

Interim Management Statement for Q1 2018

January 1, 2018–March 31, 2018

- Operating income (EBITDA), at €56 million, slightly above guidance range of €45 million to €55 million
- Net income €21 million despite weaker price effects, compared with €36 million in prior-year quarter
- Shipments of 1.6 million tons at prior-year level (up 0.1%); sales increased by 1.6%
- Proportion of Group sales generated by digital channels further raised to 19% at end of quarter
- Implementation of "Klöckner & Co 2022" strategy on track
- Significantly higher EBITDA expected for second quarter and forecast raised for full year

EBITDA SLIGHTLY ABOVE PROJECTED RANGE

First-quarter operating income (EBITDA), at €56 million, was slightly above the guidance range of €45 million to €55 million but below the €77 million EBITDA recorded in the first quarter of 2017. The decrease relative to the prior-year quarter is mainly due to less pronounced price effects and a weaker US dollar (accounting for a decrease of €5 million). There was a corresponding reduction in the gross profit margin, from 22.9% to 20.4%. Net income was €21 million, compared with €36 million in the prior-year quarter. Earnings per share consequently came to €0.21 (Q1 2017: €0.36).

SHIPMENTS STABLE, SALES INCREASED

At 1.6 million tons, shipments were on a level with the prior-year quarter, with performance differing between the segments. While shipments in the Europe segment dropped by 2.6%, shipments in the Americas segment went up by 4.0%. Despite the lower US dollar, sales increased by 1.6% to €1.6 billion due to the higher price level.

SHIPMENTS, SALES AND EARNINGS BY OPERATING SEGMENT

Shipments in the Europe segment fell by 2.6%. While the demand trend in Germany and Switzerland was predominantly positive, shipments in France and the United Kingdom declined mainly due to the weakening construction activity. Adjusted for the sale of the Spanish activities completed at the end of January 2017, shipments would have been only 1.2% down on the same quarter of the prior year. Sales, by contrast, increased by a total of 4.8% to €1.0 billion due to the higher price level. Whereas the prior-year quarter was marked by substantial inventory gains due to sharply rising prices, there was no such effect in the first quarter of this year given the already high price level. Gross profit decreased accordingly, from €235 million in the prior-year quarter to €206 million, while the gross profit margin narrowed from 23.8% to 20.0%. Operating income went down correspondingly from €54 million to €31 million.

Shipments in the Americas segment went up by 4.0%. This was primarily due to robust market growth in the main steel-consuming industries in the USA. In contrast, sales decreased by 3.4% to €596 million due to exchange rate changes. Gross profit came to €125 million, with a gross profit margin of 20.9% (Q1 2017: 21.4%). Despite the negative exchange rate effect (of €5 million), segment EBITDA improved from €30 million in the prior-year quarter to €32 million in the reporting period.

VERY SOLID FINANCIAL POSITION SUSTAINED

Mainly as a result of the net income (€21 million), equity increased by €30 million to around €1.2 billion. Despite higher net working capital, the equity ratio stayed at a solid 40.6% (December 31, 2017: 41.7%).

In line with the seasonal trend and as a result of higher average input prices, net working capital went up relative to the year-end 2017 by €186 million to €1.3 billion. Net financial debt consequently increased from €330 million as of December 31, 2017 to €472 million at the end of the quarter.

The increase in net working capital led to a cash outflow from operating activities of €143 million for the first quarter. Deducting cash flow from investing activities (€12 million) gives a free cash flow of –€155 million (Q1 2017: –€39 million).

STABLE FINANCING

A central element of Group financing, the €300 million syndicated loan – a revolving credit facility – was extended, as planned, in April this year to May 2021 with the approval of the core banks. The bilateral credit lines in Switzerland were restructured and extended with a total facility amount of CHF 130 million for a further four years. Both of these measures serve to further improve our maturity profile.

FURTHER PROGRESS IN DIGITALIZATION

A core component of the “Klöckner & Co 2022” strategy is the digitalization of the supply and value chain and the rollout of the open industrial platform XOM Metals, which was successfully launched on the market with an initial selection of products in February. The proportion of sales generated through digital channels rose once again, to 19% at the end of the first quarter of 2018 (end of Q4 2017: 18%).

INVESTMENTS IN HIGHER VALUE-ADDED BUSINESS

Another objective under the “Klöckner & Co 2022” strategy is to increase the proportion of higher value-added business from currently 48% to 60%. In this connection, construction of an aluminum service center with a processing capacity of 80,000 tons of aluminum per year at Becker Stahl-Service in Bönen, North Rhine-Westphalia, Germany, has made further progress and is well on schedule. The last line, installed in January 2018, will be operational this current quarter.

IMPLEMENTATION OF “KLÖCKNER & CO 2022” STRATEGY CONTINUES ON TRACK

To further accelerate implementation of the “Klöckner & Co 2022” strategy, we launched our VC² (Value Creation at the Core) program at the beginning of this year. This integrates our existing efficiency improvement programs such as One Europe and One US and supplements them with additional measures.

OUTLOOK FOR REMAINDER OF YEAR

For the second quarter, we expect that prices in Europe will be stable. In the USA, after the most recent increase, prices ought to stabilize at a higher level during the remainder of the quarter. Demand is expected to pick up in both regions, notably due to seasonal factors. In light of the overall positive market environment, we anticipate significantly higher operating income (EBITDA) than in the prior-year quarter, with €65 million to €75 million in the second quarter and correspondingly positive net income.

For the full year, due to an increase in steel demand and our optimization measures, we now expect to generate operating income slightly above the prior-year level. Should the current trend toward higher steel prices persist throughout the year, this would result in a further increase in earnings.

Klöckner & Co SE

Financial information

for the three-month period ending March 31, 2018

Shipments and income statement		Q1 2018	Q1 2017	Variance
Shipments	Tto	1,584	1,582	+2
Sales	€ million	1,628	1,602	+26
Gross profit	€ million	331	367	-36
Gross profit margin	%	20.4	22.9	-2.5%p
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	56	77	-21
EBITDA margin	%	3.4	4.8	-1.4%p
Earnings before interest and taxes (EBIT)	€ million	35	54	-19
Earnings before taxes (EBT)	€ million	28	46	-18
Net income	€ million	21	36	-15
Net income attributable to shareholders of Klöckner & Co SE	€ million	21	36	-15
Earnings per share (basic)	€	0.21	0.36	-0.15
Earnings per share (diluted)	€	0.20	0.34	-0.14

Cash flow statement		Q1 2018	Q1 2017	Variance
Cash flow from operating activities	€ million	-143	-78	-65
Cash flow from investing activities	€ million	-12	39	-51
Free cash flow*)	€ million	-155	-39	-116

Balance sheet		March 31, 2018	December 31, 2017	Variance
Net Working Capital**)	€ million	1,318	1,132	+186
Net financial debt	€ million	472	330	+142
Gearing***)	%	39.2	28.1	+11.1%p
Equity	€ million	1,232	1,202	+30
Equity ratio	%	40.6	41.7	-1.1%p
Total assets	€ million	3,031	2,886	+145

Employees		March 31, 2018	December 31, 2017	Variance
Employees as of the end of the reporting period		8,640	8,682	-42

*) 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, 2018

(€ thousand)	Q1 2018	Q1 2017
Sales	1,628,139	1,601,888
Other operating income	7,418	6,557
Changes in inventory	99	4,608
Cost of materials	-1,296,835	-1,239,644
Personnel expenses	-147,283	-158,086
Depreciation and amortization	-20,725	-22,107
Other operating expenses	-135,943	-138,762
Operating result	34,870	54,454
Finance income	757	473
Finance expenses	-7,731	-8,706
Financial result	-6,974	-8,233
Income before taxes	27,896	46,221
Income taxes	-6,730	-10,295
Net income	21,166	35,926
<i>thereof attributable to</i>		
– shareholders of Klöckner & Co SE	20,853	35,615
– non-controlling interests	313	311
Earnings per share (€/share)		
– basic	0.21	0.36
– diluted	0.20	0.34

Statement of comprehensive income

for the three-month period ending March 31, 2018

(€ thousand)	Q1 2018	Q1 2017
Net income	21,166	35,926
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	18,651	5,461
Related income tax	-3,956	-1,305
Total	14,695	4,156
Other comprehensive income reclassifiable		
Foreign currency translation	-10,717	-2,796
Gain/loss from cash flow hedges	-139	173
Total	-10,856	-2,623
Other comprehensive income	3,839	1,533
Total comprehensive income	25,005	37,459
<i>thereof attributable to</i>		
– shareholders of Klöckner & Co SE	24,692	37,149
– non-controlling interests	313	310

Consolidated statement of financial position

as of March 31, 2018

Assets

(€ thousand)	March 31, 2018	December 31, 2017
Non-current assets		
Intangible assets	154,004	162,749
Property, plant and equipment	613,740	623,816
Non-current investments	7,910	5,417
Other assets	22,596	11,486
Current income tax receivable	6,605	6,612
Deferred tax assets	23,406	24,371
Total non-current assets	828,261	834,451
Current assets		
Inventories	1,144,480	1,105,131
Trade receivables	881,761	679,778
Current income tax receivable	7,584	14,812
Other assets	86,531	98,619
Cash and cash equivalents	82,567	153,561
Total current assets	2,202,923	2,051,901
Total assets	3,031,184	2,886,352

Liabilities

(€ thousand)	March 31, 2018	December 31, 2017
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,412	682,412
Retained earnings	308,094	282,873
Accumulated other comprehensive income	-14,742	-18,584
Equity attributable to shareholders of Klöckner & Co SE	1,225,139	1,196,076
Non-controlling interests	6,596	6,235
Total equity	1,231,735	1,202,311
Non-current liabilities		
Provisions for pensions and similar obligations	269,880	281,538
Other provisions and accrued liabilities	18,278	18,196
Financial liabilities	513,526	425,988
Other liabilities	43	18
Deferred tax liabilities	51,528	45,955
Total non-current liabilities	853,255	771,695
Current liabilities		
Other provisions and accrued liabilities	115,412	137,958
Income tax liabilities	12,325	20,942
Financial liabilities	36,582	52,709
Trade payables	708,286	653,292
Other liabilities	73,589	47,445
Total current liabilities	946,194	912,346
Total liabilities	1,799,449	1,684,041
Total equity and liabilities	3,031,184	2,886,352

Consolidated statement of cash flows

for the three-month period ending March 31, 2018

(€ thousand)	Q1 2018	Q1 2017
Net income	21,166	35,926
Income taxes	6,730	10,295
Financial result	6,974	8,233
Depreciation and amortization	20,725	22,107
Other non-cash income/expenses	-1,274	34
Gain on disposal of non-current assets	-1,246	-64
Change in net working capital		
Inventories	-70,299	-133,118
Trade receivables	-183,644	-200,588
Trade payables	60,933	153,194
Change in other operating assets and liabilities	11,601	35,772
Interest paid	-6,918	-5,942
Interest received	192	445
Income taxes paid	-7,935	-3,803
Cash flow from operating activities	-142,995	-77,509
Proceeds from the sale of non-current assets and assets held for sale	1,789	416
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	56,256
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-13,880	-17,916
Cash flow from investing activities	-12,091	38,756
Net change of other financial liabilities	85,170	67,268
Cash flow from financing activities	85,170	67,268
Changes in cash and cash equivalents	-69,916	28,515
Effect of foreign exchange rates on cash and cash equivalents	-1,078	-140
Cash and cash equivalents at the beginning of the period	153,561	134,228
Cash and cash equivalents at the end of the reporting period as per statement of financial position	82,567	162,603

Segment reporting

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Sales	1,032	985	596	617	-	-	1,628	1,602
Gross Profit	206	235	125	132	-	-	331	367
Gross profit margin (%)	20.0	23.8	20.9	21.4	-	-	20.4	22.9
EBITDA (segment result)	31	54	32	30	-7	-7	56	77
Earnings before interest and taxes (EBIT)	20	43	23	20	-8	-9	35	54

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	Q1 2018	FY 2017	Q1 2018	FY 2017	Q1 2018	FY 2017	Q1 2018	FY 2017
Net working capital as of closing date	888	742	428	390	2	-	1,318	1,132
Net financial debt as of closing date	538	418	344	343	-410	-431	472	330
Employees as of closing date	6,079	6,078	2,424	2,470	137	134	8,640	8,682

Financial Calendar

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.

Klöckner&Co SE

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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.

This English version of the interim management statement 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

