ANNUAL
REPORT
2014
klöckner & co

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5 years in figures

(in € million)		2014	2013	2012*	2011	2010	Change in % 2014 – 2013
Shipments	Tto	6,598	6,445	7,068	6,661	5,314	+2.4
Sales		6,504	6,378	7,388	7,095	5,198	+2.0
EBITDA before restructuring		191	150	137	227	238	+26.9
EBITDA		191	124	60	217	238	+53.3
EBIT		98	-6	-105	111	152	n.a.
EBT		39	-79	-185	27	84	n.a.
EAT		22	-90	-203	10	80	n.a.
Earnings per share (basic)	€	+0.22	-0.85	-2.00	0.14	1.17	n.a.
Earnings per share (diluted)	€	+0.22	-0.85	-2.00	0.14	1.17	n.a.
Free cash flow		-82	107	67	-524	-196	n.a.
Cash flow from investing activities		-132	-36	-34	-483	-188	-270.5
Liquid funds		316	595	610	987	935	-46.9
Net working capital		1,321	1,216	1,407	1,534	1,017	+8.6
Net financial debt		472	325	422	471	137	+45.1
Equity ratio	%	39.4	40.2	38.7	39.2	37.0	-0.8 p
Balance sheet total		3,629	3,595	3,880	4,706	3,491	+0.9
Employees as of December, 31		9,740	9,591	10,595	11,381	9,699	+1.6

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

Review by quarter 2014

(in € million)		Q1 Jan. 1 – Mar. 31	Q2 Apr. 1 – Jun. 30	Q3 Jul. 1 – Sep. 30	Q4 Oct. 1 – Dec. 31
Shipments	Tto	1,633	1,720	1,690	1,555
Sales		1,572	1,680	1,675	1,577
EBITDA		45	56	59	31
EBIT		23	33	36	6
EBT		6	17	22	-6
EAT		3	10	15	-5

SALES

6,504 m

CUST

150,

EBITDA

191 m

BRANC

1

COUNTRIES

2

LOCA

DIVIDEND

€ 0.20 *

KEY FIGU

* Dividend proposal to the Annual General Meeting on May 12, 2015

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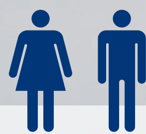


EMPLOYEES

9,740

HES IN

5

AND WITH

20

TIONS

SHIPMENTS

6,598 Tto

EQUITY RATIO

39.4 %

RES 2014

LETTER TO THE SHAREHOLDERS

Gisbert Rühl
CEO

Dear Shareholders,
Ladies and Gentlemen,

We have markedly improved earnings in the past two years in a persistently challenging environment. Regrettably, this has not yet shown through in our share price. Continuous improvement alone, it seems, is not enough to attract new investors. We must therefore increasingly break free from the grip of overcapacity and steel price volatility, and get back to faster growth while continuing to improve performance.

We are driving change along two main lines of thrust: Raising the share of sales accounted for by higher value-added products and processing as well as digitization of our supply and value chain. It goes without saying that higher value-added business mean more attractive margins that are less dependent on steel price trends. The subject of digitization calls for a little more explanation.

This is largely because digitization takes in such a wide range of things, from big new paradigms like Web 2.0 and Industry 4.0 to more minor changes such as the conversion of internal processes. For Klöckner & Co, digitization ultimately means a radical transformation of our business model via real-time interconnection with customers and suppliers.

In the years ahead, we will see digitization bring fundamental change in products and processes. This trend is already far advanced in industries like the media. Other sectors – steel, for one – still lag well behind. But all sectors will be affected in the end. Any company that fails to stay on top of these changes will be vulnerable – potentially at every link in the value chain but at least regarding its main value drivers.

We made an early start and have already come a long way in the transformation process. By the end of this year, customers in all countries we operate in will have access to our web shops. In parallel, we are now developing our web shop into a comprehensive customer portal.

We aim to generate over 50% of sales online within the next five years. Many in the market may consider that a very ambitious target. Given the huge benefits for all sides, I see no reason why we should not far exceed the 50% mark in five years' time.

To press ahead with the transformation process, we have launched kloeckner.i, our Digital Group Center of Competence in Berlin. Our goal is to recruit 20 e-commerce experts and software engineers there by the end of this year. Alongside this, we are currently in the process of setting up kloeckner.v to invest in startups. We chose Berlin for these activities because that is where an ecosystem is evolving that attracts specialists and entrepreneurs also from other countries.

Yet kloeckner.i is not just going to be a satellite out there on the edge of the Klöckner universe, working in isolation to spawn Internet products and services that will make a splash at operational level some day in the future. Quite the opposite: kloeckner.i is there to devise process innovations jointly with our workforce and customers and to propel digital integration. The jumping-off point is always what is in it for the customer. The challenge is to envision ways of simplifying and enhancing how customers work with us.

Ultimately, in a few years' time, we will use platforms that link us to all customers and suppliers in real time. All transactions will then be processed online. Whether those platforms will be sector-specific or cross-sectoral is yet to be seen. There will probably be both types. We want to take at least a lead role in building such platforms, rather than relinquishing control and offering products and services in unattractive segments of the value chain.

You see the scale of the transformation we have embarked upon. We have already framed an idea of what our business model will look like in future years. Yet we are also aware that not everything works the way we imagine. We will make mistakes and sometimes take the long way round. But we are absolutely convinced that this is the right way to set about releasing Klöckner & Co from the grasp of surplus capacity and steel price volatility.

At the same time, we are working all out on the ongoing implementation of our KCO WIN optimization program. The key objective of this program is to fine-tune pricing and thus succeed more systematically than ever in securing the margins on our products and services that are to be had in the market. To achieve this, we will make increasing use of software to obtain and analyze the data needed in pricing bids.

We aim to further boost the share of sales accounted for by higher value-added products and services from 34% in the reporting period to initially 45% in 2017. To do that, we are stepping up capital spending on assets like 3D lasers that can cut complex steel parts with high precision. Outsourcing operations such as these is attractive to many customers who

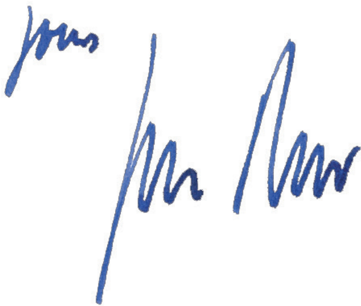
have conventional equipment that is cost-intensive and less accurate but who in most cases lack the scale to make a 3D laser pay. We achieve the necessary utilization levels by pooling orders from multiple customers – a classic win-win scenario.

The initiatives we have launched will also drive forward our organic growth and further improve profitability. The next milestone in our “Klöckner & Co 2020” growth strategy is an increase in the EBITDA margin from 2.9% in the reporting period to above 5.0% in 2017. This should also pave the way for dividend continuity. We have already taken a first step in that direction. The rise in operating income (EBITDA) to €191 million in the reporting period and the resulting net income of €22 million make it possible to distribute a dividend again for the first time after skipping the last three years. At the Annual General Meeting, the Supervisory Board and Management Board plan to propose a dividend of €0.20 per share.

Last but not least, I would like to thank our workforce, who with their tremendous dedication played the greatest part in improving our Group's situation. I am also very pleased to see the commitment which employees at all levels are bringing to the transformation process we have set in motion.

I very much hope that you, our shareholders, will stay with us as you have in the past, and accompany us as we move forward into the digital age.

Kind regards,



Gisbert Rühl
CEO

MANAGEMENT BOARD

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, Human Resources/ Legal & Compliance, Investor Relations & Corporate Communications and Strategic Group HR. As part of his responsibility for Corporate Development Mr. Rühl is in charge for implementing the digitalization strategy.

MARCUS A. KETTER

Chief Financial Officer
(CFO)

Born in 1968. CFO since January 1, 2013, appointed until December 31, 2020. He is functionally responsible for the headquarter departments Corporate Accounting, Corporate Controlling, Corporate IT, Corporate Taxes, Corporate Treasury and Internal Audit.

KARSTEN LORK

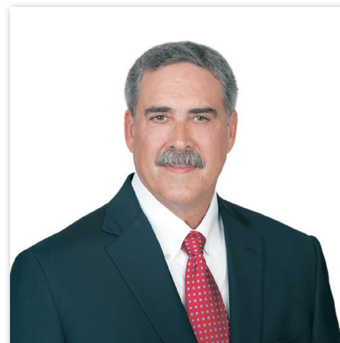
Member of the Management Board

Born in 1963. Member of the Management Board since February 1, 2013, appointed until January 31, 2021. He represents the European and Asian operations on the Management Board. He is functionally responsible for the divisions International Product Management & Global Sourcing and Supply Chain Development.

WILLIAM A. PARTALIS

Member of the Management Board

Born in 1953. Member of the Management Board since October 1, 2011, appointed until December 31, 2016. William A. Partalis represents the Americas segment on the Management Board. In addition, he is CEO of the US country organization.



SUPERVISORY BOARD

SUPERVISORY BOARD

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

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

ULRICH GRILLO
Chairman of the Management Board, Grillo Werke AG,
Duisburg, Germany,
President of the Federation of German Industries (BDI)

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

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

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

Executive Committee

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

PROF. DR. DIETER H. VOGEL
Chairman

DR. MICHAEL ROGOWSKI

ULRICH GRILLO

Audit Committee

DR. HANS-GEORG VATER[1]
Chairman

DR. MICHAEL ROGOWSKI

PROF. DR. DIETER H. VOGEL

[1] 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. Where appropriate, the Supervisory Board made use of external experts and relevant studies. 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 provided written and verbal information 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. Topics reported on at all Supervisory Board meetings included the overall economic climate, the industry situation and the business performance of the Klöckner & Co Group and its segments, with particular focus on Group key performance indicators and the performance of the Klöckner & Co share price. Risk exposure, risk management and compliance were also regularly covered in detail. One meeting was primarily dedicated to the Company's strategy and business model. The Management Board supplied the Supervisory Board with pertinent documentation in each case.

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 2014 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. It also included detailed comparisons and reconciliations between the current figures and the prior-year and budget figures. Furthermore, the CEO, in most cases together with another member of the Management Board, held monthly meetings with the Chairman of the Supervisory Board to report on, discuss and consult about current business developments, salient issues and upcoming decisions.

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, Dr. Hans-Georg Vater and Hauke Stars. 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. 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]). No members of the Supervisory Board are former members of the Company's Management Board or representatives of a stakeholder group.

The Executive Committee comprises Prof. Dr. Vogel (Chairman), Mr. Grillo and Dr. Rogowski. The Audit Committee is made up of 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 case of urgency, 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 CEO and the CFO.

The Supervisory Board held a total of four plenary meetings in fiscal year 2014. The Executive Committee held three meetings. On one occasion, the Executive Committee also passed a resolution by the written procedure provided for in Section 5 (3) of the Rules of Procedure for the Supervisory Board. The Audit Committee met five times in fiscal year 2014, including three meetings with the CEO and CFO to discuss quarterly reports (in each case including the condensed consolidated interim financial statements) before publication. At the plenary meetings, the committee chairmen reported regularly and in-depth on the subject matter and outcomes of committee meetings. All members of the Supervisory Board took part in the four plenary meetings in fiscal year 2014; likewise, all members of the Executive Committee took part in the three Executive Committee meetings and all members of the Audit Committee in the five Audit Committee meetings. Attendance at all Supervisory Board meetings including committee meetings was thus an outstanding 100%. 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 business situation, progress with the KCO 6.0 and KCO WIN action plans and implementation of the corporate strategy. Management Board matters and corporate governance issues were likewise on the agenda at several meetings. The KCO 6.0 restructuring program was largely completed in the course of the year under review. In France, however, despite major cutbacks in the branch network and the workforce, the ongoing market slowdown especially in the construction industry meant that it was not possible to bring the country organization out of the red. The Supervisory Board therefore agrees with the Management Board that further action will be needed to get it back into profit. On the other hand, the completion of restructuring measures in the Group's remaining country organizations led to significantly improved results. The same goes for the KCO WIN action plan adopted in the second half of 2012. KCO WIN focuses on efficiency-boosting measures with short-term earnings potential in sales and distribution, logistics and stockyard management. The Supervisory Board also assured itself that the Management Board's efforts to enhance differentiation as well as focus on higher quality products and above all higher value-added services are already showing quantifiable results. A drive to digitize all processes with suppliers and notably with customers aims to streamline and boost efficiency in the supply chain, connect more closely with customers and thus secure competitive advantages. In addition to the business and financial situation as well as progress being made with the action plans, topics discussed by the Supervisory Board at each meeting were as follows:

At its meeting on March 4, 2014, 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 annual financial statements for 2013, 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 2014 Annual General Meeting. The Supervisory Board also approved the signing of Control and Profit and Loss Transfer Agreements between the Company and Klöckner European Operations GmbH as well as between the Company and Klöckner Shared Services GmbH. In addition, the Supervisory Board prepared the commissioning of the auditors for auditing the Company's separate financial statements and consolidated financial statements for 2014. Concurring with the Executive Committee's recommendations, the Supervisory Board set the annual bonus for members of the Management Board for fiscal year 2013. In accordance with a further recommendation from the Executive Committee, the Supervisory Board also laid down the Management Board members' annual bonus targets for fiscal year 2014. Based on pertinent documentation, the Supervisory Board approved the renewal of the Company's European ABS program in slightly modified form; it further noted with approval the planned renewal of the Company's syndicated loan on unaltered terms. Moreover, the Supervisory Board approved the two-stage acquisition of Swiss reinforcing steel specialists Riedo Bau + Stahl AG by the Swiss country organization, Debrunner Koenig Holding AG.

The meeting of the Supervisory Board of May 23, 2014 was largely devoted to preparing for the Company's Annual General Meeting. Minor changes were also adopted both for the contracts of service with and the agreements governing virtual stock options for the members of the Management Board. The changes removed the blocking and waiting periods in the event of the death of a member of the Management Board.

Alongside the annual discussion focused on strategy as well as appraisal of the business and financial situation, the Supervisory Board meeting of September 29, 2014 was dedicated to the reappointment of William A. Partalis, the member of the Management Board responsible for the Americas segment, and the renewal of his contract. In the three years of his previous tenure, Mr. Partalis was, following the 2011 acquisition of Macsteel Service Centers USA, Inc., responsible for integrating two previously separate companies of roughly equal size but with very different corporate cultures. He built the merged unit into a dynamic, leading distributor in the American steel market. However, in deference to his personal plans, Mr. Partalis has been reappointed for only one additional two-year term to the end of 2016. In consultation with the Supervisory Board, Mr. Partalis will also work intensively during this time together with the CEO on identifying and assessing suitable – ideally internal – candidates to succeed him. Also on the agenda at the September meeting was a review of remuneration for members of the Management Board. With regard to Mr. Ketter and Mr. Lork, who only joined the Company in 2013 and had both lower basic compensation and a smaller number of virtual stock options than Mr. Partalis, it was decided on recommendation of the Executive Committee to adjust both compensation components up to the level granted to Mr. Partalis, the third ordinary member of the Management Board. Subject to commensurate performance, the two Management Board members had the prospect of this adjustment from the beginning of their contracts, but consultation on it was deferred the previous year due to the Company's poor earnings situation. On the Executive Committee's recommendation, the Supervisory Board resolved at the same time to increase the basic compensation and (target) bonus for the CEO in order to bring the latter's overall compensation into an appropriate and market standard relationship with the overall compensation of ordinary Management Board members. This now corresponds to the average ratio of CEO compensation to ordinary Management Board members' compensation among companies in the MDAX index. The appropriateness of the adopted remuneration adjustments was assessed taking into account external and internal comparisons and confirmed. The Supervisory Board also took account of the ratio of Management Board compensation to upper executive and employee compensation overall, including over time.

In the course of addressing the Klöckner & Co Group's current business and financial situation, the Supervisory Board meeting on December 9, 2014 notably dealt with the forecasts of the Company's key performance indicators at year-end as well as the budget for fiscal year 2015 and the two years beyond. The plenary Supervisory Board assured itself of the plausibility of, and gave its approval for, the budget presented by the Management Board. Once the Executive Committee had completed preparatory discussions, the Supervisory Board conducted a comprehensive, in-depth review of the efficiency of its activities. No need for action was identified. The Supervisory Board's December meeting also focused on

various corporate governance issues. As scheduled, the Supervisory Board and the Management Board jointly adopted the annual Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act. Governance issues under the German Corporate Governance Code as amended on June 24, 2014 were discussed in this connection. The model tables for the presentation of Management Board compensation, which were introduced in summer 2013 and for which the Government Commission on the German Corporate Governance Code provided clarified explanations with the latest amendment to the Code, are used for the first time in the Company's Remuneration Report for fiscal year 2014 (pages XX]. 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. Finally, the Supervisory Board discussed in detail with the Management Board the impacts of the proposed legislation introducing a women's quota together with the implications for the Company's boards and workforce as well as general personnel development issues.

REPORTS FROM THE COMMITTEES

Executive Committee:
At its March meeting, the Executive Committee addressed the topic of bonuses for Management Board members in fiscal year 2013 and submitted proposals for bonus setting to the plenary Supervisory Board. The Executive Committee also formulated targets for the Management Board bonuses for fiscal year 2014.

In its September meeting, the Executive Committee's consultations focused on the reappointment of Mr. Partalis together with the timely planning of his succession and the review of remuneration for members of the Management Board. In addition, the Executive Committee proposed to the plenary Supervisory Board that the in-depth efficiency review with regard to Supervisory Board activities that was scheduled for the reporting year should once again take the form of a self-appraisal.

At its December meeting, the Executive Committee discussed the results of the Supervisory Board's efficiency review. The Executive Committee also put forward a proposal for the annual declaration of compliance with the German Corporate Governance Code. A preliminary consultation on the budget for 2015 was also held with the CEO.

The committee did not meet in its capacity as Committee for Urgent Matters or Nomination Committee in the year under review.

Audit Committee:
The Audit Committee met five times in all, including three meetings preceding publication of interim financial reports. All Audit Committee meetings were held in the presence of the CEO and the CFO.

The three meetings on the draft interim financial reports focused on the development of the Group's business and financial situation, which the committee discussed with the Management Board members in attendance on the basis of key performance indicators. The Audit Committee generally brought up relevant points and suggestions that were then incorporated in the final version of the interim reports. Risk management and compliance topics were also generally addressed in connection with interim financial reporting.

In the two remaining meetings, in March and December 2014, the Audit Committee likewise discussed risk management and compliance issues with the CEO and the CFO. Discussions at the March meeting centered on the Company's annual and consolidated financial statements for 2013. 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 2013. At the same meeting, the Audit Committee went into the proposal for the election of the auditors for 2014 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 saw no need to recommend to the Supervisory Board additional focal points for the auditors' activities beyond the statutory mandate. At its December meeting, the Audit Committee once more consulted at length on the Group's internal control system as well as its opportunity and risk management system. No going-concern risk was identified in the half-year risk report on the Company compiled by the Corporate Internal Audit Department. Key findings from Internal Audit were discussed and the audit plan for fiscal year 2015 was adopted. As scheduled, the Company's Chief Compliance Officer gave his annual report at the December meeting.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory and Management Boards issued the updated Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG) following full consultation on December 9, 2014. The Declaration, which is permanently available to shareholders on the Company's website, states that Klöckner & Co SE complies with the recommendations of the German Corporate Governance Code (the Code), as amended, with only two exceptions, for which reasons are given. Firstly, the virtual stock option program for the Management Board still makes no reference to comparison parameters; and secondly, the payments promised in the event of premature termination of the Management Board members' contracts due to a change of control are not formally limited to 150% of the severance payment cap. The previous year's declaration had included three exceptions. Further information on corporate governance can be found on [pages XX et seq.] of this Annual Report.

The Management Board and the Supervisory Board keep abreast of changes to Code recommendations and suggestions along with their implementation. The Government Commission on the German Corporate Governance Code made no amendments or additions to the Code in fiscal year 2014. However, the Commission did clarify the explanations of the model tables for the presentation of Management Board compensation introduced in summer 2013. The Company presents information using the model tables as recommended in Section 4.2.5 of the Code for the first time in the Remuneration Report for fiscal year 2014 [pages XX].

AUDIT OF THE 2014 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Klöckner & Co SE's annual financial statements for fiscal year 2014, 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 to all members of the Supervisory Board in good time. 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 2, 2015 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 with regard to 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 of March 2, 2015, 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 the Annual General Meeting to resume dividend payments and allocate the remainder of net income available for distribution to other revenue reserves.

CHANGES ON THE BOARDS

The composition of the Supervisory Board of Klöckner & Co SE did not change in fiscal year 2014. There was likewise no change during the year under review in the composition of the Management Board.

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 what has remained a tough operating environment during the past fiscal year.

Duisburg, March 2, 2015

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

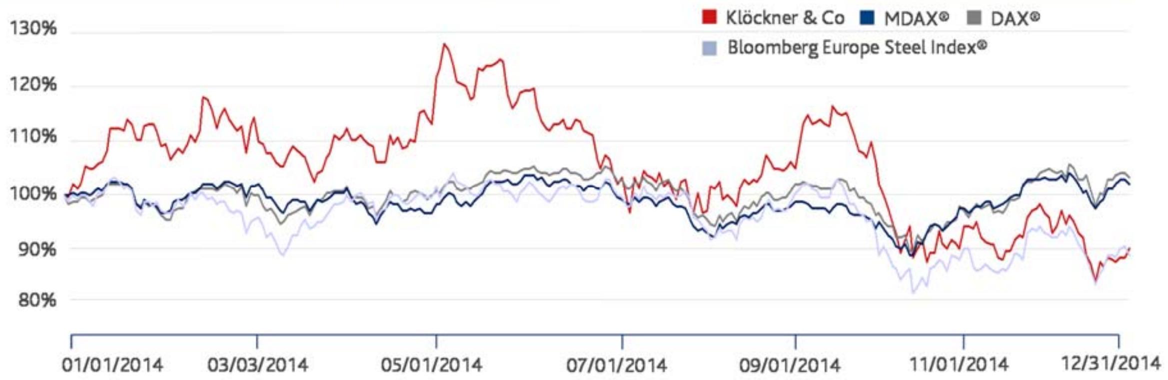
Share price performance

Klöckner & Co shares sustained their upward trend in the first half of 2014, reaching their highest level in the reporting period on May 12, when they peaked at €12.66. Starting in the fall, however, there was a noticeable deterioration in stock market conditions for steel stocks. Klöckner & Co shares were unable to buck this trend: On December 30, the last day of trading in 2014, the shares closed at €8.96, around 10% down on the prior-year closing price.

Key data – Klöckner & Co share

		2014	2013	2012	2011	2010
Share capital	€	**249,375,000**	249,375,000	249,375,000	249,375,000[1]	166,250,000
Number of shares	in shares	**99,750,000**	99,750,000	99,750,000	99,750,000[1]	66,500,000
Closing price (Xetra, Close)	€	**8.96**	9.95	8.97	9.92	21.01
Market capitalization	€ million	**894**	992	895	990	1,397
High (Xetra, Close)	€	**12.66**	11.50	12.02	23.42[1]	23.46
Low (Xetra, Close)	€	**8.37**	8.15	6.62	8.28[1]	13.65
Earnings per share (basic)	€	**0.22**	-0.85	2.00[3]	0.14	1.17
Average daily trading volume	in shares	**645,814**	646,743	1,101,199	1,539,240[1]	935,942
Dividend per share[2]	€	**0.20**	-	-	-	0.30
Dividend yield based on closing stock price	%	**2.2**	-	-	-	1.4
Total dividend paid[2]	€ million	**20.0**	-	-	-	20.0

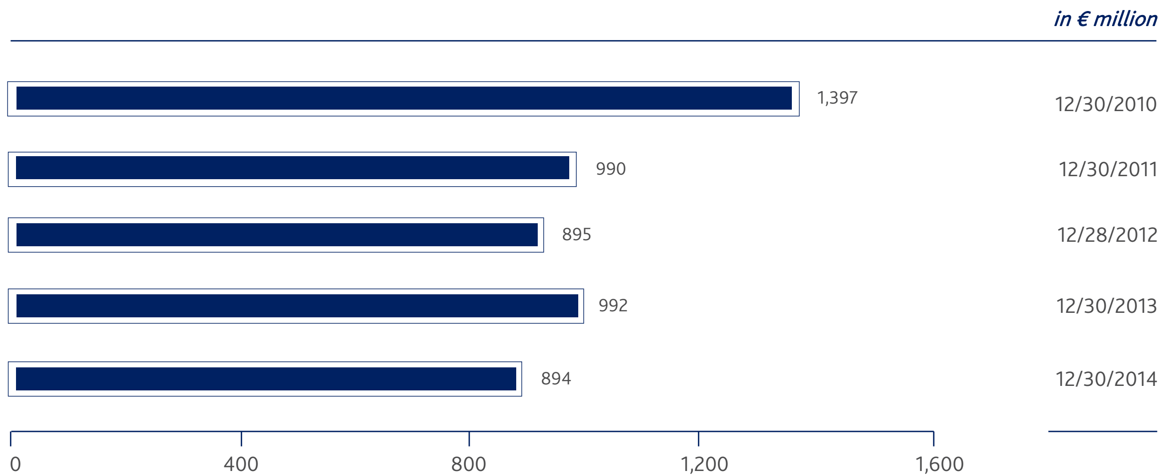
1) Adjusted in light of the capital increase on June 8, 2011.
2) In each case for the fiscal year. 2014: Proposal to the Annual general Meeting on May 12, 2015.
3) As restated for the initial application of IAS 19 (Employee benefits) rev. 2011.



The Bloomberg Europe Steel Index® often used as a benchmark for Klöckner & Co shares lost around 11% in the same period, while the MDAX® gained around 2% and the DAX® roughly 3%. In Deutsche Börse AG's MDAX® ranking in December 2014, Klöckner & Co shares ranked 48th by free float market capitalization and 31st by trading volume.

Market capitalization

The market capitalization was approximately €894 million at the end of the fiscal year compared with €992 million a year earlier.



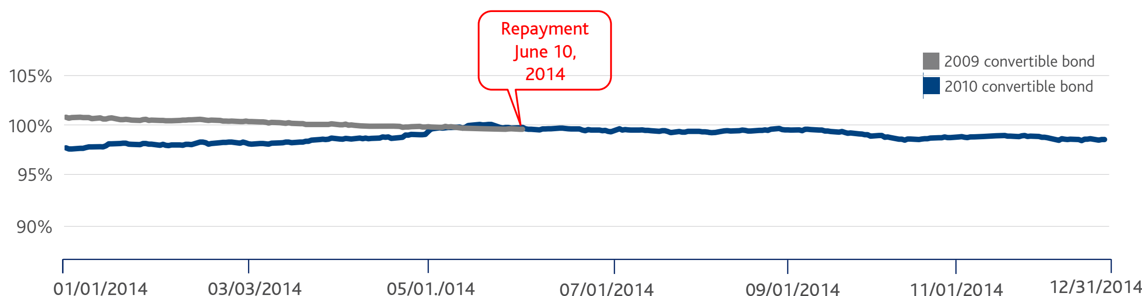
Klöckner & Co convertible bonds: key data

	2009 Convertible Bond[1)]	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[2)]	€25.10[3)]
Standard & Poor's rating	B+ (Long–term rating)	B+ (Long–term rating)

[1)] Convertible bond repaid out of cash June 10, 2014.
[2)] Adjusted in light of 2011 dividend payment and 2009 and 2011 capital increases.
[3)] Adjusted in light of 2011 dividend payment and 2011 capital increase.

Performance of Klöckner & Co convertible bonds

On December 31, 2014, the 2010 convertible bond was trading at 99.0%. The actual yield was therefore 2.9%. The 2009 convertible bond with a nominal value of €97.9 million was repaid out of cash in June 2014.



2014 Annual General Meeting

The eighth Annual General Meeting of Klöckner & Co SE took place in Düsseldorf on May 23, 2014. Around 300 shareholders and shareholder representatives attended this event. Votes were cast by around 46% of the voting capital. All resolutions proposed by the Supervisory Board and Management Board were approved by large majorities.

Klöckner & Co once again made an online service available to 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, where an online tool could be used to order an admission ticket, submit authorizations and instructions for proxy holders and order postal voting documents quickly and easily. This tool allowed shareholders to request the invitation to the Annual General Meeting electronically through the e-mail service (“electronic delivery”). E-mail delivery will in future continue to replace postal delivery for all registered participants who choose this.

Group of analysts

The financial community continues to show keen interest in Klöckner & Co. At the end of the year, Klöckner & Co shares were being watched by 32 analysts. In total, over 150 research reports were published in the past year. At the end of 2014, 16 securities houses gave Klöckner & Co shares a "buy" recommendation, eleven gave a "hold" recommendation and five rated the shares a "sell". You can find an up-to-date overview of the analysts' investment recommendations on our website under "Investors/Shares/Analysts".

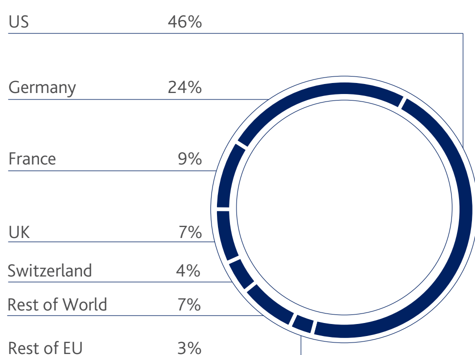
Klöckner & Co shares are analyzed by the following banks and securities houses:

Baader Bank	Jefferies International Equities
Bankhaus Lampe	JP Morgan Securities
Bank of America Merrill Lynch	Kepler Equities
Berenberg Bank	LBBW
BHF Bank	Macquarie Capital Europe Ltd.
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	NordLB
Hauck & Aufhäuser (new in 2014)	SRH AlsterResearch
HSBC Trinkaus & Burkhardt	Steubing
Independent Research	UBS Equities

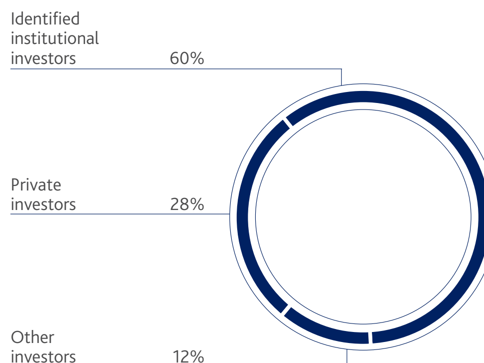
Ownership Structure

Regular analyses enable Klöckner & Co to gain a timely overview of the regional distribution of its shareholders and the ownership structure. This database can be used to target investor relations work appropriately as well as plan roadshows and conferences effectively. In January 2015, the most recent survey captured around 91% of investors and showed that institutional investors held 60% of the share capital and private investors 28%.

Geographic breakdown of identified institutional investors of Klöckner & Co SE



Shareholder structure of Klöckner & Co SE



At the time of preparation, our largest shareholders with a shareholding of between 5% and 10% each were Franklin Mutual Advisors (including Franklin Templeton Investment Funds) and Templeton Investment Counsel, LLC, and with shareholdings of between 3% and 5% each, Franklin Templeton Investments Corp., Interfer Holding GmbH, Allianz Global Investors Europe GmbH, Federated International Leaders Fund, a series of Federated World Investment Series, Inc., and Dimensional Holdings, Inc. As of the present time, we have not received notification of any other shareholder exceeding or falling below the statutory notification thresholds after the time of preparation. Our free float as defined by Deutsche Börse AG is 100%.

Open and continuous communications

At Klöckner & Co, investor relations is all about providing transparency by communicating openly and continuously with private and institutional investors. In 2014, national and international investors were once again informed about the Klöckner & Co Group’s results and potential both by members of the Management Board and by the IR team.

Institutional investors were able to find out about Klöckner & Co not only at the Annual General Meeting, but also at a total of nine roadshows and fifteen conferences in all the major financial centers in Europe and the Americas, as well as at numerous additional individual meetings.

Maintaining dialogue with private investors and contact with institutional investors is given high priority at Klöckner & Co. The CEO and the IR team engaged in dialogue with private investors at several events.

Our website is a key part of our financial market communications. Interested parties will find full information on Klöckner & Co shares and the outstanding convertible bond in the Investor Relations section of our website at www.kloeckner.com/en/investors.php. Among other things, the website includes financial reports, the financial calendar, information on corporate governance as well as current data on share and convertible bond performance. All information about the Annual General Meeting also appears there. Our newsletter service is another way in which we keep shareholders and other interested parties abreast of current Group developments. You are welcome to sign up for our newsletter at ir@kloeckner.com.

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

Contact

Investor Relations & Corporate Communications
Telephone: + 49 (0) 203- 307-2290
Fax: + 49 (0) 203- 307-5025
Email: ir@kloeckner.com

2. Corporate Governance

In this section, the Management Board reports – in its own capacity and on behalf of the Supervisory Board – on Corporate Governance at Klöckner & Co pursuant to 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, if applicable, the reasons why. 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. The Government Commission on the German Corporate Governance Code did not make any amendments or additions to the Code in 2014. On September 30, 2014, the Commission published a clarification of the explanations concerning the model tables for Management Board compensation set out in the appendices to the Code as amended on June 24, 2014. This is taken into account in the tables contained in the remuneration report (Section 2.3). The last annual declaration was submitted in December 2014. 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.

2014 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporation Act on the German Corporate Governance Code

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:

1. 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.

2. 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 ceases his Management Board activity due to a change of control, the remaining outstanding tranches of the virtual stock option program will be allocated to him. 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.

Duisburg, December 9, 2014

The Supervisory Board The Management Board

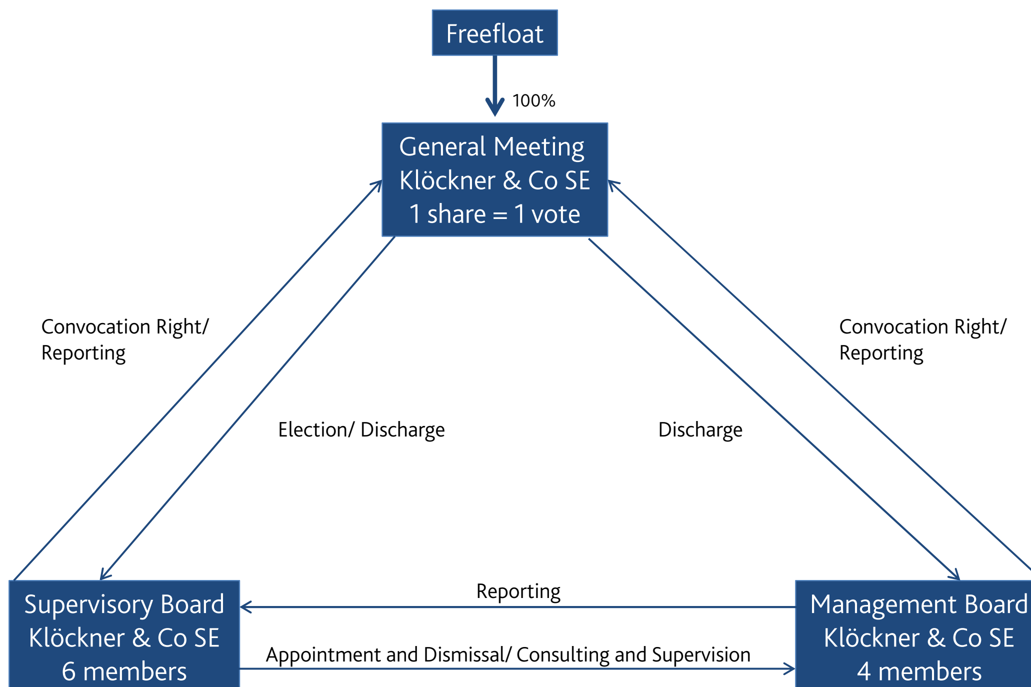
2.2 Application of the German Corporate Governance Code

Responsible corporate governance is given high priority at Klöckner & Co. Good corporate governance denotes responsible management and control, geared to sustained value creation, by the Management Board and the Supervisory Board.

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 Code's binding objective for German 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 two 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. With one exception, all suggestions in the Code as amended on June 24, 2014 have been complied with. Pursuant 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 of the Code: 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: Chief Executive Officer (CEO) 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, decision-making procedures, and 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 19 meetings and four resolutions by circulation 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 segment country organizations.

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. Costs of external training for Supervisory Board members are met by the Company. 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 with it the status of business strategy implementation. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings of the plenary Supervisory Board. The language of consultations in Supervisory Board meetings is English. 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 and the annual financial statements of Klöckner & Co SE and the Klöckner & Co Group together with 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 provides information on the financial position, cash flows and results of operations of the Group and those 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 Klöckner & Co shares price relative to industry peers.

The Supervisory Board has established two committees: an Executive Committee and an Audit Committee. The Executive Committee also serves as the Nomination Committee, Personnel Committee and Committee for Urgent Matters. No additional committees have 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 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. The Supervisory Board held five meetings in the year under review, the Executive Committee three, and the Audit Committee five. The committees' chairmen report regularly and comprehensively to the plenary Supervisory Board 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. 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 (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 as Committee Chairman, 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 Mr. Ulrich Grillo.

In accordance with the Rules of Procedure, the Executive Committee also acts as 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 with regard to the independence of the auditor – the services additionally rendered by the auditor, the engagement of the auditor, the establishment of focal points for 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. Hans-Georg 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 systems. The Audit Committee meets at least five times a year, including three meetings held to discuss the interim reports. Alongside Committee Chairman Dr. Vater, 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/requirements for Supervisory Board members

The Supervisory Board is required to be composed in such a way 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 lenders, 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). The requirements for nomination as a member of the Supervisory Board substantially depend on which of the above objectives and criteria require priority given the Supervisory Board's current composition. In the estimation of the Supervisory Board, the above objectives have largely been met based on the current composition of the Supervisory Board, although special focus is to be placed in future nominations on the international criterion. 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 (AGM). The most recent Annual General Meeting took place in Düsseldorf on May 23, 2014. The next will likewise be held in Düsseldorf, on May 12, 2015. 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 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 five such transactions between January 1, 2014 and February 23, 2015.

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

Date	Name	Position	Instrument	Purchase/ Sale	Quantity	Price per unit	Total price
03/24/2014	Cassiopeia GmbH	Supervisory Board	Convertible Bond	Purchase	5	49,500.00 €	247,500.00 €
04/01/2014	Gisbert Rühl	Management Board	Shares	Purchase	14,349	10.9544 €	157,184.69 €
04/01/2014	William A. Partalis	Management Board	Shares	Purchase	9,650	10.9544 €	105,709.96 €
04/01/2014	Marcus A. Ketter	Management Board	Shares	Purchase	9,566	10.9544 €	104,789.79 €
04/01/2014	Karsten Lork	Management Board	Shares	Purchase	8,769	10.9544 €	96,059.13 €

1) Majority shareholder of Cassiopeia GmbH is Prof. Dr. Vogel.

All transactions involving Management Board members during the period under review were share purchases relating to their obligation to invest in shares in the Company (see Remuneration Report – Section 2.3).

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 auditor and Group auditor appointed by the Annual General Meeting is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Prof. Dr. Kai Christian Andrejewski (from 2012) and Dr. Markus Zeimes (from 2011) are the key audit partners. KPMG AG, Berlin (and its subsidiary KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been Klöckner & Co SE's auditor (or that of its legal predecessors) since fiscal year 2005. 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 the management of opportunities and risks in the Klöckner & Co Group as Section 7.3 of the 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' teleconference 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. We also 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.

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.

All employees and business partners have the means to report to the Company possible instances of non-compliance with our Code of Conduct. A telephone and web-based whistleblower system is available for this purpose, and has been operated by an external provider since the beginning of 2015. The platform can be accessed free of charge from anywhere in the world and can also be used anonymously.

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 using an external service provider. This review is repeated at set intervals according to risk.

To increase legal security and achieve a uniform level of data protection throughout the Group, a Group-wide guideline on protecting personal data has been drawn up and implemented.

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 registered on an insider list.

2.3 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 remuneration system for members of the Management Board of Klöckner & Co SE was approved at the Annual General Meeting on May 24, 2013 with a majority of 94.4% of votes cast.

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 Mr. Ketter and Mr. Lork, the Management Board members appointed for the first time in 2013. Total annual compensation (fixed salary plus bonus) at 100% target attainment was €840,000, or €780,000, as appropriate. The fixed salary for the CEO in the past fiscal year was €720,000 and the total compensation (fixed salary plus bonus) at 100% target attainment was €1,260,000. Virtual stock options and ancillary benefits are provided in addition. The ancillary benefits primarily consist of insurance premiums and private use of company cars, in the case of the CEO with a driver. 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, which provide in this instance for a life-long pension with benefits for surviving dependants. And Management Board member Mr. 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, which likewise include a life-long pension. Instead of pension benefits, Management Board member Mr. Ketter receives a fixed amount each year which he must use to provide for his own retirement income (a defined contribution pension plan).

The Management Board members' 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 subject to a cap. In the year under review, it was capped at €2,140,000 for Management Board members Mr. Lork and Mr. Ketter, at €2,700,000 for Management Board member Mr. Partalis and at €4,822,500 for Chairman of the Management Board Mr. Rühl.

Bonuses

The compensation system provides for an annual bonus that is calculated based on the achievement of targets set by the Supervisory Board at the beginning of each fiscal year. Only half of the annual bonus is paid directly to each Management Board member, however. Management Board members must use the second half for a personal investment in Company shares with a vesting period of three years. With respect to the annual bonus – as in the previous compensation system – target figures for EBITDA and cash flow from operating activities were set for the reporting year based on the Group's budget. For calculation purposes, 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 year under review, this related primarily (i) to implementation of the KCO WIN optimization program, (ii) to measures to enhance differentiation from small and medium-sized competitors (including launch of the new web shops, POW:R (paperless stockyard) and the CRM program in selected country organizations), and (iii) to the expansion of higher value-added processing. The annual bonus for ordinary members of the Management Board subject to 100% target attainment is €360,000 or a maximum of €720,000. The annual bonus for the CEO is €540,000 subject to a maximum of €1,080,000. The maximum amounts correspond in each case to 200% target attainment. Under the Management Board members' contracts, the Supervisory Board also has discretionary power to award a special bonus for exceptional performance or exceptional accomplishment. In total, however, the special bonus and annual bonus may not exceed the above-mentioned cap on the annual bonus. No special bonus was awarded for the year under review.

Virtual stock options (VSOs)

The Management Board members additionally receive virtual stock options (VSOs). These 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 exercise date of the VSOs. The strike price is equal to the average Klöckner & Co share price over the last 30 trading days of the year before allocation of the respective tranche. The vesting period is three years from the date of issue for the first third of the tranche, four years for the second third and five years for the last third. The individual tranches are allocated annually. Klöckner & Co SE's cash payment obligation corresponds to the difference between the average price for the last 30 trading days (Xetra trading, Deutsche Börse AG, Frankfurt am Main) prior to the exercise of the option and the underlying strike price, but is capped at €25 per option. Mr. Ketter and Mr. Lork, the Management Board members appointed for the first time in 2013, each received 40,000 VSOs in the year under review, Management Board member Mr. Partalis received 60,000 VSOs and Chairman of the Management Board Mr. Rühl received 120,900 VSOs. 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 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 Company's Management Board members 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 personal investment requirement is waived for the remaining term. Also, any personal investment shares still vesting are unlocked and released. The Management Board members are subject to a 24-month post-contractual non-competition covenant compensated for by payment of half of their final overall remuneration (fixed salary plus bonus at 100% target attainment) unless the Company waives the clause. The personal investment requirement is once again waived. The Company has directors and officers (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. Management Board member Mr. Partalis, who is in charge of the Americas segment, is normally resident in the United States. His employment contract, which provides for compensation in euros, includes an anti-devaluation clause to limit the impact of exchange rate changes.

Changes from January 1, 2015

From fiscal year 2015, the annual fixed salary for Management Board members Mr. Ketter and Mr. Lork is €480,000, equal to that of Management Board member Mr. Partalis. Remuneration for Management Board members Mr. Ketter and Mr. Lork has likewise been brought in line with that for Management Board member Mr. Partalis with regard to virtual stock options, with all three awarded 60,000 virtual stock options a year from January 1, 2015. For Chairman of the Management Board Mr. Rühl, the annual fixed salary from January 1, 2015 is €860,000 and the annual bonus is €640,000 at 100% target attainment subject to a maximum (at 200% target attainment) of €1,280,000. The maximum amounts of total remuneration for the respective members of the Management Board have been correspondingly adjusted. The modified compensation system will be presented to the 2015 Annual General Meeting for approval.

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 remuneration 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 of Management Board remuneration, 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 German 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 (including with the changes effective from January 1, 2015) with other companies showed Klöckner & Co to be below the average of comparative figures regarding the amount and structure of compensation. 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, remuneration structures in the Company and the situation of the Company, is geared to the Company's sustainable growth and does not exceed normal levels. These findings apply likewise to the changes effective from January 1, 2015.

Compensation for 2014

The tables below show the individual compensation entitlements of Management Board members for 2014 as provided for in the German Corporate Governance Code:

Granted compensation	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
Fixed compensation	720	720	720	720	420	420	420	420
Ancillary benefits[1]	35	35	35	35	127	127	127	127
Total	**755**	**755**	**755**	**755**	**547**	**547**	**547**	**547**
One year's variable compensation[2]	540	540	-	1,080	360	360	-	720
Multi-year variable compensation								
- Virtual stock option plan	476	496	-	3,023	142	147	-	1,000
Total	**1,771**	**1,791**	**755**	**4,858**	**1,049**	**1,054**	**547**	**2,267**
Postemployment benefits	481	466	466	466	-	-	-	-
Total compensation	**2,252**	**2,257**	**1,221**	**5,323**	**1,049**	**1,054**	**547**	**2,267**

Proceeds	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2013	2014			2013	2014		
Fixed compensation	720	720			420	420		
Ancillary benefits[1]	35	35			127	127		
Total	**755**	**755**			**547**	**547**		
One year's variable compensation[2]	629	539			419	360		
Multi-year variable compensation								
- Virtual stock option plan	-	-			-	-		
Total	**1,384**	**1,294**			**966**	**907**		
Postemployment benefits	481	466			-	-		
Total compensation	**1,865**	**1,760**			**966**	**907**		

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

Granted compensation	Karsten Lork				William A. Partalis			
(€ thousand)	2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
Fixed compensation	385	420	420	420	480	480	480	480
Ancillary benefits[1]	26	27	27	27	17	17	17	17
Total	**411**	**447**	**447**	**447**	**497**	**497**	**497**	**497**
One year's variable compensation[2]	330	360	-	720	366	442	-	885
Multi-year variable compensation								
- Virtual stock option plan	142	147	-	1,000	208	208	-	1,500
Total	**883**	**954**	**447**	**2,167**	**1,071**	**1,147**	**497**	**2,882**
Postemployment benefits	73	71	71	71	164	201	201	201
Total compensation	**956**	**1,024**	**518**	**2,238**	**1,235**	**1,347**	**698**	**3,082**

Proceeds	Karsten Lork				William A. Partalis			
(€ thousand)	2013	2014			2013	2014		
Fixed compensation	385	420			480	480		
Ancillary benefits[1]	26	27			17	17		
Total	**411**	**447**			**497**	**497**		
One year's variable compensation[2]	384	360			436	445		
Multi-year variable compensation								
- Virtual stock option plan	-	-			-	-		
Total	**795**	**807**			**933**	**942**		
Postemployment benefits	73	71			164	201		
Total compensation	**868**	**877**			**1,097**	**1,143**		

2) For Mr. William A. Partalis calculated under consideration of a value adjustment mechanism to limit effects of potential changes in the US Dollar exchange rate.

Supervisory Board

The structure and amount of the compensation paid to the Supervisory Board, as adopted at the Annual General Meeting on May 24, 2013 with a majority of 98.81% of votes cast, are governed by Article 14 of the Articles of Association available on the Company's website.

Compensation consists 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. Costs of external training for Supervisory Board members are met by the Company by way of expense account settlement. The fixed 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 allowance 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 remuneration totaled €466,000 in 2014 (2013: €480,000). The table below shows the individual compensation entitlements of Supervisory Board members for 2014 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 2015. 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	45,000	**145,000**
Dr. Michael Rogowski (Deputy Chairman)	60,000	28,000	**88,000**
Ulrich Grillo	40,000	14,000	**54,000**
Robert J. Koehler	40,000	8,000	**48,000**
Hauke Stars	40,000	8,000	**48,000**
Dr. Hans–Georg Vater	50,000	33,000	**83,000**
	330,000	136,000	**466,000**

Group Management Report*
Klöckner & Co SE Combined Management Report for Fiscal Year 2014

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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 19–31 of this report.

GROUP MANAGEMENT REPORT

1. Highlights

- Gross profit margin further improved through stronger focus on higher-margin business
- Substantial increase in operating income (EBITDA) and net income
- Net income allows resumption of dividend distributions, with a dividend* of €0.20 per share
- Once again strong positive cash flow from operating activities
- Very sound balance sheet maintained with 39% equity ratio
- Successful acquisition of Swiss reinforcing steel specialists Riedo
- kloeckner.i launched as Group Center of Competence for Digitalization in Berlin
- Significantly noticeable increase in EBITDA expected for 2015

* Proposal to the Annual General Meeting on May 12, 2015.

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 together with their operational country organizations. Other than the acquisition of the Riedo Group, there was no change in the Group's legal and financial structure relative to the prior year.

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.

2.2 Business activities/business model

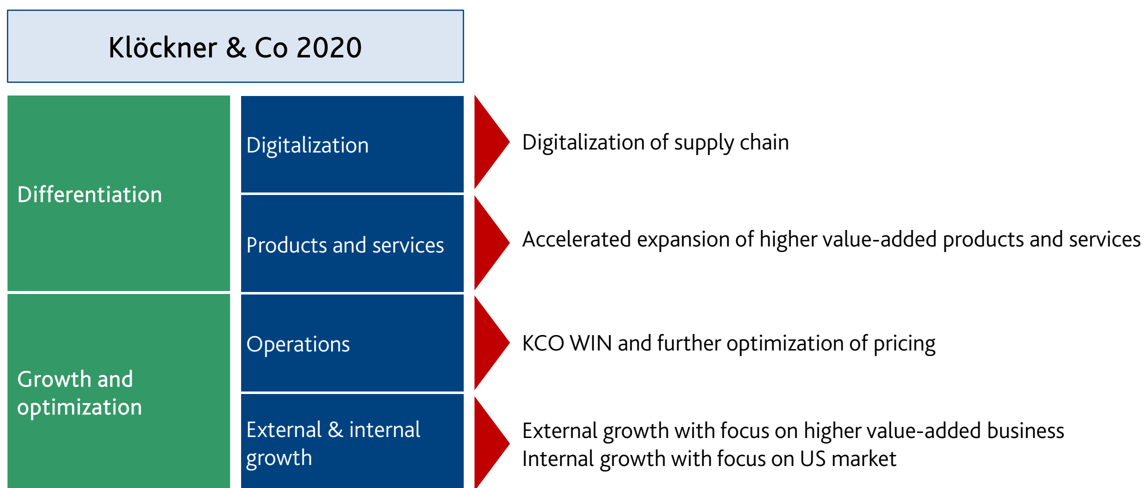
Klöckner & Co is the largest producer-independent, stockholding steel and metal distributor and one of the leading steel service center companies operating in Europe and the Americas. We act as a connecting link between steel producers and consumers. As we are not tied to any particular steel producer, our customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options spanning some 60 main suppliers worldwide. Our key competitive factors are economies of scale in global procurement, our broad product portfolio, customer access provided by an extensive logistics and distribution network, a diverse range of prefabrication services, and high product availability. Spanning 15 countries, our global network 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 approximately 150,000 mostly small to medium-sized steel and metal consumers. In addition, we supply intermediate products for the automotive, shipbuilding, and consumer goods industries. We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes that we are increasingly migrating to digitalization.

Both in Europe and North America, the highly fragmented market for warehouse-based distribution and steel service centers is served by wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and some 1,200 in the more consolidated North American market. Our market share in steel and metal distribution is around 7% in Europe and approximately 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.

2.3 Corporate strategy

"Klöckner & Co 2020"

The overarching objective of our strategy is to further strengthen the competitiveness and hence ultimately the earning power of Klöckner & Co and so make Klöckner shares an attractive long-term investment for shareholders. We are following two main thrusts in our realignment: Higher value-added products and services, and end-to-end digitalization of our supply and value chain. In this way, we aim to increasingly break free from the grip of sector-wide overcapacity and volatile steel prices while regaining a faster rate of growth. We intend to generate over 50% of our sales online within the next five years. In addition, we are pressing ahead with systematically implementing our KCO WIN optimization program.

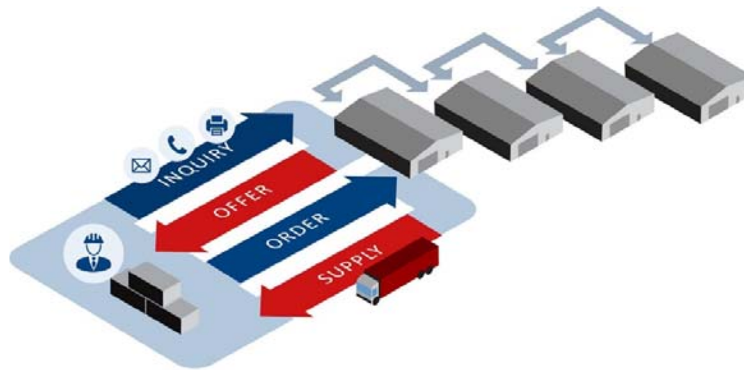


Digitalization

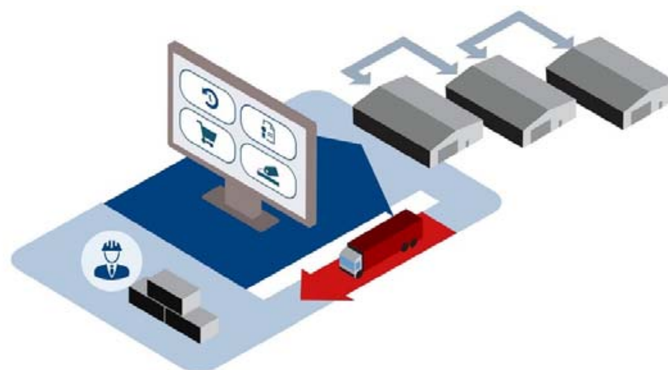
There are currently around three billion Internet users worldwide. Two billion more are set to come online over the next five to ten years. There will then be over 50 billion networked devices. This is a competitive game changer, also for traditional industries. Machines will communicate with each other across corporate boundaries in real time and business models will be altered or revolutionized as suppliers and customers link up. This process is already far advanced in industries like the media where it is easier to go digital, while others – such as steel – still lag well behind.

To this day, the supply chain in our industry is highly inefficient. Customers place orders by phone or fax as they did decades ago and so far there have been hardly any attempts at end-to-end digital order and process management. The only novelty is that more and more orders come in by e-mail, yet this has not produced significant change. The upshot is not just high inventory levels, which tie up large amounts of capital, but also high process costs. These inefficiencies also lengthen time from production to delivery, thus leaving further income potential untapped.

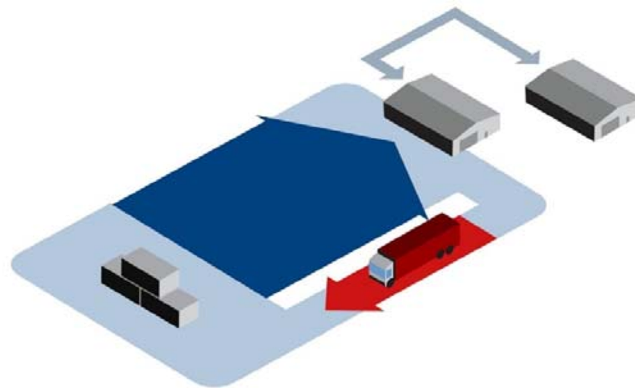
Taking what for us is a typical customer such as a small building firm, the ordering process today works like this: The first step is for the builder to quantify requirements on the basis of dimensions, with the aid of a design manual. If they are a Klöckner & Co customer, they can already access a design manual including a materials calculator online today using our iSteel app. The building firm then asks a number of local steel distributors for prices on the various steel products. There follows a wait until all the offers are in. After choosing the offer with the best combination of price and delivery date, the builder then contacts the distributor concerned. This all wastes a lot of time that the builder could put to productive use in getting on with the job itself. As we have no information on what steel products the builder will need when, we have to hold substantial quantities at our local stockyards for last-minute availability. That is on top of inventories held at a central distribution hub and by the producer. The resulting transfers and shipments incur high logistics costs and tie up large amounts of capital.



Very soon, builders will be able to complete the entire order process online using the Klöckner & Co customer portal. They will receive a price offer straightaway, can pull up historical data and are able to check the current order status at any time. Test reports are similarly managed in the system automatically and can be queried at any time using a range of search terms. Customers who have contracts with us can look up the status of those, too. Builders can spend the time saved thanks to the streamlined ordering system more profitably elsewhere, such as on site. This all makes ordering patterns far more predictable and this alone already results in tangible reductions in stockholding levels as well as improvements on the logistics side. Increasing integration with wholesalers and producers, with direct access to their distribution centers, too, further cuts stockholding and logistics costs along with tied-up capital.



Within the next five years we may have reached the stage where all orders for a construction site are generated completely automatically. The building plans will be available in their entirety in digital form. From these, the system will generate parts lists for all trades and send the data on its way in good time. There is no longer any need to determine requirements from dimensions with the aid of a design manual and materials calculator. In step with the construction work schedule, the steel products are on hand at the nearest stockyard at the times planned. All products supplied are fully traceable thanks to the use of QR codes, RFID and other technologies, making detailed construction progress visible in the virtual system and more readily manageable. Subsequent quantities are called off smartly and automatically. As well as just-in-time logistics, deliveries for other trades are optimally coordinated. With requirements known in full before building starts, quantities can be requested from wholesalers and producers on a timely basis so that most steel products do not arrive at regional stockyards sooner than they are needed. In this way, stockholding costs, logistics costs and tied-up capital can be cut to a minimum.



Just as machines are connected in Industry 4.0 or the “Internet of Things”, so are construction projects and suppliers. All those involved are linked in via an industry platform that integrates not only steel and metal distributors but also suppliers of “C” items and so on. If, in our example, there are change orders or modifications to the project with short-notice shifts in requirements, a supplier is automatically selected via the platform according to specific priorities (delivery date, price, etc.).

For an industry that today is hardly interconnected at all, this sounds like a distant pipe dream. Yet we expect that the processes of change will rapidly gain momentum across all industries. It is therefore imperative that we start giving thought today to how our business model might look in five years’ time in order to develop and implement the appropriate strategies.

We have so far made significant progress in the right direction: A case in point is our web shop, which we have already successfully implemented in several European countries. It is currently being enhanced into a full-scale customer portal. On the procurement side, too, we are in the process of linking up with additional suppliers and producers. In the reporting period, following up on a number of wholesalers, we obtained the commitment for full EDI integration from a major steel producer. But this again is only an intermediate step. As on the customer side, we will deploy a supplier portal and gradually replace individual EDI interfaces in the future.

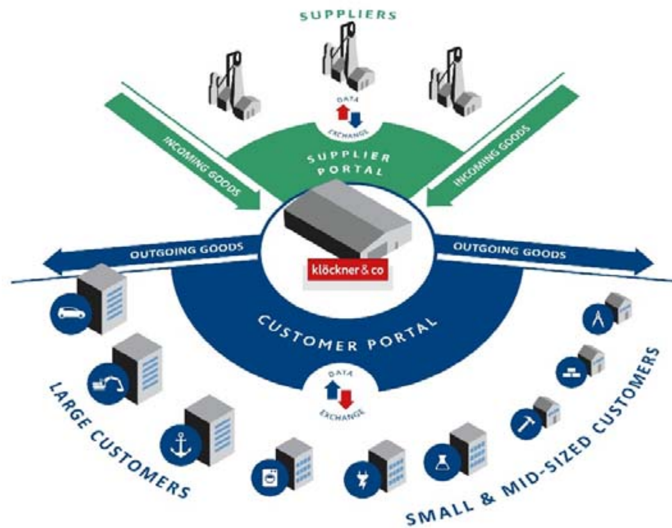
To bring together and systematically drive forward all digitalization and networking-related projects and initiatives under a single roof, we have launched kloeckner.i GmbH in Berlin. kloeckner.i serves as our Group Center of Competence for Digitalization, overseeing the development and international rollout of digital solutions. In this way, we can ensure that our innovative solutions are available at all locations. We aim to recruit up to 20 e-commerce experts and software engineers by the end of this year. Our staff at kloeckner.i in Berlin will not work in an ivory-tower think tank, creating solutions that customers and the workforce only get to see when they are finished.

Instead, our specialists work jointly with customers on the ground to evaluate how we can collaborate more efficiently. Based on that, we first develop basic prototypes which, to start with, deliberately only cover the main functions. In an iterative process with the customer, we then see whether and how far the tool in question meets requirements. Only then do we go on to program the full solution.

In the world of start-ups, this entire process is known as the "lean start-up approach", the prototype development stage is termed "design thinking" and the developed tool that initially meets only the minimum requirements is called the "minimum viable product". In the past, we developed such tools and systems far more elaborately, aiming to include each and every conceivable function and transaction type from the outset in our quest for perfection. The result was far too much time spent on product development, high cost and dissatisfaction on all sides. Going forward, we will be using the lean start-up approach also in a variety of in-house projects. We aim to become more agile by focusing solely on the most important requirements first. Improvements and enhancements can always be added later.

While kloeckner.i is geared to securing short-term efficiency gains in business processes using innovations that can be quickly adopted, more radical and disruptive changes to the business model are to be effected over the medium to long term through selective investment in start-ups. Another option is for us to launch start-ups with the appropriate focus ourselves. Given their disruptive nature, we firmly believe that innovations of this kind must be developed from outside the box. With this in mind, we are currently establishing kloeckner.v to fund such ventures.

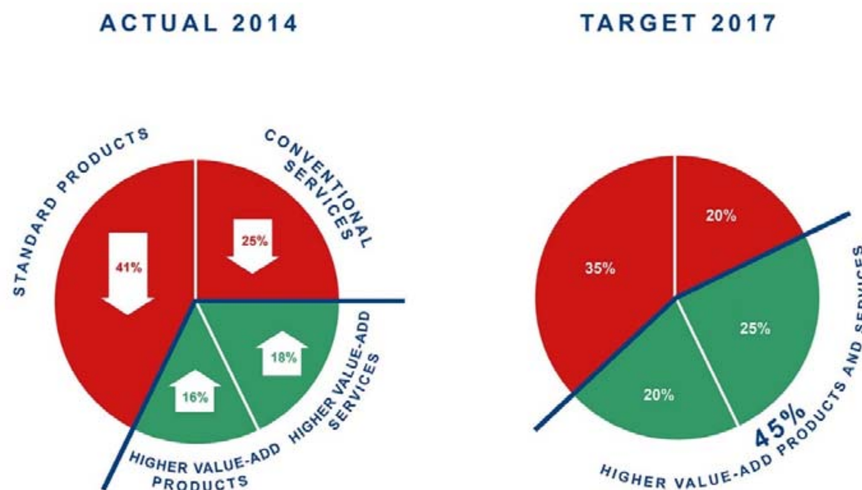
We have set ourselves ambitious goals for the ongoing implementation of our digitalization strategy: The rollout of our new web shops should be complete by the end of the year at all country organizations. In five years, we aim to generate more than half of Group sales online.



Accelerating the shift to higher value-added products and services

Our second strategic lever alongside digitalization is to increase the proportion of higher value-added products and services. We are going to step up capital expenditure to that end by some 50% this year. There is huge market potential here as many of our customers are highly vertically integrated and still carry out tasks that we could perform more efficiently by consolidating orders. A good example is our investment in 3D lasers, which we can use to combine several conventional customer tasks such as drilling, sawing and slotting at an attractive price and with significant gains in precision. We also aim to substantially boost more profitable business in higher value-added products like aluminum, which is in increasing demand from the automotive industry.

In total, we plan to further increase the percentage of sales accounted for by higher value-added products and services from 34% today to 45% by 2017. We want to generate the lion's share of sales with higher-margin products and services by 2020.

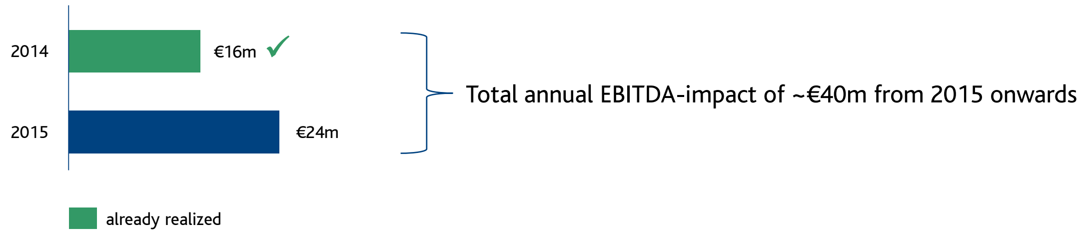


Optimization drive pooled in KCO WIN program

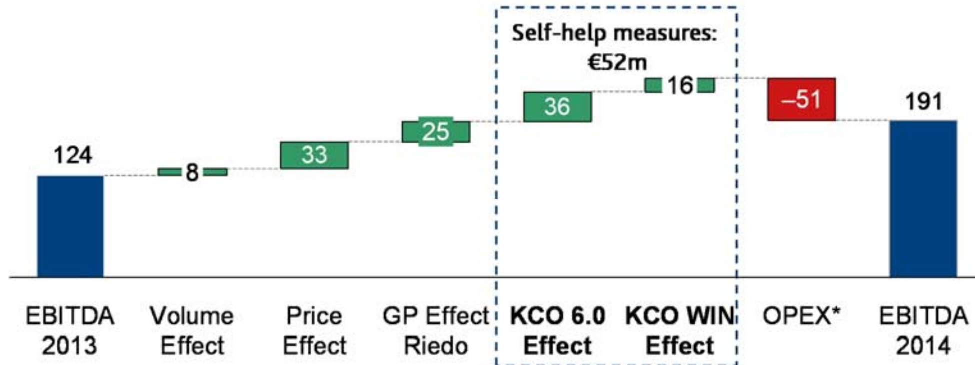
We combined the measures designed to improve workflows and processes in our business operations in the KCO WIN program. The focus is on improving sales and distribution. Our prime objective in this area is to fine-tune pricing in order to raise the gross profit margin. The first step is price optimization through systematic daily analysis of product-specific selling prices at country level. In addition, we are already working on the deployment of special software that implements dynamic pricing algorithms referencing a wide range of market data.

Also as part of KCO WIN, we are implementing numerous measures to effect lasting improvements to workflows and structures in internal logistics, prefabrication, and transportation logistics.

Our KCO WIN optimization program already contributed €16 million to EBITDA in the reporting period. The program is budgeted to deliver a further incremental contribution of €24 million in 2015. Due to envisaged restructuring measures in France, the program's full annual contribution to EBITDA, at around €40 million, is €10 million below the €50 million initially budgeted for.



Amounting to a total of €52 million, the knock-on effects from the completed KCO 6.0 restructuring program and the initial contributions from the KCO WIN optimization program were the main drivers behind the increase in EBITDA from €124 million in 2013 to €191 million in the reporting period.



Return to growth path through external and organic growth

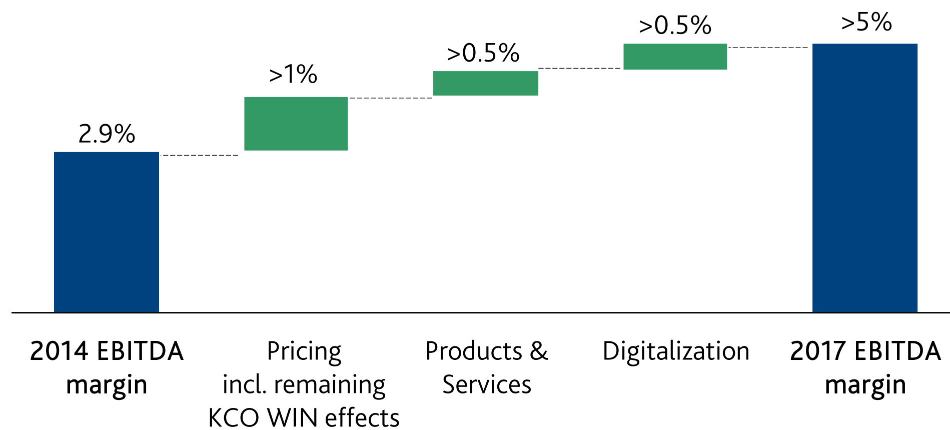
The key organic growth drivers are the expansion of our business in higher value-added products and services along with digitalization.

In terms of regional growth opportunities, we see the USA as our most attractive market – and not just because of the industry-friendly environment with relatively low wage and energy costs as well as favorable demographic trends. This market is also made especially attractive for us because of the far better match between steel supply and demand compared with Europe as well as the strict separation of producers and distributors. We aim to increase the US share of shipments from 42% in the reporting period to more than 50% in the medium term.

We will drive the expansion of higher-margin business with both organic and external growth. Thus, as well as significantly stepping up capital expenditure in this area, and following the successful takeover of Riedo in the reporting period, we plan further acquisitions of companies offering higher value-added products and services. We also intend to invest in start-ups to advance our digitalization strategy.

Target of over 5% EBITDA margin by 2017

The next milestone in our "Klöckner & Co 2020" strategy is an increase in the EBITDA margin from 2.9% in the reporting period to over 5.0% in 2017. We expect the full implementation of our KCO WIN optimization program to contribute to this together with further improvements to pricing, the additions to our range of higher value-added products and services as well as the digitalization of our business processes.



2.4 Control system

The key performance indicators (KPIs) used in the management of Klöckner & Co's business are sales, gross profit (and gross profit margin), operating income (EBITDA – earnings before interest, taxes, and depreciation and amortization including impairments and impairment reversals on intangible assets and property, plant and equipment) and the EBITDA margin, 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 segmental level.

Given the increasing focus on higher-margin business, sales has replaced shipments as the most significant KPI in relation to business volume. Sales is the key driver of the next two KPIs, gross profit and the gross profit margin. Gross profit is sales less cost of goods sold and is thus an important indicator of the Company's profitability. Considering 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. Windfall effects have a notable impact on the gross profit margin (gross profit as a percentage of sales). In the medium term, our strategy of marketing higher value-added products and prefabrication services is geared to boosting our gross profit margin to a higher level with smaller fluctuations. The most significant KPI for results of operations is operating income (EBITDA), or, if major restructuring is in progress, EBITDA before restructuring measures. This takes into account all costs subject to short-term influence. Based on this, 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.

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 place special emphasis on trade receivables while fine-tuning inventories less trade payables.

Just-in-time procurement by customers necessitates high availability in our merchandise inventories. High stockholding levels are therefore closely tied to shipments 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, on which net working capital is again a key influence. 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 similarly 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 are reported on in the "Results of operations, financial position and net assets" 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 business performance in the subsequent year.

3. Economic report

3.1 Macroeconomic conditions

Economic environment

Global economic growth was around 3.3% in 2014, mainly driven by the USA and emerging markets. However, the geopolitical crises and a slow recovery in the eurozone meant that initial growth expectations were not fulfilled.

After two years of recession, the eurozone economy returned to growth in 2014. The euro's decline against the US dollar in the second half of the year boosted exports but was not able to stimulate growth. Eurozone GDP went up relative to the prior year by 1.1% in the first quarter and 0.8% in each of the second and third quarters. The fourth quarter saw growth of 0.7%. On a full-year basis, growth was 0.8% on the prior year. As in previous years, European economic growth displayed a north-south gradient.

In the USA, the recovery in progress since 2009 continued in 2014. Growth was driven by the positive labor market trend and the associated rise in private sector investment spending. Following 1.9% growth in the first quarter, US economic growth surged to 2.6% in the second quarter on the back of catch-up effects after the harsh winter. At 2.4%, growth in the third quarter was also higher than in the prior-year period. In the fourth quarter, the economy grew by 2.6%. The outcome for the full year was growth of 2.4%.

The Chinese economy continued expanding at a relatively fast rate. At 7.4%, the growth rate nonetheless failed to reach the level of prior years. It thus also fell short of expectations. Government investment remains a major driver of Chinese economic growth.

Growth in the Brazilian economy almost came to a standstill in 2014. Although the government attempted to boost private consumption, investment conditions for industry scarcely improved. At the same time, relatively high costs (such as for energy) proved a competitive disadvantage and weakened economic growth, making for a minimal increase of only 0.1% on a full year basis.

Development of GDP in our core countries (in percent)	2014 vs 2013
Europe*)	**0.8**
Germany	**1.5**
United Kingdom	**2.6**
France	**0.4**
Spain	**1.4**
Switzerland	**1.9**
China	**7.4**
Americas	
United States	**2.4**
Brazil	**0.1**

Source: International Monetary Fund, estimates (in some cases provisional).
*) Eurozone.

Industry-specific situation

Worldwide steel production increased by 1.2% in 2014 to a record 1.7 billion tons of raw steel. According to the World Steel Association, the production volume in the European Union and North America went up by around 2% in each case. By contrast, China showed an increase of only about 1%. In Europe, Eurometal reports that steel distribution shipments rose by 3% in the reporting period. Shipments in the USA grew by some 4%, according to the Metals Service Center Institute (MSCI).

The steel industry still faces the problem of massive excess capacity, notably in China and Europe, with the current level of demand continuing to result in structural underutilization. At the end of December, the capacity utilization of steel producers in Europe and the USA stood at just under 71% and 73% respectively. There is considerable surplus capacity also at distribution level, fueling sustained fierce competition as a result.

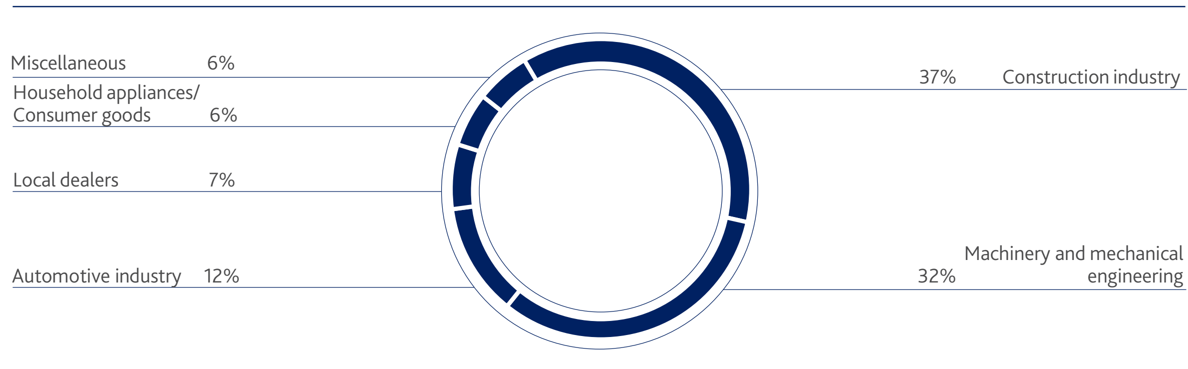
Steel production

(in million tons)	2014	2013	Variance
France	16.1	15.7	2.6%
Germany	42.9	42.6	0.7%
Spain	14.2	14.3	– 0.7%
United Kingdom	12.1	11.9	1.7%
EU– 28, total	**169.2**	**166.3**	**1.7%**
Rest of Europe	36.2	36.5	– 0.8%
C.I.S.	105.1	108.1	– 2.8%
United States	88.3	86.9	1.6%
Rest of North America	32.9	32.0	2.8%
North America, total	**121.2**	**118.8**	**2.0%**
South America, total	**45.2**	**45.8**	**– 1.3%**
Africa	15.6	15.7	– 0.6%
Middle East	28.1	26.0	8.1%
China	822.7	815.4	0.9%
Rest of Asia	288.2	280.2	2.9%
Asia, total	**1,110.9**	**1,095.6**	**1.4%**
Oceania, total	**5.5**	**5.6**	**– 1.8%**
Other countries	68.2	65.5	4.1%
Total	**1,661.5**	**1,642.2**	**1.2%**

Source: World Steel Association (Status: January 2015).

3.2 Sector environment

Customer sectors of Klöckner & Co SE (by sales)



In the past fiscal year, the construction industry was Klöckner & Co's highest revenue customer sector with 37% of sales, followed by machinery and mechanical engineering (32%). The automotive industry came third with 12% of sales.

3.3 Trend in key customer industries

Construction industry

The global trend in steel consumption continues to be primarily driven by construction activity. Some 50% of global steel production is for the construction sector. On estimates from steel industry association Eurofer, European construction activity increased by 1.3% over the full year. Growth in the European construction sector was buoyed by a mild winter. France represented an exception to the rule. There, construction activity further decreased in contrast to the wider trend. In the USA, too, the construction sector traced an upward curve, with a tangible increase in building permits and construction starts. The US Census Bureau puts the growth in construction spending at around 6% for the full year. Construction activity in China was down on the prior year. Impetus was lacking, with a stimulus package planned by the Chinese government put back from 2014 to 2015.

Machinery and mechanical engineering

Demand in machinery and mechanical engineering showed a mostly positive trend. According to estimates from Eurofer, the sector grew by 1.2% in Europe. While domestic demand noticeably picked up, export growth lost momentum. In the USA, too, the sector grew by approximately 5% due to increased international demand. In China, growth in machinery and mechanical engineering was no more than moderate.

Automotive industry

The trend in the international automotive industry varied from region to region during the reporting period. In Europe, for example, passenger car sales increased by 5.4% according to the German Association of the Automotive Industry (VDA). Whereas the United Kingdom and Spain continued to recover from the crisis, demand in France remained weak. The USA recorded an increase of 5.8%. In China, shipments once again showed very dynamic growth at 12.7%, while Brazil saw a decrease of 6.9%.

3.4 Comparison of the Group's actual business performance with the forecast from the prior year

Our projections for the reporting period in the Annual Report 2013 were based on the assumption that steel demand would grow by between 1% and 2% in Europe and between 3% and 4% in the USA. Actual demand growth was slightly higher than the initially projected range in the USA and significantly higher in Europe.

Even without our Swiss acquisition, we attained our goal of more than compensating for the drop in shipments due to lower sales of low-margin products by boosting the volume of higher-margin business.

As expected, total shipments increased slightly by 2.4% to 6.6 million tons (2013: 6.4 million tons). The sales growth of 2.0% to €6.5 billion (2013: €6.4 billion) was likewise in line with our projections.

Focusing on higher-margin business enabled us, as expected, to significantly increase gross profit from €1,188 million to €1,261 million and the gross profit margin from 18.6% to €19.4%.

On publishing our Annual Report 2013 on March 6, 2014, we announced a target of operating income (EBITDA) before restructuring expenses substantially in excess of the €150 million prior-year figure, even though that figure was swelled by a total of €25 million in non-recurring effects from the reversal of pension provisions and the sale of a property. When the figures for the first half year were announced on August 7, 2014, we narrowed our target for operating income (EBITDA) to between €190 million and €210 million. In light of the development of the steel market, we once again readjusted the target range in November 2014 to between €190 million and €200 million. The actual full-year operating income (EBITDA) of €191 million in 2014 confirms both the qualitative guidance given in our Annual Report 2013 and the increasingly specific expectations announced over the course of the year. As anticipated, the main drivers of this substantial improvement in earnings were knock-on effects of the completed KCO 6.0 restructuring program and initial results from the KCO WIN optimization program. Given that we were also able to achieve the planned reduction in interest expense and amortization, we ended fiscal year 2014 with net income of €22 million. As announced last year, we will consequently be recommending a resumption of dividends at the Annual General Meeting.

Rather than increasing slightly as we projected, net working capital went up substantially from €1,216 million to €1,321 million, mainly due to exchange rate effects and the Riedo acquisition. The higher level of resources tied up in net working capital additionally combined with payment of the purchase price for Riedo and payments from derivatives likewise made for a larger than expected increase in net financial debt, from €325 million to €472 million. Instead of decreasing slightly as we had expected, leverage – the ratio of net financial debt to operating income (EBITDA) – increased accordingly to 2.5x (2013: 2.2x).

3.5 Results of operations, financial position and net assets

The key performance indicators for the results of operations, financial position and net assets for fiscal 2014 – as presented under "Control system" on page 42 – are as follows:

Most significant key perfomance indicators according to GAS 20

(€ million)	December 31, 2014	December 31, 2013
Sales	6,504	6,378
Gross profit	1,261	1,188
Gross profit margin	19.4 %	18.6 %
EBITDA	191	124
EBITDA margin	2.9 %	2.0 %
Net working capital	1,321	1,216
Net financial debt	472	325

Other key performance indicators

	December 31, 2014	December 31, 2013
Shipments (Tto)	6,598	6,445
Gearing (Net financial debt/shareholders' equity*))	34 %	23 %
Leverage (Net financial debt/EBITDA**))	2.5x	2.2x

*) Consolidated shareholders' equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2013.
**) In 2013: before restructuring expenses.

Shipments and sales

Group shipments in fiscal 2014 totaled 6.6 million tons. Shipments were thus 2.4% above the prior year (6.4 million tons). Performance continued to vary across the Europe and Americas operating segments.

Even though market conditions were still difficult in France and Spain, the Europe segment boosted shipments substantially (by 5.0%) relative to fiscal year 2013. Key factors here were the acquisition of Riedo by our Swiss country organization, which made up for the drop in shipments on account of restructuring measures under the KCO 6.0 program, and very good automotive business at BSS.

By contrast, shipments in the Americas segment decreased by – 1.0% year-on-year. This decrease mainly related to our activities in Brazil. Despite a long and difficult winter, the consolidation of locations toward the end of 2013 and margin-based pricing in sales, shipments in the USA were more or less on a par with the prior year. The positive market trend thus also largely compensated for the drive to scale back low-margin business – notably the unprofitable trade in beams for the construction industry.

The sales growth of 2.0% to €6.5 billion was slightly less pronounced than the increase in shipments. Likewise, the 2.0% sales growth in the Europe segment lagged behind the rise in shipments due to the lower price level year-on-year. Thanks to higher prices in the USA, the Americas segment saw sales increase (by 1,9%) despite lower shipments. The adverse effects of the US dollar's slide against the euro in the first half of the year were almost fully offset by a contrary movement in the second half of the year.

(€ million)	2014	2013
Sales	6,504	6,378
Gross profit	1,261	1,188
OPEX*)	– 1,070	– 1,064
EBITDA	191	124
EBIT	98	– 6
EBT	39	– 79
Net Income	22	– 90

*) OPEX: Other operating income less personnel expenses less other operating expenses plus income from long-term equity investments.

The rise in gross profit margin from 18.6% in the prior year to 19.4% in the year under review was the main factor in a substantial, 6.1% increase in gross profit to €1,261 million (2013: €1,188 million). In addition to positive contributions from the scaling back of low-margin business, the measures under the KCO WIN action plan also increasingly made themselves felt over the year. The same goes for the more stable overall trend in steel prices compared with the prior year. The first-time inclusion of Riedo likewise helped to lift gross profit.

Other operating income and expenses (OPEX) changed as follows:

(€ million)	2014	2013
Other operating income	37	43
Personnel expenses	-590	-579
Other operating expenses	-517	-528
Income from investments	0	0
OPEX	-1.070	**-1.064**

The decline in other operating income is mainly due to lower income from the sale of property, plant and equipment. In essence, the prior-year figure mostly comprised a one-time income item (€11 million) from the sale of a property in La Courneuve, France.

When analyzing personnel expenses, it should be noted that the prior-year figure included €15 million in restructuring expenses and €14 million in non-recurring income from the reversal of pension provisions at our Dutch country organization. Alongside wage and salary rises, expenses were also increased in the year under review by the first-time inclusion of Riedo.

As no significant restructuring expenses were incurred in the reporting year, other operating expenses were substantially lower than in the prior year.

EBITDA by segments

(€ million)	Q4 2014	Q4 2013	2014	2013
Europe	17	22	108	90
Americas	19	2	100	60
Headquarters	– 5	– 8	– 17	– 26
Klöckner & Co Group	**31**	**16**	**191**	**124**

In the Europe segment, EBITDA climbed from €90 million to €108 million despite market conditions remaining very difficult, particularly in France and Spain. It should be noted that comparability with the prior year is limited because segment EBITDA for 2013 includes €12 million in restructuring expenses and a total of €27 million in one-off income items from the sale of a property at our French subsidiary and the reversal to income of pension provisions at our Dutch country organization. The main drivers of the increase in EBITDA were the contributions from the KCO 6.0 restructuring program, the effects of the KCO WIN program and the earnings contribution from Riedo. The EBITDA margin improved accordingly, rising by 0.4 percentage points to 2.6%. Becker Stahl-Service (BSS) and the Swiss country organization continued to constitute the main drivers of segment EBITDA.

In the Americas segment, too, the structural measures, the drive to scale back low-margin business and the effects of the KCO WIN program had an impact alongside market growth and, especially in the first half, the positive price trends. Americas segment EBITDA went up from €60 million in the prior year to €100 million. It should be noted that the prior-year figure included approximately €14 million in restructuring expenses. Excluding these expenses, segmental EBITDA increased by €26 million. The EBITDA margin consequently rose significantly from 2.6% (or 3.1% excluding restructuring expenses) to 4.2%.

Headquarters EBITDA, which improved due to cost savings and lower expense from derecognition of top-up amounts for sold properties, and is also where consolidation effects are accounted for, came to €– 17 million, compared with €– 26 million in 2013.

Reconciliation to net income

(€ million)	2014	2013
EBITDA	191	**124**
Depreciation, amortization and impairments	– 93	– 130
EBIT	98	**– 6**
Financial result	– 59	– 73
EBT	39	**– 79**
Income taxes	– 17	– 11
Net income	22	**– 90**

Prior-year depreciation and amortization included €16 million in impairments on intangible assets (primarily customer relationships) at our Brazilian country organization. Impairments totaling a further €7 million were recognized in 2013 on goodwill and other intangible assets at our country organization in the United Kingdom. There were no significant such items in the year under review.

Lower amortization meant that earnings before interest and taxes (EBIT) increased even more strongly than EBITDA, from a negative €6 million to a positive €98 million.

The financial result improved, from a negative €73 million to a negative €59 million. The redemption of promissory notes and the repayment of the 2009 convertible bond in June 2014 notably had the effect of reducing interest expense.

Earnings before taxes (EBT) amounted to €39 million (2013: loss of €– 79 million).

Deducting the tax expense of €17 million (2013: €11 million), the Group's net income came to €22 million (2013: net loss of €90 million). When analyzing the tax expense, it should 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 €0.22 compared with a negative €– 0.85 in the prior year.

Cash flows, financing and liquidity

Financing and financial management

Group financing is generally centrally managed through Klöckner & Co SE. We back the liquidity of our 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 the convertible bond, promissory notes, a syndicated loan, an asset-based lending facility, ABS programs, and bilateral loan agreements.

Convertible bonds

The convertible bond issued in December 2010 was for a principal amount of €186 million. This bond is guaranteed by Klöckner & Co SE and the issuer is 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 the time of issue at €28.00, equivalent to a 35.07% premium over the reference price of €20.73. Reflecting the rights issue and dividend payments, the conversion price has been adjusted to €25.10.

Another convertible bond issue dating from 2009 with a principal amount of €98 million was redeemed out of available cash resources at maturity in June 2014.

Syndicated loan

A further central component of our Group financing is the syndicated loan (a revolving credit facility) with a facility amount of €360 million and a three-year term. Taking advantage of a contractual extension option, the credit facility was extended in May 2014 by one year to May 2017. Provided by a syndicate of eleven banks, the facility is subject to balance sheet-based covenants. Drawings stood at €100 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. In addition, 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 €158 million was redeemed in 2013 and 2014, leaving a nominal amount of €185 million on December 31, 2014.

The promissory notes, which are based on straightforward, standard documentation using the same financial covenants as the syndicated loan, have maturities of initially between three and five years. Of the total outstanding amount, €59 million is fixed-interest-bearing and €126 million has variable interest rates.

Asset-backed securitization programs

Group working capital funding is additionally secured through a centrally managed, €360 million European Asset-Backed Securitization (ABS) program launched in 2005. The program was extended in 2014 for another year to May 2017. A further ABS program is in place for our country organization in the USA. The principal amount on that program is USD 275 million, with a term to the end of 2017.

Utilization under the two programs totaled €221 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

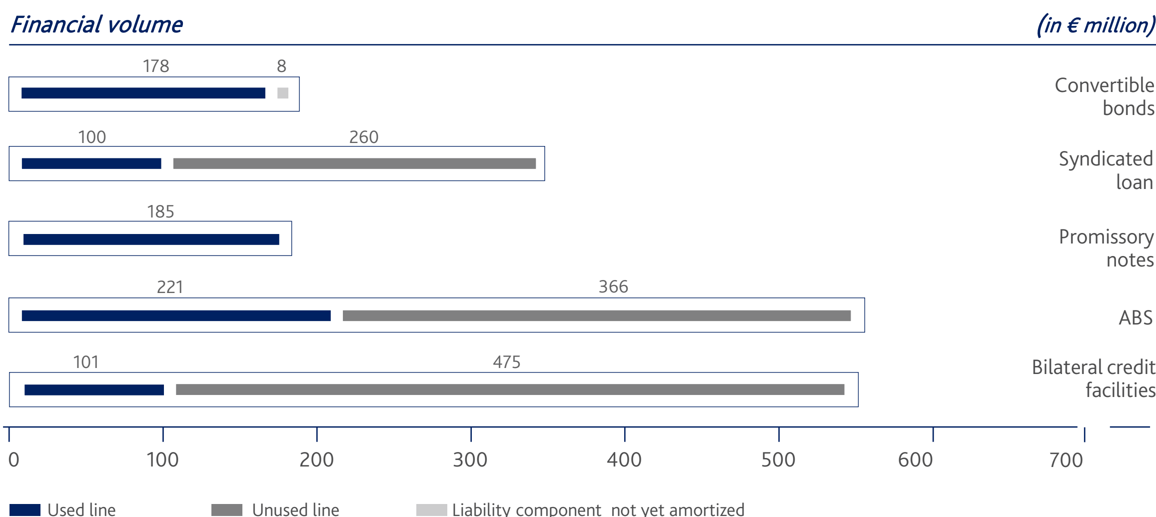
The bilateral credit facilities for a total of approximately €576 million were 17% drawn at the end of 2014. This includes a USD 325 million asset-based lending facility at our American country organizations that expires at the end of 2017. In Europe, credit facility drawings in Switzerland increased in the year under review from CHF 49 million to CHF 95 million. This relates to the acquisition of Riedo Bau + Stahl AG by our Swiss subsidiary Debrunner Koenig Holding AG. Taking advantage of favorable market conditions in Switzerland, the acquisition was funded from cash and credit facilities available in Switzerland.

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 2014.

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 €1.9 billion. As shown below, drawings as of December 31, 2014 totaled approximately €0.8 billion, representing only 42% 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.

Net financial debt

(€ million)	December 31, 2014	December 31, 2013
Net financial debt	472	325
Gearing (Net financial debt/shareholders' equity*))	34%	23%
Leverage (Net financial debt/EBITDA**))	2.5x	2.2x

*) Consolidated shareholders' equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2013.
**) In 2013: before restructuring expenses.

Net financial debt, at €472 million, was up on the prior-year figure (€325 million). The increase despite the €50 million positive cash flow from operating activities relates to the Riedo acquisition (€– 82 million) and other investment activities, to payment under a cross-currency swap (€29 million) and currency translation effects (€15 million).

Gearing was 34% as of the fiscal year-end, well within the 150% limit under the syndicated loan. Leverage, at 2.5x, is likewise not in excess of our internal target.

Klöckner & Co's operating business entails interest-rate, currency and credit risks. The instruments used to hedge and manage that 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 leverage. Financial risk management is governed by Group-wide financial guidelines. 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 86 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)	2014	2013
Cash flow from operating activities	50	143
Cash flow from investing activities	– 132	– 36
Free cash flow	**– 82**	**107**
Cash flow from financing activities	– 204	– 117

Cash flow from operating activities was €50 million, compared with €143 million in the prior year. This reflected a larger cash outflow than in the prior year due to the increase in net working capital.

Investing activities generated a cash outflow of €132 million in fiscal year 2014 (2013: 36 million) and include payments for the Riedo acquisition in the amount of €– 82 million. The remaining payments for intangible assets, property, plant and equipment came to €71 million (2013: €57 million), countered by €21 million (2013: €21 million) in proceeds from divestments. Of the capital expenditure, €53 million was incurred in the Europe segment and €15 million in the Americas segment. Free cash flow was consequently a negative €82 million, compared with a positive €107 million in the prior year.

Cash flow from financing activities – a cash outflow of €204 million (2013: €117 million) – includes a total outflow of €208 million for redemptions of promissory notes and the convertible bond issue as well as for repaying drawings on the syndicated loan, and cash outflows of €29 million for settlement of a cross-currency swap.

Financial position and balance sheet structure

(€ million)	December 31, 2014	December 31, 2013
Non-current assets	1,103	977
Current assets		
Inventories	1,318	1,166
Trade receivables	746	687
Other current assets	146	170
Liquid funds	316	595
Total assets	3,629	**3,595**
Equity	1,429	1,445
Non-current liabilities		
Financial liabilities	522	727
Other non–current liabilities	479	350
Current liabilities		
Financial liabilities	259	184
Trade payables	743	637
Other current liabilities	197	252
Total equity and liabilities	3,629	**3,595**

Total assets stood at €3,629 million as of December 31, 2014. This was roughly on a par with the prior year. The reduction in financial debt out of available cash resources had a significant impact on the balance sheet. It should also be taken into account in the analysis that changes in balance sheet items include a positive €186 million in currency translation effects, mostly relating to our American country organization.

Non-current assets increased from €977 million to €1,103 million (13 %) as of December 31, 2014, of which €73 million relates to exchange rate changes. The €126 million increase, which mainly related to the initial consolidation of Riedo, included €63 million in intangible assets and €61 million in property, plant and equipment.

Despite the positive impact of the net income, equity went down from €1,445 million to €1,429 million, mainly as a result of actuarial losses (€93 million) on the measurement of pension provisions.

The equity ratio went down slightly as a result but remained a sound 39% at the end of the reporting year (2013: 40%).

The equity-to-fixed-assets ratio stood at approximately 132% as of December 31, 2014 (2013: 151%). Adding in non-current liabilities, the excess of equity and non-current liabilities over non-current assets amounted to €1,327 million, compared with €1,545 million in 2013.

Net working capital developed as follows:

Net working capital

(€ million)	December 31, 2014	December 31, 2013
Inventories	1,318	1,166
Trade receivables	746	687
Trade payables	– 743	– 637
Net working capital	1,321	1,216

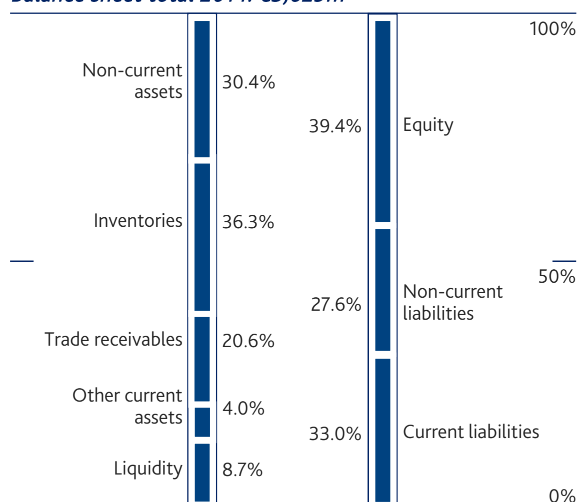
At €1,321 million, net working capital was up on the end of fiscal year 2013 (€1,216 million). Of the increase, €73 million was accounted for by exchange rate effects and €18 million by the Riedo acquisition.

Largely due to partial redemption of promissory notes and repayment of the 2009 convertible bond issue and the syndicated loan, cash and cash equivalents, at €316 million, were down on the prior year (2013: €595 million).

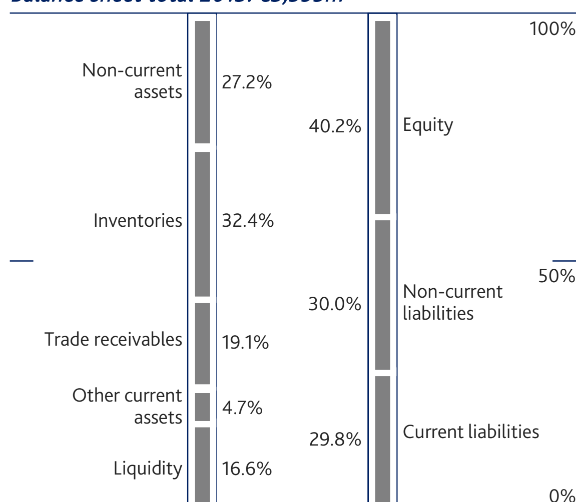
Financial liabilities in the consolidated statement of financial position consequently decreased from €911 million in the prior year to €781 million in the reporting year. Deducting cash and cash equivalents as well as transaction costs, net financial debt came to €472 million, compared with €325 million in the prior year. In addition to the increased investment activity (including the Riedo acquisition), the additional amount partly reflects €29 million in cash outflows on settlement of a cross-currency swap. The currency translation effect in net financial debt came to €15 million.

Pension provisions increased substantially from €236 million in the prior year to €328 million. This is a result of significantly reduced discount rates leading to large actuarial losses (€93 million) recognized in comprehensive income.

Balance sheet total 2014: €3,629m



Balance sheet total 2013: €3,595m



3.6 Overall assessment of the business situation

The business situation of the Klöckner & Co Group greatly improved in fiscal year 2014. Operating income (EBITDA), at €191 million, was well over the €124 million prior-year figure. The main drivers of our improvement in earnings were knock-on effects of the KCO 6.0 restructuring program completed in 2013 as well as initial results from the KCO WIN optimization program. In addition, the Swiss acquisition, Riedo, contributed to the rise in operating income starting from the second quarter. We generated net income of €22 million, mostly as a result of the improved operating income, the reduced interest expense as well as lower depreciation and amortization.

Net financial debt went up as a result of the higher net working capital, the Riedo acquisition, and payment under a cross-currency swap. Movements in the US dollar exchange rate also added to this increase. As a result, our equity ratio was slightly down as of the balance sheet date. However, it is still a comfortable 39%. Our borrowing is broadly diversified and we have a total of some €1.1 billion in undrawn credit facilities.

4. Individual financial statements of Klöckner & Co SE

4.1 Notes to the annual financial statements of Klöckner & Co SE

As holding company, Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group. It coordinates central Group financing and directly holds the ownership interests in most management companies heading the national and international country organizations, as well as in individual country operating organizations themselves. The European Operations, International Product Management, Office Services and Corporate IT units were transferred to subsidiaries in 2014. A total of €6,2 million in assets and €1,4 million in provisions were transferred in the process to the subsidiaries concerned.

Balance sheet of Klöckner & Co SE (condensed)

(€ thousand)	December 31, 2014	December 31, 2013
Intangible assets and property, plant & equipment	717	7,164
Non-current investments	1,295,267	1,106,339
Fixed assets	**1,295,984**	**1,113,503**
Receivables from affiliated companies	527,837	542,356
Other receivables	4,769	43,946
Securities	50,003	50,009
Cash and cash equivalents	147,547	367,563
Current assets	**730,156**	**1,003,874**
Prepaid expenses	11,116	22,793
Total assets	**2,037,256**	**2,140,170**
Equity	**1,261,087**	**1,306,977**
Provisions for pensions and similar obligations	100,548	100,924
Other provisions	31,089	35,211
Bonds	186,200	284,100
Liabilities to affiliated companies	164,776	11,015
Liabilities to banks	287,405	400,153
Other liabilities	6,151	1,790
Total equity and liabilities	**2,037,256**	**2,140,170**

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 consist 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 financial liabilities, comprising a convertible bond and liabilities to banks, including promissory notes. The decrease in liabilities is accounted for in the amount of €– 208 million by the redemption of the 2009 convertible bond and promissory notes as well as by the repayment of drawings on the syndicated loan.

In line with the smaller figure for total assets, Klöckner & Co SE's equity ratio went up to 61.9% as of December 31, 2014 (2013: 61.1%).

We consider the most significant key performance indicator within the meaning of German Accounting Standard 20 (GAS 20) to be net income.

Income statement of Klöckner & Co SE (condensed)

(€ thousand)	2014	2013
Income from investments	78,363	216,041
Impairment of investments	– 96,004	– 155,584
Interest income, net	– 5,714	– 18,445
Other income and expenses, net	– 21,085	– 25,659
Result from ordinary activities	**– 44,440**	**16,353**
Taxes	– 1,450	– 193
Net loss (prior year: net income)	**– 45,890**	**16,160**
Unappropriated profits carried forward	16,160	7,262
Appropriation to other revenue reserves	– 16,160	– 7,262
Withdrawal from other revenue reserves	65,840	-
Unappropriated profits	**19,950**	**16,160**

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

(€ thousand)	2014	2013
Income from participations	20,261	190,648
Income from profit transfer agreements	66,193	36,745
Expenses from loss absorption	– 8,091	– 11,352
Income from investments	**78,363**	**216,041**

The income from participations consists of dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland. The prior-year figure included €150 million in dividends from Becker Stahl-Service GmbH, Duisburg. The income from profit transfer agreements results from agreements with Becker Besitz GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg, Klöckner European Operations GmbH, Duisburg, and Kloeckner & Co USA Beteiligungs GmbH, Duisburg. The expense from loss absorption mainly relates to Klöckner & Co Deutschland GmbH, Duisburg.

To strengthen the capital base, we made payments into capital at our subsidiaries in Spain (€35 million) and China (€2 million), on which impairments were recognized due to the companies' sustained negative earnings performance. The carrying amount of the intermediate holding company Kloeckner & Co USA Beteiligungs GmbH, Duisburg (€29 million), was reduced due to impairment on account of a distribution to the parent. In addition, a loan to our French subsidiary was written off with an impairment loss of €30million.

The negative balance on other income and expenses, net, narrowed from €– 25,7 million to €– 21,1 million.

Contrary to our prior-year forecast, according to which net income in 2014 would at least match the €16.2 million net income recorded in 2013, there was a net loss of €45.9 million. This was largely due to impairments of financial assets. The Management Board and Supervisory Board will be proposing to the Annual General Meeting that Klöckner & Co SE's net income available for distribution for 2014 – after the withdrawal of €65.8 million from other retained earnings – should be paid out to shareholders as a dividend distribution in the amount of €19.950 thousand. With 99,750,000 entitled shares, this corresponds to a dividend of €0.20 per share.

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 expect net income after the loss in 2014 to be markedly positive again in 2015.

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 on the Internet at 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, 2014, 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, 2014, 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 comprises 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. Section 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:

Subject to approval from the Supervisory Board, the Management Board is authorized 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 two authorizations for contingent capital increases of €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, 2010, or will be issued under authorization by the Annual General Meeting on May 24, 2013. For further details, see 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). This 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 December 2010 convertible bond issue totaling €186 million 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 the 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 the Company totaling €185 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 months from the issue date, whichever is sooner.

4.3 Dividend planning

The Management Board and Supervisory Board propose that Klöckner & Co SE's retained profits available for distribution for 2014 should be paid out to shareholders as a dividend distribution in the amount of €19.950 thousand. With 99,750,000 entitled shares, this corresponds to a dividend of €0.20 per share. In general, Klöckner & Co follows a dividend policy of distributing 30% of consolidated net income before one-time items. In light of the fact that no dividend has been paid out for the last three years and taking into account the improved earnings situation, the Management Board and Supervisory Board consider it appropriate to distribute a dividend in excess of this amount for 2014.

5. Responsibility

Klöckner & Co's business activities impact a wide range 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, sustainability in steel distribution encompasses 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.

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

Employees

Every day, our around 9,700-strong workforce at currently some 220 locations in 15 countries apply their skills and enthusiasm to meeting the needs and wishes of our approximately 150,000 customers. Some 74% of our workforce is employed in Europe and some 26% now in the Americas.

Dedicated and qualified employees are a key factor in our success as a service provider. In everything we do, we aim to meet the highest standards of quality at all times. This 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 an even more attractive employer as well as occupational health and safety initiatives.

In the year under review, we further established the development and performance feedback process introduced for upper and middle management in 2012 as a standard instrument on an annual cycle. From 2015, similar standardized development interviews will be used for a broader cross-section of the workforce across various country organizations and the holding company. At the same time, we make increasing use of in-house talent development programs such as our Emerging Leaders Program for the branch managers of tomorrow.

We aim to increase the proportion of women in management to 20% by 2020. Women already made up 14% of our management staff at the end of fiscal year 2014. In contrast, the proportion of women in management at the end of 2010 was 8%. Yet our efforts are not limited solely to advancing female staff. In general, we strive to promote diversity in our workforce and grow creativity and innovativeness in the Company with employees of differing cultural backgrounds, lifestyles, and values.

With a view to keeping our employees' qualifications up to date, developing their skills, and nurturing talent within our own ranks, Klöckner & Co places considerable emphasis on continuing professional development. To this end, our employees have access to job-specific, in-house training sessions and language courses. They are also provided with personal support to assist them with their own continuing education plans. In addition, individual wishes and training courses are incorporated as part of target agreements in annual performance appraisals. 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.

Occupational health and safety is a key issue for us as a steel distributor with a high percentage of wage earners employed at our stockyards. The "Safety 1st" occupational safety management system developed by our international Quality, Health, Safety, and Environment (QHSE) committee is designed to methodically lower accident risk and the number of working days lost due to accidents. We aim to cut our accident rate in half in the coming years with a comprehensive package of measures giving greater accountability to management staff and closely involving employees in occupational health and safety. Currently, we are on track to achieve this target.

The internationally recognized occupational health and safety certification, in the form of British Standard BS OHSAS 18001, has now been adopted in most European country organizations and helps enhance awareness of health and safety issues. Implementation of the standard at further locations is planned in 2015.

In the year under review, 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. We will further step up these activities in future years and offer regular checkups in collaboration with the various statutory health insurance funds. In this way, we aim to further reduce our already comparatively low illness rate. Our healthcare benefits are rounded out with the option of taking out additional health insurance through Klöckner & Co.

Environment

By using efficient, responsibly designed processes, Klöckner & Co aims to minimize adverse impacts of its business activities on the environment and thus preserve resources for future generations. Quality, occupational safety, and environmental protection receive equal consideration in our integrated approach.

International working groups of logistics and quality managers meet regularly to exchange cross-border best-practice solutions in these areas as well as to develop and pursue joint projects. Successful projects from various country organizations are reviewed for feasibility in other countries and implemented there if found suitable.

At several European country organizations, our sites have been certified to environmental standard ISO 14001 and many locations in our US country organization already have an environmental management system.

We once again participated in the Carbon Disclosure Project (CDP) in 2014 and we plan to continue doing so. The objective of the CDP is to evaluate long-term opportunities and risks at participating enterprises and support the development of measures to achieve lasting cuts in CO_2 emissions.

Corporate citizenship

Klöckner & Co operates in 15 countries around the world and is mindful of its resulting responsibilities as a corporate citizen. We aim for a sustainable blend of international and regional focus, living out our corporate responsibility by becoming actively involved in the immediate vicinity of our headquarters and branches. The funding we provide is intended to benefit those who really need it.

Alongside selected scientific, sports, art, and cultural initiatives, an ongoing focus of our activities for several years has been on supporting education projects and meeting the basic needs of socially disadvantaged children in Duisburg, Germany, where our headquarters are located. In Duisburg's Marxloh neighborhood, Klöckner & Co helps schools and a youth center in ways such as providing healthy meals. Klöckner & Co also supports such amenities in carrying out essential building and renovation work. In one example in the year under review, the school yard canopy was renewed at a primary school in cooperation with the City of Duisburg.

Joining forces with the Ruhr Piano Festival Foundation, we have created a program to foster children's musical and artistic development at different types of schools, which we implemented for the first time with two schools in 2012. A project we supported in the year under review, "A Year with György Ligeti", won the Participative Projects category in 2014 in the Junge Ohren Preis (Young Ears Award), considered the most prestigious award for music promotion projects in the German-speaking world. The award is an endorsement of our successful collaboration, which continues in fiscal year 2015. Also in this reporting period, we took part in the "Youth Dialogue" event series. Our CEO once again answered the questions put by school students from the Ruhr region and gave first-hand insights into the work of the Klöckner & Co Group.

The eligibility of projects for support in each region is best judged by the various country organizations. For this reason, donation and sponsoring activities are carried out largely independently by the country organizations, which report to Group headquarters about major projects in this field. A Group-wide procedure provides our country organizations with a framework for these activities. We thus ensure that our activities have a common thrust while being tailored to individual market conditions.

For some years, we have supported the Germany Scholarship together with the German Federal Ministry of Education and Research. The scholarship primarily directed at talented and high-achieving college students gives consideration to specific family and social circumstances. Our aim here is to provide support so that students can excel both academically and socially as well as within the family.

Since 2013, we have additionally supported the German National Scholarship awarded by Roland Berger Foundation. This is a program to promote gifted children with a strong will to learn who come from socially disadvantaged families, with the aim of guaranteeing them the best possible education opportunities and enabling them to complete upper secondary education or go on to university. In this way, we contribute to removing barriers to equal opportunities among people of different social backgrounds.

Value chain

Klöckner & Co regards sustainability as a 360-degree concept spanning the Group's entire value chain as well as adjacent value creation levels. From procurement and stockholding across a whole array of services right through to distribution, we attach great importance to improving processes and outcomes in our customers' interests.

Continuously enhancing service and product quality is key to long-lasting customer satisfaction. Our quality management activities thus center on process optimization, occupational safety, and the environment. Projects geared to optimizing the internal value chain are carried out in close cooperation with the country organizations. We make the successful outcomes of our initiatives visible to the outside world as well. For some years, many branches of our country organizations have been certified to the global quality standard ISO 9001. Frequently, sites with strong ties to the automotive industry are additionally certified to the automotive standard ISO TS 16949. Many of our locations that fabricate structural steel components have obtained certification for their factory production control systems and can supply selected products to EN 1090.

Compliance

As an international group with 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 it, as well as to build responsible relationships with external contractual partners. Our employees are provided with a frame of reference and guidance in the form of our Code of Conduct, which applies Group-wide to all country organizations, together with internal compliance guidelines and procedural instructions.

All employees receive our Code of Conduct and confirm in writing that they have understood and will abide by its contents. In addition, line managers have a responsibility to explain the principles of the Code of Conduct and lead by example. Classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of compliance-related issues such as anti-trust law, corruption risks, and fraud. We conduct refresher e-learning sessions throughout the Group to keep our employees up to date and address specific compliance-related issues with examples from their day-to-day work. If they have a question about the correct form of conduct in a given business situation, employees can always approach a contact within our compliance organization at the holding company or locally in 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 Corporate Internal Audit Department, checking compliance with statutory provisions as well as our in-house rules and regulations. We also expect external contractual partners 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.

All employees and business partners have the means to report any instances of non-compliance with our Code of Conduct. A telephone and web-based whistleblower system is available for this purpose, and has been operated by an external service provider since the beginning of 2015.

Clear rules offer our employees unambiguous instructions and guidance in times of major change. To prevent corruption, we have established strict rules on hiring third-party brokers, whom we assess with the aid of an external service provider before entering into any contract. The assessment is repeated at set intervals according to risk. To enhance legal certainty and achieve a uniform level of data protection, a Group-wide guideline on protecting personal data has been drawn up and implemented. Export controls are an additional priority area in the compliance management system. Klöckner & Co again supported the work of Transparency International Deutschland in 2014, thus setting an example in the fight against corruption.

6. Subsequent events

On January 15, 2015, the Swiss National Bank scrapped its policy of capping the Swiss franc-euro exchange rate at CHF 1.20 per euro. The result was a sharp rise in the Swiss franc against the euro. It is not yet possible to judge the complex and in some cases interdependent impacts of this decision on the competitiveness of our Swiss country organization, but from today’s perspective it will not significantly affect the Group’s cash flows, financial position or results of operations.

7. Macroeconomic outlook including key opportunities and risks

7.1 Expected global economic growth

The International Monetary Fund (IMF) projects growth of 3.5% for the world economy in 2015. At the same time, there is still a substantial risk of setbacks, as many problems such as the European sovereign debt and banking crisis are not conclusively resolved and the geopolitical crises could further intensify.

The recovery in the eurozone economy is expected to be moderate initially but may gain momentum in the second half of the year. This trend is likely to be driven by an improvement in the labor market and a gain in household spending power. Rising exports as a result of the weaker euro are expected to boost economic growth. For the eurozone, the IMF forecasts overall GDP growth of 1.2% in 2015. The growth projections for the USA are higher, at 3.6%. Low energy prices are the main driver of this anticipated growth. US economic growth could be curbed, however, by a return to more restrictive interest rate policies and uncertainty ahead of the fiscal cliff looming in March 2015. An increasingly strong dollar may also bring down the export ratio. The Chinese economy is expected to grow by 6.8%, slightly less than in the prior year. In Brazil, no economic revival is anticipated for 2015. Though the government is launching stimulus programs, these will only lend impetus in the medium term. The IMF accordingly anticipates that growth will remain very weak at 0.3%.

Expected development of GDP in our core countries (in percent)	2015
Europe[*)]	**1.2**
Germany	1.3
United Kingdom	2.7
France	0.9
Spain	2.0
Switzerland	1.9
China	**6.8**
Americas	
United States	3.6
Brazil	0.3

Source: IMF, Bloomberg.
*) Eurozone.

Expected steel sector trend

The World Steel Association predicts that global steel consumption will have grown by 2.0% in 2015. For the European Union, the Association expects an increase of 2.9%, while the North American Free Trade Agreement (NAFTA) region is anticipated to have grown by 2.2%, South and Central America by 3.4%, and China by 0.8%.

7.2 Expected trend in our core customer sectors

Construction industry

According to Euroconstruct estimates, the European construction industry will grow by some 2% in 2015 thanks to stronger residential construction. This may be tempered by the deflation threatening to take hold in the course of the year. An increase of 6% is expected for the USA in 2015, with the anticipated sectoral expansion mainly driven by commercial construction. Additional support for growth is likely to come from individual government infrastructure projects. Growth of around 7% is expected in China. Infrastructure spending will help here, too, while demand in residential construction is expected to lose momentum.

Machinery and mechanical engineering

Global machinery and mechanical engineering is projected to see a sales volumes increase in 2015. The favorable exchange rate environment in Europe ought to help this export-oriented industry achieve moderate growth. For the USA, a substantial increase is anticipated due to strong replacement demand. Strong growth is expected for China, the world's largest machinery producer by far.

Automotive industry

The German Association of the Automotive Industry (VDA) expects growth of approximately 2% for the global automotive industry compared with the prior year. Projections in Europe see growth slowing to 2% on account of the base effect in France and Germany. After the strong preceding years, an increase of only 2% is anticipated in the USA for 2015. China's domestic automotive industry will likely be able to maintain the high growth rate of more than 6%. In Brazil, however, automobile production is expected to increase only slightly.

7.3 Risks and opportunities

Despite the economic growth in Europe and the USA and the attendant increase in steel distribution shipments, major challenges still remain. The greatest of these are the trend in steel prices and the increasing uncertainty in the world economy, primarily in light of geopolitical risks such as the Ukraine crisis.

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 are passed up. 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).

The established uniform understanding of risk across the Group was further revised and rigorized in 2014 on the basis of the central authority to issue guidelines, notably with the adoption of the new risk management guideline and updating of the risk inventory at both 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. Flexible architecture allows adaptation to changing company requirements and continuous improvement. Both our RMS and our ICS are based on generally accepted standards, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the additions to said framework COSO ERM (Enterprise Risk Management) framework 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 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.

Our central risk management function is performed by the Corporate Risk Management Department within the Corporate Internal Audit Department. The implemented Group-wide RMS is supported by web-based risk management software for greater ease of use and efficiency in data collection and data updating as well as for improved documentation. The RMS is continuously revised to further enhance risk transparency and information quality.

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. Overall responsibility for the RMS lies with the Management Board, 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 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 Management Board members in charge of the respective corporate 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.

The basis of consolidation for Group risk consolidation purposes is the Group as a whole. By and large, the primary risks relating to the steel distribution and steel service center business are identical in both the Europe and the Americas segments. Presentation of risk management information by segment is therefore not meaningful.

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 as well as to enable risk to be recorded systematically and uniformly at both a country and corporate department level. Risks are analyzed with regard to their impact in a one-year period and, particularly in the case of going concern risks and all material risks, their long-term impact. The result of this process is a risk inventory, which is updated at regular intervals.
2. Risk assessment – The relevance of each risk is assessed using a five-level scale. Relevance represents the overall significance of a risk for the Group as a whole and thus combines various aspects such as expected value, realistic maximum loss, and risk duration. Relevance classifies risks identified 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 could cause barely noticeable deviations from the operating result.	< 6
2	Intermediate risk	Intermediate risks which could cause significant deviations from the operating result.	⩾ 6
3	Significant risk	Significant risks that could greatly affect the operating result or have long-term effects.	⩾ 18
4	Serious risk	Serious risks which could lead to very 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

Given the differences in individual companies' size and financial capacity, various relevance scales are employed across the Group. Aggregation for the Group as a whole is done on the basis of the individual risks identified and assessed at country and Corporate department level, which are combined into risk groups and further into main risks in accordance with the underlying reference target (EBITDA). Individual risks identified are analyzed both with regard to their impact on the relevant main risk items and with regard to interdependencies among them.

3. Risk management and control – Both local risk managers and Corporate Risk Management Department at Group level are responsible for managing and controlling risks classified as "significant", "serious" or "critical".
4. 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 comprise representatives from the corporate departments and the operating units. In addition, the Supervisory Board monitors the RMS as governing body and examines risk reporting.

Risk reporting

Each half year, a risk report documents risks identified. This report is supplemented as and when necessary by ad hoc reporting on any material risks emerging at short notice and any changes in risks already identified. 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) encompasses the principles, processes and measures applied to ensure the effectiveness and profitability of business operations, compliance of the accounting system with generally accepted principles, accounting system reliability, and adherence to the applicable legal provisions. The objective of the ICS is to use the implemented controls to obtain reasonable assurance that risks can be monitored and managed, thereby enabling the Company to guarantee that its objectives will be met.

A key element of the internal monitoring system consists of process-integrated monitoring measures. 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. 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]) is regularly confirmed in quality assessments carried out by a certified, independent external auditor.

The Supervisory Board's Audit Committee reviews the effectiveness of the internal control system once a year and additionally on an ad-hoc basis as needed. At the same time, the external auditor assesses the internal control system in relation to the financial reporting process as part of audit activities.

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 a telephone and web-based whistleblower system that makes it easier for both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. We also expect our contractual partners outside the Company to implement and comply with the principles and standards enshrined in our Code of Conduct or a comparable code of conduct. The implementation and effectiveness of our CMS is continuously reviewed by the Corporate Internal Audit Department.

We expect to prevent large-scale compliance violations 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 are fully investigated by the Corporate Compliance Office wherever possible and the necessary action is taken by the Management Board or by the management of country organizations.

We continued to carry out training in the year under review 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, among other things to help prevent risk. Since the CMS was introduced, the system has been regularly reviewed, developed and supplemented, leading 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

Within 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 categories 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.

Relevance	4	3	2
Risk category	Serious risk (⩾ € 60 million)	Significant risk (⩾ € 18 million)	Intermediate risk (⩾ € 6 million)
Strategic risk	Dependence on construction industry and commodity products		
	Success of acquisitions		
	Resurgence of financial crisis		
		Excessive sovereign debt as a trigger for sovereign debt and/or liquidity crisis	
Market risk	Economic situation / downturn in target markets		
		Demand and price development	
		Competitive environment	
		Impairment losses[1]	
Financial risk			Downgrades to the ratings
			Default of one or more of our core banks
			Long-term weak profitability
			Pension obligations
Legal / Compliance risks		Antitrust violations	
			Unfavorable terms and conditions in loan agreements, e.g. financing terms
			Changes in tax legislation or administrative interpretation of tax matters
IT risk		Cyber risk	
			Project risks
			Documentation of IT systems
Personnel risk			Loss of key employees
Risks arising from management processes			Structural adjustments threaten to sustain existing business model
			Intensified competition and margin pressure through digitization

1) Does not impact the key performance indicator EBITDA but does impact net income.

Strategic risk

Our serious strategic risks relate to our dependence on the construction industry and on commodity products, to the success of acquisitions, and to a resurgence of the financial crisis. Excessive sovereign debt in a number of industrial countries represents another significant risk that could lead to a sovereign debt and/or liquidity crisis and additionally burden the economies in our sales markets.

We counter 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. By expanding services and increasing sales of higher value-added products, we are reducing our proportion of commodity products. In addition, we are improving pricing and increasingly setting ourselves apart through our digitalization strategy. The focus here is on digitalization of the entire supply chain as well as deploying the innovative methods of business start-ups for rapid and effective joint development of new digital services that create added value for customers.

Like all M&A activities, acquisitions are governed by a comprehensive M&A policy. We monitor compliance with this policy centrally. In the selection of 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 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 by our stable equity base (39% equity ratio), our comparatively low net financial debt (34% gearing), and our available working capital facilities. Liquidity is assured based on our European ABS program and a syndicated loan, each of which are in the amount of €360 million and mature in May 2017. 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 our successfully completed KCO 6.0 restructuring program. In addition, we have initiated improvements aimed at boosting earnings going forward. The main focus here is on pricing, higher value-added products and services, and digitalization.

Market risk

A serious market risk to Klöckner & Co ensues from the economic situation, as we are highly dependent on the economic cycle due to our large 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. In France – an important European market – structural weaknesses are a major obstacle to a medium-term recovery of the economy. 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, the competitive situation.

Cyclical risk also results from the sustained mood of uncertainty on financial markets, primarily on account of high sovereign debt levels in a number of European countries and the USA, which could lead to a decrease in capital investment and hence to a decline in demand for steel. Increasing geopolitical risks, especially the Ukraine crisis, make for added uncertainty.

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, and the automotive industry. With regard to the construction industry as the customer sector making up the largest share of shipments, there is a risk 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 lag of up to several months between the setting of procurement prices and when we invoice sales means that we are constantly exposed to inventory and valuation risk. Excessive inventory values can have a negative impact on current earnings (negative windfall effect). In the preparation of financial statements, it may also become necessary to write down inventories, which impacts earnings. Given the surplus steel production capacity in Europe and Asia, there is the threat of price collapse. This can have a negative impact on earnings performance each time. Imports from Asia to Europe and from Asia and Europe to America create interdependencies between price trends on the different markets. 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 and, unlike in the USA, there is no strict separation between production and sales to make for greater price discipline among manufacturers. Consequently, prices and margins can come under pressure time and again.

There is also overcapacity in steel distribution, which has led to keener competition, above all in Europe. Excess inventories or downward trends in prices, for example, may prompt individual competitors to introduce special offers, leading to additional price pressure in the market that 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 for parameters such as 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. This is the basis for our further differentiation from competitors, which plays a key role in minimizing market risk. The two core elements in this connection are, firstly, the expansion of our business in higher value-added products and services and, secondly, digitalization of the supply chain. We will also be more rigorous in obtaining the margins available in the market for our products and services by fine-tuning pricing – the core feature of KCO WIN.

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 use pooled procurement to 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 in quarterly inventory valuation. Price risk is also reduced by our inventory and product range policy, which is tailored to demand and logistically optimized.

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

On the basis of Klöckner & Co's growth strategy, we acquired several target companies in recent years. In measuring the value of those companies, we made assumptions regarding future business 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 Accounting Department, which would negatively impact the Company's financial position and profit or loss. We recognize goodwill impairment losses on acquisitions, 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. A notable countermeasure is our KCO WIN optimization program targeting lasting improvements in the earnings situation across the entire Group.

The Corporate Treasury 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 the rating agencies Moody's and Standard & Poor's. In light of the critical assessment of the steel sector, particularly in Europe, our Moody's rating is presently B1 (outlook stable). Our Standard & Poor's rating is B+ as before, with the outlook now upgraded from "negative" to "stable". 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 to 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 the investment of 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.

Operating earning power is a key criterion in the assessment of our creditworthiness by banks and rating agencies. Weak profitability over the long term would therefore limit our future scope for refinancing. We regard long-term weak profitability as an intermediate risk, a risk we counter among other things with the KCO WIN optimization program – with further improvements in pricing, by expanding the range of higher value-added products and services, and by digitalizing business processes in order to achieve lasting improvements in profitability.

The Group recognizes pension provisions for current and future benefits for eligible current and former employees. Defined benefit or defined contribution plans are 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 become necessary due to tighter legal requirements.

In the case of funded pension obligations, such as in the USA and the UK, plan assets are exposed to capital market risk. On the whole, we consider this risk to be intermediate.

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

We regard the risk of antitrust violations as significant, particularly the risk of collusion with competitors – for instance, involving price fixing, market allocation or agreeing on production, procurement and supply quantities. With regard to the measures to reduce such risk, please refer to the information on our compliance management system.

Steel distribution is a sector in which legal risk generally tends to be lower than in many other sectors. One intermediate legal risk we have identified is unfavorable terms and conditions – such as financing terms – in loan agreements, which could lead to substantial additional costs or even premature termination of agreements. We counter this risk through close cooperation among our own experts in the various corporate 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 Taxes 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.

IT risk

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

We consider our IT systems to be exposed to cyber risk due to the general increase in outside attacks on IT systems and notably also in light of our e-commerce initiatives and the increasing digitalization of our supply chain. By cyber risk, we mean risks of adverse modification to, loss or misuse of or interruption to the availability of data or IT systems, and data breaches. We regard the threat of viruses, targeted hacking, carelessness, deliberate data falsification or modification and IT system failure as a significant risk. To counter the threat from cyber risks, we create additional resources and know-how in Klöckner Group IT (Klöckner Shared Services GmbH) and deploy various preventive measures against system failure and employee carelessness as well as specific protection from cyber attacks.

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 project scope adjustments. 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 fix. We therefore identify critical IT systems so that we can review the quality of the existing documentation and improve it if necessary.

Personnel risk

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. The loss of employees in key positions, particularly when integrating newly acquired companies and subsidiaries with specialty activities, therefore poses an intermediate risk.

We have designed our remuneration systems to motivate and retain employees; the same applies to our personnel development programs and measures. Our HR tools help us to safeguard existing expertise and new talent. At the same time, they 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 shipments in Europe between 2009 and 2013 has already necessitated massive structural adjustments. It is of critical importance for our future success that our structures and processes meet market and customer demands 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.

Alongside numerous opportunities, digitalization also harbors risks. Notably when this goes beyond digitalization of the existing business model to entail change in the business model itself, there is the medium-term possibility that competition will further intensify and the pressure on margins will become even greater. This could cancel out the operating benefits of digitalization. We counter this intermediate risk by addressing the opportunities and risks of digitalization at an early stage, rapidly pressing ahead with digitalization of the supply chain, generating competitive advantages with pioneering approaches, and keeping a close watch on market developments and the competition.

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 the corporate departments 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, optimized sales processes as well as human resources management that promotes innovation potential provide the basis for us to leverage opportunities.

Strategic opportunities

We continue to implement our long-term growth strategy, “Klöckner & Co 2020”. The groundwork for this was laid on successful completion of the KCO 6.0 restructuring program. Going forward, the focus will be on growth with higher-margin business.

Alongside organic growth, acquisitions targeting specialized providers of higher value grades and value-added processing are once again an option. Our main organic growth focus is the US market. This approach is borne out by the significantly better growth prospects in the USA, which are ongoing. For enduring success, however, it is necessary to increase the proportion of higher value-added products and services across all countries. We have set ourselves the goal of boosting that proportion of sales from 34% today to 45% by 2017. This will require increased capital expenditure. We are consequently stepping up related capital expenditure by some 50% in 2015 compared with the prior year.

Following growth in the areas mentioned, the main focus of our strategy is on improving operating processes and most of all digitalization as a further element of differentiation from competitors.

Operational opportunities

The aforementioned “Klöckner & Co 2020” growth strategy also brings with it numerous opportunities from operational-level changes. Our KCO WIN program, for example, which is an integral part of the optimization strategy, combines measures and projects designed to improve workflows and processes in our business operations. Alongside other measures to boost effectiveness and efficiency in sales, such as better sales control, a major focus here is on differentiated pricing. As our main competition comprises a host of small and medium-sized enterprises, we are exploiting our economies of scale to set ourselves apart more clearly than ever from that competition. Our activities in this regard focus on two core areas: products and services, and digitalization.

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. We expect significant scale economies by further stepping up the use of pooled procurement to source from suppliers that grant appropriate terms and by making greater use of global procurement possibilities.

As well as maintaining our broad product portfolio, we plan to offer customers a broader range of higher value-added products and services. The prime focus here is on customers whose strong vertical integration provides greater scope for successfully and profitably selling such services.

Digitalization is not just about improving the entire supply chain from supplier to customer. We also aim to make use of the methods and tools of business start-ups to be faster and more effective as well as to create added value for customers. Based on digital solutions and working jointly with suppliers and customers in particular, we are committed to making all processes simpler and more efficient. To this end, Klöckner & Co has launched a dedicated Group Center of Competence for Digitalization in Berlin to develop and test digital solutions and roll them out across the Group. The company, kloeckner.i, additionally furnishes a platform for in-house knowledge transfer, is forging a network with the start-up scene, and oversees online marketing activities. As part of this, kloeckner.i operates an innovation lab at the Regensburg location of KCD, our German country organization. The lab develops innovative tools in collaboration with a partner. Customers are brought in from an early stage to test functionality and customer benefit directly step by step. Initial outcomes include a contract platform and a test report portal.

We see great potential in digitalization for major improvements at every link in the inefficient traditional steel and metal distribution chain. End-to-end data flow with the aid of digitalized processes makes it possible to produce to demand, removes the need for stock transfers and shortens time to delivery from the shop floor. Less inefficiency means less inventory. The implementation of the digitalization initiative is already delivering results, with increased supplier integration. Adding to a number of wholesalers already on board, we obtained the commitment for full EDI integration from a major steel producer. The Group-wide use of web shops for distribution is also increasing on the customer side, and these are currently being developed into comprehensive customer portals. Using standardized interfaces, we can achieve end-to-end digitalization of the supply chain, reduce interim storage and cut lead times.

There are also numerous measures in logistics and warehouse management. These include long-term optimization of workflows and structures in internal logistics, processing and transportation logistics under a system called the 10 Commandments of Operations that we have rolled out on a large scale. The system acts to harmonize processes, exchange best practices across borders and ensure a continuous improvement process. Implementation is monitored by Headquarters in assessments of individual operating locations, while performance improvements are supported using a uniform key indicator system. Continued application of the 10 Commandments of Operations system improves supplier performance, efficiency and occupational safety. We are also working to implement paperless processes in our operations. Almost all warehouses belonging to our German subsidiary KCD are now paperless. Preparations are under way to extend this system to all internal logistics processes and roll it out at other country organizations. ASD in the UK started with a pilot branch in October 2014. 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 also stand out from competitors with our state-of-the-art technologies and systems, which we are continuously improving. We harness these to further professionalize customer service, for example, by means of the KliCC CRM solution we have already implemented in the United Kingdom, Switzerland and Belgium. KCD, the German country organization, is currently in the roll-out phase. Customers in the Netherlands, the UK, Germany and Switzerland can already place orders through our web shop 24 hours a day. In-house, we are using global collaboration solutions to improve information exchange 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 Accounting, Finance, Controlling and Internal Audit Departments, assisted by the Corporate Legal and Taxes 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 identify and appropriately quantify all risks in the context of consolidated financial statements that comply with IFRS and single-entity financial statements that comply with the requirements of the German Commercial Code (HGB).

In our Group, the controls 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-eyes 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 scope of consolidation (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 use SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. Local financial accounting data is 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 as well as 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 analysis. 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) as endorsed by the EU. In doing so, the Group accounting guidelines, continuously updated by the Corporate Accounting Department, ensure that 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 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 fed into the Group accounting software. In addition to this automated quality assurance procedure, the Corporate 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 Accounting and 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 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, 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

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 wherever necessary or economically expedient. The Management Board is confident that our risk management system is effective.

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 presently aware of any risks that, either individually or taken as a whole, cast doubt upon the Company's ability to continue as a going concern.

8. Group forecast

While we are fundamentally optimistic about global economic growth going forward and about the course of business in 2015, we continue to see major macroeconomic and geopolitical uncertainties that could have a negative impact on our earnings. From today's perspective, we expect that European steel demand will sustain the slight upward trend from the previous year with growth of 1 to 2%. We expect the main growth impetus to come from machinery and mechanical engineering as well as the automotive industry, which stand to benefit from a weaker euro and a lower oil price. In the USA, we anticipate that steel demand will grow by 3 to 4%. The boost to household spending power from lower oil prices is likely to stimulate notably residential construction and the automotive industry. This should make up for the negative effect of reduced steel demand from the oil and gas sector.

In light of this and given the likelihood of lower steel prices, we expect only a slight increase in sales. Similarly, we anticipate only a slight increase in gross profit and the gross profit margin. As we expect costs to rise at a lower rate than gross profit, EBITDA and the EBITDA margin ought to pick up significantly noticeable. Our outlook does not include any effects of restructuring measures envisaged in France.

By 2017, we aim to raise the EBITDA margin to over 5.0%. Besides full implementation of our KCO WIN optimization program together with further improvements to pricing as well as the additions to our range of higher value-added products and services, we expect the digitalization of business processes to play an ever more significant role in this regard.

Our interest cost will once again decrease in the course of this year due to further reductions in financial liabilities. Overall, we expect to deliver a significant increase in net income.

Our net working capital is anticipated to rise slightly in line with sales. As a result of the higher net working capital and the planned increase in capital expenditure, we expect a moderate rise in net financial debt.

Further acquisitions are planned as a growth accelerator. In line with our growth strategy, the focus here is on companies offering higher value-added products and services. At the same time, we intend to invest in start-ups to advance our digitalization strategy.

Duisburg, February 23, 2015

The Management Board

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KLÖCKNER & CO SE

Consolidated statement of income for the 12-month period ending December 31, 2014

(€ thousand)	Notes	2014	2013
Sales	7	6,503,930	6,377,610
Other operating income	8	37,390	43,324
Changes in inventory		18,106	5,094
Own work capitalized		91	71
Cost of materials	9	– 5,261,180	– 5,194,811
Personnel expenses	10	– 590,279	– 578,967
Depreciation and amortization		– 92,498	– 130,391
thereof impairment losses	*15*	*– 1,104*	*– 26,008*
Other operating expenses	11	– 517,246	– 527,855
Operating result		98,314	**– 5,925**
Income from investments		– 3	**– 5**
Finance income		2,759	4,786
Finance expenses		– 62,238	– 77,570
Financial result	**12**	– 59,479	**– 72,784**
Income before taxes		38,832	**– 78,714**
Income taxes	13	– 16,658	– 11,527
Net income		22,174	**– 90,241**
thereof attributable to			
– shareholders of Klöckner & Co SE		*22,332*	*– 84,605*
– non-controlling interests		*– 158*	*– 5,636*
Earnings per share (€/share)	**14**		
– basic		0.22	**– 0.85**
– diluted		0.22	**– 0.85**

KLÖCKNER & CO SE

Statement of comprehensive income for the 12-month period ending December 31, 2014

(€ thousand)	2014	2013
Net income	**22,174**	**– 90,241**
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	– 92,916	68,780
Related income tax	10,549	– 14,974
Total	**– 82,367**	**53,806**
Other comprehensive income reclassifiable		
Foreign currency translation	41,956	– 22,245
Gain/loss from net investment hedges	– 1,094	– 3,070
Gain/loss from cash flow hedges	-	6,547
Reclassification of cash flow hedges to profit and loss	5,867	– 379
Reclassification to profit and loss due to sale of foreign subsidiaries	-	– 12
Related income tax	– 1,634	– 1,305
Total	**45,095**	**– 20,464**
Other comprehensive income	**– 37,272**	**33,342**
Total comprehensive income	**– 15,098**	**– 56,899**
thereof attributable to		
– shareholders of Klöckner & Co SE	*– 14,858*	*– 50,072*
– non-controlling interests	*– 240*	*– 6,827*

KLÖCKNER & CO SE

Consolidated statement of financial position as of December 31, 2014

Assets

(€ thousand)	Notes	December 31, 2014	December 31, 2013
Non-current assets			
Intangible assets	15 a	438,015	374,874
Property, plant and equipment	15 b	630,220	569,214
Investment property	15 c	10,486	10,486
Non-current investments		1,321	1,547
Other assets	18	15,284	14,525
Deferred tax assets	13	7,817	6,103
Total non-current assets		**1,103,143**	**976,749**
Current assets			
Inventories	16	1,317,696	1,166,505
Trade receivables	17	745,538	686,721
Current income tax receivable	13	14,072	61,944
Other assets	18	106,386	92,203
Cash and cash equivalents	19	316,364	595,393
Assets held for sale	20	25,478	15,170
Total current assets		**2,525,534**	**2,617,936**
Total assets		**3,628,677**	**3,594,685**

Equity and liabilities

(€ thousand)	Notes	December 31, 2014	December 31, 2013
Equity			
Subscribed capital		249,375	249,375
Capital reserves		900,759	900,759
Retained earnings		289,257	266,925
Accumulated other comprehensive income		– 24,690	12,500
Equity attributable to shareholders of Klöckner & Co SE		**1,414,701**	**1,429,559**
Non-controlling interests		13,984	15,913
Total equity	**21**	**1,428,685**	**1,445,472**
Non-current liabilities			
Provisions for pensions and similar obligations	23	328,190	235,575
Other provisions and accrued liabilities	24	17,405	16,900
Financial liabilities	25	522,407	726,991
Other liabilities	27	34,407	6,326
Deferred tax liabilities	13	98,576	90,981
Total non-current liabilities		**1,000,985**	**1,076,773**
Current liabilities			
Other provisions and accrued liabilities	24	110,827	123,171
Income tax liabilities	13	9,307	55,261
Financial liabilities	25	258,950	184,149
Trade payables	26	742,703	636,972
Other liabilities	27	77,220	72,887
Total current liabilities		**1,199,007**	**1,072,440**
Total liabilities		**2,199,992**	**2,149,213**
Total equity and liabilities		**3,628,677**	**3,594,685**

KLÖCKNER & CO SE

Consolidated statement of cash flows 2014

(€ thousand)	2014	2013
Net income	22,174	– 90,241
Income taxes	16,658	11,527
Financial result	59,479	72,784
Depreciation and amortization	92,498	130,391
Other non–cash expenses/income	424	– 2,046
Gain on disposal of non–current assets	– 8,885	– 12,143
Change in net working capital		
Inventories	– 71,014	59,852
Trade receivables	– 6,331	85,084
Trade payables	57,493	18,166
Change in other operating assets and liabilities	– 50,083	– 54,549
Interest paid	– 46,970	– 55,754
Interest received	2,930	3,490
Income taxes paid	– 18,363	– 23,984
Cash flow from operating activities	50,010	**142,577**
Proceeds from the sale of non–current assets and assets held for sale	15,550	14,346
Cash inflows from the redemption of current loans	5,369	-
Proceeds from the sale of consolidated subsidiaries	-	6,705
Payments for intangible assets, property, plant and equipment	– 70,976	– 56,703
Acquisition of subsidiaries	– 82,022	-
Cash flow from investing activities	– 132,079	**– 35,652**
Dividend payments to non–controlling interests	– 1,689	-
Settlement Cross-Currency Swap	– 29,004	-
Repayment convertible bond	– 97,900	-
Repayment Syndicated Loan	– 60,000	-
Repayment promissory notes	– 50,000	– 108,500
Borrowings	281,776	83,154
Repayment of financial liabilities	– 247,298	– 91,376
Cash flow from financing activities	– 204,115	**– 116,722**
Changes in cash and cash equivalents	– 286,184	**– 9,797**
Effect of foreign exchange rates on cash and cash equivalents	7,155	– 5,025
Cash and cash equivalents at the beginning of the period	595,393	610,215
Cash and cash equivalents at the end of the reporting period as per statement of financial position	316,364	**595,393**

KLÖCKNER & CO SE

Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings	
Balance as of January 1, 2013	**249,375**	**900,759**	**368,375**	
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)				
Reclassification acc. to IAS 1,122			– 16,845	
Related income tax				
Reclassification to profit and loss due to sale of foreign subsidiaries				
Other comprehensive income				
Net income			– 84,605	
Total comprehensive income				
Balance as of December 31, 2013	**249,375**	**900,759**	**266,925**	
Balance as of January 1, 2014	**249,375**	**900,759**	**266,925**	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Reclassification of cash flow hedges to profit and loss				
Actuarial gains and losses (IAS 19)				
Related income tax				
Other comprehensive income				
Net income			22,332	
Total comprehensive income				
Dividends				
Balance as of December 31, 2014	**249,375**	**900,759**	**289,257**	

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
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**
72,912	**– 56,648**	**– 3,764**	**1,429,559**	**15,913**	**1,445,472**
41,885			41,885	71	**41,956**
		– 1,094	– 1,094		**– 1,094**
		5,867	5,867		**5,867**
	– 92,763		– 92,763	– 153	**– 92,916**
	10,549	– 1,634	8,915		**8,915**
			– 37,190	**– 82**	**– 37,272**
			22,332	– 158	**22,174**
			– 14,858	**– 240**	**– 15,098**
				– 1,689	**– 1,689**
114,797	**– 138,862**	**– 625**	**1,414,701**	**13,984**	**1,428,685**

KLÖCKNER & CO SE

Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg, as of December 31, 2014

(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 23, 2015. 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 producer-independent multi metal distributor and one of the leading operators of steel service centers in the combined European and American market.

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, 2014 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, 2014 were applied.

The financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2014, 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 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 and when the parent company participates in variable positive or negative returns and is able to influence these returns with its decision-making power.

The financial statements of subsidiaries acquired or disposed during the financial year are included in the consolidated financial statements from the time control is acheived 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:

	2014	2013
Consolidated entities at the beginning of the financial year*)	72	82
+ business combinations	2	-
+ newly formed/consolidated companies	1	2
– mergers	-2	-2
– disposals and liquidations	-	-10
Consolidated entities at the end of the financial year	**73**	**72**
thereof domestic entities including Klöckner & Co SE)*	*11*	*12*

*) Including consolidated special-purpose entities.

3 (2013: 3) subsidiaries that do not have 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 0.11% (2013: 0.01%) of consolidated net income. The impact on the Group’s equity amounts to 0.01% (2013: –0.03%). 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 an annex to the notes.

Special-purpose entities

Under the Group’s European asset-backed securitization program (“ABS program”) a total of four special-purpose entities exist, consisting of the holding company Klöckner Receivables Funding Ltd., Dublin, Ireland, and three country-specific subsidiaries. The shares of these special-purpose entities are held by two independent and privately-owned service companies responsible for the accounting in the holding company. The entities purchase trade receivables from the subsidiaries participating in the ABS program on contractually agreed terms. They are financed by conduit credits refinanced by placement of commercial papers or loans granted by the banks involved. The AAA rating required for the commercial papers is granted by the claim reserves and the compliance with performance indicators.

The extent to which this program is used depends on the amount of receivables and the monthly development of the cash flow requirements. This decision is the responsiblity of Klöckner & Co SE.

Klöckner & Co SE is, by contract, responsible for payment orders, reporting, administration of receivables purchased, including credit management and receivable collection, as well as for the accounting of the country-specific entities. In addition, Klöckner & Co determines the factor to be paid in order to cover all current costs of the special-purpose entities. These special-purpose entities are also controlled by Klöckner & Co and must therefore be included in the financial statements. They are subject to control due to the fact that Klöckner & Co SE is subject to a volatile return from the special-purpose entities and is able to influence these returns with its control over these entities.

Within the scope of the German ABS program, Klöckner & Co issued a loan to Klöckner Receivables Funding Ltd., Dublin, Ireland, in the amount of €60 Mio. (2013: €55 Mio.).

For the US ABS program issued in 2007, only one special-purpose entity was founded (NC Receivables Corporation, Wilmington, Delaware, USA), of which Klöckner Metals Corporation, Wilmington, Delaware, USA is holding 100%. This entity purchases trade receivables of the subsidiaries in the USA as well as Mexico transferring these receivables. The NC Receivables Corporation in turn either resells them to a conduit issuing commercial papers to investors or utilizes a liquidity fund for financing purposes.

In addition, the companies participating in this program are responsible for the collection and receivables management, carry all costs and do not receive any remuneration. The special-purpose entities' current expenses are also self-carried.

(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 closing exchange 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 Group's main currencies developed as follows:

	Closing rate		Average rate	
1 € =	December 31, 2014	December 31, 2013	2014	2013
Brazilian Real (BRL)	**3.2207**	3.2576	**3.1211**	2.8687
Pound Sterling (GBP)	**0.7789**	0.8337	**0.8061**	0.8493
Swiss Franc (CHF)	**1.2024**	1.2276	**1.2146**	1.2311
US Dollar (USD)	**1.2141**	1.3791	**1.3285**	1.3281

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, at the request of the buyer, goods have not been delivered, but ownership has been transferred, 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, 2014	December 31, 2013
Risk–free rate of return	–0.1–0.6	0.1–2.1
Expected volatility	36.0	36.0

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 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 by the balance sheet date.

Deferred taxes are calculated in line with the concept of the balance sheet liability method. They 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 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 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 or 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 will 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. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rates.

The expected useful lives are as follows:

	Useful life in years
Software	2–5
Customer relations	4–15
Trade names	5–15
Other intangible assets	1–15

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. The financial asset and the impairment are written off in case the financial assets is categorized as bad debt.

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 a lessee, lease payments are recognized as a 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 an 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 within the Klöckner & Co Group. 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 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 operates. 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 certain 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 accounted 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 that impairment may be necessary, such as substantial financial difficulty on the part of the obligor, known insolvency proceedings or overdue obligations. Valuation allowances are recorded on separate accounts. In case the financial asset is categorized as bad debt it is written off including the amount of the impairment.

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 dependent 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, or 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 the forecast and realized changes in plan beneficiaries and actuarial assumptions are recorded with no effect on income during the period in which they arise in other comprehensive income. They 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 results. These can be found 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 its amount. 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. 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 include potential obligations, which arise from past events, that only require settlement if one or more uncertain future events, which the enterprise cannot wholly control, occur. In addition, contingent liabilities include unrecognized present obligations that arise from past events but are unlikely to require an outflow of resources to settle the obligation and also obligations in which the amount 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 and liabilities realized within twelve months of the reporting date, or that will be settled within one year of the reporting date 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 that influence 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. If more than one period is affected, the change is reflected in the period of the revision and subsequent periods.

Particularly in business combinations, intangible assets and property, plant and equipment require estimates 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 any triggering events exist that could give rise to an impairment loss. If triggering events are identified, the recoverable amount must be estimated. Regardless of the existence of triggering events, an impairment test on goodwill must be performed at least on an annual basis. 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, which take into account the general economic environment, and 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 the return on equity, which includes assumptions about leverage and the market risk premium.

Inventories are reported at the lower of cost or net realizable value. In order to calculate the net realizable value, management must estimate sales prices and future selling costs.

The Group operates in various countries. Therefore, the Group's income is subject to various tax jurisdictions. For each taxable entity, tax assets, tax liabilities, temporary differences, 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 factors, 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 economy and stock markets. Therefore, deviations from the forecast may 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 2014, the Klöckner & Co Group initially applied the following standards:

Standard/Interpretation
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities
Amendments to IAS 27 Separate Financial Statements
Amendments to IAS 28 Investments in Associates and Joint Ventures
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

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, and 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.

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

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 initial application of the remaining standards had no influence on the Klöckner & Co SE annual financial statements.

The 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 have not yet been applied in the Klöckner & Co Group:

Standard/Interpretation	Mandatory application*)
Improvements to IFRS 2010–2012	2016
Improvements to IFRS 2011–2013	2015
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	2016
IFRIC Interpretation 21 (Levies)	2015
Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)	2016
IFRS 9 Financial Instruments (final standard)	2018
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	2016
IFRS 15 Revenue from Contracts with Customers	2017
Amendments to IFRS 10, IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	2016
Annual Improvements to IFRSs 2012–2014	2016
IAS 1 Disclosure Initiative	2016
IFRS 10, IFRS 12, IAS 28 (Consolidation Exception)	2016

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

As part of the Annual Improvement Project, modifications were made to seven (2010–2012), respectively, four (2011–2013) standards. The editorial changes in selected IFRS will clarify existing regulations. There will be no impact on the financial statements.

The changes to IAS 19 (Employee Benefits) limited adjustments regarding service cost entries of contributions by employees or third parties. There will be no impact on the Klöckner & Co SE's financial statements.

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 IAS 12 (Income Taxes). The interpretations will entail a different periodisation of expenses within the single digit million range. For 2015, there will be no significant changes.

The amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations) were published on May 6, 2014. This clarification relates to the acquisition of interests in joint operations if they are classified as a business. This clarification will not have an impact on Klöckner & Co SE Group's financial statements.

On May 12, 2014, amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) were published. The amendments are a clarification that revenue-based methods for calculating the depreciation may not be applied. This clarification will not have an impact on Klöckner & Co SE Group's financial statements.

On May 28, 2014, the IASB published the new standard IFRS 15 (Revenue from Contracts with Customers). The standard summarizes regulations for revenue recognition from different standards and requires extended disclosures depending on the kind of business. Provided that it will be endorsed by the EU, the standard is applicable for financial years beginning on or after January 1, 2017. Klöckner & Co is currently analyzing the impact of this standard on the annual financial statements.

On July 24, 2014, the IASB issued the final standard IFRS 9 (Financial Instruments), whereas the previous releases issued in 2009, 2010 and 2013 were integrated partly modified. IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities as well as for hedge accounting (excl. macro-hedge accounting, which is addressed in a separate project). The standard will be effective for financial years, that start on or after January 1, 2018. Klöckner & Co is currently analyzing the impact of this standard on the annual financial statements.

The amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) issued on September 11, 2014 clarify the gain recognition on a sale or contribution of assets between an investor and its associate or joint venture. A gain or loss is recognised when a transaction represents a business. The standard will be effective for financial years, which start on or after January 1, 2016. Klöckner & Co is currently analyzing the impact of these standards on the annual financial statements.

On September 25, 2014, the Annual Approvements to IFRSs 2012-2014 were issued. The publication of this project leads to changes in five standards. Provided that it will be endorsed by the EU, the standard is applicable for financial years beginning on or after January 1, 2016. Klöckner & Co is currently analyzing the impact of this standard on the annual financial statements.

The narrow-scope amendments to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 28 (Investments in Associates and Joint Ventures) issued on December 18, 2014 introduce clarifications to the requirements of the consolidation exemption for investment entities. They become mandatory for annual periods beginning on or after January 1, 2016. This clarification will not have an impact on Klöckner & Co SE Group's financial statements.

Also on December 18, 2014, the IASB issued amendments to IAS 1 (Disclosure Initiative). The amendments are designed to further encourage companies to apply professional judgment in determining which information is to disclose in their financial statements. The amendments become mandatory for annual periods beginning on or after January 1, 2016. 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 divestitures during fiscal years 2014 and 2013.

Acquisition 2014 and 2013

2014

In 2014, the following business combination was closed.

Riedo Bau + Stahl AG, Oberbipp, Switzerland

At the beginning of April, the acquisition of 75% of BST Holding AG, Oberbipp, Switzerland, including its subsidiary Riedo Bau + Stahl AG ("Riedo"), was closed. At the end of the second quarter, the remaining shares were also acquired. Klöckner & Co now holds 100% of the Riedo shares.

With its three locations, Riedo is one of Switzerland's leading specialists in reinforcing steel, generating sales of about €140 million (CHF 150 million) in 2013. The company has a workforce of approximately 180 employees. The acquisition was part of the "Klöckner & Co 2020" growth strategy, which focuses on entities with higher value-added processing services.

The total purchase price amounts to €83.5 million (roughly CHF 102 million). Riedo has been consolidated since April 1.

The partially still preliminary calculation of the fair values of the acquired Riedo assets (especially intangible assets) and adopted liabilities is as follows:

(€ million)	Fair values
Assets	
Goodwill	19.0
Other intangible assets	19.7
thereof customer relationships	*17.3*
thereof order backlog	*2.3*
Property, plant and equipment	40.1
Inventories	10.4
Trade receivables	13.6
Other current assets	8.3
thereof current loans	*5.3*
Cash and cash equivalents	1.5
Total acquired assets	112.6
Liabilities and provisions	
Non-current financial liabilities	1.8
Other non–current liabilities	1.0
Deferred tax liabilities	10.7
Trade payables	2.2
Current financial liabilities	7.0
Other current liabilities	6.4
Total assumed liabilities	29.1
Acquired net assets	83.5
Consideration	83.5
thereof paid in cash and cash equivalents	*83.5*
Reconciliation to transaction volume	
Assumed financial liabilities (net)	3.5
Acquired cash and cash equivalents	– 1.5
Transaction volume	85.5

The residual value method was used to measure customer relations and order backlog (fair value model). Customer relations were measured based on a churn rate of 7%. The measurement was based on term-congruent interest rates between 5.6% and 8.1%. The customer relationships are written off over a period of 13 years.

Fixed assets were measured on the basis of a cost-oriented method.

Goodwill primarily represents future earnings potential and synergies in the reinforcing steel sector.

Additional information according to IFRS 3.B64:

(€ million)	
Sales contribution since initial consolidation	99.6
Contribution to net income since initial consolidation	5.4
Gross contractual amounts of trade receivables	14.1
Acquisition-related expenses (other operating expenses)	0.4

Substantial bad debts were not taken over.

If the acquisitions had been consolidated since the beginning of the reporting period, consolidated sales would have been €6,532 million and net income would have been €23 million.

2013

There were no business combinations in 2013.

Disposals 2014 and 2013

2014

In 2014, no sale of subsidiaries was closed.

2013

After closing the sale of UAB Klöckner Baltija, Klaipeda, Lithuania, and Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland, on November 30, 2012, these two companies became unconsolidated 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 disposed net assets, the gain on sale amounted to €0.2 million. Both companies were classified as disposal groups on December 31, 2012. 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 consisted of the following assets and liabilities:

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

Notes to the consolidated statement of income

(6) Special items in the results

2014

There were no material special items included in the 2014 results that should be reported.

2013

The 2013 results were particularly burdened by restructuring expenses and impairments. Conversely, results were positively impacted by a gain on sale of property in France, including a subsequent lease back, and reductions in benefits and the subsequent conversion of the Dutch defined benefit plan to a defined contribution plan:

Restructuring measures

The comprehensive restructuring program (KCO 6.0) initiated already in 2011 was continued and extended in the fiscal year 2013. The measures negatively impacted EBITDA by €26 million.

Impairments

Decreasing profitability in Great Britain due to continuously weak market development required the Group to recognize €7 million in goodwill impairments and impairments of other intangible assets. These impairments were disclosed in the Europe segment.

In addition, impairment losses were incurred on customer-related intangible assets and trade names of Brazilian activities due to varying expected earnings contributions from these assets. In this context (put liability), the corresponding €16 million impairment is disclosed in the Americas segment. 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 2013, the defined benefit pension plan in the Dutch country organization was converted into a defined contribution commitment. A reversal of the provision of €14 million was recognized as a non-recurring reduction in personnel expenses.

Sale and lease back of the La Courneuve location

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.

(7) Sales

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

(€ thousand)	2014	2013
Germany	1,334,008	1,311,255
EU excluding Germany	1,664,738	1,722,137
Rest of Europe	984,833	879,350
North America	2,323,008	2,254,611
Central and South America	115,869	128,729
Asia/Australia	23,448	22,741
Africa	58,026	58,787
Sales	6,503,930	**6,377,610**

(8) Other operating income

(€ thousand)	2014	2013
Reversal of provisions	5,141	9,773
Foreign currency exchange gains	2,517	2,654
Income from written–off receivables	7,351	3,331
Rental income	4,248	4,061
Gain on sale of non–current assets and assets held for sale	9,986	14,028
Gain on sale of consolidated subsidiaries	-	180
Other income	8,147	9,297
Other operating income	37,390	**43,324**

Other income is comprised of €1,257 thousand (2013: €997 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 the reversal of the previous year's accruals for restructuring provisions in the amount of €294 thousand (2013: €4,824 thousand).

Gain on sale of non-current assets and assets held for sale are primarily related to sale of facilities. Prior-year amounts include a €11,112 thousand gain on sale of real estate in La Courneuve, Paris, France.

(9) Cost of materials

(€ thousand)	2014	2013
Cost of materials, supplies and purchased merchandise	5,252,169	5,185,627
Cost of purchased services	9,011	9,184
Cost of materials	**5,261,180**	**5,194,811**

(10) Personnel expenses

(€ thousand)	2014	2013
Wages and salaries	467,552	468,411
Social security contributions (including welfare benefits)	99,013	98,942
Retirement benefit cost	23,714	11,614
Personnel expenses	**590,279**	**578,967**

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. In 2013, wages and salaries were burdened by restructuring expenses in the amount of €15 million.

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 in 2013 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 2014, the following average staff was employed by Klöckner & Co Group in accordance with Section 314 para 1 no. 4 HGB:

	2014	2013
Salaried employees	5,224	5,368
Wage earners	4,233	4,286
Apprentices	226	249
Employees	**9,683**	**9,903**

(11) Other operating expenses

(€ thousand)	2014	2013
Forwarding cost	146,569	144,737
Rental and leasing expenses	74,492	75,100
Third–party services	75,546	72,295
Supplies	53,169	54,434
Repair and maintenance	43,683	40,211
Other taxes	22,308	21,646
Travel expenses	16,918	17,331
Audit fees and consulting	12,189	14,265
Postal charges and telecommunication	9,483	9,019
Other insurance	8,855	8,392
Advertising and representation expenses	7,708	7,024
Credit insurance	6,919	7,512
Bad debt expenses	6,773	11,397
Foreign currency exchange losses	3,494	5,066
Restructuring expenses (including subsequent expenditures)	480	11,713
Loss on sale of consolidated subsidiaries	-	148
Other expenses	28,660	27,565
Other operating expenses	**517,246**	**527,855**

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

(12) Financial result

(€ thousand)	2014	2013
Income from long–term loans	7	7
Other interest and similar income	2,752	4,779
Interest and similar expenses	– 54,175	– 68,260
Interest cost for post–employment benefits	– 8,063	– 9,310
Financial result	**– 59,479**	**– 72,784**

The decline in net financial expenses is mainly linked to the repayment of the 2009 convertible bond in the second quarter of 2014 and the redemption of promissory notes.

Interest income includes an amount of €982 thousand (2013: €2,577 thousand) resulting from the fair value adjustment of the put liability assumed in the acquisition of Kloeckner Metals Brasil Group (former Frefer Group).

Included in the financial result is €– 52,431 thousand (2013: €– 66,193 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)	2014	2013
Current income tax expense (+)/benefit (–)	**18,714**	**– 902**
thereof related to prior periods	*1,383*	*– 1,674*
Domestic	1,238	– 167
Foreign	17,476	– 735
Deferred tax expense (+)/benefit (–)	**– 2,056**	**12,429**
Domestic	– 5,743	– 32
Foreign	3,687	12,461
Income tax expense/benefit	**16,658**	**11,527**

Due to the composition of the German fiscal unity, the combined income tax rate amounts to 31.6%, comprising the corporate income tax (including solidarity surcharges) of 15.8% and the Klöckner & Co trade tax of 15.8%. Foreign tax rates vary between 10.0% and 40.0%.

Due to the continuously improving earnings as a result of the restructuring measures of the German fiscal unit and significantly improved financial result, deferred tax assets of €5,630 thousand were recognized despite losses incurred during prior periods.

The Company incurred current tax expense of €18,714 thousand (2013: benefit €– 902 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)	2014	2013
Deferred tax expense (+)/benefit (–)	**– 2,056**	**12,429**
thereof from		
– temporary differences	*3,936*	*591*
– loss carryforwards	*– 5,992*	*11,838*

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

(€ thousand)	2014	2013
Expected tax rate	**31.6%**	**31.6%**
Income before taxes	**38,832**	**– 78,714**
Expected tax expense/benefit at domestic tax rate	12,271	– 24,874
Foreign tax rate differential	– 4,091	– 5,596
Tax rate changes	1,103	1,836
Reduced tax rate	– 849	– 705
Tax reduction due to tax free income	– 4,748	– 4,178
Tax increase due to non–deductible expenses	4,827	7,867
Current income tax levied or refunded for prior periods	1,383	– 1,674
Goodwill impairment charges	-	1,019
Tax reduction due to first–time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	– 5,715	-
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 3,391	– 1,575
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	16,364	39,008
Other tax effects	– 496	399
Effective income tax benefit/expense	**16,658**	**11,527**
Effective tax rate	**42.9%**	**– 14.6%**

The 2014 tax rate was 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 except for taxes arising from a transaction or event that is recognized directly in equity.

(€ thousand)	December 31, 2014	December 31, 2013
Change in deferred tax assets and liabilities (net), not affecting net income	**8,915**	**– 16,279**
thereof reported		
– in other comprehensive income	*8,915*	*– 16,279*

Deferred taxes on adjustments of 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, 2014	December 31, 2013
Deferred tax assets	7,817	6,103
Deferred tax liabilities	98,576	90,981
Deferred taxes, net	**– 90,759**	**– 84,878**

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

Deferred tax assets

(€ thousand)	December 31, 2014	December 31, 2013
from temporary differences and consolidations		
Intangible assets	12,054	12,894
Property, plant and equipment	6,598	7,759
Non-current investments	7,161	6,073
Inventories	4,046	4,345
Receivables and other current assets	2,563	6,148
Provisions for pensions and similar obligations	68,276	44,493
Other provisions and accrued liabilities	5,521	13,349
Liabilities	15,372	4,700
Gross amount	**121,591**	**99,761**
Valuation allowance	– 53,589	– 36,165
Net amount	**68,002**	**63,596**
Tax loss carryforwards	7,934	1,942
Offsetting	– 68,119	– 59,435
Deferred tax assets	**7,817**	**6,103**

Deferred tax liabilities

(€ thousand)	December 31, 2014	December 31, 2013
from temporary differences and consolidations		
Intangible assets	45,333	42,386
Property, plant and equipment	80,699	68,312
Non-current investments	-	4
Inventories	14,647	16,108
Receivables and other current assets	8,140	6,103
Other provisions and accrued liabilities	11,785	11,039
Other liabilities	6,091	6,464
Gross amount	**166,695**	**150,416**
Offsetting	– 68,119	– 59,435
Deferred tax liabilities	**98,576**	**90,981**

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

(€ million)	December 31, 2014	December 31, 2013
Unrecognized tax losses		
– Corporate income tax	719	680
– Trade tax and similar taxes	263	277
Temporary differences	174	113

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, 2014	December 31, 2013
until December 31, 2020	7	6
until December 31, 2031	113	98
after December 31, 2031	34	25

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, 2014	December 31, 2013
Current income tax receivable	14,072	61,944
Income tax liabilities	9,307	55,261

(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, 10,025 thousand (2013: 13,364 thousand) potential dilutive shares of a issued convertible bond were not included in the computation of diluted earnings per share for 2014 as this would have resulted in higher earnings per share.

		2014	2013
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	22,332	– 84,605
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**0.22**	**– 0.85**
Diluted earnings per share	**(€/share)**	**0.22**	**– 0.85**

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, 2013	382,047	53,420	269,809	705,276
Accumulated amortization and impairments	– 165,033	– 34,684	– 44,322	– 244,039
Balance as of January 1, 2013	**217,014**	**18,736**	**225,487**	**461,237**
Exchange rate differences	– 8,096	– 116	– 9,493	– 17,705
Additions	2,426	4,987	-	7,413
Disposals	– 56	– 30	-	– 86
Depreciation, amortization and impairments	– 54,804	– 15,314	– 5,867	– 75,985
Transfers	– 283	283	-	-
Balance as of December 31, 2013	**156,201**	**8,546**	**210,127**	**374,874**
Cost as of December 31, 2013	355,868	57,024	254,426	667,318
Accumulated amortization and impairments	– 199,667	– 48,478	– 44,299	– 292,444
Balance as of January 1, 2014	**156,201**	**8,546**	**210,127**	**374,874**
Exchange rate differences	17,780	117	27,667	45,564
Additions from business combinations	19,684	20	18,991	38,695
Additions	9,362	5,849	-	15,211
Disposals	-	– 45	-	– 45
Depreciation, amortization and impairments	– 32,170	– 4,114	-	– 36,284
As of Dec. 31, 2014	**170,857**	**10,373**	**256,785**	**438,015**
Cost as of December 31, 2014	402,419	65,202	302,042	769,663
Accumulated amortization and impairments	– 231,562	– 54,829	– 45,257	– 331,648

Material goodwill exceeding 10% of the total carrying amount relates in the amount of €228 million (2013: €201 million) to the cash-generating unit (CGU) North America. The additions resulting from business combinations relate to the Riedo Bau + Stahl AG, Oberbipp, Switzerland. Further information can be found in Note 5 (Acquisition and disposals).

The regular annual impairment tests performed on CGU level in the fourth fiscal quarter confirmed the valuation of the existing goodwill. In 2013, the goodwill of our CGU Great Britain (€5,867 thousand) allocated to the European segment was impaired.

There were no impairments for other intangible assets in 2014. The prior-year 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 were also impaired 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.

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

In the planning period, in part an increase of turnover above the market growth and an increase in EBITDA is expected for the CGU North America. For this CGU, the recoverable amount exceeds the carrying amount by more than €100 million. A sensitivity analysis that assumed an increase in turnover in line with the expected overall market rate did not indicate any impairment. Also, neither a 10% reduction or less of the terminal value nor a 50 bp increase of the discount rate would result in a recoverable amount lying below the net assets of the CGU North America.

For the reporting period, a pre-tax discount rate of 11.5% (2013: 12.2%) 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, 2013	792,745	342,758	286,353	15,482	1,437,338
Accumulated amortization and impairments	– 385,856	– 227,656	– 218,053	-	– 831,565
Balance as of January 1, 2013	**406,889**	**115,102**	**68,300**	**15,482**	**605,773**
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
Balance as of December 31, 2013	**378,056**	**111,432**	**67,497**	**12,229**	**569,214**
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
Balance as of January 1, 2014	**378,056**	**111,432**	**67,497**	**12,229**	**569,214**
Exchange rate differences	15,104	7,210	3,198	1,147	26,659
Additions from business combinations	29,766	4,240	6,073	-	40,079
Additions	6,459	11,780	9,962	30,529	58,730
Disposals	– 2,966	– 1,560	– 1,161	– 263	– 5,950
Depreciation, amortization and impairments	– 17,336	– 22,369	– 16,508	-	– 56,213
Transfers	3,339	5,662	3,576	– 12,577	-
Reclassification to assets held for sale	– 2,546	245	2	-	– 2,299
As of December 31, 2014	**409,876**	**116,640**	**72,639**	**31,065**	**630,220**
Cost as of December 31, 2014	798,321	362,645	311,925	31,065	1,503,956
Accumulated amortization and impairments	– 388,445	– 246,005	– 239,286	-	– 873,736

Property, plant and equipment with a carrying amount of €55,817 thousand (2013: €62,569 thousand) was used as collateral to secure borrowings of the Group in the form of liens, denominated at €24,482 thousand (2013: €23,484 thousand).

In 2014, impairment losses of €1,104 thousand largely at our French country organization were incurred (2013: €179 thousand).

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, 2014	Carrying amounts December 31, 2013
Real estate		
France	1,000	1,250
USA	3,420	-
Spain	3,578	10,213
Total	**7,998**	**11,463**

The US real estate leased in 2014 refers to a commercial building in Dallas, Texas, with its contract ranging over 15 years.

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.

The decrease in assets resulting from finance leases in Spain is due to the expiration of leasing contracts.

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 €10.6 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 relates exclusively to land. Operating expenses attributable to the premises were neither incurred in 2014 nor in 2013.

(16) Inventories

(€ thousand)	December 31, 2014	December 31, 2013
Raw materials and supplies	407,978	335,675
Work in progress	5,083	2,877
Finished goods and merchandise	884,809	818,702
Prepayments	19,826	9,251
Inventories	**1,317,696**	**1,166,505**

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

Of the inventories recognized on December 31, 2014, €339,364 thousand (2013: €332,843 thousand) is stated at net realizable value. Allowances for write-downs to the net realizable value were €36,795 thousand (2013: €40,017 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 €635,955 thousand (2013: €516,944 thousand) serve as collateral for financial liabilities. As in the previous year, these credit lines were not used as of December 31, 2014.

(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).

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, 2014 amounts to €494 million (2013: €441 million).

For further information on the ABS programs see Note 25 (Financial liabilities) and Note 3 (Scope and principles of consolidation).

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
December 31, 2014								
765,137	588,746	128,529	25,080	4,706	3,429	14,647	– 19,599	**745,538**
December 31, 2013								
709,936	542,839	113,438	23,303	6,859	2,865	20,632	– 23,215	**686,721**

As of December 31, 2014, trade receivables in the amount of €4,305 thousand (2013: €5,196 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, 2014 Current	December 31, 2014 Non-current	December 31, 2013 Current	December 31, 2013 Non-current
Other financial assets				
Fair value of derivative financial instruments	28	-	439	-
Other non–financial assets				
Receivables from insurance companies	1,464	109	2,209	280
Commission claims	63,184	-	51,461	-
Reinsurance claims for pension obligations	-	3,821	-	3,994
Claims for other taxes	13,591	-	12,204	-
Prepaid expenses	13,589	2,676	12,519	3,545
Miscellaneous other assets	14,530	8,678	13,371	6,706
Other assets	**106,386**	**15,284**	**92,203**	**14,525**

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 €2,609 thousand (2013: €1,528 thousand). The non-current assets include a receivable from the sale of the Spanish La Coruña facilities in 2014 of €1,507 thousand. Furthermore, €500 thousand are included in the current assets.

(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

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)	Disposal groups	Other assets and liabilities	December 31, 2014	December 31, 2013
Europe segment				
Land and buildings	394	12,880	13,274	13,164
Inventories	10,209	-	10,209	-
Total assets	**10,603**	**12,880**	**23,483**	**13,164**
Americas segment				
Land and buildings	-	1,928	1,928	1,699
Technical equipment and machinery	-	66	66	304
Other non–current assets	-	1	1	3
Total assets	**-**	**1,995**	**1,995**	**2,006**
Total assets held for sale/disposal groups	**10,603**	**14,875**	**25,478**	**15,170**

The disposal group relates to the sale of a business included in Reynolds European S.A.S., Reuil Malmaison, France. The sale was concluded in January 2015.

Mainly land and buildings of the Europe segment with a net profit of €1,519 thousand (2013: €693 thousand) were sold.

(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 each with the pro rata amount of €2.50 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

The conditional capital 2009 established by the Annual General Meeting on May 26, 2009, as amended by the Annual General Meeting on May 26, 2010, has become void due the repayment of the underlying convertible bond in 2014. The condition can no longer be met. By resolution of the Supervisory Board on December 9, 2014, Section 4 para 4 of Articles of Association was revoked. The amendment of the Articles of Association was registered in the German Commercial Register on December 19, 2014.

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 (Conditional 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 (Conditional 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 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 (Authorized capital 2012).

Information pursuant to Section 21 para 1 and Section 22 para 1 German Securities Trading Act (WpHG – Wertpapierhandelsgesetz), Voting Rights Notification

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). The exact wording of the publication is to be found on the Klöckner website.

Notifying institutions	Domicile	Voting interest in percent	Date
Federated International Leaders Fund, a series of Federated World Investment Series, Inc.	Maryland, USA	3.00	November 26, 2014
Interfer Holding GmbH	Dortmund, Germany	4.98	May 30, 2014
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	5.02*)	April 2, 2014
Franklin Mutual Advisors, LLC	Wilmington, Delaware, USA	5.35*)	March 14, 2014
Franklin Templeton Investment Funds	Luxembourg, Luxembourg	3.15	March 13, 2014
Allianz Global Investors Europe GmbH	Frankfurt am Main, Germany	3.05*)	January 24, 2014
Franklin Templeton Investments Corp.	Toronto, Ontario, Canada	4.99*)	January 4, 2013
Dimensional Holdings, Inc.	Austin, Texas, USA	3.06*)	February 2, 2012

*) Partly attributed holding.

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

b) Capital reserves
As of December 31, 2014 the capital reserves amount remains unchanged at €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. In the course of the compilation of the financial statements €65,840 million were withdrawn from retained earnings in accordance with German Commercial Code (HGB).

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, net investments hedges in foreign subsidiaries, changes in the fair value of cash flow hedges, and 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
Management Board and Supervisory Board propose to the Shareholder's Meeting to distribute the 2014 retained profits of €19.950 thousand in full. At 99,750,000 no-par-value shares entitled to dividends this represents €0.20 per share.

The development of the individual components of controlling and non-controlling interests for the fiscal years 2014 and 2013 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 final third five years as of its allocation. The tranches are allocated annually.

Senior management programs

In addition to the Management Board programs, 184,000 (2013: 163,500) virtual stock options for 2014 were granted and allotted to certain members of the senior management throughout the Group during the first half year of 2014. 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*)	Other executives	Total
Outstanding at the beginning of the year	**863,600**	**616,000**	**1,479,600**
Granted	260,900	184,000	**444,900**
Forfeited	-	– 15,000	**– 15,000**
Outstanding at the end of the reporting period	**1,124,500**	**785,000**	**1,909,500**
thereof excercisable at the reporting date	*140,900*	*122,000*	***262,900***
weighted average remaining contractual lifetime (months)	*63*	*51*	***58***
range of strike prices prices (€/VSO)	*8.53– 18.06*	*8.53– 18.06*	***8.53– 18.06***
weighted average strike price (€/VSO)	*10.75*	*11.47*	***11.05***

*) Including 180,000 options of Ulrich Becker (2013: 180,000 VSOs) who left Klöckner & Co in 2012.

Detailed information for the current members of the Management Board can be obtained from the following table:

	Gisbert Rühl	Marcus A. Ketter	Karsten Lork	William A. Partalis
Outstanding at the end of the reporting period	**604,500**	**80,000**	**80,000**	**180,000**
thereof excercisable at the reporting date	*120,900*	-	-	-
weighted average remaining contractual lifetime (months)	*62*	*85*	*85*	*73*
range of strike prices prices (€/VSO)	*8.53–18.06*	*8.53–9.97*	*8.53–9.97*	*8.53–9.97*
weighted average strike price (€/VSO)	*11.24*	*9.25*	*9.25*	*9.25*

No virtual stock options were exercised in 2013 or 2014. 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 €2,310 thousand on the reporting date (2013: €2,210 thousand), the intrinsic value of the rights exercisable as of the reporting date amounted to €0 thousand (2013: €0 thousand). The additions to provision for share-based payments amounted to €100 thousand (2013: reversal of provisions €860 thousand).

(23) Provisions for pensions and similar obligations

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 environments. 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 after 1979, 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 €220,047 thousand (2013: €178,462 thousand). This is partly offset by plan assets of €18,715 thousand (2013: €16,706 thousand), leaving a net defined benefit liability of €201,332 thousand (2013: €161,756 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 for 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 2014 was €29,621 thousand (2013: €26,789 thousand). Some companies have voluntarily funded obligations with plan assets in the form of insurance policies in the amount of €273 thousand at the end of 2014 (2013: €612 thousand). This leaves a net defined benefit liability of €29,348 thousand (2013: €26,177 thousand).

In the Great Britain, 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 2014 is €101,063 thousand (2013: €79,506 thousand). This is partly offset by plan assets of €76,082 thousand at the end of 2014 (2013: €66,414 thousand). This leaves a net defined benefit liability of €24,981 thousand (2013: €13,092 thousand).

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 2014 is the equivalent of €461,399 thousand (2013: €404,274 thousand). This is partly offset by plan assets of €443,144 thousand at the end of 2014 (2013: €403,454 thousand). This leaves a net defined benefit liability of €18,255 thousand (2013: €820 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, or a fixed amount for unionized employees. 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. In general, 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 only exception constitutes a plan for upper management being exclusively financed through provisions. The retiree welfare plan is also financed entirely through provisions. The total defined benefit obligation is the equivalent of €186,971 thousand (2013: €135,614 thousand), compared with plan assets of €134,002 thousand (2013: €103,014 thousand). This leaves a net defined benefit liability of €52,969 thousand (2013: €32,600 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 currently paid pensions, 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. As the exception, there is a commitment to increase benefits by 1% a year from retirement regardless of actual inflation only for some entitlements for executive staff in Germany.

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 €7,290 thousand (2013: 6,823 thousand). This does not include employer contributions to the statutory pension insurance scheme. These come to €6,544 thousand in Germany (2013: €6,332 thousand).

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

2014

in %	Germany	Switzer-land	United Kingdom	France	United States
Discount rate	1.80	1.20	3.70	1.80	3.73-4.20
Salary trend	2.50	1.00	2.20	2.00	3.50
Pension trend	2.00	0.00	3.10	1.25	0.00

2013

in %	Germany	Switzer-land	United Kingdom	France	United States	The Nether-lands*)
Discount rate	3.40	2.00	4.50	3.40	4.19– 4.86	3.50
Salary trend	2.50	1.50	2.35	2.00	3.50	2.00
Pension trend	2.00	0.00	3.20	1.25–2.00	0.00	1.20

*) At the date of the conversion to a defined contribution arrangement.

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

The biometric calculation for pensions in the various countries for pensions is based on the following assumptions:

	2014	2013
Germany	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2010	BVG 2010
United Kingdom	SAPS	PCMA00; SAPS
France	INSEE 07– 09; TPGH05	INSEE 07– 09; TPGH05
United States	Retirement Plan 2014	Retirement Plan 2000

Provisions for defined benefit plans are consequently as follows:

(€ thousand)	December 31, 2014	December 31, 2013
Defined benefit obligation of unfunded plans	228,218	193,122
Defined benefit obligation of fully or partly funded defined benefit plans	772,188	632,575
Fair value of plan assets	– 672,216	– 590,200
Funded status	**328,190**	**235,497**
IFRS 14 effect	-	78
Provisions for pensions and similar obligations	**328,190**	**235,575**

In addition, 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)	2014	2013
Reimbursement rights as of January 1	**3,994**	**4,205**
Expected return	121	122
Actuarial gains and losses	– 45	3
Benefits paid	– 249	– 299
Disposals	-	– 37
Reimbursement rights as of December 31	**3,821**	**3,994**

The net provision changed as follows:

	Present value of benefit obligation		Fair value of plan assets		Asset ceiling acc. to IFRIC 14		Net provision	
(€ thousand)	2014	2013	2014	2013	2014	2013	2014	2013
As of January 1	825,697	975,568	– 590,200	– 657,969	78	-	235,575	317,599
Included in statement of income								
Service cost	15,316	18,404	-	-	-	-	15,316	18,404
Interest cost for pension plans	24,902	26,053	-	-	-	-	24,902	26,053
Interest income from plan assets	-	-	– 16,720	– 16,621	-	-	– 16,720	– 16,621
Interest expense from asset ceiling IFRIC 14	-	-	-	-	3	-	3	-
Administration expenses	-	-	1,166	1,219	-	-	1,166	1,219
Settlements/amendments	– 609	– 122,166	-	106,785	-	-	– 609	– 15,381
	39,609	– 77,709	– 15,554	91,383	3	-	24,058	13,674
Included in other comprehensive income								
Actuarial gains and losses due to change in demographic assumptions	9,862	– 5,527	-	-	-	-	9,862	– 5,527
Actuarial gains and losses due to change in financial assumptions	109,085	– 30,198	-	-	-	-	109,085	– 30,198
Experience gains and losses	6,466	– 2,736	-	-	-	-	6,466	– 2,736
Actuarial gains and losses	-	-	– 32,461	– 30,395	-	-	– 32,461	– 30,395
Actuarial gains and losses of the period from asset ceiling IFRIC 14	-	-	-	-	– 81	78	– 81	78
Foreign currency exchange rate differences	36,360	– 14,487	– 29,074	12,106	-	-	7,286	– 2,381
	161,773	– 52,948	– 61,535	– 18,289	– 81	78	100,157	– 71,159
Other								
Employee contributions	14,328	17,344	– 14,328	– 17,344	-	-	-	-
Employer contributions	-	-	– 21,718	– 23,752	-	-	– 21,718	– 23,752
Benefits paid	– 44,057	– 47,015	33,174	35,771	-	-	– 10,883	– 11,244
Change in scope of consolidation and other transfers	3,056	10,457	– 2,055	-	-	-	1,001	10,457
	– 26,673	– 19,214	– 4,927	– 5,325	-	-	– 31,600	– 24,539
As of December 31	1,000,406	825,697	– 672,216	– 590,200	-	78	328,190	235,575

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

(€ thousand)	2014
Present value of benefit obligation if	
discount rate would be higher by 50 basis points	930,836
discount rate would be lower by 50 basis points	1,079,915
the expected salary trend would be higher by 0.5%	1,008,697
the expected salary trend would be lower by 0.5%	993,509
pension increase would be higher by 0.5%	1,042,381
pension increase would be lower by 0.5%	984,361
longevity would be 1 year longer	1,026,184

The sensitivities indicated are computed based on the same methods and assumptions used to determine the present value of the defined benefit obligations. If one of the actuarial assumptions is changed for the purpose of computing the sensitivity of results to changes in that assumption, all other unchanged actuarial assumptions are included in the computation.

When considering sensitivities it must be noted that the change in the present value of the defined benefit obligation resulting from changing multiple actuarial assumptions simultaneously is not necessarily equivalent to the cumulative effect of the individual sensitivities.

The table below disaggregates plan assets into asset classes:

	December 31, 2014			December 31, 2013		
(€ thousand)	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	191,361	43,211	234,572	191,230	38,498	229,728
Bonds	117,294	71,750	189,044	114,314	41,683	155,997
Real estate	32,686	110,497	143,183	29,036	104,943	133,979
Other assets	81,673	23,744	105,417	51,535	18,961	70,496
Fair value of plan assets as of December 31	**423,014**	**249,202**	**672,216**	**386,115**	**204,085**	**590,200**

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 total €24,465 thousand in the fiscal year (2013: €21,501 thousand).

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

(€ thousand)	2014	2013
Service cost	– 15,316	– 18,419
Settlements/amendments	609	15,381
Interest expense on benefit obligation	– 24,902	– 26,053
Interest income from plan assets	16,720	16,621
Interest expense from IFRIC 14	– 3	-
Expected return on reimbursement rights	121	122
Administration expenses	– 1,166	– 1,219
Net periodic benefit expense for defined benefit plans	**– 23,937**	**– 13,567**

The actual return on plan assets was €49,181 thousand in the fiscal year (2013: €47,016 thousand). The actual return on reimbursement rights was €76 thousand (2013: €125 thousand).

Experience adjustments (losses) to the present value of the defined benefit obligation in the year under review were €– 6,466 thousand (2013: €2,736 thousand gains); experience adjustments to the fair value of plan assets were €32,461 thousand (2013: €30,395 thousand).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2015 are expected to amount to €21,667 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2015	37,618
- due in 2016	36,070
- due in 2017	38,032
- due in 2018	39,076
- due in 2019	39,790
- due 2020 – 2024	214,959

(24) Other provisions and accrued liabilities

Other provisions developed as follows:

(€ thousand)	As of January 1, 2014	Additions	Accretion	Utili-zation	Reversals	Other changes*)	As of December 31, 2014
Other provisions							
Other taxes	6,878	929	-	– 334	– 87	– 1,175	6,211
Personnel–related obligations							
– early retirement schemes	826	89	-	– 475	-	7	447
– anniversary payments	10,445	1,352	8	– 613	– 394	216	11,014
– other	94	34	-	-	– 26	– 53	49
Onerous contracts	7,275	887	-	– 5,301	– 661	– 266	1,934
Restructuring expenses	24,919	883	-	– 15,244	– 499	429	10,488
Litigation and other risks	4,777	534	-	– 358	– 695	36	4,294
Miscellaneous provisions	16,816	1,986	123	– 7,259	– 781	5,389	16,274
	72,030	**6,694**	**131**	**– 29,584**	**– 3,143**	**4,583**	**50,711**
Other accrued liabilities							
Personnel–related obligations	48,772	30,123	-	– 25,227	– 766	2,629	55,531
Outstanding invoices	18,472	16,181	-	– 12,811	– 1,232	335	20,945
Miscellaneous accrued liabilities	797	216	-	– 15	-	47	1,045
	68,041	**46,520**	**-**	**– 38,053**	**– 1,998**	**3,011**	**77,521**
Other provisions and accrued liabilities	**140,071**	**53,214**	**131**	**– 67,637**	**– 5,141**	**7,594**	**128,232**

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

Breakdown by maturities:

	December 31, 2014		December 31, 2013	
(€ thousand)	**Non-current**	**Current**	**Non-current**	**Current**
Other provisions				
Other taxes	-	6,211	18	6,860
Personnel–related obligations				
– early retirement schemes	387	60	733	93
– anniversary payments	11,014	-	10,445	-
– other	41	8	25	69
Onerous contracts	-	1,934	322	6,953
Restructuring expenses	-	10,488	-	24,919
Litigation and other risks	-	4,294	-	4,777
Miscellaneous provisions	5,963	10,311	5,357	11,459
	17,405	33,306	**16,900**	**55,130**
Other accrued liabilities				
Personnel–related obligations	-	55,531	-	48,772
Outstanding invoices	-	20,945	-	18,472
Miscellaneous accrued liabilities	-	1,045	-	797
	-	77,521	**-**	**68,041**
Other provisions and accrued liabilities	17,405	110,827	**16,900**	**123,171**

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 resulting from termination benefits granted in redundancy programs and other restructuring expenses.

Miscellaneous provisions include an amount of €1,013 thousand (2013: €1,072 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.

Accrued liabilities for employee-related obligations include bonus payments of €38,117 thousand (2013: €29,915 thousand) as well as accrued vacation and accrued overtime of €14,219 thousand (2013: €15,939 thousand).

(25) Financial liabilities

The details of financial liabilities are as follows:

	December 31, 2014				December 31, 2013			
(€ thousand)	up to 1 year	1– 5 years	Over five years	Total	up to 1 year	1– 5 years	Over five years	Total
Bonds	177,935	-	-	177,935	98,114	169,809	-	267,923
Liabilities to banks	25,779	157,336	9,980	193,095	30,918	184,829	-	215,747
Promissory notes	53,797	132,428	-	186,225	53,543	183,474	-	237,017
Liabilities under ABS programs	565	219,731	-	220,296	502	188,444	-	188,946
Finance lease liabilities	874	1,321	1,611	3,806	1,072	435	-	1,507
	258,950	510,816	11,591	781,357	184,149	726,991	-	911,140

Financial liabilities of €22,796 thousand (2013: €23,484 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 €7,043 thousand (2013: €9,561 thousand) were offset against the respective liabilities.

Bonds

On December 22, 2010, Klöckner & Co issued a senior unsecured convertible bond with a volume of €186 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.

The bond issued in 2009 with a nominal value of €97.9 million was paid back in June 2014.

Liabilities due to banks

In May 2014, the existing syndicated loan with a volume of €360 million was extended until May 2017. It is provided by a syndicate of 11 banks. The covenants require that gearing may not exceed 150% and the equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations after May 23, 2013 may not fall below €800 million. Violation of such financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be available, if the covenants are again met. Throughout the fiscal year 2014, the Group consistently complied with all covenants.

The existing Asset Based Lending facility in the USA has a volume of USD 325 million (€268 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 used, among others, to finance net working capital.

Promissory notes

The time to maturity of the promissory notes issued in 2010 and 2011 ranges between three and five years. The terms are also based on balance sheet-oriented covenants. Throughout the fiscal year 2014, the Group consistently complied with all covenants. Some €39 million of the total volume has a fixed interest rate and €146 million has a variable interest rate.

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has operated a European ABS program. In April 2014, the program was extended from May 2016 to May 2017. The volume of €360 million remained unchanged. The covenants agreed upon are also based on the balance sheet.

The current United States ABS program has a maximum volume of USD 275 million (€227 million) and matures at the end of 2017.

At the end of the reporting period, the utilization of the program amounts to €221 million including interest and breaks down as follows:

(€ million)	December 31, 2014	December 31, 2013
European program		
– utilization	71	48
– maximum volume	360	360
American program		
– utilization*)	150	142
– maximum volume*)	227	199

*) Translated at closing exchange rate.

The utilization of the programs will 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, 2014	December 31, 2013
Due within one year	962	1,084
Due between one and five years	2,296	438
Due after five years	6,747	-
Future minimum lease payments	**10,005**	**1,522**
Due within one year	88	12
Due between one and five years	975	3
Due after five years	5,136	-
Interest included in future minimum lease payments	**6,199**	**15**
Due within one year	874	1,072
Due between one and five years	1,321	435
Due after five years	1,611	-
Total present value of future minimum lease payments	**3,806**	**1,507**

(26) Trade payables

(€ thousand)	December 31, 2014	December 31, 2013
Advance payments received	691	1,488
Trade payables	741,276	635,284
Bills payable	736	200
Trade payables	**742,703**	**636,972**

(27) Other liabilities

	December 31, 2014		December 31, 2013	
(€ thousand)	Non-current	Current	Non-current	Current
Other financial liabilities				
Negative fair value of derivative financial instruments	34,074	9,553	3,445	17,547
Put option from business combinations	-	-	982	-
Other non–financial liabilities				
Social security contributions	-	9,738	-	9,895
Customers with credit balances	-	10,797	-	14,132
Liabilities to employees	-	1,396	-	1,231
Value–added tax liabilities	-	32,965	-	19,409
Other tax liabilities	-	5,117	-	5,545
Miscellaneous other liabilities	333	7,654	1,899	5,128
Other liabilities	**34,407**	**77,220**	**6,326**	**72,887**

For a potential subsequent transfer of the minority interest in the Brazilian Kloeckner Metals Brasil 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. Due to the continuously negative earnings trend of the Kloeckner Metals Brasil Group, the fair value of the obligation amounts to €0 thousand (2013: €982 thousand) as of December 31, 2014.

Negative fair values of derivative financial instruments of €38,421 thousand (2013: €20,179 thousand) are attributable to cross-currency swaps designated as net investment hedges. To the extent that these negative fair values are attributable to the effective portion of the hedging relationship, they are directly recognized in equity and thus do not affect net income.

The increase in negative fair values is a consequence of the changes in the US-dollar exchange rate.

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 about minimum equity capital requirements is 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, 2014	December 31, 2013	Variance
Financial liabilities	781,357	911,140	– 129,783
Transaction costs	7,043	9,561	– 2,518
Liquid funds	– 316,364	– 595,393	279,029
Net financial debt (before deduction of transaction cost)	**472,036**	**325,308**	**146,728**
Consolidated shareholders' equity	1,428,685	1,445,472	– 16,787
Non–controlling interests	– 13,984	– 15,913	1,929
Goodwill from business combinations subsequent to May 23, 2013	– 19,260	-	– 19,260
Adjusted shareholders' equity	**1,395,441**	**1,429,559**	**– 34,118**
Gearing	**34%**	**23%**	

(29) Additional Information on financial instruments

The carrying amounts and fair values by category of financial instruments are as follows:

Financial assets as of December 31, 2014

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial assets							
Non-current investments	*1.321*	*1.321*	-	-	-	-	*1.321*
Loans and receivables	925	925	-	-	-	-	925
Financial assets available for sale	396	396	-	-	-	-	396
Other non–current assets	*15.284*	*11.457*	-	-	-	*3.827*	*11.457*
Loans and receivables	11.457	11.457	-	-	-	-	11.457
Not covered by the scope of IFRS 7	3.827	-	-	-	-	3.827	-
Current financial assets							
Trade receivables	*745.538*	*745.538*	-	-	-	-	*745.538*
Loans and receivables	745.538	745.538	-	-	-	-	745.538
Other current assets	*106.386*	*92.636*	*28*	-	-	*13.722*	*92.664*
Loans and receivables	92.636	92.636	-	-	-	-	92.636
Derivative financial instruments not designated in hedge accounting (held for trading)	28	-	28	-	-	-	28
Not covered by the scope of IFRS 7	13.722	-	-	-	-	13.722	-
Liquid funds	*316.364*	*316.364*	-	-	-	-	*316.364*
Loans and receivables	266.102	266.102	-	-	-	-	266.102
Financial assets available for sale	50.262	50.262	-	-	-	-	50.262
Total	**1.184.893**	**1.167.316**	**28**	**-**	**-**	**17.549**	**1.167.344**

Financial liabilities as of December 31, 2014

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial liabilities							
Non-current financial liabilities	*522,407*	*519,475*	-	-	*2,932*	-	*524,769*
Liabilities measured at amortized costs	519,475	*519,475*	-	-	-	-	521,837
Liabilities held under finance leases	2,932	-	-	-	2,932	-	2,932
Other non-current liabilities	*34,407*	*334*	*98*	*33,975*	-	-	*34,407*
Liabilities measured at amortized costs	334	334	-	-	-	-	334
Derivative financial instruments not designated in hedge accounting (held for trading)	98	-	98	-	-	-	98
Derivative financial instruments designated in hedge accounting	33,975	-	-	33,975	-	-	33,975
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
Current financial liabilities							
Current financial liabilities	*258,950*	*258,076*	-	-	*874*	-	*264,866*
Liabilities measured at amortized costs	258,076	258,076	-	-	-	-	263,992
Liabilities held under finance leases	874	-	-	-	874	-	874
Current trade liabilities	*742,703*	*742,703*	-	-	-	-	*742,703*
Liabilities measured at amortized costs	742,703	742,703	-	-	-	-	742,703
Other current liabilities	*77,220*	*19,847*	*5,107*	*4,446*	-	*47,820*	*29,400*
Liabilities measured at amortized costs	19,847	19,847	-	-	-	-	19,847
Derivative financial instruments not designated in hedge accounting (held for trading)	5,107	-	5,107	-	-	-	5,107
Derivative financial instruments designated in hedge accounting	4,446	-	-	4,446	-	-	4,446
Not covered by the scope of IFRS 7	47,820	-	-	-	-	47,820	-
Total	**1,635,687**	**1,540,435**	**5,205**	**38,421**	**3,806**	**47,820**	**1,596,145**

Financial assets as of December 31, 2013

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial assets							
Non-current investments	*1,547*	*1,547*	-	-	-	-	*1,547*
Loans and receivables	899	899	-	-	-	-	899
Financial assets available for sale	648	648	-	-	-	-	648
Other non–current assets	*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	-
Current financial assets							
Trade receivables	*686,721*	*686,721*	-	-	-	-	*686,721*
Loans and receivables	686,721	686,721	-	-	-	-	686,721
Other current assets	*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	-
Liquid funds	*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
Total	**1,390,389**	**1,373,513**	**439**	**-**	**-**	**16,437**	**1,373,952**

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
Non-current financial liabilities							
Non-current financial liabilities	*726,991*	*726,556*	-	-	*435*	-	*741,467*
Liabilities measured at amortized costs	726,556	726,556	-	-	-	-	741,032
Liabilities held under finance leases	435	-	-	-	435	-	435
Other non-current liabilities	*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	-	-	-	-	-	-	-
Current financial liabilities							
Current financial liabilities	*184,149*	*183,077*	-	-	*1,072*	-	*185,231*
Liabilities measured at amortized costs	183,077	183,077	-	-	-	-	184,159
Liabilities held under finance leases	1,072	-	-	-	1,072		1,072
Current trade liabilities	*636,972*	*636,972*	-	-	-	-	*636,972*
Liabilities measured at amortized costs	636,972	636,972	-	-	-	-	636,972
Other current liabilities	*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	-
Total	**1,627,325**	**1,568,981**	**1,795**	**20,179**	**1,507**	**34,863**	**1,608,020**

The fair values of non-current financial liabilities are based on risk adjusted discounted cash flows.

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, 2014 for the respective financial instruments. The fair value is not reduced by transaction costs. For current financial liabilities, when not considering transaction costs, 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 €982 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

(€ thousand)	December 31, 2014	Level 1	Level 2	Level 3
	Fair value measurement at the end of the reporting period by hierarchy			
Non-current investments	*1,321*		*1,321*	
Loans and receivables	925		925	
Financial assets available for sale	396		396	
Other non-current assets	*11,457*		*11,457*	
Loans and receivables	11,457		11,457	
Trade receivables	*745,538*		*745,538*	
Loans and receivables	745,538		745,538	
Other current assets	*92,664*		*92,664*	
Loans and receivables	92,636		92,636	
Derivative financial instruments not designated in hedge accounting (held for trading)	28		28	
Liquid funds	*316,364*		*316,364*	
Loans and receivables	266,102		266,102	
Financial assets available for sale	50,262		50,262	
Total	1,167,344	-	**1,167,344**	-
Non-current financial liabilities	*524,769*		*524,769*	
Liabilities measured at amortized costs	521,837		521,837	
Liabilities held under finance leases	2,932		2,932	
Other non-current liabilities	*34,407*		*34,407*	
Liabilities measured at amortized costs	334		334	
Derivative financial instruments not designated in hedge accounting (held for trading)	98		98	
Derivative financial instruments designated in hedge accounting	33,975		33,975	
Current financial liabilities	*264,866*		*264,866*	
Liabilities measured at amortized costs	263,992		263,992	
Liabilities held under finance leases	874		874	
Current trade liabilities	*742,703*		*742,703*	
Liabilities measured at amortized costs	742,703		742,703	
Other current liabilities	*29,400*		*29,400*	
Liabilities measured at amortized costs	19,847		19,847	
Derivative financial instruments not designated in hedge accounting (held for trading)	5,107		5,107	
Derivative financial instruments designated in hedge accounting	4,446		4,446	
Total	1,596,145	-	**1,596,145**	-

	Fair value measurement at the end of the reporting period by hierarchy			
(€ thousand)	December 31, 2013	Level 1	Level 2	Level 3
Non-current investments	*1,547*		*1,547*	
Loans and receivables	899		899	
Financial assets available for sale	648		648	
Other non–current assets	*10,531*		*10,531*	
Loans and receivables	10,531		10,531	
Trade receivables	*686,721*		*686,721*	
Loans and receivables	686,721		686,721	
Other current assets	*79,760*		*79,760*	
Loans and receivables	79,321		79,321	
Derivative financial instruments not designated in hedge accounting (held for trading)	439		439	
Liquid funds	*595,393*		*595,393*	
Loans and receivables	544,928		544,928	
Financial assets available for sale	50,465		50,465	
Total	**1,373,952**	**-**	**1,373,952**	**-**
Non-current financial liabilities	*741,467*		*741,467*	
Liabilities measured at amortized costs	741,032		741,032	
Liabilities held under finance leases	435		435	
Other non–current liabilities	*6,326*		*5,344*	*982*
Liabilities measured at amortized costs	1,899		1,899	
Derivative financial instruments not designated in hedge accounting (held for trading)	1,106		124	982
Derivative financial instruments designated in hedge accounting	3,321		3,321	
Current financial liabilities	*185,231*		*185,231*	
Liabilities measured at amortized costs	184,159		184,159	
Liabilities held under finance leases	1,072		1,072	
Current trade liabilities	*636,972*		*636,972*	
Liabilities measured at amortized costs	636,972		636,972	
Other current liabilities	*38,024*		*38,024*	
Liabilities measured at amortized costs	20,477		20,477	
Derivative financial instruments not designated in hedge accounting (held for trading)	689		689	
Derivative financial instruments designated in hedge accounting	16,858		16,858	
Total	**1,608,020**	**-**	**1,607,038**	**982**

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices for similar instruments. If fair values are derived from directly observable market inputs, these 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, is classified as a Level 3 financial instrument. Changes in hierarchy levels are considered at the end of the respective period in which the change took place. No reclassification in hierarchy levels took place in the reporting period.

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, 2014	December 31, 2013
Exchange rate differences	– 974	– 2,400
Valuation allowance	– 37	– 8,723
Subtotal	**– 1,011**	**– 11,123**
Net income credit insurance	– 6,254	– 6,764
Net result	**– 7,265**	**– 17,887**

Calculation of the net result listed in measurement category liabilities at amortized cost is based on the foreign currency exchange calculation. In the financial year 2014, a net loss of €3 thousand (2013: €11 thousand) was incurred.

There were no impairment losses for non-current financial assets in 2014. The impairment loss for trade receivables in 2014 amounted to €7,387 thousand (2013: €12,054 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 insurances. In 2014, 49% (2013: 54%) 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 Treasury department of Klöckner & Co SE, which manages and coordinates such use. The transactions are conducted exclusively with counterparts that have first-class credit ratings. Derivative financial instruments cannot be used for speculative purposes, only 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 faces interest rate exposure with regards to its central financing instruments in the eurozone as well as to bilateral lines of credit held by its US subsidiaries. In addition, interest rate risks relate to the short-term deposits of liquid funds at banks. The Corporate Treasury 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. The financial instruments with variable interest rates mainly used for financing the working capital are subject to a short-term fluctuating use.

Under consideration of the convertible bonds, promissory notes and the fixed rate bilateral credit arrangements as of December 31, 2014, approximately 39% or €309.4 million (2013: €416.4 million) of the total financial indebtedness before transaction costs was of a fixed-rate nature.

Under IFRS 7, interest rate risks 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 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, 2014 had been exceeded by 50 basis points, the financial result driven from financial liabilities for the following year would have been negatively impacted by €2.4 million.

With regard to the liquidity reserves, an upside potential results from increasing interest rates. A higher market interest level of 50 basis points and an assumed term of one year would have a positive effect in the amount of €1.6 million.

If, on the contrary, market interest levels had decreased by 50 basis points, a scenario of negative interest levels would have been created. In such case we are assuming that the two effects on the result described above would level out at approximately the same amount in the opposite direction.

Information on foreign currency exchange risk

As part of our risk strategy only transaction risks and risks from group internal financing are subject to our hedging strategy. Our hedging strategy does not cover translation risks from the conversion of income and expenses to the reporting currency. Foreign currency exchange risk therefore result from financing measures, internal dividend payments, acquisitions and operating activity.

The Group operates central foreign currency exchange management. Foreign and domestic subsidiaries are required to identify foreign currency exposure and to communicate the exposure to the Corporate Treasury department, or within certain thresholds, hedge the exposure with financial institutions. The hedging transactions cover the exposure from actual and forecasted transactions. With regard to forecasted 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 risks in financing existed resulting from loans and net investments of the holding companies in foreign currency. As part of the central Group financing, these loans, denominated in pounds sterling and US dollars, with a volume of €624.8 million (2013: €592.4 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 medium term by currency as well as cross-currency swaps and are 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 hedges 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 Treasury department to ensure appropriate levels of liquidity for the Klöckner & Co Group.

In March, the duration of the European ABS program was extended by one year until May 2017; its volume remained unchanged at €360 million.

Also in May, the syndicated loan, which amounts to €360 million, was also extended until May 2017.

Liquid funds are invested in short-term deposits and 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 a 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.

In June 2014, a due promissory note in the amount of €97.9 million was repaid with cash and cash equivalents. During the same month, the volume of promissory notes was reduced by €50 million by a scheduled repayment.

The use of bilateral credit lines increased by CHF 46 million in Switzerland, based on the Riedo Bau + Stahl AG acquisition by Debrunner Koenig Holding AG. The acquisition was financed by existing liquidity and by the utilization of existing credit lines in Switzerland.

Including a convertible bond with a nominal amount of €186 million (2013: €284 million), the promissory notes of €185 million (2013: € 235 million) and finance leasing of approximately €3.8 million (2013: €1.5 million), the Group has facilities of approximately €1.9 billion (2013: €2.0 billion). Financial liabilities before deduction of transaction costs amounted to €788 million (2013: €921 million), representing approximately 42% (2013: 47%) 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 following table illustrates the contractual undiscounted interest and principal payments of the non-derivative and derivative financial instruments for the periods indicated.

December 31, 2014		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	186,200	-	-	186,200
	Interest	4,655	-	-	4,655
	Total	**190,855**	**-**	**-**	190,855
Promissory notes	Nominal values	51,500	133,000	-	184,500
	Interest	5,605	3,221	-	8,826
	Total	**57,105**	**136,221**	**-**	193,326
Bank loans	Nominal values	25,187	161,728	9,980	196,895
	Interest	6,700	10,252	570	17,522
	Total	**31,887**	**171,980**	**10,550**	214,417
ABS	Nominal values	-	221,260	-	221,260
	Interest	6,039	13,564	-	19,603
	Total	**6,039**	**234,824**	**-**	240,863
Finance lease liabilities	Nominal values	874	1,321	1,611	3,806
	Interest	88	975	5,136	6,199
	Total	**962**	**2,296**	**6,747**	10,005
Total financial liabilities		**286,848**	**545,321**	**17,297**	849,466
Cash outflows from derivative financial instruments designated in interest hedging relationships		44	55	-	99

December 31, 2013

(€ thousand)		Cash outflows: 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
	Total	**108,429**	**190,855**	**-**	**299,284**
Promissory notes	Nominal values	50,000	184,500	-	234,500
	Interest	8,899	10,056	-	18,955
	Total	**58,899**	**194,556**	**-**	**253,455**
Bank loans	Nominal values	28,590	190,553	-	219,143
	Interest	10,211	10,462	-	20,673
	Total	**38,801**	**201,015**	**-**	**239,816**
ABS	Nominal values	-	190,100	-	190,100
	Interest	6,891	20,664	-	27,555
	Total	**6,891**	**210,764**	**-**	**217,655**
Finance lease liabilities	Nominal values	1,005	502	-	1,507
	Interest	12	3	-	15
	Total	**1,017**	**505**	**-**	**1,522**
Total financial liabilities		**214,037**	**797,695**	**-**	**1,011,732**
Cash outflows from derivative financial instruments designated in interest hedging relationships		6,909	77	-	6,986

All financial instruments for which payments have already been fixed as of the end of the reporting period are included; expected payments on future obligations not yet incurred are excluded. 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, 2014		December 31, 2013	
(€ million)	Not designated in hedge accounting	Designated in hedge accounting	Not designated in hedge accounting	Designated in hedge accounting
Nominal values				
Forward exchange transactions	**265.1**	**188.7**	264.5	-
Interest rate swaps	**1.5**	**-**	6.9	160.0
Cross–currency swaps	**-**	**211.3**	-	371.3
Fair values				
Forward exchange transactions	**– 5.1**	**– 4.4**	– 0.3	-
Interest rate swaps	**– 0.1**	**-**	– 0.1	– 5.9
Cross–currency swaps	**-**	**– 34.0**	-	– 14.3

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 the basis of financial models commonly used by banks. The fair value calculation also considers counterparty risk. If fair values exist, they correspond to the amount third parties would 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 €400.0 million (2013: €264.5 million) have a remaining term of less than one year. This includes a nominal value of €188.7 million, which was newly designated as a net investment hedge within the scope of the refinancing of a net investment financing measure. At the same time, the volume of the 2014 cross-currency swaps was reduced by €160 million to €211.3 million. The net investment financing measure with the same purpose of hedging its foreign currency exposure of net investments into cross-currency swaps is maturing in May 2016. With regard to the financing volume of USD 300 million, the principal swap was set to semiannual 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.

In the fourth quarter of 2014, the interest swap with hedge relation and a cross-currency swap were due. The interest swap as well as the cross-currency swap were categorized as a net investment hedge. The effective change in value of these swaps were therefore offset against equity. The interest swap with a hedge accounting relation was used to establish the amount of a credit volume of a total of €160 million at an interest level of 4.6% p.a. The original term of this transaction covered a hedging period of seven years. The interest swap served as a hedge for credits in euro with variable interest for the holding companies. These credits are in relation to the central refinancing of long-term 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, 2014, these fair value changes amounted to €18.2 million (2013: €33.2 million). The effective fair value changes of net investment hedges included therein amounted to €24.1 million (2013: €26.7 million).

The interest rate swap without hedge accounting includes an additional interest rate swap of Becker Besitz GmbH, Duisburg, in the amount of €1.5 million. This hedging instrument serves to hedge a bilateral credit with variable interest rate for the company.

(31) Pending litigation, commitments and contingent liabilities

An antitrust investigation was launched against one of the subsidiaries of our French country organization in the overseas department La Réunion. The statement of objections communicated by the authorities do not yet give firm reasons to recognize a provision for potential fines. The Klöckner & Co Group is currently also not subject to additional 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 is possible that isolated violations may arise or that there are yet undetected historic violations.

The liabilities on bills amount to €82 thousand (2013: €39 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 that arise 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 future payments to be made under these leases are as follows:

(€ thousand)	December 31, 2014	December 31, 2013
Due within one year	54,411	50,063
Due between one and five years	138,020	107,139
Due after five years	54,628	40,885
Future minimum lease payments (nominal amounts)	**247,059**	**198,087**

The payments resulting from subleases during fiscal 2014 total €1,963 thousand (2013: €837 thousand). The future minimum payments from subleases amount to €3,589 thousand (2013: €1,862 thousand).

Other financial obligations arise from the purchase obligation for investments; these amounted to €1,000 thousand as of December 31, 2014 (2013: €4,886 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.

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 following presentation represents the total compensation of members of the Management Board of Klöckner & Co SE, the disclosures of which differ from the remuneration according to Deutscher Corporate Governance Codex.

(€ thousand)	Fixed compo-nents	Bonusses*)	Other remu-ner-ations[1]	Total excluding share based compen-sation	Share–based payment[2]	Total	Issued VSO tranche (number of rights)	Expense from VSO[3]	Present value of benefit obligation[4]	Change in benefit obligation
Gisbert Rühl (CEO)	720	539	35	1,294	496	1,791	120,900	– 20	3,712	610
	(720)	*(629)*	*(35)*	*(1,384)*	*(476)*	*(1,860)*	*(120,900)*	*(270)*	*(3,102)*	*(452)*
Marcus A. Ketter (CFO)	420	360	127	907	147	1,054	40,000	65	-	-
	(420)	*(419)*	*(127)*	*(966)*	*(142)*	*(1,108)*	*(40,000)*	*(34)*	*(-)*	*(-)*
Karsten Lork	420	360	27	807	147	953	*40,000*	68	184	133
	(385)	*(384)*	*(26)*	*(795)*	*(142)*	*(937)*	*(40,000)*	*(34)*	*(51)*	*(51)*
William A. Partalis	480	445	17	942	*208*	1,150	*60,000*	*57*	*5,402*	1,674
	(480)	*(436)*	*(17)*	*(933)*	*(208)*	*(1,141)*	*(60,000)*	*(120)*	*(3,728)*	*(-461)*
Total	**2,040**	**1,704**	**206**	**3,950**	**998**	**4,948**	**260,900**	**170**	**9,298**	**2,417**
	(2,005)	**(1,868)**	**(205)**	**(4,078)**	**(968)**	**(5,046)**	**(260,900)**	**(458)**	**(6,881)**	**(42)**

1) Includes for Mr. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) Fair value on the grant date of the each VSO tranche.
3) Expenses (+) or income (-) resulting from the necessary adjustment to provisions.
4) This amount was calculated in accordance with IAS 19.

Statutory pension provisions for former Management Board members amount to €2,963 thousand (2013: €2,821 thousand). In 2014, pension payments of €115 thousand (2013: €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 2014 financial year, remuneration for the Supervisory Board amounted to €466 thousand (2013: €480 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 2014 for such premises amount to €1,658 thousand (2013: €1,370 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 €50 million in the financial year 2014, compared to €143 million in 2013. The release of funds tied up in net working capital especially contributed to this increase.

Net working capital decreased, net of foreign currency exchange effects and changes in the scope of consolidation, as follows:

	Variance	
(€ thousand)	2014/2013	2013/2012
Inventories	71,014	– 59,852
Trade receivables	6,331	– 85,084
Trade payables	– 57,493	– 18,166
Net working capital	19,852	**– 163,102**

Cash flow from investing activities

Cash-out related to the Riedo acquisition amounted to €82 million and capital expenditure for property, plant and equipment and intangible assets of €71 million led, under consideration of inflows from asset disposal and the repayment of a loan granted to the former Riedo shareholder (€5 million), to a net outflow of €132 million compared to net outflows of €36 million in 2013.

Cash flow from financing activities

Cash flow from financing activities of €– 204 million (2013: €– 117 million) includes repayment of the convertible bond 2009 in the amount of €98 million, the syndicated loan of €60 million and promissory notes in the amount of €50 million.

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, and amounted to €316 million as of the end of 2014. Cash and cash equivalents include bank balances of €13,777 thousand (2013: €16,140 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)	2014	2013	2014	2013	
Sales	4,101,108	4,019,226	2,402,827	2,358,384	
– of which with third parties	4,101,103	4,019,226	2,402,827	2,358,384	
– of which with other segments	5	-	-	-	
Capital expenditure for intangible assets, property, plant and equipment	52,711	33,541	17,919	21,335	
Segment result (EBITDA)	108,341	89,853	100,398	60,467	
Earnings before interest and taxes (EBIT)	59,612	34,744	58,705	– 9,364	
Amortization and depreciation of intangible assets and property, plant and equipment	47,692	48,039	41,626	53,385	
Impairment losses for intangible assets and property, plant and equipment	1,037	7,069	67	16,446	
Other non–cash expenses/income	– 232	1,096	-	-	
Income taxes	– 8,001	– 20,519	– 12,764	8,627	

	Europe		Americas		
(€ thousand)	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	
Net working capital	761,881	755,934	554,506	457,774	
Net financial debt	527,222	441,695	706,758	622,459	
Employees at year–end (headcount)	7,083	6,895	2,559	2,588	

	Headquarters		Consolidation		Total	
	2014	2013	2014	2013	2014	2013
	13,514	8,870	– 13,519	– 8,870	6,503,930	6,377,610
	-	-	-	-	6,503,930	6,377,610
	13,514	8,870	– 13,519	– 8,870	-	-
	3,311	3,006	-	-	73,941	57,882
	– 47,930	– 64,642	30,000	38,783	190,809	124,461
	– 50,006	– 70,091	30,000	38,781	98,311	– 5,930
	2,076	2,957	-	2	91,394	104,383
	-	2,493	-	-	1,104	26,008
	– 192	950	-	-	– 424	2,046
	4,107	365	-	-	– 16,658	– 11,527

	Headquarters		Consolidation		Total	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	4,144	2,546	-	-	1,320,531	1,216,254
	– 761,944	– 738,846	-	-	472,036	325,308
	98	108	-	-	9,740	9,591

The earnings before interest and taxes (EBIT) can be reconciled to the consolidated net income before taxes as follows:

(€ thousand)	2014	2013
Earnings before interest and taxes (EBIT)	98,311	– 5,930
Financial result	– 59,479	– 72,784
Income before taxes	**38,832**	**– 78,714**

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 in the case 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 region as follows:

(€ thousand)	2014	2013
United States	536,017	496,505
Switzerland	280,891	189,280
Germany	108,918	109,906
Spain	48,849	50,715
France	41,858	47,173
Great Britain	28,462	25,963
The Netherlands	24,284	25,164
Other regions	9,442	9,868
Total	**1,078,721**	**954,574**

(35) Subsequent events

On January 15, 2015, the Swiss Federal Reserve Bank cancelled its approach to ensure a minimum exchange rate of CHF 1.20 against the euro. As a consequence, the Swiss franc significantly gained in value against the euro. The complex and in part interdependent direct and indirect consequences of the decision on the results of operations, net assets and cash flows of our Swiss subsidiary cannot yet be fully evaluated.

(36) Fees and services of the auditor of the consolidated financial statements

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Prof. Dr. Kai Christian Andrejewski (since business year 2012) and Dr. Markus Zeimes (since business year 2011). Dr. Markus Zeimes is deemed to be the auditor in charge in accordance with Section 24a para 2 BS WP/vBP for Klöckner & Co SE ("Berufssatzung der Wirtschaftsprüfer und vereidigten Buchprüfer").

KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin (resp. its subsidiary KPMG Hartkopf + Rentrop Treuhand KG, Wirschaftsprüfungsgesellschaft, Köln) has been the auditor for Klöckner & Co SE (resp. Ist legal predecessor) since 2005.

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, in the financial year:

(€ thousand)	2014	2013
Audit of financial statements	861	829
Other assurance services	181	145
Tax advisory services	108	54
Other services	73	113
Total	**1,223**	**1,141**

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 2014, 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 & Co Deutschland GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner European Operations GmbH, Duisburg
- Klöckner Shared Services GmbH, Duisburg
- Becker Besitz GmbH, Duisburg
- Becker Stahl-Service GmbH, Duisburg
- Becker Stahl GmbH, Bönen
- Umformtechnik Stendal GmbH, Stendal

(38) Declaration of compliance with the German Corporate Governance Code in accordance with Section 161 German Stock Corporations Act (AktG – Aktiengesetz)

On December 9, 2014, 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 23, 2015

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

To Klöckner & Co SE

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 consoli-dated 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 1st January to 31st December 2014.

Management's Responsibility for the Consolidated Financial Statements

The management of Klöckner & Co SE, Duisburg 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 § [Article] 315a Abs. [paragraph] 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 § 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 §322 Abs.3 Satz 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 § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31st December 2014 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, Duisburg for the business year from 1st January to 31st December 2014. The management of Klöckner & Co SE, Duisburg is responsible for the preparation of the group management report in compliance with the applicable requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We conducted our audit in accordance with § 317 Abs. 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 §322 Abs.3 Satz1 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 23, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai Christian Andrejewski	Dr. Markus Zeimes
Wirtschaftsprüfer	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 23, 2015

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, 2014

(€ thousand)	2014	2013
Other operating income	16,603	31,440
Personnel expenses	– 15,660	– 18,698
Depreciation of intangible assets and property, plant and equipment	– 261	– 5,550
Other operating expenses	– 21,767	– 32,851
Income from participations	20,261	190,648
Income from profit transfer agreements	66,193	36,745
Income from long–term loans	15,998	15,354
Other interest and similar income	18,519	23,396
Impairment of investments	– 96,004	– 155,584
Expenses from loss transfer agreements	– 8,091	– 11,352
Interest and similar expenses	– 40,231	– 57,195
Result from ordinary activities	**– 44,440**	**16,353**
Income taxes	– 1,450	– 193
Net income	**– 45,890**	**16,160**
Unappropriated profits carried forward	16,160	7,262
Appropriation to other revenue reserves	– 16,160	– 7,262
Withdrawals from other revenue reserves	65,840	-
Unappropriated profits	19,950	**16,160**

KLÖCKNER & CO SE

Balance sheet as of December 31, 2014

Assets

(€ thousand)	December 31, 2014	December 31, 2013
Intangible assets	169	6,407
Property, plant and equipment	548	757
Non-current investments	1,295,267	1,106,339
Fixed assets	**1,295,984**	**1,113,503**
Trade receivables	70	120
Receivables from affiliated companies	527,837	542,356
Other assets	4,699	43,826
Securities	50,003	50,009
Cash and cash equivalents	147,547	367,563
Current assets	**730,156**	**1,003,874**
Prepaid expenses	11,116	22,793
Total assets	**2,037,256**	**2,140,170**

Equity and liabilities

(€ thousand)	December 31, 2014	December 31, 2013
Equity		
Subscribed capital	249,375	249,375
Capital reserves	917,601	917,601
Other revenue reserves	74,161	123,841
Unappropriated profits	19,950	16,160
Equity	**1,261,087**	**1,306,977**
Provisions for pensions and similar obligations	100,548	100,924
Provisions for taxes	6,213	4,393
Other provisions	24,876	30,818
Bonds	186,200	284,100
Liabilities to banks	287,405	400,153
Trade payables	202	924
Liabilities to affiliated companies	164,776	11,015
Other liabilities	5,949	866
Total equity and liabilities	**2,037,256**	**2,140,170**

KLÖCKNER & CO SE

Movements in intangible assets, property, plant and equipment and non-current investments in 2014 (annex to the notes)

	Intangible assets	Property, plant and equipment		Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Investments in affiliated companies	Loans to affiliated companies	Investments	Total
Cost as of Dec. 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
Book value as of Dec. 31, 2013	**6,407**	**128**	**629**	**862,293**	**244,039**	**7**	**1,113,503**
Additions	45	97	32	66,104	218,828	-	285,106
Disposals	– 6,206	-	– 154	-	-	-	– 6,360
Current year amortization and depreciation	– 77	– 39	– 145	– 66,004	– 30,000	-	– 96,265
Book value as of Dec. 31, 2014	**169**	**186**	**362**	**862,393**	**432,867**	**7**	**1,295,984**
Cost as of Dec. 31, 2014	1,019	371	1,120	1,130,386	501,650	7	1,634,553
Accumulated amortization and depreciation	– 850	– 185	– 758	– 267,993	– 68,783	-	– 338,569

KLÖCKNER & CO SE, DUISBURG

Notes to the financial statements for the 12-month period ending December 31, 2014

General information

Klöckner & Co SE (the "Company") is the parent company of the Klöckner & Co Group. It is the largest producer-independent steel and metal distributor and one of the leading operators of steel service centers in the combined European and American market.

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.

In the year under review, the business activities Operations Europe, International Product Management, Office Services and Corporate IT were transferred to other holding companies. In that course, software of €6,206 thousand and provisions of €1,395 thousand as well as 27 employees were transferred.

Accounting policies

The financial statements for the financial year from January 1 to December 31, 2014 were compiled in accordance with the German Commercial Code (HGB – Handelsgesetzbuch) amended by 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 Group does not elect to take the option of capitalizing internally developed intangible assets. 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 analogous to IAS 19. In accordance with the requirements of BilMoG, the parameters for valuation were 2.5% (2013: 2.5%) for salary increase and 2.0% (2013: 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 4.53% (2013: 4.89%). 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 the 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 the reporting date. Liabilities in foreign currency with a longer maturity are converted by the rate at the 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 of 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.

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. The disposals apply to software transferred to Klöckner Shared Services GmbH, Duisburg, Germany, when taking over holding functions.

The share capital of Klöckner Participaciones S.A., Madrid, Spain, in the amount of €35,000 thousand and the share capital of Kloeckner Metals (Changshu) Co., Ltd., Changshu, China, in the amount of €2,000 thousand were increased to strengthen the capital resources. Due to the continuously weak economic situation the capital increases were totally depreciated. In addition, the investment in the intermediate holding company Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany, was impaired by €29,004 thousand due to profit distributions. These expenses are compensated by income from a profit transfer agreement of about the same amount.

The loans to affiliated companies are granted to Kloeckner Metals Corporation, Wilmington, Delaware, USA, Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands, Kloeckner USA Holding, Inc., Wilmington, Delaware, USA, as well as to Klöckner Distribution Industrielle S.A., Aubervilliers, France. In 2014, Klöckner & Co SE granted an additional loan to Klöckner Distribution Industrielle S.A. in the amount of €30,000 thousand, which was totally impaired due to the continuously weak economic situation.

A listing of all subsidiaries is presented in the appendix.

Accounts receivable and other assets

(€ thousand)	2014	2013
Trade receivables	70	120
Receivables from affiliated companies	527,837	542,356
Other assets	4,699	43,826
Total	**532,606**	**586,302**

Receivables from affiliated companies relate to European cash pooling, profit transfer agreements, financial services, and current clearing and current loans.

All receivables fall due in less than one year.

The decrease in other assets relates to the payment of receivable from withholding tax recognized on investment income in the amount of €39,762 thousand in 2013.

Other assets of €4,395 thousand (2013: €3,941 thousand) have a remaining maturity of more than one year and relate mainly to reinsurance claims.

Securities

Securities relate to short-term money market investments.

Prepaid expenses

The discounts on issuance of the convertible bond 2010 of €35,135 thousand were capitalized as prepaid expenses and are amortized over the remaining maturity of the bond. In 2014, amortization expenses included in interest expense amounted to €9,232 thousand (2013: €12,319 thousand), whereas the previous year's figure includes interest expenses for the bond that was repaid in June 2014. The remaining unamortized discounts stood at €7,027 thousand (2013: €16,259 thousand) at the end of the financial year 2014.

Equity

The Company's subscribed capital remains unchanged to prior year at €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. In the course of preparing the annual financial statements, an amount of €65,840 thousand was withdrawn from the revenue reserves.

The previous year's retained earnings of €16,160 thousand were allocated to the revenue reserves.

Provisions for pensions

The pension obligations of Klöckner & Co SE amounted to €112,132 thousand as of December 31, 2014 (2013: €110,934 thousand).

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 €11,584 thousand (2013: €10,010 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 €4,860 thousand (2013: €4,856 thousand) were offset against interest income from plan assets of €91 thousand (2013: €600 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2014	2013
Onerous contracts	-	5,931
Personnel expenses	5,976	7,655
Outstanding invoices	1,816	2,240
Miscellaneous other provisions	17,084	14,992
	24,876	**30,818**

The provision for onerous contracts related to currency and interest hedges that expired in 2014. Miscellaneous other provisions include an amount of €16,179 thousand (2013: €13,997 thousand) with regard to a debtor warrant bond for Klöckner & Co Deutschland GmbH, Duisburg, as part of the ABS program.

Liabilities

(€ thousand)	2014	thereof falling due: Less than one year	thereof falling due: 1–5 years	2013
Bonds	186,200	186,200	-	284,100
Liabilities to banks	287,405	54,405	233,000	400,153
Trade payables	202	202	-	924
Liabilities to affiliated companies	164,776	164,776	-	11,015
Other liabilities	5,949	5,949	-	866
	644,532	**411,532**	**233,000**	**697,058**

On December 22, 2010, Klöckner & Co Financial Services S.A. issued a senior unsecured convertible bond with a volume of €186 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.

The convertible bond 2009 with a total volume of €98 million was repaid in June 2014.

Liabilities to banks consist of €100,592 thousand (thereof with a maturity of less than one year: €592 thousand) of drawings under the syndicated loan due on May 23, 2017 that was extended in May 2014.

In 2010 and 2011, the Company issued promissory notes of originally €343 million of which €235 million still existed on January 1, 2014 due to repayments. The instruments' times to maturity range between three and five years. A total of €50 million was repaid in the year under review. The contractual conditions are largely identical and the covenants are balance sheet-oriented.

The liabilities resulting from the sydicated loan and the promissory notes are unsecured.

Other liabilities include:

(€ thousand)	2014	2013
Tax liabilities	**5,936**	853
Social security contributions	**13**	13

The tax liabilities mainly relate to VAT.

Derivative financial instruments

The nominal values and fair values of the derivative financial instruments as of December 31, 2014 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	414	– 9
Cross–currency swaps	211	– 34

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 15 forward exchange transactions as well as five 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. The risks included in the single valuation unit comply with the carrying amounts of the hedged receivables in the amount of €211 million. The risks excluded from the single valuation are equivalent to the hedged receivables' carrying amount in the amount of €414 million.

In December 2014, one cross-currency swap in the nominal value of €160 million expired. The corresponding hedged transaction was refinanced and hedged by a foreign currency forward contract.

With regard to the financing volume of USD 300 million, the principal swap occurs at the beginning and at the end of the term and interest is paid semiannually in US dollars. The currency exchange rate was fixed at the inception of the swap agreement. The fair value changes are prospectively and retrospectively determined according to the Critical-Terms-Match method. The effective part of the cross-currency swaps' fair value change and the forward exchange transaction amounts to €-34 million respectively €-9 million.

The interest rate hedges did not exist on December 31, 2014. In the previous year, interest rate hedges existed that did not meet the criteria to establish a valuation unit. Due to the negative market values, a provision for onerous contracts was recorded in the amount of €6 million. The interest rate hedges expired in 2014.

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 comparing the average spot exchange rates applicable on the financial statement date, adjusted for time-related premiums or discounts for the respective remaining term of the contract, 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 that apply 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.

Commitments

Future minimum lease payments for long-term operating leases are €2,524 thousand (2013: €4,009 thousand) for 2015, €7,753 thousand (2013: €8,269 thousand) for fiscal years 2016 to 2019 and for 2020 to 2024 €9,107 thousand (2013: €0 thousand).

Other operating income

Other operating income contains income attributable to prior periods of €645 thousand (2013: €215 thousand).

Personnel expenses

(€ thousand)	2014	2013
Wages and salaries	10,066	15,547
Social securities	685	1,114
Retirement benefit cost	4,906	2,031
Welfare	3	6
	15,660	**18,698**

Average number of employees:

	2014	2013
Salaried employees	59	100
Wage earners	2	2
	61	**102**

The decrease of the average number of employees is related to the outsourcing of business activities.

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 following presentation represents the total compensation of members of the Management Board of Klöckner & Co SE, the disclosures of which differ from the remuneration report according to Deutscher Corporate Governance Codex.

(€ thousand)	Fixed compo-nents	Bonusses*)	Other remu-ner-ations[1]	Total excluding share based compen-sation	Share–based payment[2]	Total	Issued VSO tranche (number of rights)	Expense from VSO[3]	Present value of benefit obligation[4]	Change in benefit obligation
Gisbert Rühl (CEO)	720	539	35	1,294	496	1,791	120,900	– 20	3,712	610
	(720)	*(629)*	*(35)*	*(1,384)*	*(476)*	*(1,860)*	*(120,900)*	*(270)*	*(3,102)*	*(452)*
Marcus A. Ketter (CFO)	420	360	127	907	147	1,054	40,000	65	-	-
	(420)	*(419)*	*(127)*	*(966)*	*(142)*	*(1,108)*	*(40,000)*	*(34)*	*(-)*	*(-)*
Karsten Lork	420	360	27	807	147	953	*40,000*	68	184	133
	(385)	*(384)*	*(26)*	*(795)*	*(142)*	*(937)*	*(40,000)*	*(34)*	*(51)*	*(51)*
William A. Partalis	480	445	17	942	*208*	1,150	*60,000*	*57*	*5,402*	1,674
	(480)	*(436)*	*(17)*	*(933)*	*(208)*	*(1,141)*	*(60,000)*	*(120)*	*(3,728)*	*(-461)*
Total	**2,040**	**1,704**	**206**	**3,950**	**998**	**4,948**	**260,900**	**170**	**9,298**	**2,417**
	(2,005)	**(1,868)**	**(205)**	**(4,078)**	**(968)**	**(5,046)**	**(260,900)**	**(458)**	**(6,881)**	**(42)**

1) Includes for Mr. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) Fair value on the grant date of the each VSO tranche.
3) Expenses (+) or income (-) resulting from the necessary adjustment to provisions.
4) This amount was calculated in accordance with IAS 19.

The underlying share-based compensation in 2014 is based on 260,900 thousand virtual stock options (2013: 260,900 options).

Statutory pension provisions for former board members amount to €2,963 thousand (2013: €2,821 thousand). In 2014, pension payments of €115 thousand (2013: €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 more than 30% of the voting rights change ownership. 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-months waiting period from the respective date of issuance.

Other operating expenses

In the 2014 financial year, remuneration for the Supervisory Board amounted to €466 thousand (2013: €480 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 €94 thousand (2013: €144 thousand) relate to prior periods.

Losses from currency conversion amounted to €1,388 thousand (2013: €891 thousand).

Income from investments

(€ thousand)	2014	2013
Income from participations	20,261	190,648
Income from profit transfer agreements	66,193	36,745
Expenses from loss transfer agreements	– 8,091	– 11,352
	78,363	**216,041**

Income from participations include dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland. The income from profit transfer agreements results from contracts with Becker Besitz GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg, Klöckner European Operations GmbH, Duisburg and Kloeckner & Co USA Beteiligungs GmbH, Duisburg.

The expenses for loss transfer agreements relate to Klöckner & Co Deutschland GmbH, Duisburg and to Klöckner Shared Services GmbH, Duisburg.

Interest income, net

(€ thousand)	2014	2013
Income from long–term loans		
– affiliated companies	15,998	15,354
Other interest and similar income		
– affiliated companies	15,566	13,334
– other interest and similar income	2,953	10,062
Interest and similar expenses		
– affiliated companies	– 7,609	– 11,097
– interest on provisions	– 4,770	– 4,256
– other interest and similar expenses	– 27,852	– 41,842
	– 5,714	**– 18,445**

The increase in interest income from affiliated companies and income from long-term loans resulted from the takeover of the Group financing. The interest expense on provisions exclusively relates to pension provisions.

Taxes

Taxes exclusively relate to taxes on income and impact 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 €26,999 thousand (2013: €28,035 thousand) and result from deductible temporary differences not being offset by effects from taxable temporary differences (2013: €261 thousand) in contrast to the previous year. In addition, tax loss carryforwards 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. As in the previous year, the combined tax rate 31.6% for corporate income tax including the solidarity surcharge and trade tax was used to calculate deferred taxes.

Contingent liabilities

The contingent liabilities of Klöckner & Co SE are exclusively comprised of guarantees in the amount of €25,547 thousand (2013: €19,416 thousand), and these relate to the 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.

Other information

Information pursuant to Section 160 para 1 No. 8 German Stock Corporations Act (AktG)

The following investments exist based on notifications according to Section 21, para 1 and Section 22, para 1 Securities Trading Act (WpHG) at the reporting date. The exact wording can be found on the Klöckner & Co SE website.

Notifying institutions	Domicile	Voting interest in percent	Date
Federated International Leaders Fund, a series of Federated World Investment Series, Inc.	Maryland, USA	3.00	November 26, 2014
Interfer Holding GmbH	Dortmund, Germany	4.98	May 30, 2014
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	5.02*)	April 2, 2014
Franklin Mutual Advisors, LLC	Wilmington, Delaware, USA	5.35*)	March 14, 2014
Franklin Templeton Investment Funds	Luxembourg, Luxembourg	3.15	March 13, 2014
Allianz Global Investors Europe GmbH	Frankfurt am Main, Germany	3.05*)	January 24, 2014
Franklin Templeton Investments Corp.	Toronto, Ontario, Canada	4.99*)	January 4, 2013
Dimensional Holdings, Inc.	Austin, Texas, USA	3.06*)	February 2, 2012

*) 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

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 9, 2014, 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

Management Board and Supervisory Board propose to distribute retained profits of the year 2014 in the amount of €19,950 thousand to the shareholders in full. At 99,750,000 no-par-value shares entitled to dividends this represents €0.20 per share.

Duisburg, February 23, 2015

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, 2014. 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 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 23, 2015

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 23, 2015

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		
I.	**Consolidated affiliated companies**		
2	Klöckner & Co Financial Services S.A., Luxembourg, Luxembourg	100.00	
3	Klöckner Shared Services GmbH, Duisburg, Germany	100.00	
4	kloeckner.i GmbH, Berlin, Germany	100.00	
5	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00	
6	Klöckner European Operations GmbH, Duisburg, Germany	100.00	
7	Kloeckner Metals (Changshu) Co., Ltd., Changshu, China	100.00	
8	Klöckner & Co Deutschland GmbH, Duisburg, Germany	100.00	
9	Klöckner Stahl und Metall Ges.m.b.H., Vienna, Austria	100.00	
10	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00	
11	Metall- und Service-Center Hungária Kft., Budapest, Hungary	90.00	
12	Becker Stahl-Service GmbH, Duisburg, Germany	100.00	
13	Becker Stahl GmbH, Bönen, Germany	100.00	
14	Becker Besitz GmbH, Duisburg, Germany	100.00	
15	Umformtechnik Stendal GmbH, Stendal, Germany	100.00	
16	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00	
17	Debrunner Acifer AG, St. Gallen, Switzerland	100.00	
18	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00	
19	Molok (Valais) SA, Siders, Switzerland	100.00	
20	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00	
21	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00	
22	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00	
23	Klöckner Stahl AG, St. Gallen, Switzerland	100.00	
24	Koenig Feinstahl AG, Dietikon, Switzerland	100.00	
25	Metall Service Menziken AG, Menziken, Switzerland	100.00	
26	Debrunner Acifer Bläsi AG, Bern, Switzerland	100.00	
27	BST Holding AG, Oberbipp, Switzerland	100.00	
28	Riedo Bau + Stahl AG, Oberbipp, Switzerland	100.00	
29	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00	
30	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00	
31	ODS B.V., Rotterdam, The Netherlands	100.00	
32	ODS Metals N.V., Antwerp, Belgium	100.00	
33	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
34	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	100.00	
35	ODS METERING SYSTEMS ASIA Pacific PTE. LTD., Singapore, Singapore	100.00	
36	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00	

1) Profit and loss transfer agreement.

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	1	EUR	2,902,304.11	82,187.31		-
	1	EUR	98,055.85	-	1)	-
	1	EUR	98,595.02	– 1,404.98		-
	1	EUR	160,025,000.00	-	1)	-
	1	EUR	69,889.06	-	1)	13,899,794.45
	1	EUR	940,697.78	– 2,082,316.72		4,968,810.52
	1	EUR	11,239,918.75	-	1)	796,706,683.99
	8	EUR	1,997,605.73	1,278,620.87		-
	9	EUR	13,457,158.73	3,436,274.50		75,659,750.02
	10	EUR	45,621.98	– 50,748.59		5,736,779.73
	1	EUR	81,473,763.43	-	1)	691,953,042.30
	12	EUR	597,887.48	-	1)	-
	1	EUR	25,000.00	-	1)	-
	12	EUR	4,467,470.64	245,281.90		14,147,736.25
	1	EUR	146,837,457.09	25,409,502.68		-
	16	EUR	98,550,983.28	12,953,957.48		519,127,522.78
	16	EUR	8,493,932.08	907,017.33		45,350,435.77
	18	EUR	328,483.78	1,857.20		-
	16	EUR	6,459,234.02	505,931.39		30,042,910.37
	16	EUR	27,712,113.70	5,167,122.58		161,764,940.41
	16	EUR	4,206,800.58	49,964.52		34,235,947.65
	16	EUR	96,600.86	1,144.30		-
	16	EUR	13,656,677.89	104,285.04		39,873,013.52
	16	EUR	10,084,221.49	1,841,486.14		70,234,667.76
	16	EUR	20,565,532.29	3,096,055.16		39,825,034.63
	16	EUR	4,523,203.83	800,583.34		-
	27	EUR	30,744,527.56	11,835,160.90		132352096.50
	1	EUR	34,930,105.47	5,469,645.32		-
	29	EUR	3,000.00	145,250.19		-
	29	EUR	31,854,000.00	6,789,000.00		195,008,000.00
	31	EUR	3,783,156.00	42,032.00		13,424,731.00
	31	EUR	18,000.00	-		-
	31	EUR	3,402,572.84	2,867,140.18		9,509,554.97
	31	EUR	199,281.13	-		-
	1	EUR	29,255,699.06	– 3,043,479.12		-

No.	Entity	Interest in percent	
37	ASD Limited, Leeds, United Kingdom	100.00	
38	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
39	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
40	ASD Westok Limited, Leeds, United Kingdom	100.00	
41	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
42	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
43	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
44	Klöckner Distribution Industrielle S.A., Aubervilliers, France	96.77	
45	KDI S.A.S, Aubervilliers, France	100.00	
46	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
47	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
48	Prafer SNC, Woippy, France	100.00	
49	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
50	AT2T S.A.S., La Grand-Croix, France	100.00	
51	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
52	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
53	Klöckner Participaciones S.A., Madrid, Spain	100.00	
54	Comercial de Laminados S.A., Barcelona, Spain	100.00	
55	Hierros del Turia S.A., Valencia, Spain	80.00	
56	Perfiles Aragón S.A., Zaragoza, Spain	100.00	
57	Cortichapa S.A., Valencia, Spain	100.00	
58	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00	
59	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
60	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
61	Kloeckner Metals, Wilmington, Delaware, USA	100.00	
62	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
63	Kloeckner Metals P.R. Inc., Wilmington, Delaware, USA	100.00	
64	California Steel & Tube LLC, Wilmington, Delaware, USA	100.00	
65	Macsteel Service Centers de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
66	Macsteel Productos de Acero S.A. de C.V., Apodaca, Mexico	100.00	
67	KLOECKNER METALS BRASIL S.A., São Paulo, Brazil	70.00	
68	Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil	99.99	
69	Rede Metal Plus Assessoria e Gestao Empresarial Ltda., São Paulo, Brazil	99.90	

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	36	EUR	29,011,894.98	– 3,689,015.28		347,236,711.68
	36	EUR	25,677.24	-		-
	36	EUR	130.95	-		-
	36	EUR	17,765,365.26	2,726,555.60		23,884,440.28
	36	EUR	26,958,637.21	957,739.54		-
	36	EUR	128.39	-		-
	41	EUR	2,567,723.71	-		-
	1	EUR	120,529,766.00	– 1,602,675.00		-
	44	EUR	37,821,130.00	– 31,689,147.00		593,620,473.00
	45	EUR	1,074,006.00	1,143,116.61		48,961,987.00
	45	EUR	74,468,164.00	7,176,751.00		12,954,958.00
	45	EUR	3,226,991.60	17,608.27		7,070,067.00
	45	EUR	4,418,278.00	308,825.00		24,754,156.00
	45	EUR	– 533,210.00	– 892,891.40		45,175,303.00
	44	EUR	18,663,638.00	292,665.00		98,166,304.00
	44	EUR	11,754,888.80	28,134.22		40,640,569.35
	45					
	1	EUR	105,406,168.00	39,925.00		-
	53	EUR	2,702,283.00	– 3,278,481.00		88,904,698.97
	54	EUR	15,996,344.00	– 620,658.00		21,056,097.46
	54	EUR	270,166.00	– 314,791.00		24,203,862.91
	54	EUR	– 4,898,900.00	– 1,740,500.00		40,274,641.25
	54	EUR	3,006.00	-		-
	1	EUR	– 85,617,711.56	1,556,256.58		-
	59	EUR	243,873,353.49	– 11,497,930.00		-
	60	EUR	568,746,582.92	– 21,634,326.26		2,399,634,964.22
	61	EUR	1,912,936.04	1,242.24		-
	61	EUR	407,012.84	– 424,950.46		4,428,899.00
	61	EUR	8,142,489.54	1,686,990.21		22,976,472.71
	61	EUR	8,571,087.77	1,414,497.85		41,850,569.21
	61	EUR	75,680.22	– 45,639.95		-
	29	EUR	51,041,057.50	– 3,699,687.03		37,821,146.63
	67	EUR	– 613,532.17	– 49,731.08		778,655.84
	67	EUR	35,056.62	5,344.96		2,295.92

No.	Entity	Interest in percent	
II.	Non-consolidated affiliated companies		
70	Dobbertin Drahthandel Gesellschaft mit beschränkter Haftung, Duisburg, Germany	100.00	
71	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00	
72	KDI Courtages SARL, Paris, France	100.00	
III.	Associates		
73	Birs-Stahl AG, Birsfelden, Switzerland*)	50.00	

*) Accounted for at amortized cost.

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	8	EUR	48,504.09	5,020.67		-
	15	EUR	155,925.00	22,558.00		45,975.48
	44	EUR	66.00	– 2,665.00		-
	17	EUR	765,980.29	91,683.50		1,179,738.92

Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner & Co SE
Information pursuant to Section 21 para 1 and Section 22 para 1 WpHG – Wertpapierhandelsgesetz (German Securities Trading Law)

The exact wording can be found on the Klöckner & Co SE website.

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
Federated International Leaders Fund a series of Federated World Investment Series, Inc.	Maryland, USA	3.00	November 26, 2014
Amundi S.A.	Paris, France	3.22	September 16, 2014
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	5.02*)	April 2, 2014
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	5.35*)	March 14, 2014
Franklin Templeton Investments Funds	Luxembourg, Luxembourg	3.15	March 13, 2014
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	3.01*)	February 20, 2014
Allianz Global Investors Europe GmbH	Frankfurt am Main, Germany	3.05*)	January 24, 2014
Decrease below threshold			
Amundi S.A.	Paris, France	2.77	December 12, 2014
Interfer Holding GmbH	Dortmund, Germany	4.98	May 30, 2014

*) Partly attributed holding.

KLÖCKNER & CO SE

Additional information concerning the consolidated and individual financial statements

Attachment to the additional information

Information on 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 USA Holding, Inc., Wilmington/USA, Chairman of the Board of Directors
- Klöckner Namasco Holding Corporation, Wilmington/USA, Chairman of the Board of Directors

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 & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Member of the Board of Directors
- Comercial de Laminados S.A., Barcelona/Spain, Member of the Board of Directors
- Klöckner Distribution Industrielle S.A., Aubervilliers/France, Member of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Karsten Lork
Member of the Management Board

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Chairman of the Board of Directors
- Comercial de Laminados S.A., Barcelona/Spain, Chairman of the Board of Directors
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors
- Riedo Bau + Stahl AG, Oberbipp/Switzerland, Chairman of the Board of Directors
- BST Holding AG, Oberbipp/Switzerland, Chairman of the Board of Directors
- Klöckner Distribution Industrielle S.A., Aubervilliers/France, Chairman of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China, Chairman of the Supervisory Board

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 – Handelsgesetzbuch)

Prof. Dr. Dieter H. Vogel, Chairman
Managing Partner, Lindsay Goldberg Vogel GmbH, Düsseldorf

- Weener Plastik GmbH, Deputy Chairman of the Advisory Board[2)]
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]
- Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Member of the Advisory Board[2)]
- denkwerk GmbH, Member of the Advisory Board[2)]
- Bertelsmann Verwaltungsgesellschaft mbH, Member of the Steering Committee[2)]

Dr. Michael Rogowski, Deputy Chairman
Former Chairman of the Management Board, Voith AG, Heidenheim

- Vattenfall GmbH, Member of the Supervisory Board[1)]
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board[2)]

Ulrich Grillo
Chairman of the Management Board, Grillo-Werke AG, Duisburg

- Deutsche Messe AG, Member of the Supervisory Board[1)]

Group Mandates Grillo-Werke AG:

- Grillo Zinkoxid GmbH, Member of the Administrative Board[2)]
- RHEINZINK GmbH & Co. KG, Member of the Administrative Board[2)]
- Hamborner Dach- und Fassadentechnik GmbH & Co. KG, Chairman of the Advisory Board[2)]
- Zinacor S. A., Belgium, Member of the Board of Managers[2)]

Robert J. Koehler
Former Chairman of the Management Board, SGL CARBON SE, Wiesbaden

- Heidelberger Druckmaschinen AG, Chairman of the Supervisory Board[1)]
- Lanxess AG, Member of the Supervisory Board[1)]
- Freudenberg SE, Member of the Supervisory Board[1)]
- Freudenberg & Co. KG, Member of the Board of Partners[2)]
- Benteler International AG, Austria, Chairman of the Supervisory Board[2)]
- SGL Carbon S.p.A., Italy, Vice President of the Administrative Board[2)] (until February 14, 2014)

Hauke Stars
Member of the Management Board, Deutsche Börse AG, Frankfurt/Main

- GfK SE, Member of the Supervisory Board[1)]

Group Mandates Deutsche Börse AG:

- Clearstream Banking AG, Deputy Chairwoman of the Supervisory Board[1)] (until June 30, 2014)
- Eurex Frankfurt AG, Member of the Supervisory Board [1)]
- International Securities Exchange LLC, USA, Member of the Board of Directors[2)]
- Eurex Zürich AG, Switzerland, Member of the Board of Directors[2)]
- Clearstream Services S.A., Luxembourg, Member of the Board of Directors[2)]
- Clearstream Banking S.A., Luxembourg, Member of the Board of Directors[2)] (until June 30, 2014)
- ISE Gemini, LLC (before: Topaz Exchange, LLC, USA), Member of the Board of Directors[2)]

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[2)]

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).

GLOSSARY

Application (app)
Applications or apps are special-purpose computer programs for mobile devices.

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).

"C" items
Items identified in ABC analysis as accounting for a large proportion of the product range in quantity but only a relatively small proportion by value, with corresponding implications for procurement and stockholding. Examples include tools, protective gloves as well as articles such as nuts and bolts.

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.

Contract
An agreement, normally in writing, between at least two parties. A contract generally comprises a number of clauses setting down the goods to be supplied, date and place of delivery as well as payment terms. It may also include a fixed quantity to be purchased at a fixed price in a specific period.

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.

Design thinking
A resolutely user-oriented method of solving problems and developing new ideas. The method is based on the assumption that problems are better solved if different disciplines work together in a creative environment, jointly frame a task that is user-oriented and meets user needs and then go on to develop a prototype. Based on lessons learned from the prototype, the concept is developed and refined until the result is an optimum, user-oriented product.

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.

E-commerce
Electronic commerce, in most cases using the Internet.

EBITDA
Earnings before interest, taxes, depreciation and amortization (EBITDA) is an internal metric that is used to evaluate profitability.

EDI
Electronic data interchange: paperless, in part automated, electronic exchange of data between companies or units within a company. Data is structured and formatted for electronic transfer to uniform international standards. The data consists of detailed product and process-related information. The benefit and aim of EDI is the rapid, reliable flow of information, making it possible to accelerate business processes, cut logistics costs and improve service levels.

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.

Industry 4.0
Industry 4.0 is characterized by highly customized products combined with highly flexible production, substantial integration of customers and suppliers into business and value creation processes as well as the coupling of production and services – hence smart interconnection of product development, production, logistics and customers.

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).

Just-in-time
Just-in-time production is a logistics-driven, decentralized organization and management approach in which material is produced solely in the quantities and at the time actually needed to meet customer orders. This objective is met using a range of different production and distribution methods.

Lean startup
Approach for establishing a successful company or the launch of new products and services with the least possible effort and expense and using streamlined processes. Key features of the method include short development cycles and early market testing, i.e. strong focus on actual customer benefit throughout the development process.

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.

Minimum viable product
A minimum viable product (MVP) is one limited to features absolutely necessary to it. Such a product is typically first used by a small group of early adopters. Attempts are then made to determine user satisfaction through usability tests and by observing customers as they use the product. The resulting data and analyses conducted are subsequently used in the product's further development.

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.

Processing
Machining of steel and metal products, such as sawing, plasma and flame cutting, 3D laser cutting, sandblasting, priming and bending.

QR code
A quick response (QR) code is a way of coding information so that it can be very quickly found and read by a machine. The method is in widespread use in view of its robustness thanks to built-in error correction.

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.

RFID
Radio frequency identification (RFID) is a technology for transmitter-receiver systems for the automatic and contactless identification and localization of objects using radio waves. An RFID system consists of a transponder, which is located on the object and contains an identifying code, and a reader to read this ID.

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.

Startup
A young business with two special characteristics: It has an innovative business idea and is launched with the aim of rapid growth.

Think tank
An institute that conducts research, development and advocacy of political, social and economic ideas and strategies to exert influence on public opinion.

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 the average share price of Klöckner & Co SE over the last 30 trading days prior to exercise and the strike price.

Working Capital
Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.

IMPORTANT ADDRESSES

GLOBAL HEADQUARTERS

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307 0
Fax: +49 203 307 5000
Management Board:
– Gisbert Rühl (Chairman)
– Marcus A. Ketter
– Karsten Lork
– William A. Partalis

OPERATIVE COMPANIES

Austria
Metall- und Service-Center GmbH
Nfg. Co KG
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1220 Wien
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Management:
– Marcus Oberhofer

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Buysmetal N.V.
Keizersstraat 50
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Fax: +32 56 2680 01
Management:
– Bert Naert

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Kloeckner Metals Brasil S.A.
Corporate Headquarters
Rua Dianópolis, 122 - 1o andar
03125-100 - Pq. Da Mooca
Brazil
Telephone: +55 2065 3399
Management:
– Christiano Freire

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A203, 36 Xinggang Road,
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Changshu 215513
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Fax: +86 21 2302 5152
Management:
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Management:
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– Jean Coeur

Germany
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Management:
– Sven Koepchen
– Dr. Oliver Falk

Becker Stahl-Service GmbH
Weetfelder Str. 57
59199 Bönen
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Telephone: +49 2383 934 0
Fax: +49 2383 934 209
Management:
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FINANCIAL CALENDAR 2015

March 5, 2015	Annual Financial Statements 2014 Financial statement press conference Conference Call with analysts
May 7, 2015	Q1 interim report 2015 Conference Call with journalists Conference Call with analysts
May 12, 2015	Annual General Meeting 2015 Düsseldorf
August 6, 2015	Q2 interim report 2015 Conference Call with journalists Conference Call with analysts
November 5, 2015	Q3 interim report 2015 Conference Call with journalists Conference Call with analysts

Subject to subsequent changes.

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47057 Duisburg
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CONCEPTION, DESIGN AND TYPESETTING
CD Werbeagentur GmbH, www.cdonline.de
NetFederation GmbH, www.net-federation.de
Produced in-house using FIRE.sys

PHOTOGRAPHY
Wolfram Schroll, Hagen

PUBLICATION
This annual report is available as a PDF
as well as an online flipbook:
www.kloeckner.com

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There may be rounding differences in the percentages and figures in this report.

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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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