

Interim Management Statement for 9M 2017

January 1, 2017–September 30, 2017

- Very strong increase in operating income (EBITDA) to €187 million in first nine months compared with €159 million in prior-year period, marking highest nine-month operating income in six years
- Third-quarter EBITDA €47 million, slightly above €35 million to €45 million guidance range
- Net income increased to €72 million, compared with €50 million in prior-year period
- Shipments broadly level with prior-year period (down 0.2%); however, adjusted for shipments of divested Spanish activities in Europe segment and for the exit from US tubes business reveals 3.0% growth on prior-year period
- Sales growth of 10.9% to €4.8 billion, mainly due to higher price level compared with prior year
- Continuous rise in proportion of Group sales generated via digital channels to most recently 16% in third quarter (Q3 2016: 11%)
- Full-year targets confirmed, expecting more than 10% increase in EBITDA and substantial improvement in net income

SIGNIFICANT RISE IN SALES AND EARNINGS

At 4.7 million tons, shipments in the first nine months were at almost the same level as in the prior year (with a decrease of 0.2%) despite the sale of the Spanish activities and the exit from the tubes business in the USA. Adjusted for these effects, shipments showed organic growth of 3.0%. Mainly due to the significantly improved price level, sales grew by 10.9% to €4.8 billion. Whereas in the prior year we benefited from large inventory effects, this year has seen rising procurement prices and reduced upward momentum in prices, which meant it was only possible to achieve a moderate improvement in gross profit (an increase of 2.0%). The gross profit margin decreased accordingly from 23.0% to 21.1%.

Alongside the positive market effects, optimization measures also contributed to a strong increase in operating income (EBITDA) from €159 million in the prior-year period to €187 million. Net income improved correspondingly from €50 million to €72 million. Earnings per share rose from €0.49 to €0.71.

FURTHER EARNINGS GROWTH IN BOTH OPERATING SEGMENTS

In the Europe segment, EBITDA came to €119 million in the first nine months of fiscal year 2017, above the €115 million prior-year figure, which was swelled by €13 million in proceeds from the sale of non-operating assets. The earnings contribution from "KCO WIN+" and "One Europe" was €11 million. Segmental shipments remained almost stable (up 0.2%) despite the sale of the Spanish activities; organic growth stood at 4.8%. Sales increased by a significant 10.3% to €3.0 billion. Gross profit also increased (up €8 million to €651 million), whereas the gross profit margin showed a moderate decrease due to the softening of the price level at the beginning of the third quarter (down 1.9 percentage points to 21.7%).

Due to an even stronger rise in the price level compared with the Europe segment, EBITDA in the Americas segment improved very strongly from €63 million in the first nine months of the prior year to €81 million in the reporting period. Despite a slight fall in shipments by 0.6%, sales increased by 12.1% to €1.8 billion. While gross profit increased (up €12 million to €365 million), the gross profit margin decreased by 1.7 percentage points to 20.2% due to the reduced price momentum from the third quarter combined with rising procurement prices.

Headquarters' EBITDA in the first three quarters was a negative €13 million, compared with a negative €19 million in the prior-year period. The segment's EBITDA includes approximately €5 million in income from the third-quarter sale of the stake in Contorion GmbH, set against which, in an almost equal amount, are negative effects on earnings in the two operating segments primarily as a result of restructuring measures in the "One US" efficiency program.

VERY SOLID FINANCIAL POSITION SUSTAINED

Mainly as a result of the net income (€72 million), equity increased despite the €20 million dividend payout in May by €40 million to €1.2 billion. The equity ratio stayed at a very solid 39.5% (December 31, 2016: 39.6%).

In line with the seasonal trend and as a consequence of higher average procurement prices, net working capital went up from €1.1 billion at the end of the prior year to €1.3 billion. Conversely, taking into account the cash inflow from the sale of the Spanish activities completed in January 2017 (€55 million), net financial debt decreased from €444 million as of December 31, 2016 to €435 million at the end of the third quarter.

The rise in net working capital resulted in a negative cash flow from operating activities of €38 million in the first nine months of the fiscal year (9M 2016: positive cash flow of €22 million). Taking into account the cash inflows from the sale of the Spanish activities (€55 million) and of Contorion GmbH (€8 million) and the net cash outflow from other investments and divestments (€47 million), free cash flow came to a negative €22 million (9M 2016: negative €5 million).

STRATEGY: FROM "KLÖCKNER & CO 2020" TO "KLÖCKNER & CO 2022"

In line with the considerable progress made in implementation, we have adjusted our "Klöckner & Co 2020" strategy and extended it to 2022. This notably relates to the strategic pillar of "Digitalization," where we have now added an extra focus on platforms. This subdivision was necessary because the former digitalization as such mainly related to the activities of kloeckner.i and the associated transformation of Klöckner & Co, whereas the development of an open industry platform constitutes an additional line of business. The two thus make up separate directions of thrust under the new pillar, "Digitalization and Platforms." It also became increasingly evident in the course of our digitalization activities that successful digital transformation also calls for radical change in terms of culture. "Klöckner & Co 2022" therefore gives greater prominence than before to cultural change as a flanking activity.

As a result, we have also raised our target of 50% of sales via online channels by early 2020 to 60% in 2022. The extended strategy is also more specific with regard to the margin targets.

The "Klöckner & Co 2022" strategy comprises a total of three strategic pillars: "digitalization and platforms", "higher value-add business", and "efficiency improvement".

Digitalization and platforms: Digital transformation of our business is the cornerstone of our strategy. We are pioneers here, blazing the trail for customers and partners. The "Klöckner & Co 2022" strategy enhances the focus on our open industry platform for the steel and metal industry while also targeting the onward development of Klöckner's proprietary online business. By integrating an initial selection of partners to supplement our range of offer, we have thus expanded our Onlineshop into a marketplace. This enables Klöckner customers to access a significantly larger range of steel and metal products without us having to invest in additions to our product portfolio. Alongside our proprietary solutions – such as the Onlineshop, Contract Portal, Kloeckner Connect and other digital tools – we continue to work vigorously on establishing an open industry platform. We plan to go live with the first version before the end of this year. In contrast to the Klöckner Onlineshop with its marketplace functionality, the industry platform is independent and also open to Klöckner's direct competitors. We plan to charge transaction commission on business conducted by third parties on the platform.

Furthermore, we will offer services such as stockholding and transportation of steel and metal products offered on the platform. In this way, we are additionally tapping into an entirely new business model.

We have set ambitious goals for implementing our digitalization strategy. As early as the beginning of 2020, we aim to be generating half of Group sales online. By 2022, we plan to make 60% of Group sales via digital channels. Today, we already bring in 16% of sales via digital channels.

Higher value-add business: Focus on business with higher margins was already a key thrust of our "Klöckner & Co 2020" strategy. This area is growing across the board – spurring us to continue stepping up such activities as part of the "Klöckner & Co 2022" strategy. There is huge market potential in higher value-added products and services as many of our customers are highly vertically integrated and still perform tasks (such as 3d laser processing) that we could do at higher quality and more efficiently by consolidating orders. In addition, we are substantially expanding our higher-margin business with higher value-added products. We also plan to provide services for users of the industry platform, such as stockholding and shipment of steel and metal products. After generating 46% of sales with higher value-added business last year, we aim to increase this share to 60% by 2022.

Efficiency improvement: We have already significantly boosted our efficiency with the "One Europe" program launched in 2017. Under the "Klöckner & Co 2022" strategy, we are augmenting this with an additional program, "One US", with the aim of substantial further efficiency gains.

In the "One Europe" program, we aim not only to secure cost savings, but to more easily leverage synergies – notably in the areas of procurement and logistics. Plans are for "One Europe" to deliver an incremental contribution to EBITDA totaling some €30 million by 2019. An amount of €8 million of the €10 million we planned for fiscal 2017 has already been attained in the first nine months of the year.

Following several acquisitions, we boast a location network across the USA with good coverage of the key regions between the East and West Coast. In order to leverage synergies, as an intermediate step, we initially organized those locations under three segments based on product groups. Under the "One US" program, the three segments are now to be pooled in a single unit with a view to securing further cost savings through organizational streamlining and efficiency gains. This will additionally enable even more rapid implementation of the digitalization strategy and expansion of higher value-add business. By 2020, the program is slated to deliver an EBITDA contribution totaling \$15 million, including \$4 million as early as next year. The changes will make our US organization more flexible in order to attain both our digital and our higher-margin business targets.

We also anticipate further major positive effects – although we cannot yet quantify them – from the increased use of artificial intelligence (AI). A joint project with an AI company from Silicon Valley already promises substantial cuts in our procurement costs and stockholding levels. In a further project with a Frankfurt-based AI company, we have gathered initial experience toward having more and more repetitive administrative tasks in the future performed by AI-supported systems.

Our new, extended "Klöckner & Co 2022" strategy is backed up by a broad range of supporting activities as well as a self-prescribed cultural change for the entire workforce and all parts of our Group. In total, with the three pillars of our strategy, we plan to increase our EBITDA margin to over 5% by 2022.

FULL-YEAR EBITDA GUIDANCE CONFIRMED

Prices in Europe moved upward at the beginning of the fourth quarter and ought to stabilize at the level reached through the end of the year. In the USA, on the other hand, prices are currently slightly down, although here, too, we expect a stabilization toward the year-end. With the demand situation remaining solid in both regions, we merely expect a seasonal decrease compared with the preceding quarter. The guidance of an increase in EBITDA by more than 10% for the full year is confirmed. Accordingly, net income is expected to be comfortably into positive figures.

Klöckner & Co SE

Financial information

for the nine-month period ending September 30, 2017

Shipments and income statement		Q3 2017	Q3 2016	Variance	Jan. 1–Sep. 30, 2017	Jan. 1–Sep. 30, 2016	Variance
Shipments	Tto	1,539	1,500	+39	4,692	4,699	-7
Sales	€ million	1,565	1,430	+135	4,807	4,333	+474
Gross profit	€ million	310	329	-19	1,016	996	+20
Gross profit margin	%	19.8	23.0	-3.2%p	21.1	23.0	-1.9%p
Earnings before, interest, taxes, depreciation and amortization (EBITDA)	€ million	47	71	-24	187	159	+28
EBITDA margin	%	3.0	5.0	-2.0%p	3.9	3.7	+0.2%p
Earnings before interest and taxes (EBIT)	€ million	25	48	-23	121	90	+31
Earnings before taxes (EBT)	€ million	17	40	-23	96	66	+30
Net income	€ million	13	31	-18	72	50	+22
Net income attributable to shareholders of Klöckner & Co SE	€ million	12	31	-19	71	49	+22
Earnings per share (basic)	€	0.12	0.31	-0.19	0.71	0.49	+0.22
Earnings per share (diluted)	€	0.12	0.31	-0.19	0.68	0.49	+0.19

Cash flow statement		Q3 2017	Q3 2016	Variance	Jan. 1–Sep. 30, 2017	Jan. 1–Sep. 30, 2016	Variance
Cash flow from operating activities	€ million	42	-5	+47	-38	22	-60
Cash flow from investing activities	€ million	-8	0	-8	16	-27	+43
Free cash flow*)	€ million	34	-5	+39	-22	-5	-17

Balance sheet		September 30, 2017	December 31, 2016	Variance	September 30, 2017	September 30, 2016	Variance
Net working capital**)	€ million	1,282	1,120	+162	1,282	1,197	+85
Net financial debt	€ million	435	444	-9	435	438	-3
Gearing***)	%	37	40	-3%p	37	42	-5%p
Equity	€ million	1,188	1,148	+40	1,188	1,077	+111
Equity ratio	%	39.5	39.6	-0.1%p	39.5	36.2	+3.3%p
Total assets	€ million	3,007	2,897	+110	3,007	2,975	+32

Employees		September 30, 2017	December 31, 2016	Variance	September 30, 2017	September 30, 2016	Variance
Employees as of the end of the reporting period		8,753	9,064	-311	8,753	9,143	-390

*) 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 nine-month period ending September 30, 2017

(€ thousand)	Q3 2017	Q3 2016	Jan. 1–Sep. 30, 2017	Jan. 1–Sep. 30, 2016
Sales	1,565,288	1,429,871	4,807,030	4,332,711
Other operating income	9,103	17,387	21,085	29,080
Changes in inventory	840	2,301	12,303	-172
Cost of materials	-1,255,719	-1,102,778	-3,803,507	-3,337,033
Personnel expenses	-150,106	-153,510	-464,528	-480,400
Depreciation and amortization	-21,616	-22,524	-66,283	-69,491
Other operating expenses	-122,458	-122,481	-385,532	-385,167
Operating result	25,332	48,266	120,568	89,528
Finance income	482	677	2,709	1,217
Finance expenses	-8,561	-8,742	-27,297	-24,552
Financial result	-8,079	-8,065	-24,588	-23,335
Income before taxes	17,253	40,201	95,980	66,193
Income taxes	-4,574	-8,902	-23,806	-15,997
Net income	12,679	31,299	72,174	50,196
<i>thereof attributable to</i>				
– shareholders of Klöckner & Co SE	12,408	31,011	71,273	49,276
– non-controlling interests	271	288	901	920
Earnings per share (€/share)				
– basic	0.12	0.31	0.71	0.49
– diluted	0.12	0.31	0.68	0.49

Statement of comprehensive income

for the nine-month period ending September 30, 2017

(€ thousand)	Q3 2017	Q3 2016	Jan. 1-Sep. 30, 2017	Jan. 1-Sep. 30, 2016
Net income	12,679	31,299	72,174	50,196
Other comprehensive income not reclassifiable				
Actuarial gains and losses (IAS 19)	18,869	-21,408	56,350	-110,396
Related income tax	-4,414	1,919	-9,973	11,006
Total	14,455	-19,489	46,377	-99,390
Other comprehensive income reclassifiable				
Foreign currency translation	-26,338	-1,172	-56,686	-4,874
Gain/loss from net investment hedges	-	-	-	-326
Related income tax	-	-	-	218
Gain/loss from cash flow hedges	-141	2	333	-
Reclassification of available for sale securities to profit and loss upon sale	-4,693	-	-	-
Total	-31,172	-1,170	-56,353	-4,982
Other comprehensive income	-16,717	-20,659	-9,976	-104,372
Total comprehensive income	-4,038	10,640	62,198	-54,176
thereof attributable to				
– shareholders of Klöckner & Co SE	-4,307	10,358	61,294	-55,067
– non-controlling interests	269	282	904	891

Consolidated statement of financial position

as of September 30, 2017

Assets

(€ thousand)	September 30, 2017	December 31, 2016
Non-current assets		
Intangible assets	170,042	206,317
Property, plant and equipment	620,441	661,548
Non-current investments	5,168	5,732
Other assets	9,289	10,162
Current income tax receivable	8,321	8,415
Deferred tax assets	4,874	4,855
Total non-current assets	818,135	897,029
Current assets		
Inventories	1,095,080	1,006,255
Trade receivables	814,584	653,784
Current income tax receivable	12,218	19,725
Other assets	83,238	97,606
Cash and cash equivalents	174,799	134,228
Assets held for sale	9,019	87,909
Total current assets	2,188,938	1,999,507
Total assets	3,007,073	2,896,536

Equity and liabilities

(€ thousand)	September 30, 2017	December 31, 2016
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,412	682,412
Retained earnings	253,010	201,687
Accumulated other comprehensive income	-4,257	5,722
Equity attributable to shareholders of Klöckner & Co SE	1,180,540	1,139,196
Non-controlling interests	7,363	8,757
Total equity	1,187,903	1,147,953
Non-current liabilities		
Provisions for pensions and similar obligations	285,614	358,887
Other provisions and accrued liabilities	22,688	22,614
Financial liabilities	518,101	527,494
Other liabilities	22	275
Deferred tax liabilities	52,119	39,308
Total non-current liabilities	878,544	948,578
Current liabilities		
Other provisions and accrued liabilities	148,841	137,737
Income tax liabilities	20,474	14,422
Financial liabilities	85,741	44,013
Trade payables	627,427	540,130
Other liabilities	58,143	41,296
Liabilities of disposal groups	-	22,407
Total current liabilities	940,626	800,005
Total liabilities	1,819,170	1,748,583
Total equity and liabilities	3,007,073	2,896,536

Consolidated statement of cash flows

for the nine-month period ending September 30, 2017

(€ thousand)	Q3 2017	Q3 2016	Jan. 1–Sep. 30, 2017	Jan. 1–Sep. 30, 2016
Net income	12,679	31,299	72,174	50,196
Income taxes	4,574	8,902	23,806	15,997
Financial result	8,079	8,065	24,588	23,335
Depreciation and amortization	21,616	22,524	66,283	69,491
Other non-cash income/expenses	112	-647	163	-368
Gain on disposal of non-current assets	-4,942	-11,941	-5,854	-12,807
Change in net working capital				
Inventories	3,851	-62,740	-144,899	-59,823
Trade receivables	30,143	48,346	-198,650	-123,030
Trade payables	-33,881	-18,095	118,014	88,155
Change in other operating assets and liabilities	-985	-13,721	28,659	8,752
Interest paid	-6,746	-5,899	-19,372	-19,902
Interest received	315	202	946	598
Income taxes paid	7,335	-11,036	-3,697	-18,392
Cash flow from operating activities	42,150	-4,741	-37,839	22,202
Proceeds from the sale of non-current assets and assets held for sale	8,328	9,566	12,081	14,673
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	-	55,090	9,420
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-16,147	-9,845	-50,820	-51,240
Cash flow from investing activities	-7,819	-279	16,351	-27,147
Dividend payments to shareholders of Klöckner & Co SE	-	-	-19,950	-
Issue proceeds of convertible bond (incl. equity component)	-	145,398	-	145,398
Repayment convertible bond	-	-	-	-24,850
Repayment promissory notes	-	-	-	-133,000
Repayment syndicated loan	-	-50,000	-	-
Net change of other financial liabilities	-9,744	24,474	84,554	40,356
Cash flow from financing activities	-9,744	119,872	64,604	27,904
Changes in cash and cash equivalents	24,587	114,852	43,116	22,959
Effect of foreign exchange rates on cash and cash equivalents	-782	-72	-2,545	-5,661
Cash and cash equivalents at the beginning of the period	150,994	67,371	134,228	164,853
Cash and cash equivalents at the end of the reporting period as per statement of financial position	174,799	182,151	174,799	182,151

Segment reporting

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016
Sales	3,003	2,724	1,804	1,609	-	-	4,807	4,333
Gross Profit	651	643	365	353	-	-	1,016	996
Segment result (EBITDA)	119	115	81	63	-13	-19	187	159
Earnings before interest and taxes (EBIT)	83	78	53	33	-15	-21	121	90

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	9M 2017	FY 2016	9M 2017	FY 2016	9M 2017	FY 2016	9M 2017	FY 2016
Net Working Capital as of closing date	863	706	415	411	4	3	1,282	1,120
Net financial debt as of closing date	448	376	360	410	-373	-342	435	444
Number of employees as of closing date	6,111	6,419	2,514	2,531	128	114	8,753	9,064

Financial Calendar

February 28, 2018	Annual financial statements 2017 Financial statements press conference Conference with analysts
April 25, 2018	Q1 interim management statement 2018 Conference call with journalists Conference call with analysts
May 16, 2018	Annual General Meeting 2018, Düsseldorf
July 24, 2018	Q2 interim report 2018 Conference call with journalists Conference call with analysts
October 24, 2018	Q3 interim management statement 2018 Conference call with journalists Conference call with analysts

Subject to subsequent changes

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Disclaimer

This report (particularly the "Forecast" section) contains forward-looking statements that are based on the current estimates of the Klöckner & Co SE management with respect to future developments. They are generally identified by the words "expect", "anticipate", "assume", "intend", "estimate", "target", "aim", "plan", "will", "endeavor", "outlook" and comparable expressions, and include generally any information that relates to expectations or targets for economic conditions, sales or other performance measures.

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Klöckner & Co's control. Among the relevant factors are the impacts of important strategic and operating initiatives, including the acquisition or disposal of companies. If these or other risks or uncertainties materialize, or if the assumptions underlying any of the statements prove incorrect, Klöckner & Co's actual results may be materially different from those stated or implied by such statements. Klöckner & Co SE can offer no assurance that its expectations or targets will be achieved.

Without prejudice to existing legal obligations, Klöckner & Co SE does not assume any obligation to update forward-looking statements to take information or future events into account or otherwise. In addition to the figures prepared in line with IFRS or HGB (Handelsgesetzbuch – German Commercial Code), Klöckner & Co SE presents non-GAAP financial performance measures, e.g., EBITDA, EBIT, net working capital and net financial debt.

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

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

This English version of the interim report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Valuation statements are unified and are presented as follows:

+/- 0-1%	+/- 1-5%	+/- 5-10%	+/- 10-15%	> +/- 15%
constant, stable	moderate, slightly	measurably, noticeable, substantial	considerably, dynamic, significant	sharp, strong

