cash outflows			
(€ thousand)		Less than one year	1–5 years	More than 5 years	Total
Bonds	Nominal values	97,900	186,200	-	284,100
	Interest	10,529	4,655	-	15,184
	<b>Total</b>	<b>108,429</b>	<b>190,855</b>	<b>-</b>	<b>299,284</b>
Other bonds	Nominal values	-	-	-	-
	Interest	-	-	-	-
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Promissory notes	Nominal values	50,000	184,500	-	234,500
	Interest	8,899	10,056	-	18,955
	<b>Total</b>	<b>58,899</b>	<b>194,556</b>	<b>-</b>	<b>253,455</b>
Bank loans	Nominal values	28,590	190,553	-	219,143
	Interest	10,211	10,462	-	20,673
	<b>Total</b>	<b>38,801</b>	<b>201,015</b>	<b>-</b>	<b>239,816</b>
ABS	Nominal values	-	190,100	-	190,100
	Interest	6,891	20,664	-	27,555
	<b>Total</b>	<b>6,891</b>	<b>210,764</b>	<b>-</b>	<b>217,655</b>
Finance lease liabilities	Nominal values	1,005	502	-	1,507
	Interest	12	3	-	15
	<b>Total</b>	<b>1,017</b>	<b>505</b>	<b>-</b>	<b>1,522</b>
<b>Total financial liabilities</b>		<b>214,037</b>	<b>797,695</b>	<b>-</b>	<b>1,011,732</b>
Cash outflows from derivative financial instruments designated in interest hedging relationships		6,909	77	-	6,986



December 31, 2012

Cash outflows

(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	284,100	-	284,100
	Interest	10,500	15,184	-	25,684
	<b>Total</b>	<b>10,500</b>	<b>299,284</b>	-	<b>309,784</b>
Other bonds	Nominal values	8,877	-	-	8,877
	Interest	741	-	-	741
	<b>Total</b>	<b>9,618</b>	-	-	<b>9,618</b>
Promissory notes	Nominal values	74,500	268,500	-	343,000
	Interest	12,190	20,311	-	32,501
	<b>Total</b>	<b>86,690</b>	<b>288,811</b>	-	<b>375,501</b>
Bank loans	Nominal values	14,785	238,457	885	254,127
	Interest	5,736	4,570	18	10,324
	<b>Total</b>	<b>20,521</b>	<b>243,027</b>	<b>903</b>	<b>264,451</b>
ABS	Nominal values	-	160,932	-	160,932
	Interest	5,797	14,801	-	20,598
	<b>Total</b>	<b>5,797</b>	<b>175,733</b>	-	<b>181,530</b>
Finance lease liabilities	Nominal values	1,065	1,508	-	2,573
	Interest	34	21	-	55
	<b>Total</b>	<b>1,099</b>	<b>1,529</b>	-	<b>2,628</b>
<b>Total financial liabilities</b>		<b>134,225</b>	<b>1,008,384</b>	<b>903</b>	<b>1,143,512</b>
Cash outflows from derivative financial instruments designated in interest hedging relationships		8,529	7,065	3	15,597

Included are all financial instruments for which payments have already been fixed as of the end of the reporting period; expected payments on future obligations not yet incurred have not been included. Variable interest payments on financial instruments were determined on the interest rate fixed at the end of the reporting period. For the use of the revolving credit facility it was assumed that the level of drawings will be maintained until expiration of the facility.



The nominal and fair values of the derivative financial instruments used to hedge interest and foreign exchange exposures are as follows:

	December 31, 2013		December 31, 2012	
(€ million)	Not designated in hedge-accounting	Designated in hedge-accounting	Not designated in hedge-accounting	Designated in hedge-accounting
<b>Nominal values</b>				
Forward exchange transactions	264.5	-	206.3	-
Interest rate swaps	6.9	160.0	71.2	160.0
Cross-currency swaps	-	371.3	-	435.0
<b>Fair values</b>				
Forward exchange transactions	- 0.3	-	0.7	-
Interest rate swaps	- 0.1	- 5.9	- 1.5	- 12.4
Cross-currency swaps	-	- 14.3	-	- 41.0

The nominal values correspond to the gross sum of the currency and interest rate portfolio.

The fair values of the derivative financial instruments are determined on the basis of banks' quoted market prices or on financial formulae based on models commonly used by banks. The fair value calculation also considers the counterparty risk. If fair values exist they correspond to the amount third parties will pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in value in the underlying transactions.

Forward exchange transactions with a nominal amount of €264.5 million (2012: €206.3 million) have a remaining term of less than one year. To hedge its foreign currency exposure of net investments Klöckner & Co SE entered into cross-currency swaps maturing in December 2014 and in May 2016, respectively. With regard to the financing volume of USD 535 million, the principal swap was set to semi annual or quarterly interest payments in US dollars; the interest rate was fixed at the inception of the swap agreement. Due to the compensation of foreign exchange risks of the net investments, the cross-currency swaps qualify as a net investment hedge under IAS 39.

The interest rate swap designated in a hedging relationship serve the purpose of defining a credit volume of a total of €160.0 million at an interest level of 4.6% p.a. The original term of these transactions covered a period of up to seven years. The interest rate swaps are used to hedge variable euro interest rate debt of the holding companies, which relates to refinancing non-current assets.

To the extent attributable to the effective portion of the fair value changes of hedging instruments designated in hedge accounting, such fair value changes are recognized directly in other comprehensive income. For the period ending December 31, 2013, these fair value changes amounted to €33.2 million (2012: €10.4 million). The effective fair value changes of net investment hedges included therein amounted to €26.7 million (2012: €6.1 million).



In the second quarter in 2013, two interest rate swaps and two cross-currency swaps were due. While the hedge designation of the interest swaps was already dissolved in the fourth quarter of 2012, the two cross-currency swaps were qualified as net investment hedges until their due date. The cross-currency swaps' fair values' effective changes were not recognized in profit and loss.

Therefore, changes in the fair value until maturity of the interest rate swaps in June 2013 will impact profit and loss. Due to the termination of the hedge designation, these interest rate swaps will be disclosed as finance instruments without hedge accounting.

The interest rate swaps without hedge accounting include two additional interest rate swaps of Becker Besitz GmbH, Duisburg, in the total amount of €6.9 million. These hedging instruments serve to hedge bilateral credits with variable interest rates.

### (31) PENDING LITIGATION, COMMITMENTS AND CONTINGENT LIABILITIES

The Klöckner & Co Group is currently not subject to pending litigation that may have a material effect on the Group's net assets and results of operation. Despite the comprehensive set of compliance measures, however, it cannot be ruled out that isolated violations may arise or that there are yet undetected historic violations.

The liabilities on bills amount to €39 thousand (2012: €35 thousand). In addition, the Group issued guarantees in connection with the disposal of subsidiaries. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

In the Klöckner & Co Group, there are other financial obligations arising in particular from agreements that qualify as non-cancellable operating leases. Operating leases mainly relate to real estate, machinery, vehicles, telephone systems and computer hardware. In some instances the leases include purchase options.

The payments resulting from subleases during fiscal 2013 are total €837 thousand (2012: €1,753 thousand). The future minimum payments from subleases amount to €1,862 thousand (2012: €4,447 thousand).

The future payments to be made under these leases are as follows:

(€ thousand)	December 31, 2013	December 31, 2012
Due within one year	50,063	55,634
Due between one and five years	107,139	126,912
Due after five years	40,885	53,438
<b>Future minimum lease payments (nominal amounts)</b>	<b>198,087</b>	<b>235,984</b>

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €4,886 thousand as of December 31, 2013 (2012: €8,133 thousand).



**(32) RELATED PARTY TRANSACTIONS**

In the course of its ordinary business activities, the Klöckner & Co Group holds business relationships with numerous companies. These also include related parties that were accounted for at cost. Business relations with these companies do not fundamentally differ from trade relationships with other companies. No material transactions were conducted with any of these companies in the year under review.

Certain members of the Supervisory Board were or are Members of the Supervisory Board or Management Board of other entities. Klöckner & Co holds regular business relations with certain of such entities. Business with such entities is transacted at arm's length.

The compensation model of the Management and Supervisory Board is presented in detail and individually in the compensation report, which is included in the management report. The compensation of members of the Management Board of Klöckner & Co SE for their activities in 2013 amounted to:

(€ thousand)	2013	2012
Fixed components	2,005	1,560
Variable components	1,868	1,275
Other remunerations	205	88
Share-based payment	968	916
<b>Total</b>	<b>5,046</b>	<b>3,839</b>

Statutory pension provisions for former Management Board members amount to €2,821 thousand (2012: €2,125 thousand). In 2013, pension payments of €114 thousand were made to a former member of the Management Board.

Business with members of the Management Board is restricted to their above function as members of the Management Board.

In the 2013 financial year, remuneration for the Supervisory Board amounted to €480 thousand (2012: €338 thousand).

A list of the members of the Management Board and the Supervisory Board is included on pages 6 and 7 of this annual report.

Also a related party in accordance with IAS 24 is the pension fund of the Debrunner & Acifer Group, Switzerland. The pension fund leases premises to the Swiss subsidiaries. Rental expenses in 2013 for such premises amount to €1,370 thousand (2012: €1,354 thousand).



### (33) SUPPLEMENTAL CASH FLOW INFORMATION

The consolidated statement of cash flows is presented in line with IAS 7 (Cash Flow Statement). The statement of cash flows is of central importance in assessing the financial position of the Klöckner & Co Group.

The changes in the items of the statement of financial position that provide the basis for the statement of cash flows cannot be directly reconciled to the statement of financial position due to the effects of currency translation and changes in the scope of consolidation, which are eliminated in compiling the statement of cash flows.

#### Cash flow from operating activities

Cash flows from operating activities amounted to €143 million in the financial year 2013, compared to €101 million in 2012. Especially the release of funds tied up in net working capital contributed to this fact.

Net working capital decreased, net of foreign currency exchange effects and changes in the scope of consolidation, as follows:

(€ thousand)	Variance	
	2013/2012	2012/2011
Inventories	– 59,852	– 80,963
Trade receivables	– 85,084	– 117,186
Trade payables	– 18,166	106,754
<b>Net working capital</b>	<b>– 163,102</b>	<b>– 91,395</b>

#### Cash flow from investing activities

Capital expenditure for property, plant and equipment and intangible assets of €57 million led, under consideration of inflows from asset disposal and from the sale of the remaining Eastern European activities, to a net outflow of €36 million compared to net outflows of €34 million in 2012.

#### Cash flow from financing activities

Cash flow from financing activities of €– 117 million (2012: €– 440 million) includes repayments of promissory notes of €108 million. Already in 2012, a convertible bond with a volume of €325 million and a tranche of the syndicated loan in the amount of €65 million were repaid.

The business activities of the Klöckner & Co Group continuously generate short-term cash and cash equivalents. As a general rule they are used within one month to repay working capital credits.

#### Liquid funds

Liquid funds comprise cash and cash equivalents including short-term securities amounting to €595 million as of the end of 2013. Cash and cash equivalents include bank balances of €16,140 thousand (2012: €20,802 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the European ABS program.



## (34) SEGMENT REPORTING

	Europe		Americas		
(€ thousand)	2013	2012 <sup>*)</sup>	2013	2012 <sup>*)</sup>	
Sales	4,019,226	4,650,244	2,358,384	2,737,912	
– of which with third parties	4,019,226	4,650,103	2,358,384	2,737,912	
– of which with other segments	-	141	-	-	
Capital expenditure for intangible assets, property, plant and equipment	33,541	36,885	21,335	15,577	
Segment result (EBITDA)	89,853	10,949	60,467	78,770	
Earnings before interest and taxes (EBIT)	34,744	- 58,630	- 9,364	- 13,539	
Amortization and depreciation of intangible assets and property, plant and equipment	48,039	50,501	53,385	55,913	
Impairment losses for intangible assets and property, plant and equipment	7,069	19,078	16,446	36,396	
Other non-cash expenses/income	1,096	- 6,389	-	-	
Income taxes	- 20,519	- 12,655	8,627	9,380	

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

	Europe		Americas		
(€ thousand)	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	
Net working capital	755,934	825,513	457,774	579,128	
Net financial debt	441,695	328,713	622,459	742,502	
Employees at year-end (headcount)	6,895	7,672	2,588	2,815	



	Headquarters		Consolidation		Total	
	2013	2012 <sup>*)</sup>	2013	2012 <sup>*)</sup>	2013	2012 <sup>*)</sup>
	8,870	3,843	- 8,870	- 3,984	6,377,610	7,388,015
	-	-	-	-	6,377,610	7,388,015
	8,870	3,843	- 8,870	- 3,984	-	-
	3,006	3,246	-	-	57,882	55,708
	- 64,642	- 30,070	38,783	-	124,461	59,649
	- 70,091	- 32,690	38,781	-	- 5,930	- 104,859
	2,957	2,620	2	-	104,383	109,034
	2,493	-	-	-	26,008	55,474
	950	2,626	-	-	2,046	- 3,763
	365	- 14,775	-	-	- 11,527	- 18,050

	Headquarters		Consolidation		Total	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	2,546	2,329	-	-	1,216,254	1,406,970
	- 738,846	- 648,976	-	- 320	325,308	421,919
	108	108	-	-	9,591	10,595



The earnings before interest and taxes (EBIT) can be reconciled to the consolidated net income before taxes as follows:

(€ thousand)	2013	2012 <sup>*)</sup>
Earnings before interest and taxes (EBIT)	– 5,930	– 104,859
Financial result	– 72,784	– 79,783
<b>Income before taxes</b>	<b>– 78,714</b>	<b>– 184,642</b>

\*) Comparative amounts adjusted due to first time application of IAS 19 (Employee benefits) revised 2011. For further information refer to Note 4 (Significant accounting policies).

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. The internal reporting compiles information regarding the reportable segments Europe and Americas, which include all entities domiciled in those regions. Central functions that are not assigned to a segment, as well as the consolidation effects, are reported separately.

The segments use the same accounting policies described in Note 4 (Significant accounting policies), except for effects of intra-Group transactions (especially profit distributions and impairments on consolidated affiliated companies), which are eliminated within the individual segments.

The external sales comprise all sales generated with customers. Sales between segments are disclosed separately to allow reconciliation to consolidated sales. Intersegment sales – only deliveries from the central purchasing entity Klöckner European Operations GmbH, Duisburg – are invoiced at arms' length. EBITDA as a key performance indicator is defined as earnings before interest, taxes, depreciation and amortization and reversals of impairments of intangible assets and property, plant and equipment.

Net working capital comprises inventories and trade receivables less trade liabilities.

Non-cash income and expenses mainly relate to changes in fair values of derivative financial instruments.

#### Non-current assets by regions

Intangible assets, property, plant and equipment and investment property are broken down by regions as follows:

(€ thousand)	2013	2012
United States	496,505	549,488
Switzerland	189,280	193,809
Germany	109,906	124,511
Spain	50,715	53,681
France	47,173	53,637
Brazil	2,511	23,185
Other regions	58,484	79,185
<b>Total</b>	<b>954,574</b>	<b>1,077,496</b>



**(35) SUBSEQUENT EVENTS**

There were no subsequent events that would require disclosure in the notes to the consolidated financial statements.

**(36) FEES AND SERVICES OF THE AUDITOR OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, in the financial year:

(€ thousand)	2013	2012
Audit of financial statements	829	843
Other assurance services	145	154
Tax advisory services	54	94
Other services	113	29
	<b>1,141</b>	<b>1,120</b>

The fees for auditing primarily include the audit of the consolidated IFRS financial statements and audits of the stand-alone financial statements of the entities included in the consolidated financial statements. The other assurance services include, among others, reviews of interim financial statements.

The fees for tax advisory services relate to advice for individual matters and recurring consulting regarding tax returns as well as other national and international tax issues.

The fees for other services relate mainly to project-related consulting services.



(37) APPLICATION OF SECTION 264 PARA 3 AND SECTION 264 B HGB

In 2013, the following domestic subsidiaries made use in part of the exemption clause included in Section 264 para 3 and Section 264 b of the German Commercial Code (HGB):

- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Becker Besitz GmbH, Duisburg
- Becker Stahl-Service GmbH, Duisburg
- Becker Stahl GmbH, Bönen
- Becker Transport GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Umformtechnik Stendal UTS GmbH & Co KG, Stendal

(38) DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATIONS ACT (AKTG – AKTIENGESETZ)

On December 17, 2013, the Management Board and Supervisory Board issued the declaration of compliance in accordance with Section 161 German Stock Corporations Act (AktG) and made it permanently publicly available to the shareholders on the Klöckner & Co SE website.

Duisburg, February 24, 2014

Klöckner & Co SE

The Management Board

Gisbert Rühl  
Chairman  
of the Management Board

Marcus A. Ketter  
Member  
of the Management Board

Karsten Lork  
Member  
of the Management Board

William A. Partalis  
Member  
of the Management Board



## Independent Auditor's Report

### *Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Klöckner & Co SE, Duisburg, and its subsidiaries, which comprise the consolidated statement of financial position, the Group's consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2013.

### *Management's Responsibility for the Consolidated Financial Statements*

The management of Klöckner & Co SE is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to Section 315 a para 1 HGB [Handelsgesetzbuch: German Commercial Code], to give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The company's management is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Audit Opinion*

Pursuant to Section 322 para 3 sentence 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315 a para 1 HGB and give a true and fair view of the net assets and financial position of the Group as on December 31, 2013 as well as the results of operations for the business year then ended, in accordance with these requirements.

*Report on the Group Management Report*

We have audited the accompanying Group management report of Klöckner & Co SE for the business year from January 1 to December 31, 2013. The management of Klöckner & Co SE is responsible for the preparation of the Group management report in compliance with the applicable requirements of German commercial law pursuant to Section 315 a para 1 HGB [Handelsgesetzbuch: German Commercial Code]. We are required to conduct our audit in accordance with Section 317 para 2 HGB and German generally accepted standards for the audit of the Group management report promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit of the Group management report to obtain reasonable assurance about whether the Group management report is consistent with the consolidated financial statements and the audit findings, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 para 3 sentence 1 HGB, we state that our audit of the Group management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and Group management report, the Group management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 24, 2014

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai Christian Andrejewski  
Wirtschaftsprüfer

Dr. Markus Zeimes  
Wirtschaftsprüfer



## Declaration of the Management Board

### Declaration of the Management Board on the consolidated financial statements and the management report

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report for Klöckner & Co SE, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Duisburg, February 24, 2014

The Management Board

Gisbert Rühl

Chairman

of the Management Board

Marcus A. Ketter

Member

of the Management Board

Karsten Lork

Member

of the Management Board

William A. Partalis

Member

of the Management Board



# INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE



# KLÖCKNER & CO SE

## Statement of income for the period from January 1 to December 31, 2013

(€ thousand)	2013	2012
Other operating income	31,440	31,436
Personnel expenses	- 18,698	- 19,197
Depreciation of intangible assets and property, plant and equipment	- 5,550	- 2,331
Other operating expenses	- 32,851	- 44,639
Income from participations	227,393	75,726
Income from long-term loans	15,354	18,779
Other interest and similar income	23,396	23,956
Impairment of investments	- 155,584	-
Expenses from loss transfer agreements	- 11,352	-
Interest and similar expenses	- 57,195	- 74,617
<b>Result from ordinary activities</b>	<b>16,353</b>	<b>9,113</b>
Income taxes	- 193	- 1,851
<b>Net income</b>	<b>16,160</b>	<b>7,262</b>
Unappropriated profits carried forward	7,262	13,484
Appropriation to other revenue reserves	- 7,262	- 13,484
<b>Unappropriated profits</b>	<b>16,160</b>	<b>7,262</b>



# KLÖCKNER & CO SE

## Balance sheet as of December 31, 2013

### Assets

(€ thousand)	December 31, 2013	December 31, 2012
Intangible assets	6,407	8,970
Property, plant and equipment	757	842
Financial assets	1,106,339	1,284,685
<b>Fixed assets</b>	<b>1,113,503</b>	<b>1,294,497</b>
Trade receivables	120	145
Receivables from affiliated companies	542,356	545,024
Other assets	43,826	6,412
Securities	50,009	-
Cash and cash equivalents	367,563	440,880
<b>Current assets</b>	<b>1,003,874</b>	<b>992,461</b>
Prepaid expenses	22,793	30,890
<b>Total assets</b>	<b>2,140,170</b>	<b>2,317,848</b>



*Equity and liabilities*

(€ thousand)	December 31, 2013	December 31, 2012
<b>Equity</b>		
Subscribed capital	249,375	249,375
Capital reserves	917,601	917,601
Other revenue reserves	123,841	116,579
Unappropriated profits	16,160	7,262
<b>Equity</b>	<b>1,306,977</b>	<b>1,290,817</b>
Provisions for pensions and similar obligations	100,924	93,776
Provisions for taxes	4,393	6,109
Other provisions	30,818	45,189
Bonds	284,100	284,100
Liabilities to banks	400,153	510,212
Trade payables	924	1,511
Liabilities to affiliated companies	11,015	84,310
Other liabilities	866	1,824
<b>Total equity and liabilities</b>	<b>2,140,170</b>	<b>2,317,848</b>



# KLÖCKNER & CO SE

## Movements in intangible assets, property, plant and equipment and non-current investments in 2013 (annex to the notes)

	Intangible assets	Property, plant and equipment				Financial assets		Fixed assets
	Software	Buildings	Other equipment, operating and office equipment	Prepay-ments	Invest-ments in affiliated companies	Loans to affiliated companies	Invest-ments	Total
(€ thousand)								
Cost as of December 31, 2012	11,879	259	1,155	98	1,050,404	307,641	7	1,371,443
Accumulated amortization and depreciation	- 2,909	- 108	- 562	-	- 73,367	-	-	- 76,946
<b>Book value as of Dec. 31, 2012</b>	<b>8,970</b>	<b>151</b>	<b>593</b>	<b>98</b>	<b>977,037</b>	<b>307,641</b>	<b>7</b>	<b>1,294,497</b>
Additions	2,714	15	203	-	2,100	38,875	-	43,907
Disposals	- 30	-	-	-	- 43	- 63,694	-	- 63,767
Current year amortization and depreciation	- 5,320	- 38	- 192	-	- 116,801	- 38,783	-	- 161,134
Transfers	73	-	25	- 98	-	-	-	-
<b>Book value as of Dec. 31, 2013</b>	<b>6,407</b>	<b>128</b>	<b>629</b>	<b>-</b>	<b>862,293</b>	<b>244,039</b>	<b>7</b>	<b>1,113,503</b>
Cost as of December 31, 2013	14,636	274	1,316	-	1,064,282	282,822	7	1,363,337
Accumulated amortization and depreciation	- 8,229	- 146	- 687	-	- 201,989	- 38,783	-	- 249,834







# KLÖCKNER & CO SE, DUISBURG

## Notes to the financial statements for the 12-month period ending December 31, 2013

### 1. GENERAL INFORMATION

Klöckner&Co SE (the “Company”) is the parent company of the Klöckner&Co Group. It is the largest mill-independent distributor of steel and metal products and one of the leading operators of steel service centers in the combined European and American market. The distribution of steel and non-ferrous metals as well as the operation of steel service centers is the core business of the Klöckner & Co Group.

Klöckner & Co SE acts as the management company of operations of the Klöckner & Co Group. The Company directly controls the majority of the management companies of the domestic and foreign country operations and selected operating companies of the Group.

The shares of Klöckner & Co SE have been listed on the regulated market (Regulierter Markt, Prime Standard) of the Frankfurt Stock Exchange since the IPO on June 28, 2006, and the shares were added to Deutsche Börse's MDAX® index on January 29, 2007.

The statutory and the consolidated financial statements will be published in the Federal Gazette.

### 2. ACCOUNTING POLICIES

The financial statements for the financial year from January 1 to December 31, 2013 were compiled in accordance with the German Commercial Code (HGB – Handelsgesetzbuch) amended by the BilMoG and the German Stock Corporations Act (AktG – Aktiengesetz) as required for large corporations. Klöckner & Co SE compiles consolidated financial statements under International Financial Reporting Standards (IFRS) as adopted by the EU.

The presentation of the financial statements adheres to Sections 266–278 German Commercial Code (HGB).

#### Assets

Acquired intangible assets as well as property, plant and equipment are generally carried at cost less accumulated amortization and depreciation in accordance with the German Commercial Code. The option to capitalize internally developed intangible assets is not elected. Moveable property, plant and equipment subject to depreciation are amortized on a straight-line basis. Low-value assets are expensed on acquisition. Extraordinary depreciations are recognized, if the carrying amount exceeds the fair value. Other property and equipment is amortized over useful lives between three and 13 years.

Non-current financial assets are stated at acquisition cost; impairment losses are recognized for other than temporary declines in value.



Receivables and other assets are generally stated at cost. Specific valuation allowances are established to account for identifiable risks. Receivables denominated in foreign currencies are translated at the average exchange rate at the reporting date. Section 253 para 1 sentence 1 and Section 252 para 1 no. 4 HGB will not be applied on receivables with a remaining maturity of less than 12 months.

### **Equity and liabilities**

Provisions for pensions are measured using the projected unit credit method in analogy to IAS 19. In accordance with the requirements of BilMoG, the parameters for valuation were 2.5% (2012: 2.5%) for salary increase and 2.0% (2012: 2.0%) for pension increase. Unchanged, the biometrical parameters are based on Professor Dr. Klaus Heubeck's guidelines 2005 G. The obligation is discounted with the average market rate that is based on an assumed 15-year maturity and is published by the German Central Bank (Deutsche Bundesbank). At the reporting date this interest rate is at 4.89% (2012: 5.05%). Assets will be offset against the corresponding liability if they are excluded from the access of creditors and are exclusively used to fulfill pension obligations.

Other provisions account for all identifiable and pending risks. They are recorded at their settlement amount that is estimated with due care and diligence of a prudent businessman. Provisions with a maturity of more than one year are discounted on the reporting date. The average market rates of the previous seven years, according to the corresponding maturity of the provisions published by the German Central Bank, are used as discount rates.

Liabilities are generally stated at their settlement amount. Liabilities in foreign currencies with a maturity of up to one year are generally converted by the average rate on reporting date. Liabilities in foreign currency with a longer maturity are converted by the rate at initial issue or the higher average rate on the reporting date.

Derivative financial instruments are accounted for at fair value, i.e., they are either based on quoted market prices obtained from banks or are calculated using financial models similar to those used by banks. To the extent market values are available they reflect the amount for which third parties would be willing to assume the obligations under the financial instruments. The fair values as of the reporting date do not take into consideration changes in the underlying instruments. Positive fair values are reported as other assets; negative fair values are included in other liabilities.

Financial instruments, which are accounted for as a valuation unit in accordance with Section 254 of the German Commercial Code (HGB) due to volume and timing, compensate the risks of an underlying transaction. Under application of the net hedge presentation method, they are estimated according to the value on the date of issue. Changes in value regarding the hedged risk are not recognized, neither in the balance sheet nor in net income.

### **Income statement**

The income statement is prepared according to the nature of the expense method as per Section 275 para 2 HGB.

Interest cost on pensions is stated in net interest income.



### 3. FIXED ASSETS

The development of fixed assets in the reporting period is presented in the movement schedule.

Additions to intangible assets are exclusively affecting purchased software.

In the reporting period, impairments of €2,492 thousand (2012: €0 thousand) were made on software licenses mainly due to a shortening of the expected economic useful lives.

Due to the continuously weak market development and the related long-term interference of the profitability in the country organizations Germany, Great Britain, France and China, the carrying amounts of Klöckner Stahl- und Metallhandel GmbH, Duisburg (€32,803 thousand), of Klöckner UK France Holding Ltd., Leeds, Great Britain (€11,804 thousand), Klöckner Distribution Industrielle S.A., Aubervilliers, France (€66,194 thousand) and Klöckner Metals (Changshu), Co., Ltd., Changshu, China (€6,000 thousand), including a capital increase of €2,000 thousand made in 2013 were fully impaired.

The loans to affiliated companies are granted to Klöckner Metals Corporation, Wilmington, Delaware, USA, and to Klöckner Netherlands Holding B.V., Barendrecht as well as to Klöckner Distribution Industrielle S.A., Aubervilliers, France. The loan granted to Klöckner Distribution Industrielle S.A. in 2013 in the amount of €38,783 thousand was totally impaired.

A listing of all subsidiaries is presented in the appendix.

### 4. ACCOUNTS RECEIVABLE AND OTHER ASSETS

(€ thousand)	2013	2012
Trade receivables	120	145
Receivables from affiliated companies	542,356	545,024
Other assets	43,826	6,412
	<b>586,302</b>	<b>551,581</b>

Receivables from affiliated companies relate to the European cash pooling, profit transfer agreements, financial services as well as to the current clearing and current loans.

All receivables fall due in less than one year.

Other assets include receivables resulting from withholding tax recognized on investment income in the amount of €39,762 thousand.

Other assets of €3,941 thousand (2012: €4,116 thousand) have a remaining maturity of more than one year and relate to reinsurance claims.



## 5. SECURITIES

Securities relate to short-term money market investments.

## 6. PREPAID EXPENSES

The discounts on issuance of the convertible bonds of €61,597 thousand were capitalized as prepaid expenses and are amortized over the remaining maturity of the bonds. In 2013, amortization expenses included in interest expense amounted to €12,319 thousand (2012: €19,646 thousand), whereas the previous year's figure includes interest expenses for the bond repaid in July 2012. The remaining unamortized discounts stood at €16,259 thousand (2012: €28,579 thousand) at the end of the financial year 2013.

## 7. EQUITY

The Company's subscribed capital amounts unchanged to prior year to €249,375,000 and is divided into €99,750,000 shares. The calculated pro rata share of the capital stock amounts to €2.50 each.

By resolution of the Annual General Meeting on May, 25, 2012, the Management Board was authorized until May 24, 2017 to increase the share capital on one or more occasions by €124,687,500 against cash or non-cash contributions by issuance of 49,875,000 no-par-value shares. The corresponding provisions in the statutes are to be found in Section 4 para 3.

The revenue reserves are not subject to dividend blocking constraints according to Section 268 para 8 HGB.

The previous year's retained earnings of €7,262 thousand were allocated to the revenue reserves.

## 8. PROVISIONS FOR PENSIONS

The pension obligations of Klöckner & Co SE amounted to €110,934 thousand as of December 31, 2013 (2012: €102,927 thousand). The increase of the pension obligations mainly relates to the utilization of guaranty obligations in connection with the sale of the trading activities in 2000. The relating provisions in the amount of €10,479 thousand were reclassified accordingly from other provisions to provisions for pensions.

Plan assets exclusively consist of reinsurance claims for which the acquisition costs are equal to their fair values. They are measured at the asset value of the reinsurance policy and amount to €10,010 thousand (2012: €9,151 thousand). Plan assets accounted for at fair value are offset against the respective pension obligation (net presentation).

Expenses from the accretion of pension liabilities of €4,856 thousand (2012: €4,996 thousand) were offset against interest income from plan assets of €600 thousand (2012: €3 thousand).



## 9. OTHER PROVISIONS

Other provisions consist of:

(€ thousand)	2013	2012
Onerous contracts	5,931	13,918
Warranties	-	10,479
Personnel expenses	7,655	6,694
Outstanding invoices	2,240	1,252
Miscellaneous other provisions	14,992	12,846
	<b>30,818</b>	<b>45,189</b>

The provision for onerous contracts relates to currency and interest hedges. The provision for warranties in the previous year related to guarantee obligations for transferred pension obligations as part of the disposal of the trading activities in 2000. Due to a liability that has arisen, the provision was converted in provisions for pensions. Miscellaneous other provisions include an amount of €13,997 thousand (2012: €11,994 thousand) with regard to a debtor warrant bond for Klöckner Stahl- und Metallhandel GmbH, Duisburg, as part of the ABS program.

## 10. LIABILITIES

(€ thousand)	2013	thereof falling due		2012
		Less than one year	1– 5 years	
Bonds	284,100	97,900	186,200	284,100
Liabilities to banks	400,153	55,653	344,500	510,212
Trade payables	924	924	-	1,511
Liabilities to affiliated companies	11,015	11,015	-	84,310
Other liabilities	866	866	-	1,824
	<b>697,058</b>	<b>166,358</b>	<b>530,700</b>	<b>881,957</b>

On June 9, 2009, Klöckner & Co issued a convertible bond with an aggregated nominal value of €97.9 million, which was issued by Klöckner & Co Financial Services S.A. and is convertible into shares of Klöckner & Co SE. The maturity of this bond amounts to five years. The bond has a coupon of 6.0% per annum and – adjusted for the capital increase of the years 2009 and 2010 and a subsequent dividend payment – a conversion price of €16.47. The bond carries 5,945,250 options for conversion. On June 9, 2014, the bond will be repaid, thus it was recategorized in liabilities with a maturity of up to one year.

On December 22, 2010, Klöckner & Co Financial Services S.A. issued a senior unsecured convertible bond with a volume of €186.2 million to institutional investors outside of the USA only. This bond is also guaranteed by Klöckner & Co SE.



The bond has a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond are entitled to require the early redemption of the bonds after five years at the principal amount including accrued interests. Klöckner & Co cannot call the bond within the first five years. After five years, Klöckner & Co may call the bond if the Klöckner share price (over a certain period) exceeds 130% of the then prevailing conversion price. The conversion price was initially set to €28.00, representing a premium of 35.07%. The conversion price was subsequently adjusted for the 2011 capital increase and dividend payment to €25.10. The bond carries 7,419,199 options for conversion.

Liabilities to banks consist of €160,813 thousand (thereof with a maturity of less than one year: €813 thousand) of drawings under the syndicated loan prolonged in May 2013 and falling due on May 23, 2016.

In 2010 and 2011, the Company issued promissory notes of €343 million in total. The terms and conditions are predominately identical and the covenants are balance sheet-oriented. The instruments' times to maturity range between three and five years. A total of €108 million was repaid in the year under review.

Other liabilities include:

(€ thousand)	2013	2012
Tax liabilities	853	1,714
Social security contributions	13	110

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

The nominal values and fair values of the derivative financial instruments as of December 31, 2013 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	222.5	0.2
Interest rate swaps	160.0	– 5.9
Cross-currency swaps	371.0	– 14.3

Klöckner & Co SE assumes the Group's financing activities. Klöckner & Co SE is exposed to foreign currency risks due to the use of the financial instruments. They result from loans in foreign currencies lent to Group companies in the course of the central Group financing that are fully hedged. Therefore, derivative financial instruments were contracted.

Derivative financial instruments and the corresponding hedged transactions can be treated as a single valuation unit, if evidence of a clear hedge relationship can be provided. The clear relationship exists as micro-hedges for 34 forward exchange transactions as well as six cross-currency swaps with a maturity up to 2016. In these cases, the hedged transactions are recognized at the contractually agreed hedge rates and the derivative financial instruments are not recorded separately.

With regard to the financing volume of USD 535 million, the principal swap at the beginning and at the end of the term as well as semiannual or quarterly interest payments in US dollars, the interest rate was fixed at the inception of the swap agreement. For the period ending December 31, 2013, these fair value changes of the cross-currency swaps calculated according to the Critical-Terms-Match-Method amounted to €26.7 million (2012: €6.1 million).



The interest rate hedges do not meet the criteria to establish a valuation unit. In case of negative market values, a provision for onerous contracts will be recorded in the amount of the fair values. As of December 31, 2013, provisions of €5.9 million (2012: €13.9 million) were recorded.

Klöckner & Co SE only uses derivative financial instruments linked directly to hedged transactions.

The following methods are used to determine the fair value:

#### Foreign currency hedges

The fair value of foreign currency forward contracts is calculated on the basis of the average spot exchange rates applicable as at the financial statement date, adjusted for time-related premiums or discounts for the respective remaining term of the contract, compared to the contracted forward rate. The discounting includes the counterparty risk.

#### Interest rate hedges and cross-currency swaps

The fair value of interest and cross-currency swaps is determined by discounting the future cash flows based on the interest rates applying for the remaining term of the contracts. In addition, the valuation of cross-currency swaps takes into consideration the exchange rates of the foreign currencies of the cash flows as well as the counterparty risk at discounting.

## 12. COMMITMENTS

Future minimum lease payments for long-term operating leases relate in the amount of €4,009 thousand (2012: €3,822 thousand) to 2013 and in the amount of €8,269 thousand (2012: €11,829 thousand) to financial years 2015 until 2018.

## 13. OTHER OPERATING INCOME

Other operating income contains income attributable to prior periods of €215 thousand (2012: €1,298 thousand).

## 14. PERSONNEL EXPENSES

(€ thousand)	2013	2012
Wages and salaries	15,547	15,067
Social securities	1,114	1,188
Retirement benefit cost	2,031	2,929
Welfare	6	13
<b>Total</b>	<b>18,698</b>	<b>19,197</b>

Average number of employees:

	2013	2012
Salaried employees	100	102
Wage earners	2	2
<b>Total</b>	<b>102</b>	<b>104</b>



The compensation model of the Management and Supervisory Boards is presented in detail and individually in the compensation report, which is included in the management report. The compensation of members of the Management Board of Klöckner & Co SE for their activities in 2013 amounted to:

(€ thousand)	2013	2012
Fixed components	2,005	1,560
Variable components	1,868	1,275
Other remunerations	205	88
Share-based payment	968	916
<b>Total</b>	<b>5,046</b>	<b>3,839</b>

The underlying share-based compensation in 2013 is based on €260,900 thousand virtual stock options (2012: 240,900 options).

Statutory pension provisions for former board members amount to €2,821 thousand (2012: €2,125 thousand). In 2013, pension payments of €114 thousand were made to a former member of the Management Board.

Business with members of the Management Board is restricted to their above-mentioned function as members of the Management Board.

The contracts with the members of the Management Board allow for an extraordinary termination right, if a change of ownership of more 30% of the voting rights is incurred. If exercised, the Management Board members are entitled to receive the annual target remuneration (including a target bonus) until the end of their contract term. The payment is limited to the triple annual compensation received in the year of termination. There will no longer be the requirement to hold own investments. Until that point in time, locked own investment shares will be unlocked and then available for the respective board member. In addition, all unissued VSOs are deemed issued and may be exercised prior to completion of the vesting period, but not prior to the completion of a three-year waiting period from the respective date of issuance.

## 15. OTHER OPERATING EXPENSES

In the 2013 financial year, remuneration for the Supervisory Board amounted to €480 thousand (2012: €338 thousand).

Other operating expenses also include fees incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. Detailed information on audit fees can be obtained from Note 36 (Fees and services of the auditor of the consolidated financial statements) to the consolidated financial statements.

Other operating expenses of €144 thousand (2012: €74 thousand) relate to prior periods.

Losses from currency conversion amounted to €891 thousand (2012: €1,532 thousand).



## 16. INCOME FROM INVESTMENTS

	2013	2012
Income from profit transfer agreements	36,745	46,826
Dividends received from affiliated companies	190,648	28,900
	<b>227,393</b>	<b>75,726</b>

Dividends from affiliated companies include dividends from Becker Stahl-Service GmbH, Duisburg, and Debrunner Koenig Holding AG, St. Gallen, Switzerland. The income from profit transfer agreements results from contracts with Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner European Operations GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg, and Becker Besitz GmbH, Duisburg.

## 17. INTEREST INCOME, NET

(€ thousand)	2013	2012
Income from long-term loans		
– affiliated companies	15,354	18,779
Other interest and similar income		
– affiliated companies	13,334	14,253
– other interest and similar income	10,062	9,703
Interest and similar expenses		
– affiliated companies	– 11,097	– 14,353
– interest on provisions	– 4,256	– 4,993
– other interest and similar expenses	– 41,842	– 55,271
	<b>– 18,445</b>	<b>– 31,882</b>

The increase in interest income from affiliated companies and income from long-term loans resulted from the take-over of the Group financing. The interest expense on provisions exclusively relates to pensions provisions.

## 18. EXPENSES FROM LOSS TRANSFER AGREEMENTS

The expenses for loss transfer agreements relate to Klöckner Stahl- und Metallhandel GmbH, Duisburg.



## 19. TAXES

Taxes exclusively relate to taxes on income and burden the operating result in total.

The calculation of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 para 1 sentence 2 HGB the Company did not elect to recognize the net deferred tax asset. Therefore, the tax expenses do not include deferred taxes. The deductible temporary differences amount to €28,035 thousand (2012: €20,041 thousand) and are only partly offset by taxable temporary differences of €261 thousand (2012: €246 thousand). In addition, tax loss carry forwards exist, which could give rise to deferred tax assets and excess deductible temporary differences over taxable temporary differences.

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. Taxable temporary differences predominately relate to provisions for early retirement programs.

Due to a change in the composition of the fiscal unity, the combined tax rate for corporate income tax including the solidarity surcharge and trade tax was used to calculate deferred taxes and was adjusted to 31.6% (2012: 32.3%).

## 20. CONTINGENT LIABILITIES

The contingent liabilities of Klöckner & Co SE exclusively comprise of guarantees in the amount of €19,416 thousand (2012: €13,480 thousand) and relate to loans of foreign subsidiaries as well as guarantees and credit support for Group companies.

It is expected that all Group companies affected will meet their obligations. As such, we do not expect that the guarantees will be called in.



## 21. OTHER INFORMATION

### Information pursuant to Section 160 para 1 No. 8 German Stock Corporations Act (AktG)

In accordance with Section 21, para 1 and Section 22, para 1 Securities Trading Act (WpHG) the Company was notified as follows:

Notifying Institutions	Domicile	Voting Interest in percent	Date on which threshold was met
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	3.01 <sup>*)</sup>	February 20, 2014
Allianz Global Investors Europe GmbH	Frankfurt am Main, Germany	3.047 <sup>*)</sup>	January 24, 2014
Interfer Holding GmbH	Dortmund, Germany	7.82	February 18, 2013
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	4.985 <sup>*)</sup>	January 4, 2013
Dimensional Holdings, Inc.	Austin, Texas, USA	3.064 <sup>*)</sup>	February 2, 2012
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	3.040 <sup>*)</sup>	December 29, 2011

<sup>\*)</sup> Partly attributed holding, not cumulative.

A full listing of notifications when a threshold was met in accordance with Section 21 para 1 and Section 22 para 1 Securities Trading Act (WpHG) is attached as an annex to the notes to the consolidated financial statements.

### Corporate bodies

Effective January 1, 2013, Marcus A. Ketter took up the position as Chief Financial Officer (CFO) with Klöckner & Co SE. He is responsible for the finance and accounting department, controlling, tax department and internal audit, as well as IT.

As of February 1, 2013, Karsten Lork was appointed as member of the Management Board for the segments Europe and Asia.

A listing of the members of the corporate bodies is attached as an appendix.



**Declaration of compliance with the German Corporate Governance Code**

On December 17, 2013, the Management Board and Supervisory Board issued the declaration of compliance in accordance with Section 161 German Stock Corporations Act (AktG) and made it permanently available to the shareholders on the Klöckner & Co SE website.

**Profit distribution proposal**

The Management Board and the Supervisory Board propose to the Annual General Meeting to fully allocate the 2013 unappropriated surplus of €16,160 thousand to the other revenue reserves.

Duisburg, February 24, 2014

Klöckner & Co SE

The Management Board

Gisbert Rühl

Chairman

of the Management Board

Marcus A. Ketter

Member

of the Management Board

Karsten Lork

Member

of the Management Board

William A. Partalis

Member

of the Management Board



## Independent Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and its report on the position of the Company and the Group prepared by Klöckner & Co SE, Duisburg, for the business year from January 1 to December 31, 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 24, 2014

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai Christian Andrejewski  
Wirtschaftsprüfer

Dr. Markus Zeimes  
Wirtschaftsprüfer



## Declaration of the Management Board

To the best of our knowledge and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Klöckner & Co SE, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Duisburg, February 24, 2014

The Management Board

[Gisbert Rühl](#)  
Chairman  
of the Management Board

[Marcus A. Ketter](#)  
Member  
of the Management Board

[Karsten Lork](#)  
Member  
of the Management Board

[William A. Partalis](#)  
Member  
of the Management Board



**Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner & Co SE**  
**Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)**

No.	Entity	Interest in percent	
1	Klöckner & Co SE, Duisburg, Germany		
<b>I.</b>	<b>Consolidated affiliated companies</b>		
2	Klöckner & Co Financial Services S.A., Luxembourg	100.00	
3	Klöckner Shared Services GmbH, Duisburg, Germany	100.00	
4	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00	
5	Klöckner European Operations GmbH, Duisburg, Germany	100.00	
6	Kloeckner Metals (Changshu) Co., Ltd., Changshu, China	100.00	
7	Klöckner Stahl- und Metallhandel GmbH, Duisburg, Germany	100.00	
8	Klöckner Stahl und Metall Ges.m.b.H., Vienna, Austria	100.00	
9	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00	
10	Metall- und Service-Center Hunágría Kft. ,Budapest, Hungary	90.00	
11	Becker Stahl-Service GmbH, Duisburg, Germany	100.00	
12	Becker Stahl GmbH, Bönen, Germany	100.00	
13	Becker Transport GmbH, Duisburg, Germany	100.00	
14	Becker Besitz GmbH, Duisburg, Germany	100.00	
15	Umformtechnik Stendal UTS GmbH & Co. KG, Stendal, Germany	100.00	
16	Umformtechnik Stendal UTS GmbH, Stendal, Germany	100.00	
17	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00	
18	Debrunner Acifer AG, St. Gallen, Switzerland	100.00	
19	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00	
20	Molok (Valais) SA, Siders, Switzerland	100.00	
21	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00	
22	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00	
23	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00	
24	Klöckner Stahl AG, St. Gallen, Switzerland	100.00	
25	Koenig Feinstahl AG, Dietikon, Switzerland	100.00	
26	Metall Service Menziken AG, Menziken, Switzerland	100.00	
27	Bläsi AG, Bern, Switzerland	100.00	
28	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00	
29	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00	
30	ODS B.V., Rotterdam, The Netherlands	100.00	
31	ODS Metals N.V., Antwerp, Belgium	100.00	
32	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
33	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	100.00	
34	ODS METERING SYSTEMS ASIA Pacific PTE. LTE., Singapore, Singapore	100.00	
35	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00	
36	ASD Limited, Leeds, United Kingdom	100.00	

1) Profit and loss transfer agreement.



	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	1	EUR	2,820,116.80	113,183.31		-
	1	EUR	100,000.00	-		-
	1	EUR	160,025,000.00	-	1)	-
	1	EUR	69,889.06	-	1)	10,451,976.90
	1	CNY	7,178,444.23	- 21,554,878.53		38,611,036.80
	1	EUR	11,239,918.75	-	1)	798,014,196.46
	7	EUR	718,984.86	- 427,338.12		-
	8	EUR	13,467,239.37	3,446,355.15		79,651,356.16
	9	HUF	177,985,710.00	- 49,960,735.00		291,015,420.00
	1	EUR	106,473,763.43	-	1)	669,082,802.37
	11	EUR	597,887.48	-	1)	-
	11	EUR	72,652.29	-	1)	644,386.36
	1	EUR	25,000.00	-	1)	-
	11	EUR	4,215,861.93	126,944.78		13,093,215.98
	15	EUR	30,852.74	1,474.07		-
	1	CHF	170,694,468.26	31,687,063.64		-
	17	CHF	120,263,566.45	19,180,698.77		629,982,266.93
	17	CHF	10,611,422.54	1,472,612.76		62,101,460.32
	19	CHF	392,713.11	2,183.10		-
	17	CHF	8,052,068.61	932,337.80		38,263,300.21
	17	CHF	32,544,955.08	6,528,498.37		195,895,197.48
	17	CHF	4,997,569.11	214,640.76		-
	17	CHF	114,762.99	1,352.79		-
	17	CHF	16,294,122.80	20,787.08		57,413,429.56
	17	CHF	11,388,562.03	1,476,289.70		84,499,092.58
	17	CHF	22,967,465.50	2,818,468.50		48,029,523.90
	1	EUR	29,460,460.15	- 20,584,137.75		-
	28	EUR	20,438,179.02	372,282.35		-
	28	EUR	25,364,131.00	- 3,979,869.43		185,704,791.11
	30	EUR	3,752,271.02	- 142,273.72		12,140,709.13
	30	EUR	18,000.00	-		-
	30	BRL	7,036,242.86	485,208.62		34,002,269.19
	30	SGD	- 87,719.00	- 287,719.00		-
	1	GBP	25,240,673.00	- 1,478,905.00		-
	35	GBP	35,414,845.97	1,364,391.95		232,254,206.78



No.	Entity	Interest In percent	
37	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
38	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
39	ASD Westok Limited, Leeds, United Kingdom	100.00	
40	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
41	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
42	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
43	Klöckner Distribution Industrielle S.A., Aubervilliers, France	96.77	
44	KDI S.A.S, Aubervilliers, France	100.00	
45	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
46	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
47	Prafer SNC, Woippy, France	100.00	
48	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
49	AT2T S.A.S., La Grand Croix, France	100.00	
50	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
51	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
52	Klöckner Participaciones S.A., Madrid, Spain	100.00	
53	Comercial de Laminados S.A., Barcelona, Spain	100.00	
54	Hierros Del Turia S.A., Valencia, Spain	80.00	
55	Perfiles Aragón S.A., Zaragoza, Spain	100.00	
56	Cortichapa S.A., Valencia, Spain	100.00	
57	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00	
58	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
59	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
60	Kloekner Metals, Wilmington, Delaware, USA	100.00	
61	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
62	Macsteel Service Centers P.R. Inc., Wilmington, Delaware, USA	100.00	
63	California Steel & Tube LLC, Wilmington, Delaware, USA	100.00	
64	Macsteel Service Centers de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
65	Macsteel Productos de Acero S.A. de C.V., Apodaca, Mexico	100.00	
66	KLOECKNER METALS BRASIL S.A., São Paulo, Brazil	70.00	
67	Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil	99.99	
68	Rede Metal Plus Assessoria e Gestao Empresarial Ltda., São Paulo, Brazil	99.90	



	Held by entity no.	Local currency	Equity in local currency	Net Income in local currency		Sales in local currency
	35	GBP	20,000.00	-		-
	35	GBP	102.00	-		-
	35	GBP	11,536,894.18	317,777.00		13,607,531.00
	35	GBP	18,226,029.29	42,948.29		-
	35	GBP	100.00	- 3,229,166.00		60,539,860.00
	40	GBP	2,000,000.00	-		-
	1	EUR	122,132,441.00	6,646,661.00		-
	43	EUR	37,993,196.35	- 39,772,368.00		621,354,155.00
	44	EUR	- 69,108.00	265,851.00		48,266,865.00
	44	EUR	78,116,799.00	11,398,729.00		14,120,760.00
	44	EUR	3,480,346.00	251,372.00		8,795,046.00
	44	EUR	4,579,453.00	448,844.00		24,077,368.00
	44	EUR	572,579.00	- 2,924,972.00		61,455,674.00
	43	EUR	18,389,478.00	439,614.00		106,663,805.00
	43	EUR	14,235,045.75	303,529.22		43,232,728.39
	44					
	1	EUR	72,692,633.77	- 1,349,023.37		-
	52	EUR	6,527,771.38	- 5,467,064.54		108,447,424.50
	53	EUR	12,381,094.45	- 977,775.34		24,483,492.25
	53	EUR	631,690.09	- 1,234,689.07		18,925,394.90
	53	EUR	- 2,704,133.69	- 3,385,656.15		38,573,699.73
	53	EUR	3,006.00	-		-
	1	USD	518,989,651.21	- 7,274,050.03		-
	58	USD	296,086,638.47	7,637,500.00		-
	59	USD	760,567,462.80	- 12,825,913.10		3,138,588,694.99
	60	USD	2,320,845.34	1,740.01		-
	60	USD	985,975.69	- 292,827.00		6,963,108.19
	60	USD	7,612,606.55	1,408,514.35		30,911,615.25
	60	USD	8,586,413.15	952,680.11		65,650,303.95
	60	USD	146,473.54	12,237.93		-
	28	BRL	164,387,933.90	- 6,874,295.82		142,433,201.80
	66	BRL	- 1,976,003.06	- 234,423.68		1,490,530.55
	66	BRL	112,906.87	93,788.23		78,652.55



[illegible]

\*) Accounted for at amortized cost.







**Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner & Co SE**  
**Information pursuant to Section 160 para 1 No. 8 German Stock Corporations Act (AktG)**

Notifying Institutions	Domicile	Voting Interest in percent	Date on which threshold was met
<b>Increase over threshold</b>			
Franklin Mutual Advisers, LLC <sup>1)</sup>	Wilmington, Delaware, USA	3.01	February 20, 2014
Allianz Global Investors Europe GmbH <sup>1)</sup>	Frankfurt am Main, Germany	3.047	January 24, 2014
Interfer Holding GmbH	Dortmund, Germany	7.82	February 18, 2013
Dimensional Holdings Inc. <sup>1)</sup>	Austin, Texas, USA	3.064	February 2, 2012
Templeton Investment Counsel, LLC <sup>1)</sup>	Wilmington, Delaware, USA	3.040	December 29, 2011
<b>Decrease below threshold</b>			
Allianz Global Investors Kapitalanlagegesellschaft mbH <sup>1)</sup>	Frankfurt am Main, Germany	2.985	March 26, 2013
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	4.985	January 4, 2013

1) Partly attributed holding.



# KLÖCKNER & CO SE

## Additional information concerning the consolidated and individual financial statements

### Additional mandates of the Members of the Management

#### Board of Klöckner & Co SE

(Section 285, no. 10 German Commercial Code (HGB – Handelsgesetzbuch))

#### Gisbert Rühl

Chairman of the Management Board

#### Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner Stahl- und Metallhandel GmbH, Duisburg (until February 4, 2013)
- Klöckner Participaciones S.A., Madrid/Spain (until February 13, 2013)
- Comercial de Laminados, Barcelona/Spain (until February 13, 2013)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland (until February 11, 2013)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (until February 12, 2013)
- Klöckner Investment S.C.A., Luxembourg/Luxembourg (until February 12, 2013)
- Klöckner USA Holding, Inc., Wilmington/USA
- Klöckner Namasco Holding Corporation, Wilmington/USA
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China (until February 8, 2013)
- ODS B.V., Rotterdam/The Netherlands (until February 11, 2013)

#### Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- RWE Power AG, Essen, Member of the Supervisory Board

#### Marcus A. Ketter

Member of the Management Board, CFO

#### Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner Investment S.C.A., Luxembourg/Luxembourg (since February 12, 2013 until August 1, 2013)
- Klöckner Stahl- und Metallhandel GmbH, Duisburg (since February 5, 2013)
- Klöckner Participaciones S.A., Madrid/Spain (since February 13, 2013)
- Comercial de Laminados, Barcelona/Spain (since February 13, 2013)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (since February 20, 2013)
- ODS B.V., Rotterdam/The Netherlands (since February 11, 2013)
- Klöckner USA Holding Inc., Wilmington/USA (since January 1, 2013)

#### Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

BCN Technical Services, Inc., Hastings, Michigan/USA, Member of the Board (until January 8, 2013)



**Karsten Lork**  
**Member of the Management Board (since February 1, 2013)**

**Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies**

- Klöckner Stahl- und Metallhandel GmbH, Duisburg (since February 5, 2013)
- Klöckner Participaciones S.A., Madrid/Spain (since February 13, 2013)
- Comercial de Laminados, Barcelona/Spain (since February 13, 2013)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland (since February 14, 2013)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (since February 12, 2013)
- ODS B.V., Rotterdam/The Netherlands (since February 11, 2013)
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China (since February 8, 2013)

**Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies**

None

**William A. Partalis**  
**Member of the Management Board**

**Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies**

- None

**Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies**

- None

**Additional mandates of the Members of the Supervisory Board of Klöckner & Co SE**  
**(Section 285 no. 10 HGB)**

**Prof. Dr. Dieter H. Vogel, Chairman**  
**Managing Partner, Lindsay Goldberg Vogel GmbH, Düsseldorf**

- Plasticum B. V., The Netherlands, Deputy Chairman of the Supervisory Board<sup>1)</sup> (until April 8, 2013)
- Weener Plastik GmbH, Deputy Chairman of the Advisory Board<sup>2)</sup>
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board<sup>2)</sup>
- Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Member of the Advisory Board<sup>2)</sup>
- HDI-Gerling Industrie Versicherung AG, Member of the Advisory Board<sup>2)</sup>
- denkwerk GmbH, Member of the Advisory Board<sup>2)</sup>

**Dr. Michael Rogowski, Deputy Chairman**  
**Former Chairman of the Management Board, Voith AG, Heidenheim**

- HDI V.a.G., Member of the Supervisory Board<sup>1)</sup> (until June 12, 2013)
- Talanx AG, Member of the Supervisory Board<sup>1)</sup> (until May 6, 2013)
- Carl Zeiss AG, Member of the Supervisory Board<sup>1)</sup> (until March 18, 2013)
- Vattenfall GmbH, Member of the Supervisory Board<sup>1)</sup>
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board<sup>2)</sup>

**Ulrich Grillo**  
**Chairman of the Management Board, Grillo-Werke AG, Duisburg**

- IKB Deutsche Industriebank AG, Member of the Supervisory Board<sup>1)</sup> (until September 5, 2013)
- Deutsche Messe AG, Member of the Supervisory Board<sup>1)</sup> (since May 1, 2013)
- Grillo Zinkoxid GmbH, Member of the Administrative Board<sup>2)</sup>
- RHEINZINK GmbH & Co. KG, Member of the Administrative Board<sup>2)</sup>
- Hamborner Dach- und Fassadentechnik GmbH & Co. KG, Chairman of the Advisory Board<sup>2)</sup>
- Zinacor S. A., Belgium, Member of the Board of Managers<sup>2)</sup>



**Robert J. Koehler**  
**Chairman of Management Board, SGL CARBON SE,**  
**Wiesbaden (until December 31, 2013)**

- Heidelberger Druckmaschinen AG, Chairman of the Supervisory Board<sup>1)</sup>
- Freudenberg & Co. KG, Member of the Board of Partners<sup>1)</sup>
- Freudenberg SE, Member of the Supervisory Board<sup>1)</sup>
- Lanxess AG, Member of the Supervisory Board<sup>1)</sup>
- Benteler International AG, Austria, Chairman of the Supervisory Board<sup>2)</sup>
- SGL Carbon S.p.A., Italy, Vice President of the Administrative Board<sup>2)</sup>
- SGL Carbon SDN BHD, Malaysia, Member of the Advisory Board<sup>2)</sup> (until December 31, 2013)
- SGL Carbon S.A., Spain, Member of the Administrative Board<sup>2)</sup> (until December 31, 2013)

**Hauke Stars**  
**Member of the Management Board, Deutsche Börse AG,**  
**Frankfurt/Main**

- GfK SE, Member of the Supervisory Board<sup>1)</sup>
- Clearstream Banking AG, Deputy Chairwoman of the Supervisory Board<sup>1)</sup> (since May 6, 2013)
- Eurex Frankfurt AG, Member of the Supervisory Board<sup>1)</sup> (since March 21, 2013)
- Deutsche Boerse Systems, Inc., USA, Member of the Board of Directors<sup>2)</sup> (January 2, 2013 until December 31, 2013)
- International Securities Exchange LLC, USA, Member of the Board of Directors<sup>2)</sup> (since February 21, 2013)
- Eurex Zürich AG, Switzerland, Member of the Board of Directors<sup>2)</sup> (since March 21, 2013)
- Clearstream Services S.A., Luxembourg, Member of the Board of Directors<sup>2)</sup> (since March 27, 2013)
- Clearstream Banking S.A., Luxembourg, Member of the Board of Directors<sup>2)</sup> (since August 2, 2013)
- Topaz Exchange, LLC, USA, Member of the Board of Directors<sup>2)</sup> (since July 26, 2013)

**Dr. Hans-Georg Vater**  
**Former Member of the Management Board, HOCHTIEF**  
**Aktiengesellschaft, Essen**

- Athens International Airport S.A., Greece, Member of the Board of Directors<sup>2)</sup>
- Universitätsklinikum Essen AöR, Member of the Supervisory Board<sup>2)</sup> (until January 9, 2013)

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).

<sup>2)</sup> Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).



# GLOSSARY

## **Asset-Backed Securitization Programs (ABS Programs)**

Group finance programs under which Klöckner trade receivables are converted into cash. Asset-backed securities are generally issued by a special-purpose entity, which are collateralized by an asset portfolio (i.e., Klöckner trade receivables). Within the program specified trade receivables are sold to special-purpose entities that are established for this purpose. The sole purpose of the special-purpose entities is to purchase receivables of Klöckner Group companies and to refinance such purchases by issuance of securities. As the programs do not meet criteria under the respective accounting standards, the legally transferred receivables are not derecognized from the Group's balance sheet, but the funds received are presented as loans due to the purchasers of the receivables.

## **Asset-Based-Lending**

Loan agreement under which the credit default risk is secured by the lender's assets (generally accounts receivable, inventory or property, plant and equipment).

## **Cap**

With a cap derivative financial instrument floating rate interest payments on bond liabilities can be limited to a defined maximum rate. If the maximum amount is exceeded, compensating payments in the amount of the difference between the maximum interest rate and the actual interest rate are made to the holder of the instrument.

## **Cash Flow Hedge**

A hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognized asset or liability, such as all or some future interest payments on variable rate debt or a highly probable forecast transaction that could affect profit or loss. If the hedge is considered highly effective, income effects of such instruments can be directly recorded in equity bypassing the income statement.

## **Conduits**

Conduits are special-purpose entities of banks in ABS programs that refinance themselves on the money market based on the purchase of receivables.

## **Counterparty risk**

Counterparty risk is the risk that a professional market participant defaults, i.e., is not paying its obligation when they become due. In addition to the regular credit risk it also includes in particular default risks of derivative financial instruments.

## **Cross Currency Swap**

Foreign exchange agreement between two parties to exchange a principal amount and the respective periodic interest payment of one currency for another and, after a specified period of time, to transfer back the original amounts swapped.

## **Derivative Financial Instrument**

Contractual agreement based on an underlying value (e.g., reference interest rate, securities prices, foreign exchange rates) and a nominal amount. Little or no payment is necessary at the time the agreement is concluded.

## **Dilution**

Describes the reduction in amount earned per share in an investment due to an increase in the total number of shares (e.g., due to convertible bonds). As the number of shares outstanding increases the proportional share embodied in each share decreases (i.e., dilutes).

## **Discounted Cash Flow Method (DCF)**

Valuation technique used to estimate the value of individual assets or group of assets. Under the approach all future cash flows are discounted to their present value as of the valuation date. The interest rate is determined using the Capital Asset Pricing Model (CAPM), a widely known approach in the financial asset portfolio theory.

## **EBITDA**

Earnings before interest, taxes, depreciation and amortization (EBITDA) is an internal metric that is used to evaluate profitability.

## **Fair Value**

The price at which assets, liabilities and derivative financial instruments are transferred from a willing seller to a willing buyer, each having access to all the relevant facts and acting freely.

## **Floor**

Financial instrument between two parties under which compensating payments are made to the holder of the instrument if the value of the underlying financial instruments falls under a defined threshold.

## **Foreign Currency Swap**

Financial instrument that combines a spot foreign exchange transaction and a forward foreign exchange transaction.

## **Free Cashflow**

Sum of cash inflows/outflows from operating activities and cash inflow/outflows from investing activities. Measure to assess financial funds generated to repay financial debt or pay dividends to shareholders.



**Goodwill**

Goodwill represents the amount by which an acquirer of a business is willing to pay in excess of all tangible and intangible less identifiable liabilities taking into consideration further earning potential.

**Impairment**

Additional depreciation or amortization for non-current assets with definite useful lives or only an acceptable method to reduce ("impair") the value of assets with indefinite useful lives in case of other than temporary decline of value. See also "Impairment Test."

**Impairment Test**

Test to assess the recoverable value for long-lived assets including goodwill. IFRS requires periodic assessment as to whether there are indications for other than temporary declines in value of long-lived assets. An impairment test is to be performed if internal or external indications for impairment arise. Regardless of such indications goodwill must be tested annually. In an impairment test the carrying amount of an asset is compared with its recoverable amount. If the recoverable amount is below the asset's carrying amount an impairment is recognized for the amount of the difference.

**Interest Collars**

Combination of floor and cap. Derivative financial instrument that provides compensating payments based on an underlying notional amount to the holder of the instrument when either the market interest rate falls under or exceeds the defined threshold.

**Interest Rate Swap**

An interest rate swap is a derivative in which one party exchanges a stream of interest payments (fixed or variable) for another party's stream of cash flows.

**International Financial Reporting Standards (IFRS)**

Under regulations No. 1606/2002 passed by the European Parliament and the European Council as of July 19, 2002, capital-market-oriented companies in the EU such as Klöckner & Co must apply IFRS for compiling their financial statements. Those standards encompass the statements issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) and the respective interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as well as the interpretations of the former Standing Interpretations Committee (SIC).

**Leasing**

Method of financing investments whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

**Monte Carlo Simulation**

Approach to calculate option values (e.g., virtual stock options). The price of the underlying share is calculated as statistical movement based on a large number of simulations. The individual simulations provide an expected payout to the plan participants based on the individual option agreement. The fair value of a virtual stock option is equal to the present value of the expected payout (average amount).

**Multi-currency Revolving Credit Facility**

Line of credit that has been issued by a number of participating banks by way of syndication with an initial term of three years allowing Klöckner & Co to draw funds in various amounts, currencies and maturities. This line of credit is primarily used for general-purpose financing.

**Net Financial Debt**

Net balance of cash and cash equivalents and financial liabilities.

**Net investment hedge**

A net investment hedge is used to hedge a net investment including long-term loans in a foreign operation.

**Option**

The right to buy or sell an underlying asset (e.g., securities) on a specific day or during a specified period of time at a predetermined price from or to a counterparty or seller.

**Regular-way Contracts**

A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

**Sale and Leaseback**

Special form of leasing in which usually real estate is sold to a leasing company, which then is leased back by the seller.

**Virtual Stock Program**

Stock-based compensation program for Management Board members and certain other executives, which is settled in cash. The exercise gain equals the difference between share price over a 30-day period prior to the exercise and the strike price at the exercise date.

**Working Capital**

Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.



# IMPORTANT ADDRESSES

## GLOBAL HEADQUARTERS

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– Marcus A. Ketter  
– Karsten Lork  
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– Kirk A. Johnson



# FINANCIAL CALENDAR 2014

<b>March 6, 2014</b>	Annual Financial Statements 2013 Financial statement press conference Analyst conference
<b>May 8, 2014</b>	Q1 interim report 2014 Conference Call with journalists Conference Call with analysts
<b>May 23, 2014</b>	Annual General Meeting 2014 Düsseldorf
<b>August 7, 2014</b>	Q2 interim report 2014 Conference Call with journalists Conference Call with analysts
<b>November 6, 2014</b>	Q3 interim report 2014 Conference Call with journalists Conference Call with analysts

Subject to subsequent changes.



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[www.kloeckner.com](http://www.kloeckner.com)





# DISCLAIMER

This report (particularly the "Forecast" section) contains forward-looking statements that are based on the current estimates of the Klöckner & Co SE management with respect to future developments. They are generally identified by the words "expect," "anticipate," "assume," "intend," "estimate," "target," "aim," "plan," "will," "endeavor," "outlook" and comparable expressions, and include generally any information that relates to expectations or targets for economic conditions, sales or other performance measures.

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Klöckner & Co's control. Among the relevant factors are the impact of important strategic and operating initiatives, including the acquisition or disposal of companies. If these or other risks or uncertainties materialize, or if the assumptions underlying any of the statements prove incorrect, Klöckner & Co's actual results may be materially different from those stated or implied by such statements. Klöckner & Co SE can offer no assurance that its expectations or targets will be achieved.

Without prejudice to existing legal obligations, Klöckner & Co SE does not assume any obligation to update forward-looking statements to take information or future events into account or otherwise.

In addition to the figures prepared in line with IFRS or HGB (Handelsgesetzbuch – German Commercial Code), Klöckner & Co SE presents non-GAAP financial performance measures, e.g., EBITDA, EBIT, net working capital and net financial debt.

These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS or HGB. Non-GAAP measures are not subject to IFRS or HGB or to other generally accepted accounting principles. Other companies may define these terms in different ways.

## **Rounding**

There may be rounding differences in the percentages and figures in this report.

## **Variances to the German version**

Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this Annual Report and the format submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

This English version of the Annual Report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.







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