klöckner & co

Interim Management Statement for Q1 2016

January 1, 2016 – March 31, 2016

Klöckner & Co SE reports significant earnings growth in Q1 2016: operating measures bearing fruit; digitalization advancing apace

- EBITDA of €16 million, up slightly on the projected range of between €10 million and €15 million

- Gross profit margin 3.8 percentage points higher at 22.0%, compared with 18.2% in the prior-year period due to the more stable price level and an increased share of higher value-added products and services

- Sales down 18.4% to €1.4 billion due to lower price level compared with the prior-year quarter and decline in shipments attributable to restructuring

- Net working capital virtually unchanged, bucking the usual seasonal trend

- Further progress made in the digital transformation of the business model with the launch of the first version of a comprehensive service platform

- Business with higher value-added products and processing services will be further expanded, after the share has already increased from 34% to 39% in 2015

- Increasing EBITDA of between €50 million and €60 million and thus positive net income forecast for the second quarter despite continued weak demand

- Continued strong growth in EBITDA and a return to positive net income also expected for the year as a whole

SIGNIFICANT INCREASE IN GROUP OPERATING INCOME

Operating income (EBITDA) rose from €10 million in the prior-year quarter to 16 million. The main earnings drivers were the comprehensive restructuring and optimization measures as well as the more stable overall price environment. In this connection, the first price increases were achieved for a number of product groups following a strong decrease in the prior year. Accordingly, the gross profit margin rose sharply from 18.2% to 22.0%.

The pretax result was €–16 million compared with €–27 million in the prior year, additionally boosted by lower interest expenses. Adding in tax income of €2 million left a net loss of €–14 million (Q1 2015: net loss of €–22 million). Earnings per share improved accordingly, from €–0.22 to €–0.14.

SHIPMENTS AND SALES DOWN

Amid continued weak demand, shipments declined by 6.3% to 1.6 million tons in the first three months of 2016, mainly due to the KCO WIN+ restructuring and optimization program. Sales declined at an even stronger rate, falling by 18.4% to €1.4 billion as a result of the lower price levels. The cost of materials also decreased in line with sales, resulting in gross profit of €304 million, down only marginally (–1.7 %) on the figure for the prior-year quarter.

STRONG EARNINGS GROWTH IN BOTH SEGMENTS

Operating cost savings in connection with KCO WIN+ lifted EBITDA in the Europe segment by €4 million to €11 million. The gross profit margin improved from 20.2% to 22.4%, while gross profit declined from €207 million in the prior year to €195 million as a result of lower sales. The 15.2% decrease in sales to €0.9 billion was due to the lower year-on-year price levels as well as the restructuring and optimization measures, particularly in France and Great Britain.

In the Americas segment, EBITDA improved from €7 million in the prior-year quarter to €11 million in the reporting period following a strong increase in the gross profit margin from 15.2% to 21.2% in a more stable price environment. Gross profit rose from €103 million to €109 million despite lower sales. Earnings in the prior-year quarter had been significantly impacted by lower prices and inventory-related effects. Sales fell by a sharper 23.2% to €0.5 billion due to the more marked decline in price levels than in Europe amid continued weak demand.

SOLID FINANCIAL POSITION AND IMPROVED CASH FLOW

The balance sheet remains very sound with equity of over €1 billion. Equity declined by €83 million as against the 2015 year-end due to the quarterly remeasurement of pension obligations recognized in comprehensive income (€55 million), currency translation effects from foreign subsidiaries (€14 million) and the net loss for the quarter (€14 million). Nevertheless, the equity ratio is a very healthy 36% (December 31, 2015: 39%).

Net working capital, which usually sees seasonal growth, was on a par with the prior year-end at €1,134 million, buoyed by digital integration with important suppliers. Consequently, net financial debt also remained virtually unchanged, at €383 million (December 31, 2015: €385 million). Gearing rose slightly from 36% to 38% due to the lower equity but was still well below the 150% maximum applicable for financing purposes.

The lower increase in resources tied up in net working capital was also reflected in the cash flow statement. Compared with a cash outflow from operating activities of €111 million in the first quarter of the prior year, a cash inflow of €5 million was generated in Q1 2016. After deducting cash outflow from investing activities (€9 million), free cash flow was only slightly negative at €–4 million, compared with €–112 million in the prior year.

STABLE FINANCING

In March 2016, the two working capital facilities in the USA were prolonged ahead of term until March 2021 in an amend and extend process. The volume of the ABS program remained unchanged at USD 275 million. The ABL facility was reduced by USD 50 million to USD 275 million due to the decrease in inventories requiring funding. In addition, better financing terms were secured and the terms were amended to provide greater flexibility.

A large part of the syndicated loan volumes were prolonged with the core banks as scheduled in April 2016 after the reporting period. Of a total volume of €360 million, 85% (€305 million) were prolonged until May 2019; 15% of the facilities (€55 million) are still due in May 2018.

Klöckner & Co negotiated an improved maturity profile and better terms in those transactions. The tools used to finance working capital now have a volume-weighted remaining term of 3.4 years.

DIGITAL TRANSFORMATION DRIVEN FORWARD

Digitalization of the supply and value chain constitutes a core component of the "Klöckner & Co 2020" strategy. Key milestones in implementing this strategy were met in the first quarter of 2016, with very positive customer feedback on the new online shop launched in Germany and the contract portal already up and running in a number of countries. Via the "Kloeckner Connect" service platform, customers can now centrally access all digital tools launched to date.

In addition, further strides were made in the digital integration of suppliers to exchange standardized business data. Digitalizing business processes with key producers and wholesalers increases processing speed and efficiency while significantly reducing susceptibility to errors. This is expected to lower net working capital by over a third overall by 2019 compared with the end of 2014.

BUSINESS WITH HIGHER VALUE-ADDED PRODUCTS AND PROCESSING SERVICES FURTHER EXPANDED

Following an increase from 34% to 39% in 2015, the aim is to further boost the percentage of sales attributable to higher value-added products and services to 45% by 2017. To this end, a state-of-the-art logistics center was opened in Kölliken, Switzerland, for the higher-margin business in fastening technology, tools, machinery and occupational safety products. Some 30% of orders for the total of more than 40,000 products are already received online, and the figure is growing.

Construction of a Service Center at the Bönen location in North Rhine-Westphalia, Germany, to process aluminum flat products for the European automotive and manufacturing industries will commence before the end of the current quarter. Scheduled for completion in the coming year, the facility will have an annual capacity of around 50,000 tons.

Klöckner & Co aims to generate most of its sales with higher-margin business by 2020 at the latest.

KCO WIN+ RESTRUCTURING MEASURES LARGELY COMPLETE; FURTHER OPTIONS BEING EXPLORED

The restructuring measures under the KCO WIN+ optimization program were virtually completed in the first quarter of 2016. These measures saw a total of 16 locations which had long been unprofitable closed and the headcount reduced by over 600. The main focus was on France with 11 location closures. In other European countries, another four locations were closed and the country headquarters downsized. Due to the poor outlook for the local steel market, closures also included Klöckner & Co's only Service Center in China, with 35 employees affected.

Other KCO WIN+ measures are currently being implemented, including improvements in pricing as well as in sales, logistics and warehouse management. KCO WIN+ is expected to make a total incremental EBITDA contribution of around €30 million in 2016 and 2017, of which €20 million are anticipated in the current year.

Despite the restructuring successes achieved to date coupled with stabilization of the market, profitability levels for the traditional European distribution activities are still unsatisfactory. Consequently, potential options to further optimize structures in Europe are currently being explored.

POSITIVE OUTLOOK FOR THE REST OF THE YEAR

At the start of the second quarter, there are signs of a further, broad-based recovery in prices, among other things due to increased raw material cost whereas demand remains restrained. This means EBITDA is expected to increase substantially year-on-year in the current quarter to between €50 million and €60 million (Q2 2015: €36 million before restructuring expenses) and to result in a positive net income. As before, full-year EBITDA is also forecast to be up significantly on the prior-year figure before restructuring expenses. Accordingly, net income is expected to return to positive territory. Alongside the improved price environment, this will primarily reflect the effects from the KCO WIN+ program and noticeably lower interest expenses.

Klöckner & Co SE
Financial information

for the three-month period ending March 31, 2016

Shipments and income statement		Q1 2016	Q1 2015	Variance
Shipments	Tto	1.556	1.661	-105
Sales	€ million	1.386	1.697	-311
Gross profit	€ million	304	310	-6
Gross profit margin	%	22,0	18,2	+3,8%p
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	16	10	+6
EBITDA margin	%	1,2	0,6	+0,6%p
Earnings before interest and taxes (EBIT)	€ million	-8	-15	+7
Earnings before taxes (EBT)	€ million	-16	-27	+11
Net income	€ million	-14	-22	+8
Net income attributable to shareholders of Klöckner & Co SE	€ million	-14	-21	+7
Earnings per share (basic)	€	-0,14	-0,22	+0,08
Earnings per share (diluted)	€	-0,14	-0,22	+0,08

Cash flow statement/Cash flow		Q1 2016	Q1 2015***)	Variance
Cash flow from operating activities	€ million	5	-111	+116
Cash flow from investing activities	€ million	-9	-1	-8
Free cash flow*)	€ million	-4	-112	+108

Balance sheet		March 31, 2016	December 31, 2015	Variance
Net working capital**)	€ million	1.134	1.128	+6
Net financial debt	€ million	383	385	-2
Equity	€ million	1.030	1.113	-83
Equity ratio	%	36,4	39,2	-2,8%p
Balance sheet total	€ million	2.830	2.841	-11

Employees		March 31, 2016	December 31, 2015	Variance
Employees at end of period		9.186	9.592	-406

*) Free cash flow: Cash flow from operating activities plus cash flow from investing activities.
**) Net working capital: Inventories plus trade receivables less trade liabilities.
***) Comparative amounts adjusted due to changed presentation of cash flows resulting from derivates used for hedging purposes.

Klöckner & Co SE
Consolidated statement of income

for the three-month period ending March 31, 2016

(€ thousand)	Q1 2016	Q1 2015
Sales	1,385,829	1,697,465
Other operating income	6,404	12,105
Changes in inventory	–4,583	–5,356
Own work capitalized	-	5
Cost of materials	–1,076,898	–1,382,586
Personnel expenses	–162,113	–161,337
Depreciation and amortization	–24,182	–25,558
Other operating expenses	–132,526	–150,085
Operating result	**–8,069**	**–15,347**
Finance income	103	878
Finance expenses	–8,180	–13,028
Financial result	**–8,077**	**–12,150**
Income before taxes	**–16,146**	**–27,497**
Income taxes	2,441	5,935
Net income	**–13,705**	**–21,562**
thereof attributable to		
– shareholders of Klöckner & Co SE	*–13,876*	*–21,482*
– non-controlling interests	*171*	*–80*
Earnings per share (€/share)		
– basic	**–0.14**	**–0.22**
– diluted	**–0.14**	**–0.22**

Statement of comprehensive income

for the three-month period ending March 31, 2016

(€ thousand)	Q1 2016	Q1 2015
Net income	– 13,705	– 21,562
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	– 63,773	– 44,453
Related income tax	8,778	8,047
Total	– 54,995	– 36,406
Other comprehensive income reclassifiable		
Foreign currency translation	– 14,342	85,812
Gain/loss from net investment hedges	– 350	– 1,632
Related income tax	116	– 325
Total	– 14,576	83,855
Other comprehensive income	– 69,571	47,449
Total comprehensive income	– 83,276	25,887
thereof attributable to		
– shareholders of Klöckner & Co SE	*– 83,432*	*26,248*
– non-controlling interests	*156*	*– 361*

Consolidated statement of financial position

as of March 31, 2016

(€ thousand)	March 31, 2016	December 31, 2015
Non-current assets		
Intangible assets	210,584	223,624
Property, plant and equipment	660,439	680,491
Investment property	8,742	8,742
Non-current investments	1,673	2,069
Other assets	12,805	13,273
Current income tax receivable	6,388	6,388
Deferred tax assets	16,390	10,829
Total non-current assets	917,021	945,416
Current assets		
Inventories	927,833	961,171
Trade receivables	732,488	655,393
Current income tax receivable	15,037	14,262
Other assets	69,644	99,576
Cash and cash equivalents	168,321	164,853
Assets held for sale	-	627
Total current assets	1,913,323	1,895,882
Total assets	2,830,344	2,841,298

(€ thousand)	March 31, 2016	December 31, 2015
Equity		
Subscribed capital	249,375	249,375
Capital reserves	664,182	664,182
Retained earnings	150,976	164,852
Accumulated other comprehensive income	−43,144	26,412
Equity attributable to shareholders of Klöckner & Co SE	1,021,389	1,104,821
Non-controlling interests	8,762	8,606
Total equity	1,030,151	1,113,427
Non-current liabilities		
Provisions for pensions and similar obligations	397,390	340,112
Other provisions and accrued liabilities	21,132	21,221
Financial liabilities	320,407	337,211
Other liabilities	52,672	64,385
Deferred tax liabilities	37,637	43,955
Total non-current liabilities	829,238	806,884
Current liabilities		
Other provisions and accrued liabilities	137,849	149,906
Income tax liabilities	15,344	17,420
Financial liabilities	225,601	207,999
Trade payables	525,983	489,048
Other liabilities	66,178	56,614
Total current liabilities	970,955	920,987
Total liabilities	1,800,193	1,727,871
Total equity and liabilities	2,830,344	2,841,298

Consolidated statement of cash flows

for the three-month period ending March 31, 2016

(€ thousand)	Q1 2016	Q1 2015
Net income	–13,705	–21,562
Income taxes	–2,441	–5,935
Financial result	8,077	12,150
Depreciation and amortization	24,182	25,558
Other non–cash income/expenses	556	325
Gain on disposal of non–current assets	–698	–3,414
Change in net working capital		
Inventories	13,470	86,211
Trade receivables	–91,979	–158,730
Trade payables	49,649	–58,324
Change in other operating assets and liabilities	26,072	22,327
Interest paid	–4,477	–4,848
Interest received	176	352
Income taxes paid	–3,641	–4,971
Cash flow from operating activities	**5,241**	**–110,861**
Proceeds from the sale of non–current assets and assets held for sale	2,956	3,135
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	12,168
Payments for intangible assets, property, plant and equipment	–12,501	–16,180
Cash flow from investing activities	**–9,545**	**–877**
Repayment convertible bond	–24,850	-
Net change of other financial liabilities	36,397	68,173
Cash flow from financing activities	**11,547**	**68,173**
Changes in cash and cash equivalents	**7,243**	**–43,565**
Effect of foreign exchange rates on cash and cash equivalents	–3,775	8,445
Cash and cash equivalents at the beginning of the period	164,853	316,364
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**168,321**	**281,244**

Segment reporting

(€ million)	Europe		Americas		Headquarters/ Consolidation		Total	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Segment sales	870	1,025	516	672	-	-	1,386	1,697
Gross profit	195	207	109	103	-	-	304	310
EBITDA (segment result)	11	7	11	7	−6	−4	16	10
EBIT	−2	−5	-	−5	−6	−5	−8	−15
Net working capital as of March 31, 2016 (December 31, 2015)	754	686	378	437	2	5	1,134	1,128
Employees as of March 31, 2016 (December 31, 2015)	6,465	6,812	2,621	2,687	100	93	9,186	9,592

Financial Calendar

May 13, 2016	Annual General Meeting 2016, Düsseldorf
August 4, 2016	Q2 interim report 2016 Conference call with journalists Conference call with analysts
November 3, 2016	Q3 interim report 2016 Conference call with journalists Conference call with analysts

Subject to subsequent changes.

Contact

Klöckner & Co SE

Christian Pokropp
Head of Investor Relations & Corporate Communications
Telephone: +49 203 307-2050
Fax: +49 203 307-5025
E-mail: ir@kloeckner.com

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