

Interim Management Statement for Q1 2017

January 1, 2017 – March 31, 2017

- Operating income (EBITDA), at €77 million, more than quadrupled relative to prior-year period and slightly above guidance range of €65 million to €75 million
- Net income back into positive figures at €36 million, compared with €14 million net loss in prior-year quarter
- Shipments slightly up on prior-year level (up 1.7%) despite the sale of the Spanish activities at the end of January
- Sales growth of 15.6% to €1.6 billion, mainly due to higher price level compared with prior-year quarter
- Proportion of Group sales generated via digital channels further increased to 14%
- Investment in technology startup and 3D printer producer BigRep
- EBITDA guidance of €60 million to €70 million for second quarter
- Noticeable rise in EBITDA and additional improvement in net income expected for full year

SIGNIFICANT INCREASE IN EARNINGS

Operating income (EBITDA) more than quadrupled, from €16 million in the prior-year period to €77 million in the first quarter of 2017. Key earnings drivers were the strongly positive price environment as well as the completed restructuring and optimization measures. There was a corresponding increase in the gross profit margin, from 22.0% in the first quarter of 2016 to 22.9% in the period under review. Net income was €36 million, compared with a net loss of €14 million in the prior-year quarter. Earnings per share improved accordingly from €-0.14 to €0.36.

SHIPMENTS STABLE DESPITE RESTRUCTURING EFFECTS; SUBSTANTIAL RISE IN SALES

Thanks to stronger demand, the shipments of 1,582 million tons showed a slight gain (up 1.7%) on the prior-year quarter despite the sale of the Spanish activities. Sales growth was 15.6%, mainly due to the increased price level. As there was no proportionate rise in cost of materials, the gross profit of €367 million was significantly higher than the figure for the prior-year quarter (€304 million, an increase of 20.5%).

FURTHER INCREASE IN EARNINGS IN BOTH SEGMENTS

In the Europe segment, the positive market environment combined with earnings contributions from the One Europe program and the KCO WIN+ program (a combined total of €6 million) caused EBITDA to increase by €43 million to €54 million. Shipments grew by 2.4%; sales went up by 13.3% to €985 million. Performance was similarly positive in terms of gross profit (up €40 million to €235 million) and the gross profit margin (up 1.4% to 23.8%).

In the Americas segment, EBITDA improved from €11 million in the prior-year quarter to €30 million in the period under review. Due to an even stronger improvement in the price environment than for the Europe segment, sales went up even more strongly by 19.5% to €617 million while shipments remained near-constant (up 0.7%). There was an increase in both gross profit (by €23 million to €132 million) and the gross profit margin (by 0.2%p to 21.4%).

VERY SOLID FINANCIAL POSITION SUSTAINED

Mainly as a result of the positive net income (€36 million), equity increased by €35 million to some €1.2 billion. Despite this increase the equity ratio decreased due to higher net working capital, but was still at a solid level of 37.8% (December 31, 2016: 39.6%).

In line with the seasonal trend and as a consequence of higher average procurement prices, net working capital grew relative to the 2016 year-end by €176 million to €1.3 billion. This increase was the main reason for the rise in net financial debt from €444 million as of December 31, 2016 to €475 million as of the end of the first quarter despite the cash received from the sale of the Spanish activities completed in January 2017 (a cash inflow of €56 million).

The above-mentioned effects involved in the increase in net working capital led to a cash outflow from operating activities of €-78 million for the first quarter. After taking into account the cash inflow from the sale of the Spanish activities (€56 million) and the cash outflow from other investing activities (€17 million), free cash flow stood at €-39 million (Q1 2016: €-4 million).

STABLE FINANCING

After the end of the reporting period, our syndicated loan was prolonged ahead of term in April by one year until May 2020. This further improves the maturity profile of Klöckner & Co's Group finances. The revised contractual terms once again incorporate the option to extend the maturity in two steps to May 2022 with prior approval of the banks. In light of the ample headroom for borrowing under the available lines of credit, the facility – being currently undrawn – was reduced in size from €360 million to €300 million. In addition, the minimum equity covenant was adjusted in Klöckner & Co's favor from €800 million to €600 million in order to provide further strategic leeway.

SALE OF SPANISH ACTIVITIES COMPLETED

As part of the One Europe program to further enhance Klöckner & Co SE's focus on its core markets, the Company has sold its Spanish activities to Hierros Añón S.A., A Coruña, Spain. An agreement for the acquisition of Klöckner & Co's Spanish companies – including the operating business unit Kloeckner Metals Ibérica S.A. – was put into effect by both parties in January 2017.

CONTINUED PROGRESS ON DIGITALIZATION

Digitalization of the supply and value chain constitutes a core component of the "Klöckner & Co 2020" strategy with the aim of building a web-based industry platform. Major progress has already been made in implementing the strategy: The proportion of sales generated through digital channels further increased to 14% in the first quarter of 2017 (Q4 2016: 12%). Integration of an initial selection of complementary distributors into the Klöckner & Co online platform is planned for the second quarter. This will mark another important step on the road to an industry platform.

In April, we acquired a minority share in technology startup BigRep through our venture capital subsidiary kloeckner.v, thus entering the growth market of additive manufacturing using 3D printers. BigRep is the developer and producer of the world's biggest commercially available 3D printer. It also provides consulting on additive manufacturing system solutions. As well as taking a financial stake, Klöckner & Co plans to deploy BigRep's industrial-scale 3D printers in the future across its location network in Europe and the USA. The investment in BigRep is consistent with both components of the Klöckner strategy – digitalization and higher value-added products and services. The outlook for this market segment is also generally highly promising, with annual growth of some 20% expected through to 2020.

INVESTMENT IN BUSINESS WITH HIGHER VALUE-ADDED PRODUCTS AND PROCESSING SERVICES

At Becker Stahl-Service in Bönen, North Rhine-Westphalia, Germany, the slitting line for processing aluminum flat products for the European automotive and manufacturing industries will go into operation in the current quarter. Construction of the planned cut-to-length line has already begun. The aluminum service center is set to reach its full capacity totaling 80,000 tons of aluminum per year in the course of 2018.

POSITIVE OUTLOOK FOR REMAINDER OF YEAR

Whereas earnings in the first quarter were also aided by rising prices, we expect that price levels will remain stable in the current quarter. Overall, we anticipate operating income (EBITDA) of €60 million to €70 million and once again positive net income in the second quarter. Notably in view of the significantly better first quarter, a slight uptick in demand and this year's impact of the One Europe program, we forecast a noticeable increase in EBITDA and net income for the year as a whole.

Klöckner & Co SE

Financial information

for the three-month period ending March 31, 2017

Shipments and income statement		Q1 2017	Q1 2016	Variance
Shipments	Tto	1,582	1,556	+26
Sales	€ million	1,602	1,386	+216
Gross profit	€ million	367	304	+63
Gross profit margin	%	22.9	22.0	+0.9%p
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	77	16	+61
EBITDA margin	%	4.8	1.2	+3.6%p
Earnings before interest and taxes (EBIT)	€ million	54	-8	+62
Earnings before taxes (EBT)	€ million	46	-16	+62
Net income	€ million	36	-14	+50
Net income attributable to shareholders of Klöckner & Co SE	€ million	36	-14	+50
Earnings per share (basic)	€	0.36	-0.14	+0.50
Earnings per share (diluted)	€	0.34	-0.14	+0.48

Cash flow statement		Q1 2017	Q1 2016	Variance
Cash flow from operating activities	€ million	-78	5	-83
Cash flow from investing activities	€ million	39	-9	+48
Free cash flow*)	€ million	-39	-4	-35

Balance sheet		March 31, 2017	December 31, 2016	Variance
Net Working Capital**)	€ million	1,296	1,120	+176
Net financial debt	€ million	475	444	+31
Gearing***)	%	41.2	39.7	+1.5%p
Equity	€ million	1,183	1,148	+35
Equity ratio	%	37.8	39.6	-1.8%p
Total assets	€ million	3,132	2,897	+235

Employees		March 31, 2017	December 31, 2016	Variance
Employees as of the end of the reporting period		8,698	9,064	-366

*) Free cash flow = Cash flow from operating activities plus cash flow from investing activities.

**) Net working capital = Inventories plus trade receivables less trade liabilities.

***) Gearing = Net financial debt / (Equity /. non-controlling interests /. goodwill resulting from acquisitions subsequent to May 23, 2013).

Klöckner & Co SE

Consolidated statement of income

for the three-month period ending March 31, 2017

(€ thousand)	Q1 2017	Q1 2016
Sales	1,601,888	1,385,829
Other operating income	6,557	6,404
Changes in inventory	4,608	-4,583
Cost of materials	-1,239,644	-1,076,898
Personnel expenses	-158,086	-162,113
Depreciation and amortization	-22,107	-24,182
Other operating expenses	-138,762	-132,526
Operating result	54,454	-8,069
Finance income	473	103
Finance expenses	-8,706	-8,180
Financial result	-8,233	-8,077
Income before taxes	46,221	-16,146
Income taxes	-10,295	2,441
Net income	35,926	-13,705
<i>thereof attributable to</i>		
– shareholders of Klöckner & Co SE	35,615	-13,876
– non-controlling interests	311	171
Earnings per share (€/share)		
– basic	0.36	-0.14
– diluted	0.34	-0.14

Statement of comprehensive income

for the three-month period ending March 31, 2017

(€ thousand)	Q1 2017	Q1 2016
Net income	35,926	-13,705
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	5,461	-63,773
Related income tax	-1,305	8,778
Total	4,156	-54,995
Other comprehensive income reclassifiable		
Foreign currency translation	-2,796	-14,342
Gain/loss from net investment hedges	-	-372
Related income tax	-	116
Gain/loss from cash flow hedges	173	22
Total	-2,623	-14,576
Other comprehensive income	1,533	-69,571
Total comprehensive income	37,459	-83,276
<i>thereof attributable to</i>		
– shareholders of Klöckner & Co SE	37,149	-83,432
– non-controlling interests	310	156

Consolidated statement of financial position

as of March 31, 2017

Assets

(€ thousand)	March 31, 2017	December 31, 2016
Non-current assets		
Intangible assets	198,066	206,317
Property, plant and equipment	661,506	661,548
Non-current investments	5,906	5,732
Other assets	9,925	10,162
Current income tax receivable	8,415	8,415
Deferred tax assets	4,084	4,855
Total non-current assets	887,902	897,029
Current assets		
Inventories	1,134,664	1,006,255
Trade receivables	851,362	653,784
Current income tax receivable	21,107	19,725
Other assets	65,025	97,606
Cash and cash equivalents	162,603	134,228
Assets held for sale	9,661	87,909
Total current assets	2,244,422	1,999,507
Total assets	3,132,324	2,896,536

Liabilities

<i>(€ thousand)</i>	March 31, 2017	December 31, 2016
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,412	682,412
Retained earnings	237,302	201,687
Accumulated other comprehensive income	7,256	5,722
Equity attributable to shareholders of Klöckner & Co SE	1,176,345	1,139,196
Non-controlling interests	6,769	8,757
Total equity	1,183,114	1,147,953
Non-current liabilities		
Provisions for pensions and similar obligations	348,615	358,887
Other provisions and accrued liabilities	22,741	22,614
Financial liabilities	537,250	527,494
Other liabilities	263	275
Deferred tax liabilities	44,043	39,308
Total non-current liabilities	952,912	948,578
Current liabilities		
Other provisions and accrued liabilities	125,998	137,737
Income tax liabilities	18,188	14,422
Financial liabilities	94,580	44,013
Trade payables	690,472	540,130
Other liabilities	67,060	41,296
Liabilities of disposal groups	-	22,407
Total current liabilities	996,298	800,005
Total liabilities	1,949,210	1,748,583
Total equity and liabilities	3,132,324	2,896,536

Consolidated statement of cash flows

for the three-month period ending March 31, 2017

(€ thousand)	Q1 2017	Q1 2016
Net income	35,926	-13,705
Income taxes	10,295	-2,441
Financial result	8,233	8,077
Depreciation and amortization	22,107	24,182
Other non-cash income/expenses	34	556
Gain on disposal of non-current assets	-64	-698
Change in net working capital		
Inventories	-133,118	13,470
Trade receivables	-200,588	-91,979
Trade payables	153,194	49,649
Change in other operating assets and liabilities	35,772	26,072
Interest paid	-5,942	-4,477
Interest received	445	176
Income taxes paid	-3,803	-3,641
Cash flow from operating activities	-77,509	5,241
Proceeds from the sale of non-current assets and assets held for sale	416	2,956
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	56,256	-
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-17,916	-12,501
Cash flow from investing activities	38,756	-9,545
Repayment convertible bond	-	-24,850
Net change of other financial liabilities	67,268	36,397
Cash flow from financing activities	67,268	11,547
Changes in cash and cash equivalents	28,515	7,243
Effect of foreign exchange rates on cash and cash equivalents	-140	-3,775
Cash and cash equivalents at the beginning of the period	134,228	164,853
Cash and cash equivalents at the end of the reporting period as per statement of financial position	162,603	168,321

Segment reporting

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Sales	985	870	617	516	-	-	1,602	1,386
Gross Profit	235	195	132	109	-	-	367	304
Gross profit margin (%)	23.8	22.4	21.4	21.2	-	-	22.9	22.0
EBITDA (segment result)	54	11	30	11	-7	-6	77	16
EBIT	43	-2	20	-	-9	-6	54	-8

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	Q1 2017	FY 2016	Q1 2017	FY 2016	Q1 2017	FY 2016	Q1 2017	FY 2016
Net working capital as of the reporting date	858	706	434	411	4	3	1,296	1,120
Employees as of the reporting date	6,068	6,419	2,518	2,531	112	114	8,698	9,064

Financial Calendar

May 12, 2017	Annual General Meeting 2017 Düsseldorf
July 26, 2017	Q2 interim report 2017 Conference call with journalists Conference call with analysts
October 25, 2017	Q3 interim management statement 2017 Conference call with journalists Conference call with analysts

Subject to subsequent changes.

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Disclaimer

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These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS or HGB. Non-GAAP measures are not subject to IFRS or HGB, or to other generally accepted accounting principles. Other companies may define these terms in different ways.

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

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