

Q2

Interim Report

as of June 30, 2018

klöckner & co

Interim Group Management Report

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Klöckner & Co Group Figures

for the six-month period ending June 30, 2018

Shipments and income statement		Q2 2018	Q2 2017	Variance	HY1 2018	HY1 2017	Variance
Shipments	Tto	1,605	1,572	+33	3,189	3,154	+35
Sales	€ million	1,789	1,640	+149	3,417	3,242	+175
Gross profit	€ million	364	339	+25	695	705	-10
Gross profit margin	%	20.3	20.6	-0.3%p	20.3	21.8	-1.5%p
Earnings before, interest, taxes, depreciation and amortization (EBITDA)	€ million	82	63	+19	137	140	-3
EBITDA margin	%	4.6	3.9	+0.7%p	4.0	4.3	-0.3%p
Earnings before interest and taxes (EBIT)	€ million	60	41	+19	95	95	-
Earnings before taxes (EBT)	€ million	51	33	+18	79	79	-
Net income	€ million	33	24	+9	54	59	-5
Net income attributable to shareholders of Klöckner & Co SE	€ million	33	23	+10	54	59	-5
Earnings per share (basic)	€	0.33	0.23	+0.10	0.54	0.59	-0.05
Earnings per share (diluted)	€	0.31	0.22	+0.09	0.51	0.56	-0.05
Cash flow statement		Q2 2018	Q2 2017	Variance	HY1 2018	HY1 2017	Variance
Cash flow from operating activities	€ million	-12	-2	-10	-155	-80	-75
Cash flow from investing activities	€ million	-12	-15	+3	-24	24	-48
Free cash flow*)	€ million	-24	-17	-7	-179	-56	-123
Balance sheet		June 30, 2018	December 31, 2017	Variance	June 30, 2018	June 30, 2017	Variance
Net working capital**)	€ million	1,428	1,132	+296	1,428	1,306	+122
Net financial debt	€ million	552	330	+222	552	486	+66
Gearing***)	%	44	28	+16%p	44	42	+2%p
Equity	€ million	1,267	1,202	+65	1,267	1,192	+75
Equity ratio	%	39.7	41.7	-2.0%p	39.7	38.7	+1.0%p
Total assets	€ million	3,194	2,886	+308	3,194	3,084	+110
Employees		June 30, 2018	December 31, 2017	Variance	June 30, 2018	June 30, 2017	Variance
Employees as of the end of the reporting period		8,610	8,682	-72	8,610	8,686	-76

*) 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).

Interim Group Management Report

Key developments in the first six months of 2018 and outlook

- EBITDA of €137 million in first half of 2018 (€140 million adjusted for non-recurring items), compared with €140 million in prior-year period; second-quarter EBITDA, at €82 million (€85 million on adjusted basis), well above the €63 million prior-year figure
- Sales increased by 5.4% to €3.4 billion due to higher price levels than in prior-year period and 1.1% higher shipments
- Proportion of Group sales generated via digital channels further raised to 21%
- EBITDA guidance of €55 million to €65 million for third quarter
- At least a slight increase in EBITDA over the prior year now expected for the full year

Corporate Strategy

"Klöckner & Co 2020" – our strategy

The international steel distribution sector is no different from any other industry when it comes to digitalization: To be among the winners, you have to be fast and flexible. Klöckner & Co is a pioneer of change. We consequently extended our strategy in September 2017 to be even more digital, efficient and profitable. We have defined three strategic main pillars, which are supported by our transformation to a digital corporate culture characterized by greater openness and flexibility as well as customer centricity.



1. Digitalization and platforms: The cornerstone of our strategy is the digital transformation of our business. We are pioneers here, blazing the trail for customers and partners. Part of our "Klöckner & Co 2022" strategy involves driving the disruption in steel and metal trading via an industry platform. With this clear strategic orientation, we leverage and profit from the opportunities and potential of trading in digital marketplaces for our business.

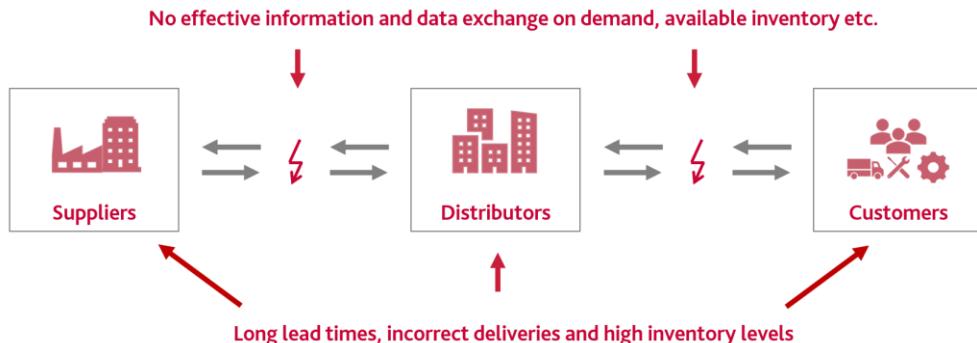
2. Higher value-added business: Focus on business with higher margins remains a key thrust of the "Klöckner & Co 2022" strategy. We expect digitalization to give this pillar of our business an additional boost as well.

3. Efficiency improvement: To further enhance efficiency, we launched our "VC² – Value Creation at the Core" program at the beginning of this year. VC² will act as an accelerator for our "Klöckner & Co 2022" strategy by bringing together the existing "One Europe" and "One US" optimization programs and complementing them with a series of other initiatives around business development, operational excellence and profitable growth. The program will not only make us lastingly less dependent on market price fluctuations; it will also consolidate our position as a digital pioneer in the distribution business.

Our "Klöckner & Co 2022" strategy is backed up by a broad range of supporting activities as well as a cultural transformation across all parts of our Group.

DIGITALIZATION AND PLATFORMS

The digitalization strategy developed by Klöckner & Co aims to eliminate the inefficiencies in the steel industry supply and value chain by digitally connecting all market participants and unlocking significant efficiency gains for all concerned.



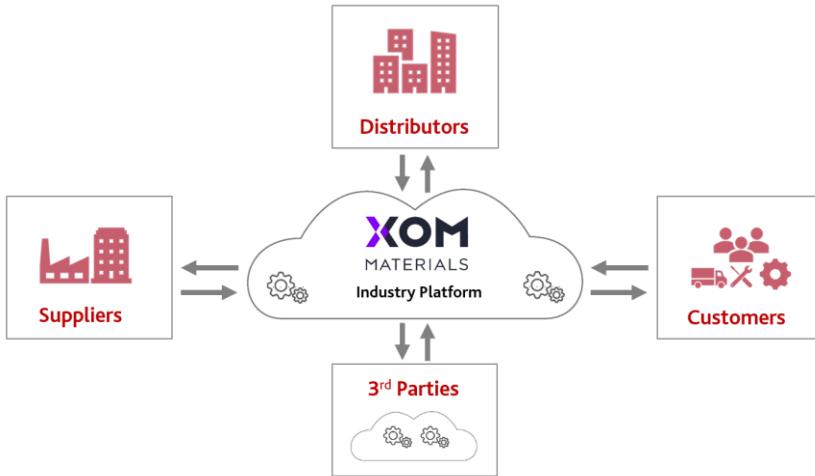
All projects and initiatives relating to Klöckner & Co's digitalization and digital networking are being driven forward by kloeckner.i, our Group Center of Competence for Digitalization, from the heart of the German start-up scene in Berlin. Over 80 employees now work at kloeckner.i in the fields of product innovation, software development, online marketing and business analytics.

We make use of methods such as design thinking, agile product development and the lean start-up approach to design digital solutions for our customers and partners in the shortest possible time. As a result, the percentage of sales generated via digital channels has risen steadily, increasing from 9% in the first quarter of 2016 to 21% at the end of the second quarter of 2018. At the same time, we have connected up with wholesalers and major steel producers on the procurement side.

We have also expanded the range of our – initially proprietary – online shop by opening it up to partners offering complementary products. This marketplace functionality gives Klöckner & Co customers access to a significantly wider range of steel and metal products without us having to invest in additions to our product portfolio.

Alongside the digitalization of processes throughout the Group, intelligent use of the data generated is also rising in importance. To gain an early foothold in this market, too, we entered into alliances with Aera and Arago, two of the leading providers of artificial intelligence (AI).

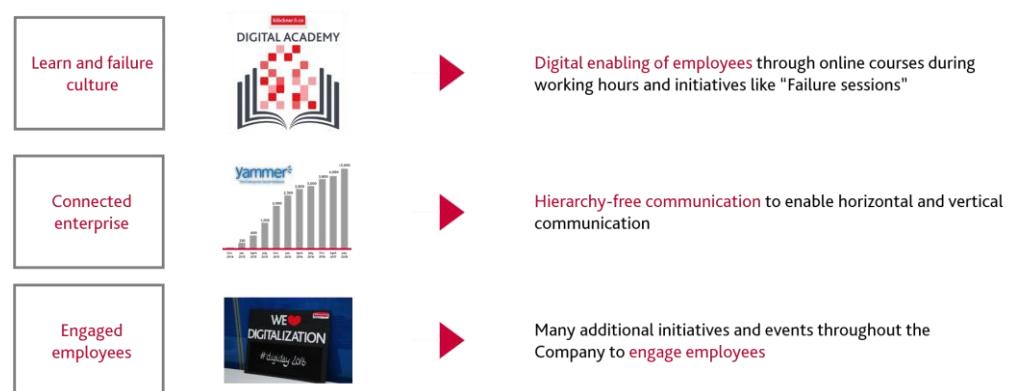
This February, we went live with the first version of our open industry platform, XOM Materials. In contrast to the Klöckner & Co online shops, the industry platform will ultimately be a completely independent digital marketplace for steel, metal and industrial products and is therefore also open to direct competitors of Klöckner & Co. Growth of XOM Materials is to be funded by outside investors, which will also ensure its gradual independence from Klöckner.



We connect up with external start-ups via our kloeckner.v venture capital enterprise. We invest both through selected venture capital funds and directly in start-ups that support our digitalization strategy with disruptive approaches.

Our digitalization strategy also goes hand in hand with a profound cultural shift within our Company. We want our employees to understand our digitalization strategy and to be aware of how they can contribute to reaching our Company's ambitious goals. Moreover, we need to become even faster and more agile given the increasingly dynamic changes occurring in our sector. With this, the innovative working methods employed in the start-up scene are being applied more and more throughout the Group. This is accompanied by an in-depth exchange between kloeckner.i, our digitalization subsidiary, and employees from other divisions in all of the country organizations.

Online training is also provided by Klöckner & Co Digital Academy to get the workforce in shape for the digital age. This lends employees support in developing and implementing new ideas, which they can discuss and fine-tune with their colleagues across national and divisional borders in a non-hierarchical way using innovative channels of communication, such as Yammer, the Group's internal social network. We have thus broken down the existing vertical communication silos in favor of an unfiltered, increasingly horizontal form of communication.



These measures, too, are already having an impact. In the rankings put out by kununu, Europe's biggest employer rating platform, we were the 9th best company in the Leadership Culture category in all of Germany. We also achieved an outstanding ranking in the Work Climate category, coming in at 38th place.

HIGHER VALUE-ADDED BUSINESS

Many of our customers are highly vertically integrated and still use conventional methods to carry out tasks we could perform more efficiently by consolidating orders. A good example of this is our investment in 3d lasers, which we can use to combine several customer tasks such as drilling, sawing and slitting at an attractive price and with significant gains in precision. In Great Britain, for instance, we have built what is now the country's second-largest 3d laser center near Dudley. In Germany, we have already taken our third 3d laser into operation, thus very successfully occupying a market niche.

We have additionally entered the field of 3d printing technology. After highly promising tests with our first 3D printer at kloeckner.i in Berlin, our German country organization Klöckner & Co Deutschland GmbH has now moved into the growth market of additive manufacturing by investing in a 3d printer for metals.

We further expanded in the demanding shipbuilding business during the quarter under review. Our German subsidiary has considerable expertise in supply chain organization for the shipping industry. As an exclusive partner to Meyer Werft, we have industry knowledge that we have now been able to leverage by entering into key additional partnerships.

We have also further expanded our higher-margin business with higher value-added products. Last year at our Bönen location in North Rhine-Westphalia, Germany, for instance, we built a service center to process aluminum flat products for the European automotive and manufacturing industries. The service center has a total processing capacity of 80,000 tons of aluminum per year.

Efficiency improvement

"ONE EUROPE" PROGRAM

"One Europe" is projected to contribute around €30 million per year to EBITDA from the end of 2019 onward. €16 million of this has already been achieved, including €6 million in the first half of 2018.



"ONE US" PROGRAM

From the end of 2020, this program is slated to deliver an annual EBITDA contribution totaling \$15 million. The \$4 million planned for 2018 has already been delivered in its entirety.



Economic environment

Macroeconomic situation

The global economy as a whole was in good shape in the period under review, with solid growth rates. However, it was increasingly affected by trade policy measures and plans of the US administration. Ongoing doubts as to developments in global trade, the political successes of populist parties in the Italian parliamentary elections and the advancement of the Brexit negotiations noticeably added to political uncertainty and led to pronounced movements on the global financial markets, especially in the first quarter.

Eurozone GDP grew by 2.3% in the second quarter compared with the prior-year quarter. Despite the trade policy conflicts, the economy proved robust. The labor market remained strong and private consumption supported growth.

US GDP grew by 3.0% compared to the same period of the prior year. This was primarily driven by capital investment and consumer spending. Growth was also supported, however, by exports and government investment.

At 6.7%, Chinese economic growth was slightly more moderate than in preceding quarters. This was partly due to developments in global trade over the last few months and partly to increasingly restrictive state rules concerning environmental protection and financial market stability.

Brazil continued its slow recovery. The economy grew by 1.2% compared with the prior-year period. While private household spending rose slightly more strongly than in the preceding quarters, investment slowed and public spending was also down.

Development of GDP (in percent)	Q2 2018 vs. Q2 2017
Europe*)	2.3
Germany	2.2
Great Britain	1.4
France	2.0
Switzerland	2.4
Americas	
USA	3.0
Brasil	1.2
China	6.7

Source: Bloomberg; experts' estimates (in some cases provisional).

*) Eurozone.

Industry-specific situation

Despite a good overall economic climate, the market environment in the steel industry is still challenging, although the pressure has eased slightly compared with the last few years. According to the World Steel Association, global crude steel output increased relative to the prior-year period by 4.3% to 729 million tons in the first five months of 2018. Production in the EU grew by approximately 1.8%. US and Chinese output went up by 2.8% and 5.4%, respectively. The steel industry still faces the problem of massive overcapacities, notably in China and Europe, with the current level of demand continuing to result in structural underutilization. At the end of May, steel producers worldwide were operating at 78% capacity. There is also much surplus capacity at distribution level, fueling ongoing fierce competition.

Trend in key customer industries

CONSTRUCTION INDUSTRY

As the largest user of steel, the construction industry is key to the global trend in steel consumption. Steel industry association EUROFER estimates that construction activity in Europe increased by about 4% in the first six months compared to the same period of the prior year. This growth was driven by strong demand in residential construction. The industry also continued its strong growth in the USA.

MACHINERY AND MECHANICAL ENGINEERING

The situation in the machinery and mechanical engineering sector was very positive in the reporting period. The market environment was robust with strong ordering activity notably for machine tools, electronics processing machines, robotics and automation technology. According to statistics from EUROFER, shipments in Europe grew by around 5% year-on-year due to increased productivity in the first half of the year. In the US, the industry fell short of the growth rates seen in preceding quarters.

AUTOMOTIVE INDUSTRY

According to the German Association of the Automotive Industry (VDA), the Western European automotive market grew by 2% in the first six months relative to the prior-year period. Shipments went up by a substantial 6% in China and by about 14% in Brazil. The US market also regained its growth trajectory and grew by around 2%.

Results of operations, financial position and net assets

The main key performance indicators for our results of operations, financial position and net assets in the second quarter and the first half of 2018 are as follows.

KEY FIGURES RESULTS OF OPERATIONS

(€ million)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Shipments (Tto)	1,605	1,572	3,189	3,154
Sales	1,789	1,640	3,417	3,242
Gross profit*)	364	339	695	705
Gross profit margin (%)	20.3	20.6	20.3	21.8
EBITDA**)	82	63	137	140
EBITDA margin (%)***)	4.6	3.9	4.0	4.3

*) Gross profit = Sales less cost of materials plus changes in inventory.

**) EBITDA = Gross profit plus own work capitalized plus other operating income less personnel cost less other operating expenses.

***) EBITDA margin = EBITDA/sales.

KEY FIGURES NET ASSETS

(€ million)	June 30, 2018	June 30, 2017	December 31, 2017
Net working capital*)	1,428	1,306	1,132
Net financial debt**)	552	486	330

*) Net Working Capital = Inventories plus trade receivables less trade liabilities.

**) Net financial debt = Financial liabilities according to the consolidated balance sheet plus transaction cost less cash and cash equivalents.

OTHER KEY FIGURES

	June 30, 2018	June 30, 2017	December 31, 2017
Gearing (Net financial debt/shareholders' equity*)	44%	42%	28%
Leverage (Net financial debt/EBITDA**))	2.5x	2.0x	1.5x

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

**) EBITDA calculation based on the last 12 months before closing date; 2018: adjusted by BPO and Deep Water Horizon claim.

Shipments and sales

Shipments totaled 3.2 million tons in the first half of 2018, marking growth of 1.1% relative to the prior-year period. Adjusted for shipments by the divested Spanish activities, shipments show an increase (organic growth) of 1.6%.

Shipments in the Europe segment were 2.7% down on the first half of 2017, to 1.8 million tons. While demand was higher in Germany and Switzerland, shipments were down in the United Kingdom, primarily due to the weak construction sector, and in France due to rationalization of the distributor network. Adjusted for the sale of the Spanish activities completed at the end of January 2017, the decrease was 2.0%.

By contrast, shipments in the Americas segment increased significantly compared with the prior year, from 1.3 million tons to 1.4 million tons (6.5%). The main driver here was robust market growth in the main steel-consuming industries in the USA.

SALES BY SEGMENTS

(€ million)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Europe	1,068	1,019	2,100	2,004
Americas	721	621	1,317	1,238
Group sales	1,789	1,640	3,417	3,242

Irrespective of the weaker US dollar, sales increased by 5.4% from €3.2 billion to €3.4 billion, mainly due to the higher price level in the first half of the year.

Compared with the first half of 2017, sales in the Europe segment grew due to the higher prices by a strong 4.8% to €2.1 billion.

Despite the weaker EUR-US dollar exchange rate than in the prior year, sales in the Americas segment rose even more sharply, by 6.4% due to stronger US price levels and more dynamic growth in shipments. Adjusted for exchange rates effects, sales growth was 19.0%.

RESULTS

(€ million)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Sales	1,789	1,640	3,417	3,242
Gross profit	364	339	695	705
Gross profit margin (in %)	20.3	20.6	20.3	21.8
OPEX*)	-282	-275	-558	-565
EBITDA	82	63	137	140
EBIT**)	60	41	95	95
EBT***)	51	33	79	79
Net income	33	24	54	59

*) OPEX = other operating income less personnel expenses less other operating expenses.

**) EBIT = Earnings before interest and taxes.

***) EBT = Earnings before taxes.

The gross profit of €695 million was below the prior-year figure of €705 million. Adjusted for the adverse exchange rate effects, however, there was an increase of €35 million. As a result of higher procurement prices in both operating segments, the gross profit margin deteriorated from 21.8% in the prior year to 20.3%.

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

OPEX

(€ million)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Other operating income	10	5	17	12
Personnel expenses	-157	-156	-305	-314
Other operating expenses	-135	-124	-270	-263
OPEX	-282	-275	-558	-565

OPEX decreased compared with the first half of 2017 by €7 million to €558 million. On an exchange rate adjusted basis, there was an increase of €24 million due partly to the greater volume of business. Other operating income includes €4.6 million in damages from the 2010 Deepwater Horizon accident in the USA. The implementation of business process outsourcing (BPO) in the Europe segment led to a €7.3 million adverse impact on OPEX, primarily due to redundancy program measures.

Group EBITDA consequently came to €137 million, compared with €140 million in the prior-year period.

EBITDA BY SEGMENTS (BEFORE MATERIAL SPECIAL EFFECTS)*, **)

(€ million)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Europe*)	35	37	66	91
Americas**)	59	32	91	62
Headquarters	-9	-6	-17	-13
Adjusted EBITDA of the Klöckner & Co Group	85	63	140	140
Net adjustments	-3	-	-3	-
EBITDA	82	63	137	140

*) Adjusted for BPO expenses €7 million (mainly severance).

**) Adjusted for special effects from indemnities connected with the Deep Water Horizon accident (€5 million).

While gross profit in the Europe segment was swelled by substantial windfall profits in the prior year, windfalls were not as sizable in the first half of 2018. Segmental gross profit consequently decreased from €448 million to €415 million. The gross profit margin came to 19.8%, versus 22.4% in the prior year. Adjusted for the expenses from implementation of BPO (€7 million), operating EBITDA in the Europe segment for the first half of 2018, at €66 million, was still significantly below the prior-year figure of €91 million. One Europe contributed €6 million to earnings.

As a result of the improvement in gross profit from €257 million to €280 million, EBITDA in the Americas segment, at €91 million – adjusted for the income from damages (€5 million) – was significantly higher than the €62 million recorded in the prior year. A major factor in this was the robust trend in selling prices in the USA. The gross profit margin of 21.2% was also above its prior-year level (20.7%). One US contributed €4 million to earnings.

Headquarters EBITDA was a negative €17 million, compared with a negative €13 million in the prior-year period. The increase in the net expense was due to higher costs of optimization projects.

RECONCILIATION TO NET INCOME

(€ million)	HY1 2018	HY1 2017
EBITDA	137	140
Depreciation, amortization and impairments	- 42	- 45
EBIT	95	95
Financial result	- 17	- 17
EBT	79	79
Income taxes	- 25	- 19
Net income	54	59

As depreciation and amortization, at €42 million, was only slightly below the €45 million prior-year figure, EBIT was consistent with its prior-year level of €95 million.

The net finance expense, at €17 million, was likewise constant (H1 2017: €17 million). A tax expense of €25 million was recorded for the first half of 2018 (H1 2017: €19 million). Resulting in EBT of €79 million, the tax expense was €6 million higher than in the prior year, as the prior-year tax expense was positively affected by the utilization of tax loss carryforwards for which no deferred tax assets had previously been recognized.

In total, net income was in positive figures at €54 million, compared with €59 million in the first half of 2017. Adjusted for exchange rate effects, net income was €61 million.

Basic earnings per share came to €0.54, compared with €0.59 in the prior year.

CONSOLIDATED BALANCE SHEET

(€ million)	June 30, 2018	December 31, 2017
Non-current assets	836	834
Current assets		
Inventories	1,219	1,105
Trade receivables	978	680
Other current assets	94	113
Liquid funds	67	154
Total assets	3,194	2,886
Equity	1,267	1,202
Non-current liabilities		
Provisions for pensions	259	282
Financial liabilities	596	426
Other non-current liabilities	72	64
Current liabilities		
Financial liabilities	19	53
Trade payables	769	653
Other current liabilities	212	206
Total equity and liabilities	3,194	2,886

Total assets were €3,194 million as of June 30, 2018, about 11% higher than the prior year-end figure due to higher net working capital.

Non-current assets amounted to €836 million, approximately on a level with December 31, 2017 (€834 million). Capital expenditure on property, plant and equipment totaled €21 million, against €28 million in depreciation and amortization.

Equity increased by €65 million to approximately €1.3 billion, mainly as a result of net income, adjustments to pension provisions recognized in comprehensive income and, in the opposite direction, exchange rate effects and dividend payments. The equity ratio decreased slightly because of the higher net working capital but remained solid at 40% (December 31, 2017: 42%).

Net working capital changed as follows:

NET WORKING CAPITAL

(€ million)	June 30, 2018	June 30, 2017	December 31, 2017
Inventories	1,219	1,119	1,105
Trade receivables	978	857	680
Trade payables	-769	-670	-653
Net Working Capital	1,428	1,306	1,132

As a result of higher average input prices and in line with the seasonal trend, net working capital went up relative to the year-end 2017 by €296 million to €1.4 billion.

Cash and cash equivalents stood at €67 million, compared with €154 million as of December 31, 2017.

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 another four years. Both of these measures serve to further improve our maturity profile.

NET FINANCIAL DEBT

(€ million)	June 30, 2018	June 30, 2017	December 31, 2017
Net financial debt	552	486	330
Gearing (Net financial debt/shareholders' equity*)	44%	42%	28%
Leverage (Net financial debt/EBITDA**)	2.5x	2.0x	1.5x

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

**) EBITDA based on the last twelve months before closing date; 2018 before BPO and indemnities.

The main reason for the rise in net financial debt from €330 million as of December 31, 2017 to €552 million as of the end of the first half year is the higher net working capital.

Due to a slight rise in the discounting rate and actuarial gains on plan assets, pension provisions decreased from €282 million at the end of the prior year to €259 million.

Consolidated statement of cash flows

(€ million)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Cash flow from operating activities	- 12	- 2	- 155	- 80
Cash flow from investing activities	- 12	- 15	- 24	24
Free cash flow	- 24	- 17	- 179	- 56
Cash flow from financing activities	7	7	93	74

The above-mentioned increase in net working capital was the cause of the negative cash flow from operating activities of €155 million (H1 2017: -€80 million).

€26 million in payments for capital expenditure was partly offset by €2 million in receipts from divestments to produce a cash outflow from investing activities of €24 million (H1 2017: cash inflow of €24 million, primarily from the sale of the Spanish activities).

This resulted in a negative free cash flow of €179 million in the first half of 2018, compared with a negative €56 million in the prior-year period.

Cash flow from financing activities amounted to €93 million (H1 2017: €74 million) and included €4 million in payments on derivative financial instruments held for hedging purposes (H1 2017: receipts in the amount of €16 million).

Macroeconomic outlook including key opportunities and risks

Expected global economic growth

The International Monetary Fund (IMF) expects global economic growth of 3.9% for the year as a whole. This is supported by the ongoing positive market environment and a stable financial market. A further growth driver is the US tax reform, whose investment incentives, in particular, are already having a knock-on effect on the global economy. By contrast, the various trade policy measures instituted among others by the US and the Chinese administration in the first six months of the year have a restraining effect on growth.

According to the IMF, the eurozone economy is set to grow by 2.2% in 2018. There is thus a marginal growth slowdown compared with previous estimates. This is primarily due to somewhat more moderate economic growth in Germany and France. The very loose monetary policy nonetheless continues to have a supportive effect.

The IMF expects the US economy to grow by 2.9% in 2018. The tax reform adopted at the end of last year and the resulting economic stimulus contribute to this estimate. Other fiscal measures in the pipeline may provide additional support for growth.

For China, the IMF forecasts economic growth of 6.6%. It reports that the foreign demand situation has softened slightly relative to preceding estimates. The fraught situation in the trade dispute with the USA remains a major risk to the country's economic development. For Brazil, the IMF expects a return to comfortably positive growth rates, with 1.8% in 2018. Private consumption and rising investment are key contributors to the Brazilian economic recovery.

Expected development of GDP (in percent)	2018e
Europe*	
Germany	2.2
Great Britain	1.4
France	1.8
Switzerland	2.2
Americas	
United States	2.9
Brasil	1.8
China	6.6

Source: International Monetary Fund, Bloomberg.

*) Eurozone.

Expected steel sector trend

The World Steel Association currently predicts that global steel consumption will grow by 1.8% in 2018. For the EU, the association anticipates an increase of 2.0%, while the North American Free Trade Agreement (NAFTA) region is forecast to grow by 3.0% and South and Central America by 6.2%. Consumption in China is expected to be flat.

Expected trend in our core customer sectors

CONSTRUCTION INDUSTRY

According to current estimates from EUROCONSTRUCT, the European construction industry is set to grow by around 3% in 2018 with the aid of ongoing favorable borrowing conditions. In the US, the sector is anticipated to grow by around 3%. Commercial construction is expected to grow less strongly than in the prior year. Government support for general mortgage lending has been retained with a view to creating affordable housing despite rising US interest rates.

MACHINERY AND MECHANICAL ENGINEERING

EUROFER anticipates growth of nearly 4% for European machinery and mechanical engineering in 2018. Both public and private investment are indicative of continued strong growth for the market as a whole. Developments in global trade policy pose a major risk factor for future opportunities in all markets, however. The industry is not expected to grow as strongly in the USA. Investment spending nonetheless keeps the market in a healthy condition.

AUTOMOTIVE INDUSTRY

According to the German Association of the Automotive Industry (VDA), the global passenger car market will grow by about 2% in 2018. An increase of about 1% is projected for Europe and a decrease of around 2% for the US market. Repercussions of the emissions scandal and developments in the trade conflict with the USA going forward continue to pose a major risk for the European and especially the German automotive market. For China, the association expects 2% growth in unit sales while the Brazilian market is expected to continue to recover significantly.

Current assessment of opportunities and risks

The detailed information provided in the Opportunities and Risks section on pages 77 to 97 of the 2017 Annual Report continues to apply for the most part. For a detailed description of the risk management system in the Klöckner & Co Group, please see pages 79 et seq. of the 2017 Annual Report.

Market risk for Klöckner & Co is mostly determined by trends in demand and prices. While demand growth generally continues – supported by ongoing solid global economic growth – the automotive sector shows signs of slowdown. At the current price level, particularly in the USA, persistent surplus capacity means it is impossible to rule out a significant decline in prices, which would impact negatively on our earnings performance.

Besides, risk may also stem from the sustained mood of uncertainty on financial markets. The high sovereign debt levels in a number of European countries, for example, could lead to restrictions on lending or increased borrowing costs for customer industries and thus a decrease in capital investment. Italy remains a notable focus with regard to political risk. In addition, the impacts of the Brexit negotiations on the European economy might be more negative than generally expected. Additional risks faced by the global economy are the potential further proliferation of trade barriers and a further increase in geopolitical risks. In China especially, a resulting slump in export trade could potentially lead to a sharper than expected slowdown in economic growth. Klöckner & Co continues to act with heightened caution in light of the above and is reacting rapidly to changes in expectations regarding the economic environment.

We continue to be optimistic for the Americas segment given the business-friendly operating conditions. In particular, the new tax incentives in the USA have a positive effect on the economy. However, an escalation of trade conflicts could adversely impact growth if businesses lose confidence or borrowing terms become tighter. More restrictive monetary policy on the part of the US Federal Reserve could also exert a moderating influence.

In summary, the Management Board is confident that the systems for managing opportunities and risks in the Klöckner & Co Group are working well. Sufficient allowance has been made and adequate provisions recognized to cover all risks identifiable at the time of preparing the interim financial statements and required to be accounted for. Steps have been taken as necessary to cushion the impact of impending market risks. Given the current financing structure, no liquidity shortfalls are to be expected. There is presently no indication of any risks that, either individually or taken as a whole, cast doubt upon the Company's ability to continue as a going concern.

Group forecast

We are raising our guidance for fiscal year 2018.

With higher sales (2017: €6.3 billion) and constant gross profit, we now expect at least a slight increase in operating income (EBITDA) compared with the prior year (2017: €220 million). On this basis, net income should be strongly positive. This development is helped along by stronger real steel demand and a higher steel price level in our two markets, Europe and the USA.

We expect that the Americas segment will contribute significantly to growth in sales and gross profit in fiscal year 2018. In addition, as a result of ongoing improvement compared with the prior year in the situation with regard to prices and shipments across almost all key product groups together with our "One US" optimization measures, we anticipate a strong increase in EBITDA.

For the Europe segment, we expect a noticeable rise in sales, although gross profit will be slightly below the prior-year figure, which was supported by an especially positive market environment. The threat of Brexit and the downturn in the automotive sector also leave their mark on segmental earnings. We consequently expect to see a significant decrease in EBITDA. The earnings contribution from the "One Europe" optimization program will amount to €15 million in the fiscal year.

In light of the sustained high price level, we expect a sharp rise in net working capital, with a larger increase in the Americas segment than in the Europe segment.

Duisburg, July 24, 2018

Klöckner&Co SE

The Management Board

Klöckner & Co Share

Klöckner & Co share: Key data

ISIN DE000KC01000 – German Securities Code (WKN) KC0100

Stock exchange symbol: KCO

Bloomberg: KCO GY

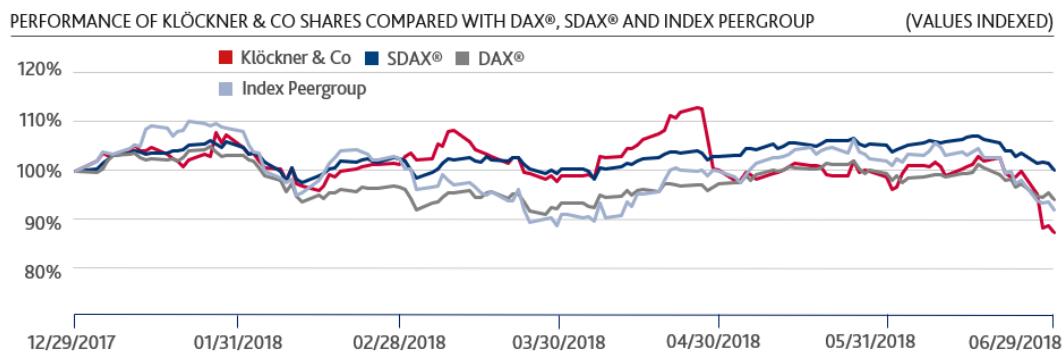
Reuters Xetra: KCOGn.DE

Listed in SDAX®

SHARE PRICE PERFORMANCE

The Klöckner & Co share price outperformed individual indices for multiple phases during the reporting period. Each rise was followed by a short-term correction, however. Our shares reached their highest trading price for the reporting period in the last pronounced upward movement at €11.62 on April 23. This was once again followed by a sharp correction. At the end of the last significant correction phase, the share price marked its low for the year so far at €9.01 on June 28. The share price closed at €9.03 on June 29. This corresponds to a price loss of around 12% compared with the 2017 year-end closing price. The high volatility in the share price is largely due to the trade policy activities of the US administration. The sharp rise in steel prices in America was compounded by uncertainties surrounding US tariff plans, countermeasures by other jurisdictions and concern that European steel prices could come under pressure in the future.

Over the same period, the DAX® lost around 5%, the SDAX® in turn gained around 1% and the peer group index, which tracks the performance of companies comparable to Klöckner & Co (index components alongside ThyssenKrupp, Salzgitter and Arcelor Mittal also comprise Reliance, Olympic Steel and Ryerson), dropped by about 8%.



The average trading volume in Klöckner & Co shares during the second quarter was over €5.9 million per day, which was higher than in the first quarter (around €5.4 million per day). Klöckner & Co shares consequently ranked 48th by trading volume and 71st by free float market capitalization in Deutsche Börse AG's ranking for MDAX and SDAX stocks in June.

KEY DATA – KLÖCKNER & CO SHARE

		Q2 2018	Q2 2017	HY1 2018	HY1 2017
Share Capital	€	249,375,000	249,375,000	249,375,000	249,375,000
Number of shares	in shares	99,750,000	99,750,000	99,750,000	99,750,000
Closing price (Xetra, Close)	€	9.03	9.22	9.03	9.22
Market capitalization	€ million	901	920	901	920
High (Xetra, Close)	€	11.62	10.56	11.62	12.89
Low (Xetra, Close)	€	9.01	9.05	9.01	9.05
Average daily trading volume	in shares	567,768	932,938	536,147	655,536

ANNUAL GENERAL MEETING

The twelfth Annual General Meeting of Klöckner&Co SE was held in Düsseldorf on May 16, 2018. Around 300 shareholders and shareholder representatives attended the meeting. In total, more than 60% of the voting capital voted on resolutions. Shareholders approved all of the resolutions proposed by the Supervisory and Management Boards by a large majority.

OWNERSHIP STRUCTURE

At the end of the second quarter, our largest shareholders were SWOCTEM GmbH/Friedhelm Loh with a shareholding of between 25% and 30% and Franklin Mutual Advisors with a shareholding of between 5% and 10%. These were followed by Franklin Mutual Series Funds, Federated Global Investment Management Corp. and Dimensional Holdings Inc./Dimensional Fund Advisors LP with holdings of between 3% and 5% each. Our free float as defined by Deutsche Börse AG thus totaled 74.75% as of the end of the reporting period.

CAPITAL MARKET COMMUNICATIONS

During the first half of 2018, the management and members of the IR team of Klöckner & Co SE provided interested capital market participants with information at six conferences and one roadshow in Germany and internationally, as well as in many additional one-on-one discussions. Talks with investors focused on the business results of the Klöckner & Co Group, progress with the digitalization strategy and global macroeconomic developments.

In the first six months, Klöckner & Co was covered by 19 banks and securities houses in over 80 research reports. As of the end of June, eight of the securities houses rated Klöckner & Co shares a "buy", ten gave a "hold" recommendation and one rated Klöckner & Co shares a "sell".

Klöckner & Co also provides information on current Group developments in the Investor Relations section of the corporate website, www.kloeckner.com/en/investors.html. Topics include financial reports, the financial calendar, information on corporate governance as well as current data on share performance. We also publish full information on the Annual General Meeting, Capital Markets Day and "focus calls" on the website.

Since last year we have also communicated with interested members of the financial community via our Twitter channel. This enables us to quickly point up interesting news and interviews relating to our stock. Each day directly after the close of trading, we announce the closing price of our stock in Xetra® trading along with other trading data. You will find our Twitter channel at www.twitter.com/Kloeckner_IR.

Our e-mail newsletter additionally keeps shareholders and other interested parties abreast of current developments at Klöckner & Co SE. You are welcome to sign up for this Company information via ir@kloeckner.com.

The Investor Relations team looks forward to your questions or suggestions. Please feel free to contact us at any time by telephone, e-mail or letter mail.

CONTACT

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Klöckner & Co SE

Consolidated statement of income

for the six-month period ending June 30, 2018

(€ thousand)	Notes	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Sales		1,788,914	1,639,854	3,417,052	3,241,742
Other operating income		9,719	5,426	17,138	11,983
Changes in inventories of finished goods and work in progress		1,586	6,855	1,686	11,463
Raw materials and consumables used and purchased services		-1,426,915	-1,308,144	-2,723,750	-2,547,788
Employee benefit expense		-157,298	-156,337	-304,582	-314,423
Depreciation and amortization		-21,354	-22,561	-42,079	-44,667
Other operating expenses		-134,162	-124,312	-270,105	-263,074
Operating result		60,490	40,781	95,360	95,236
Finance income		1,217	1,755	1,974	2,228
Finance expenses		-10,962	-10,030	-18,693	-18,736
Financial result		-9,745	-8,275	-16,719	-16,508
Income before taxes		50,745	32,506	78,641	78,728
Income taxes		-17,837	-8,936	-24,566	-19,232
Net income		32,908	23,570	54,075	59,496
<i>thereof attributable to</i>					
-shareholders of Klöckner & Co SE		32,655	23,251	53,509	58,866
-non-controlling interests		253	319	566	630
Earnings per share (€/share)	3	0.33	0.23	0.54	0.59
-basic		0.31	0.22	0.51	0.56
-diluted					

Statement of comprehensive income

for the six-month period ending June 30, 2018

(€ thousand)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Net income	32,908	23,570	54,075	59,496
Other comprehensive income not reclassifiable				
Actuarial gains and losses (IAS 19)	8,962	32,020	27,613	37,481
Related income tax	-1,253	-4,254	-5,209	-5,559
Total	7,709	27,766	22,404	31,922
Other comprehensive income reclassifiable				
Foreign currency translation	24,813	-27,552	14,096	-30,348
Gain/loss from cash flow hedges	3	301	-136	474
Fair value changes of available for sale securities	-	4,693	-	4,693
Total	24,816	-22,558	13,960	-25,181
Other comprehensive income	32,525	5,208	36,364	6,741
Total comprehensive income	65,433	28,778	90,439	66,237
<i>thereof attributable to</i>				
<i>- shareholders of Klöckner & Co SE</i>	<i>65,180</i>	<i>28,453</i>	<i>89,873</i>	<i>65,602</i>
<i>- non-controlling interests</i>	<i>253</i>	<i>325</i>	<i>566</i>	<i>635</i>

Consolidated statement of financial position

as of June 30, 2018

Assets

(€ thousand)	Notes	June 30, 2018	December 31, 2017
Non-current assets			
Intangible assets		153,963	162,749
Property, plant and equipment		624,048	623,816
Non-current investments		8,320	5,417
Other assets		21,525	11,486
Current income tax receivable		6,628	6,612
Deferred tax assets		21,569	24,371
Total non-current assets		836,053	834,451
Current assets			
Inventories	4	1,218,764	1,105,131
Trade receivables		978,071	679,778
Current income tax receivable		6,920	14,812
Other assets		87,117	98,619
Cash and cash equivalents		67,244	153,561
Total current assets		2,358,116	2,051,901
Total assets		3,194,169	2,886,352

Equity and liabilities

(€ thousand)	Notes	June 30, 2018	December 31, 2017
Equity			
Subscribed capital		249,375	249,375
Capital reserves		682,412	682,412
Retained earnings		310,827	282,873
Accumulated other comprehensive income		17,780	-18,584
Equity attributable to shareholders of Klöckner & Co SE		1,260,394	1,196,076
Non-controlling interests		6,972	6,235
Total equity		1,267,366	1,202,311
Non-current liabilities			
Provisions for pensions and similar obligations		259,023	281,538
Other provisions and accrued liabilities		18,323	18,196
Financial liabilities	5	595,517	425,988
Other liabilities		9	18
Deferred tax liabilities		54,381	45,955
Total non-current liabilities		927,253	771,695
Current liabilities			
Other provisions and accrued liabilities		130,133	137,958
Income tax liabilities		16,663	20,942
Financial liabilities	5	18,980	52,709
Trade payables		768,761	653,292
Other liabilities		65,013	47,445
Total current liabilities		999,550	912,346
Total liabilities		1,926,803	1,684,041
Total equity and liabilities		3,194,169	2,886,352

Consolidated statement of cash flows

for the six-month period ending June 30, 2018

(€ thousand)	Q2 2018	Q2 2017	HY1 2018	HY1 2017
Net income	32,908	23,570	54,075	59,496
Income taxes	17,837	8,936	24,566	19,232
Financial result	9,745	8,275	16,719	16,508
Depreciation and amortization	21,354	22,561	42,079	44,667
Other non-cash income/expenses	1,003	17	-271	51
Gain on disposal of non-current assets	-51	-848	-1,297	-912
Change in net working capital				
Inventories	-48,027	-15,632	-118,326	-148,750
Trade receivables	-77,751	-28,205	-261,395	-228,793
Trade payables	44,103	-1,299	105,036	151,895
Change in other operating assets and liabilities	2,036	-6,128	13,637	29,644
Interest paid	-5,770	-6,685	-12,688	-12,627
Interest received	318	186	510	631
Income taxes paid	-9,471	-7,229	-17,406	-11,032
Cash flow from operating activities	-11,766	-2,481	-154,761	-79,990
Proceeds from the sale of non-current assets and assets held for sale	310	3,337	2,099	3,753
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	-1,166	-	55,090
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-12,476	-16,757	-26,356	-34,673
Cash flow from investing activities	-12,166	-14,586	-24,257	24,170
Dividend payments to shareholders of Klöckner & Co SE	-29,925	-19,950	-29,925	-19,950
Net change of other financial liabilities	49,864	16,148	126,119	78,360
Proceeds from derivates	-12,474	10,883	-3,559	15,939
Cash flow from financing activities	7,465	7,081	92,635	74,349
Changes in cash and cash equivalents	-16,467	-9,986	-86,383	18,529
Effect of foreign exchange rates on cash and cash equivalents	1,144	-1,623	66	-1,763
Cash and cash equivalents at the beginning of the period	82,567	162,603	153,561	134,228
Cash and cash equivalents at the end of the reporting period as per statement of financial position	67,244	150,994	67,244	150,994

Summary of changes in equity

for the six-month period ending June 30, 2018

(€ thousand)	Accumulated other comprehensive income							Total	
	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings	Currency translation adjustments	Actuarial gains and losses (IAS 19)	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	
Balance as of January 1, 2017	249,375	682,412	201,687	190,842	-182,782	-2,338	1,139,196	8,757	1,147,953
Other comprehensive income									
Foreign currency translation				-30,348			-30,348		-30,348
Fair value change of available for sale securities						4,693	4,693		4,693
Gain/Loss from cash flow hedges						474	474		474
Actuarial gains and losses (IAS 19)				37,473			37,473	8	37,481
Related income tax				-5,556			-5,556	-3	-5,559
Other comprehensive income						6,736	5	6,741	
Net income			58,866				58,866	630	59,496
Total comprehensive income						65,602	635	66,237	
Change of non-controlling interests								-2,298	-2,298
Dividends			-19,950				-19,950		-19,950
Balance as of June 30, 2017	249,375	682,412	240,603	160,494	-150,865	2,829	1,184,848	7,094	1,191,942
Balance as of January 1, 2018	249,375	682,412	282,873	121,907	-138,555	-1,936	1,196,076	6,235	1,202,311
Adjustments on initial application of IFRS 9 (net of tax)				2,122			2,122	48	2,170
Adjustments on initial application of IFRS 15 (net of tax)				2,248			2,248		2,248
Other comprehensive income									
Foreign currency translation				14,096			14,096		14,096
Gain/Loss from cash flow hedges						-136	-136		-136
Actuarial gains and losses (IAS 19)				27,613			27,613		27,613
Related income tax				-5,209			-5,209		-5,209
Other comprehensive income						36,364	36,364	36,364	
Net income			53,509				53,509	566	54,075
Total comprehensive income						89,873	566	90,439	
Change of non-controlling interests								123	123
Dividends			-29,925				-29,925		-29,925
Balance as of June 30, 2018	249,375	682,412	310,827	136,003	-116,151	-2,072	1,260,394	6,972	1,267,366

Selected explanatory notes to the condensed interim consolidated financial statements for the six-month period ending June 30, 2018

(1) Basis of presentation

The condensed interim consolidated financial statements of Klöckner&Co SE for the six-month period ending June 30, 2018 were prepared for the interim reporting in accordance with Sec. 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) and International Financial Reporting Standards (IFRS) including IAS 34 Interim Financial Reporting as adopted for use within the EU.

The condensed interim consolidated financial statements were reviewed by an independent auditor.

The accounting policies applied to the interim consolidated financial statements as of June 30, 2018 – with the exception of the changes presented in Note (2) – are consistent with those used for the consolidated financial statements of Klöckner & Co SE as of December 31, 2017. A detailed description of those policies is provided in the notes to the consolidated financial statements on pages 140 to 155 of the 2017 Annual Report. Consistency of presentation is observed.

The exchange rates used to translate the financial statements of material foreign subsidiaries included in the consolidated financial statements were as follows:

€1 =	Closing rate		Average rate	
	June 30, 2018	December 31, 2017	HY1 2018	HY1 2017
Brazilian Real (BRL)	4.4876	3.9729	4.1415	3.4431
Pound Sterling (GBP)	0.8861	0.8872	0.8798	0.8606
Swiss Franc (CHF)	1.1569	1.1702	1.1698	1.0767
US Dollar (USD)	1.1658	1.1993	1.2104	1.0830

As part of the preparation of interim consolidated financial statements in accordance with IAS 34 for the period ending June 30, 2018, the Management Board of Klöckner & Co SE is required to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. Actual amounts may differ from these estimates.

In the opinion of the Management Board, the interim consolidated financial statements reflect all adjustments deemed necessary to provide a true and fair view of the results. The results for the period ending June 30, 2018 are not necessarily indicative of future results.

The present interim consolidated financial statements for the six-month period ending June 30, 2018 were authorized for issuance by the Management Board on July 24, 2018 after discussion with the Audit Committee of the Supervisory Board. Unless otherwise indicated, all amounts are stated in million euros (€ million). Discrepancies may arise relative to the unrounded figures.

(2) New accounting standards and interpretations

The following standards were applied for the first time in the first half of 2018:

Standard/Interpretation
IFRS 9 Financial Instruments (finaler Standard)
IFRS 15 Revenue from Contracts with Customers
Clarifications to IFRS 15 Revenue from Contracts with Customers
Improvements to IFRS 2014-2016: Amendments to IFRS 1 and IAS 28
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
Amendments to IAS 40: Transfers of Investment Property
IFRIC 22 Foreign Currency Transactions and Advance Consideration

On July 24, 2014, the IASB issued the final IFRS 9 (Financial Instruments), superseding the previous provisions on accounting for financial instruments under IAS 39. Klöckner & Co has applied IFRS 9 for the first time from January 1, 2018, making use of the option of not restating prior-period information with regard to the changes in classification and measurement (including impairment). Instead, differences resulting from the application of IFRS 9 are recognized in retained earnings as of January 1, 2018.

IFRS 9 (Financial Instruments) contains, first of all, new rules on the classification and measurement of financial assets based on the entity's business model and on characteristics of the contractual cash flows (solely payments of principal and interest/SPPI). To this end, IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through profit or loss (FVTPL), and at fair value through other comprehensive income (FVOCI). The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The change in classification for derivatives classified as held for trading and hence measured at fair value through profit or loss has no impact on the consolidated financial statements. By contrast, non-consolidated equity investments were previously measured at amortized cost using the derogation in IAS 39.AG81. Under IFRS 9, these now have to be measured at fair value. For equity instruments, IFRS 9 optionally permits measurement at fair value through other comprehensive income. Klöckner & Co applies this option to measurement at fair value through other comprehensive income for certain equity investments on a case-by-case basis. If such equity instruments are disposed of or written off, unrealized gains and losses on them up to that point in time are reclassified to retained earnings and do not appear in the income statement. Fair value changes on investments for which the option is not applied are recognized in profit or loss.

For financial liabilities designated as at fair value through profit or loss under IAS 39, the amount of change in the fair value that is attributable to changes in the credit risk of the liability is recognized at fair value through other comprehensive income under IFRS 9. IFRS 9 had no impact on accounting for financial liabilities at Klöckner & Co SE.

The original categories of financial assets and liabilities under IAS 39 and the new categories under IFRS 9, together with the carrying amounts as of January 1, 2018, are shown in the following table.

Financial assets and liabilities as of
January 1, 2018

(€ thousand)	Category under IAS39	Category under IFRS 9	Carrying amount under IAS39	Carrying amount IFRS 9
Derivative financial instruments not designated in hedge accounting (held for trading)	Fair value through profit and loss	Fair value through profit and loss	2,243	2,243
Derivative financial instruments designated in hedge accounting	Fair value through OCI	Fair value through OCI	9	9
Non-current loans	Loans and receivables	Amortized Costs	2	2
Participations	Available for sale	Fair value through profit and loss	2,414	2,414
Participations	Available for sale	Fair value through OCI	3,001	3,001
Trade receivables	Loans and receivables	Amortized Costs	679,778	682,265
Cash and cash equivalents	Loans and receivables	Amortized Costs	152,075	152,075
Short term securities (<3 months)	Available for sale	Fair value through profit and loss	1,486	1,486
Other financial assets at cost	Loans and receivables	Amortized Costs	91,816	91,816
Total			932,824	935,311
Derivative financial instruments not designated in hedge accounting (held for trading)	Fair value through profit and loss	Fair value through profit and loss	78	78
Derivative financial instruments designated in hedge accounting	Fair value through OCI	Fair value through OCI	31	31
Financial liabilities	Other financial liabilities	Other financial liabilities	456,935	456,935
Financial liabilities under finance lease	Other financial liabilities	Other financial liabilities	21,761	21,761
Trade payables	Other financial liabilities	Other financial liabilities	653,292	653,292
Other financial liabilities	Other financial liabilities	Other financial liabilities	24,415	24,415
Total			1,156,512	1,156,512

IFRS 9 replaces the “incurred loss” model for the determination of impairments in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This requires considerable judgment about how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortized cost or at fair value through other comprehensive income – except for equity instruments held as financial assets – and to contract assets.

For most purposes, the standard stipulates a three-stage impairment model for the determination of expected credit losses. A risk allowance is recognized in the amount of the expected 12-month credit losses (Stage 1) or in the amount of the expected lifetime credit losses if the credit risk has increased significantly since initial recognition (Stage 2) or if financial assets are credit-impaired (Stage 3).

This three-stage approach is applied to cash and cash equivalents and other financial assets covered by the impairment model under IFRS 9. The resulting impairments are immaterial.

For trade receivables or contract assets in accordance with IFRS 15 that do not have a significant financing component, the simplified procedure is applied and a risk allowance is always determined for the lifetime credit risk (Stages 2 and 3).

The estimated ECLs were calculated based on actual credit losses experience over the past three years. They are determined on a country-specific basis. The calculation of future impairments – taking macroeconomic indicators into account – resulted in a reduction of impairments on trade receivables by €3 million. After tax effects, equity increased by €2 million as of January 1, 2018.

The IASB published IFRS 15 Revenue from Contracts with Customers on May 28, 2014 and Clarifications to IFRS 15 Revenues from Contracts with Customers on April 12, 2016. Both the standard and the clarifications have been made European law. This brings together the various stipulations on revenue recognition in a single standard and establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It also requires comprehensive notes disclosures. The standard replaces the revenue recognition guidance in force until the end of 2017, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

On first-time application, Klöckner & Co made use of the cumulative effect method.

Until 2017, revenue from sales of goods was recognized on the basis of Incoterms. These specified the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognized at that point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing management involvement with the goods.

In many consignment arrangements – where goods are held by the customer but remain the property of the Klöckner & Co Group until withdrawn by the customer – revenue recognition until 2017 took place when the customer withdrew the goods. Under IFRS 15, revenue is recognized when the customer obtains control of the goods. In most such arrangements, the customer already obtains control when the goods are delivered into consignment stock. This results in earlier revenue recognition.

On April 12, 2016, the IASB published amendments to IFRS 15 (Clarifications to IFRS 15 Revenue from Contracts with Customers) clarifying a number of topics in the standard and providing practical expedients on first-time application. These relate to optional relief on the presentation of contracts completed at the beginning of the earliest period presented or modified before the beginning of the earliest period presented. The amendments have the same effective date as the IFRS 15: January 1, 2018. Application of the amended standard had no material impact on the condensed consolidated interim financial statements of Klöckner & Co SE.

The impacts of the adjustments made for IFRS 9 and IFRS 15 on the opening balance sheet are as follows:

(€ thousand)	December 31, 2017	Adjustments IFRS 9	Adjustments IFRS 15	January 1, 2018
Non-current assets				
Deferred tax assets	24,371	-	-	24,371
Other non-current assets	810,080	-	-	810,080
Total non-current assets	834,451	-	-	834,451
Current assets				
Inventories	1,105,131	-	-19,843	1,085,288
Trade receivables	679,778	2,487	22,379	704,644
Other current assets	266,992	-	-	266,992
Total current assets	2,051,901	2,487	2,536	2,056,924
Total assets	2,886,352	2,487	2,536	2,891,375
Equity	1,202,311	2,170	2,248	1,206,729
Non-current liabilities				
Deferred tax liabilities	45,955	317	288	46,560
Other non-current liabilities	725,740	-	-	725,740
Total non-current liabilities	771,695	317	288	772,300
Current liabilities	912,346	-	-	912,346
Total liabilities	1,684,041	317	288	1,684,646
Total equity and liabilities	2,886,352	2,487	2,536	2,891,375

First-time application of the remaining interpretations and amendments/clarifications had no impact on the condensed consolidated interim financial statements of Klöckner & Co SE.

(3) Earnings per share

Earnings per share are calculated by dividing interim-period consolidated net income attributable to shareholders by the weighted average number of shares outstanding during the period.

		HY1 2018	HY1 2017
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	53,509	58,866
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	(€/share)	0.54	0.59
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	53,509	58,866
Interest expense on dilutive convertible bonds (net of tax)	(€ thousand)	2,362	2,301
Net income used to determine diluted earnings per share	(€ thousand)	55,871	61,167
Weighted average number of shares	(thousands of shares)	99,750	99,750
Dilutive potential shares from convertible bonds	(thousands of shares)	10,251	10,024
Weighted average number of shares for diluted earnings per share	(thousands of shares)	110,001	109,774
Diluted earnings per share	(€/share)	0.51	0.56

(4) Inventories

	June 30, 2018	December 31, 2017
Cost	1,243	1,130
Valuation allowance (net realizable value)	-24	-25
Inventories	1,219	1,105

(5) Financial liabilities

The composition of financial liabilities is as follows:

(€ million)	June 30, 2018	December 31, 2017
Non-current financial liabilities		
Bonds	134	132
Liabilities to banks	129	39
Liabilities under ABS programs	312	234
Finance lease liabilities	21	21
Total non-current financial liabilities	596	426
Current financial liabilities		
Bonds	1	1
Liabilities to banks	16	50
Liabilities under ABS programs	1	1
Finance lease liabilities	1	1
Total current financial liabilities	19	53
Financial liabilities as per consolidated balance sheet	615	479

Net financial debt developed as follows:

(€ million)	June 30, 2018	December 31, 2017
Financial liabilities as per consolidated balance sheet	615	479
Transaction costs	4	5
Gross financial liabilities	619	484
Cash and cash equivalents	67	154
Net financial debt (before deduction of transaction cost)	552	330

(6) Financial instruments

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

Financial assets as of June 30, 2018		Category				Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non- current other assets	1,868	1,868	-	-	-	1,868	-	1,868
Derivative financial instruments designated in hedge accounting	Current and non- current other assets	5	-	5	-	-	5	-	5
Participations	Financial assets	8,319	5,318	3,001	-	-	-	8,319	8,319
Short term deposits (< 3 month)	Cash and cash equivalents	2,164	2,164	-	-	-	2,164	-	2,164
Not measured at fair value									
Financial assets at cost	Financial assets	1	-	-	1	-	-	-	-
Trade receivables	Trade receivables	978,071	-	-	978,071	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	65,080	-	-	65,080	-	-	-	-
Other financial assets at cost	Current and non- current other assets	77,086	-	-	77,086	-	-	-	-
Total		1,132,594	9,350	3,006	1,120,238	-	4,037	8,319	12,356

Financial liabilities as
of June 30, 2018

(€ thousand)	Presented in the Statement of Financial Positions as	Category				Fair value			
		Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Other financial liabilities	Level 1	Level 2	Level 3	Summe
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	278	278	-	-	-	278	-	278
Derivative financial instruments designated in hedge accounting	Other current and non-current liabilities	7	-	7	-	-	7	-	7
Not measured at fair value									
Financial liabilities	Current and non-current financial liabilities	592,746*)	-	-	592,746	-	179,550	-	179,550
Liabilities held under finance lease	Current and non-current financial liabilities	21,751	-	-	21,751	-	-	21,077	21,077
Trade payables	Trade payables	768,761	-	-	768,761	-	-	-	-
Other financial liabilities	Other current and non-current liabilities	17,281	-	-	17,281	-	-	-	-
Total		1,400,824	278	7	1,400,539		179,835	21,077	200,912

*) For carrying amounts of € 165,383 thousand fair values were calculated.

Financial assets as of December 31, 2017 (€ thousand)		Category			Fair value				
		Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non- current other assets	2,243	2,243	-	-	-	2,243	-	2,243
Derivative financial instruments designated in hedge accounting	Current and non- current other assets	9	-	9	-	-	9	-	9
Participations	Financial assets	5,415	2,414	3,001	-	-	-	5,415	5,415
Short term deposits (< 3 month)	Cash and cash equivalents	1,486	1,486	-	-	-	1,486	-	1,486
Not measured at fair value									
Financial assets at cost	Financial assets	2	-	-	2	-	-	-	-
Trade receivables	Trade receivables	679,778	-	-	679,778	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	152,075	-	-	152,075	-	-	-	-
Other financial assets at cost	Current and non- current other assets	91,816	-	-	91,816	-	-	-	-
Total		932,824	6,143	3,010	923,671	-	3,738	5,415	9,153

Financial liabilities as
of December 31,
2017

(€ thousand)	Presented in the Statement of Financial Positions as	Category			Fair value				
		Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Other financial liabilities	Level 1	Level 2	Level 3	
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	78	78	-	-	-	78	-	78
Derivative financial instruments designated in hedge accounting	Other current and non-current liabilities	31	-	31	-	-	31	-	31
Not measured at fair value									
Financial liabilities	Current and non-cu- rent financial liabilities	456,935*)	-	-	456,935	-	199,112	-	199,112
Liabilities held under finance lease	Current and non-current financial liabilities	21,761	-	-	21,761	-	20,728	20,728	
Trade payables	Trade payables	653,292	-	-	653,292	-	-	-	
Other financial liabilities	Other current and non-current liabilities	24,415	-	-	24,415	-	-	-	
Total		1,156,512	78	31	1,156,403	-	199,221	20,728	219,949

*) For carrying amounts of € 170,899 thousand fair values were calculated.

Non-current financial assets are measured at fair value. They mainly comprise financial instruments for which there is no quoted price in an active market.

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

In the case of current financial assets, fair values are largely identical to carrying amounts. The fair values of financial liabilities reflect the current market situation for the respective financial instruments as of June 30, 2018. Their fair values are not reduced by transaction costs. For current financial liabilities, when there are no transaction costs to be deducted, their carrying amount is identical to fair value.

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices in active markets. Fair values determined using other directly observable market inputs are classified as Level 2. The fair value of non-consolidated equity investments is classified as Level 3. Fair value is approximated as cost, which is an appropriate estimate of fair value as no more suitable information is available. All information available on the investees is regularly reviewed to determine whether cost is still representative of the fair value. This would no longer be the case if, for example, there were a significant change in the market in which the investees operate. Since cost is the only fair value input, any percentage change in cost would have an equal percentage impact on fair value. The estimated fair value would increase (decrease) with any increase (decrease) in cost. A 0.5% increase (decrease) in cost would have no material effect on fair value. Other Level 3 fair values exist for non-current finance lease liabilities. Fair values for these are only determined for note disclosure purposes. They cannot be determined solely on the basis of observable market data for these liabilities due to individual collateralization and long duration. For leases and the specific leased items, an interest rate was determined by the parties at the inception of the lease. The leased item can revert to the lessor in the event of payment default on the part of the lessee and therefore serves as collateral for the lease liability. There is no indication of any change in the fair interest rates determined on initial recognition. For this reason, fair value is based on the carrying amount. Changes in hierarchy levels are taken into account at the end of the period in which the change took place. There were no transfers between hierarchy levels during the reporting year.

(7) Subsequent events

There were no material events after the reporting period requiring disclosure.

(8) Related party transactions

In the course of its ordinary business activities, the Klöckner & Co Group has business relationships with numerous companies. These also include related parties. Business relations with these companies do not fundamentally differ from trade relationships with other companies. There were no material related party transactions in the reporting period.

(9) Segment reporting

(€ million)	Europe		Americas		Headquarters/ Consolidation		Total	
	HY1 2018	HY1 2017	HY1 2018	HY1 2017	HY1 2018	HY1 2017	HY1 2018	HY1 2017
Sales	2,100	2,004	1,317	1,238	-	-	3,417	3,242
Gross Profit	415	448	280	257	-	-	695	705
Segment result (EBITDA) ^{*)}	58	91	96	62	-17	-13	137	140
Earnings before interest and taxes (EBIT) ^{**)}	35	67	78	43	-18	-15	95	95

^{*)} EBITDA = Earnings before interest, taxes, depreciation and amortization and reversals of impairments on intangible assets and property, plant and equipment.

^{**) EBIT = Earnings before interest and taxes.}

(€ million)	Europe		Americas		Headquarters/ Consolidation		Total	
	HY1 2018	FY 2017	HY1 2018	FY 2017	HY1 2018	FY 2017	HY1 2018	FY 2017
Net Working Capital as of closing date ^{*)}	941	742	486	390	1	-	1,428	1,132
Net financial debt as of closing date ^{**)}	553	418	360	344	-361	-432	552	330
Total asset as of closing date	1,988	1,761	1,142	985	64	140	3,194	2,886
Number of employees as of closing date	6,015	6,078	2,448	2,470	147	134	8,610	8,682

^{*)} Net Working Capital = Inventories plus trade receivables less trade liabilities.

^{**) Net financial debt = Financial liabilities plus transaction cost less cash and cash equivalents.}

Earnings before interest and taxes (EBIT) can be reconciled to consolidated income before taxes as follows:

(€ million)	HY1 2018	HY1 2017
Earnings before interest and taxes (EBIT)	95	95
Group financial result	-17	-17
Income before taxes	79	79

Duisburg, July 24, 2018

Klöckner & Co SE

Management Board

Gisbert Rühl

Chairman of the Management Board

Marcus A. Ketter

Jens M. Wegmann

Member of the Management Board

Member of the Management Board

Review report

To Klöckner&Co SE, Duisburg

We have reviewed the condensed interim consolidated financial statements – comprising the consolidated statement of financial position as of June 30, 2018, the consolidated statement of income, statement of comprehensive income, consolidated statement of cash flows and summary of changes in consolidated equity for the period January 1 to June 30, 2018, as well as selected explanatory notes on the interim consolidated financial statements – together with the interim group management report of Klöckner&Co SE as of June 30, 2018, which under Sec.115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) form part of the half-year financial report. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and additionally observed the International Standard on Review Engagements 2410 (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Düsseldorf, July 24, 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

Christoph Velder

Ulrich Keisers

WIRTSCHAFTSPRÜFER

WIRTSCHAFTSPRÜFER

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the financial year.

Duisburg, July 24, 2018

Management Board

Gisbert Rühl

Chairman of the Management Board

Marcus A. Ketter

Jens M. Wegmann

Member of the Management Board

Member of the Management Board

Financial Calendar

October 24, 2018	Q3 interim management statement 2018 Conference call with journalists Conference call with analysts
March 12, 2019	Annual financial statements 2018 Financial statements press conference Conference call with analysts
April 30, 2019	Q1 interim management statement 2019 Conference call with journalists Conference call with analysts
May 15, 2019	Annual General Meeting 2019, Düsseldorf
July 31, 2019	Q2 interim report 2019 Conference call with journalists Conference call with analysts
October 30, 2019	Q3 interim management statement 2019 Conference call with journalists Conference call with analysts

Subject to subsequent changes.

Klöckner & Co SE

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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 events. They are generally identified by the words "expect", "anticipate", "assume", "intend", "estimate", "target", "aim", "plan", "will", "endeavor", "outlook" and comparable expressions, and generally contain information that relates to expectations or targets for economic conditions, sales or other performance measures. Forward-looking statements are based on currently valid plans, estimates and projections and are therefore only valid on the day on which they are made. You should consider them with caution. Such statements are subject to numerous risks and uncertainties (e.g. those described in publications), most of which are difficult to predict and are generally beyond the control of Klöckner & Co SE. The relevant factors include the effects of significant strategic and operational initiatives, including the acquisition or disposal of companies or other assets. If these or other risks or uncertainties materialize or if the assumptions underlying any of the statements turn out to be incorrect, the actual results of Klöckner & Co SE 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 key figures are not subject to IFRS or HGB, or to other generally applicable accounting regulations. In assessing the net assets, financial position and results of operations of Klöckner & Co SE, these supplementary figures should not be used in isolation or as an alternative to the key figures presented in the consolidated financial statements and interim report and calculated in accordance with the relevant accounting principles. Other companies may define these terms in different ways. Please refer to the definitions in the annual report.

Rounding

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

Variances due to technical reasons

Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this interim 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 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.

