

Interim Management Statement for 9M 2018

January 1, 2018 to September 30, 2018

- Shipments at prior-year level (up 0.4%); 7.6% rise in sales to €5.2 billion
- Operating income (EBITDA) increased to €197 million in first nine months compared with €187 million in prior-year period, marking highest nine-month operating income in seven years
- Third-quarter EBITDA €59 million, within the €55 million to €65 million guidance range
- Net income increased to €76 million, compared with €72 million in prior-year period
- Proportion of Group sales generated via digital channels now raised to 23% at end of third quarter
- Full-year targets confirmed; at least slight increase in EBITDA expected relative to prior year (2017: €220 million)

GROUP SALES AND EARNINGS INCREASED

At 4.7 million tons, shipments in the first nine months were at the same level as in the prior year (up 0.4%). While shipments in Europe fell by 4.3%, shipments in the Americas segment went up by 6.9%. Irrespective of the weaker US dollar, sales increased by 7.6% compared with the prior year to €5.2 billion, mainly due to the higher price level in the first nine months. By contrast, stronger rising procurement prices and more disadvantageous exchange rates meant that gross profit grew by just 1.1%. The gross profit margin narrowed accordingly from 21.1% to 19.9%.

Operating income (EBITDA) was raised from €187 million in the prior-year period to €197 million. Net income improved correspondingly to €76 million, compared with €72 million a year earlier. Basic earnings per share came to €0.75, versus €0.71 in the same period of the prior year.

MIXED SEGMENTAL EARNINGS PERFORMANCE

Despite a decrease in volume (by 4.3%), sales in the Europe segment showed a slight improvement of 3.7% due to the higher price level over the course of the year. However, as we benefited very little from windfall profits in 2018 and incurred negative currency translation effects (€13 million) mainly relating to our Swiss activities, gross profit dropped from €651 million to €609 million. In addition, our United Kingdom business was impacted detrimentally by the impending Brexit. As a result, the gross profit margin went down from 21.7% to 19.6% (a decrease of 2.1 percentage points). Segment EBITDA was further reduced by one-off expenses for personnel measures (€7 million) in connection with the outsourcing of accounting activities. The earnings contribution from our "One Europe" project was €12 million. This left segment EBITDA as a whole, at €84 million, strongly below the €119 million prior-year figure.

By contrast, sales in the Americas segment went up – despite the adverse movement in the US dollar exchange rate – by 14.0% to €2.1 billion and thus increased even more positively than shipments (which gained 6.9%). This was due to the higher price level. Similarly, gross profit rose from €365 million to €418 million. The gross profit margin of 20.3% was virtually on a par with the prior year (20.2%). Including the €6 million earnings contribution from optimization measures under the “One US” project, and with the aid of windfall profits, segment EBITDA improved from €81 million to €136 million. On an exchange rate adjusted basis, the increase would have been even stronger, to €146 million.

Headquarters EBITDA in the first three quarters was a negative €23 million, compared with a negative €13 million in the prior-year period. For analysis purposes, it should be noted that the prior-year figure includes non-recurring income from a divestment, whereas in the reporting period, by contrast, one-off expenses were incurred in connection with optimization measures.

VERY SOLID FINANCIAL POSITION SUSTAINED

Mostly due to the positive net income (€76 million), measurement effects accounted for in other comprehensive income and exchange rate differences, equity increased despite the €30 million dividend payout in May by €118 million to €1.3 billion. The equity ratio stayed at a very solid 41% (December 31, 2017: 42%).

In line with the seasonal trend and mainly as a consequence of the higher price level, net working capital went up from €1.1 billion at the end of the prior year to €1.5 billion. As a result of the higher net working capital, net financial debt increased accordingly from €330 million as of December 31, 2017 to €569 million at the end of the third quarter.

The rise in net working capital is also the main driver of the cash outflow from operating activities of €160 million in the first nine months of the fiscal year (9M 2017: cash outflow of €38 million). Deducting the €37 million net cash outflow from investing activities gives a free cash flow of –€197 million (9M 2017: –€22 million).

STABLE FINANCING

In September 2018, the European ABS program was prolonged ahead of term to September 2021 on slightly improved terms while retaining the €300 million loan amount. Drawings under the program came to approximately €155 million as of the reporting date and form a cornerstone of our Group financing. The scheduled prolongation serves to further improve our maturity profile.

FURTHER PROGRESS IN DIGITALIZATION

We have further improved the proportion of sales generated via digital channels. This stood at 23% as of the end of the third quarter (end of Q2 2018: 21%). The workforce at kloeckner.i in Berlin has already swelled to around 90 and the number of third-party vendors in our online shop increased to eleven during the third quarter.

XOM Materials, the independent industry platform, likewise continued to develop during the quarter under review. Seven companies have been signed up as vendors so far, with a current portfolio of some 800 different products. October saw the opening of a new office in Atlanta, USA, in readiness for the platform's US launch planned for the beginning of 2019.

EXPANSION OF HIGHER VALUE-ADDED BUSINESS

A key strategic goal alongside our digitalization initiatives is the expansion of higher value-added business. Establishing the aluminum service center at Becker Stahl-Service in Bönen, North Rhine-Westphalia, Germany, is a major investment project in this connection. It has now been successfully completed as the cut-to-length and slitting line has become fully operational in the reporting period, with total capital expenditure of €33 million.

OUTLOOK

Both in Europe and the USA, we expect that the price trend will generally remain stable through to the end of the fiscal year. With solid demand on both markets, we therefore expect only a seasonal dip in shipments relative to the preceding quarter.

We confirm our full-year guidance of at least a slight increase in operating income (EBITDA) compared with the prior year (2017: €220 million) and correspondingly positive net income.

Klöckner & Co SE

Financial information

for the nine-month period ending September 30, 2018

Shipments and income statement		Q3 2018	Q3 2017	Variance	Jan. 1– Sep. 30, 2018	Jan. 1– Sep. 30, 2017	Variance
Shipments	Tto	1,519	1,539	-20	4,709	4,692	+17
Sales	€ million	1,754	1,565	+189	5,171	4,807	+364
Gross profit	€ million	332	310	+22	1,027	1,016	+11
Gross profit margin	%	18.9	19.8	-0.9%p	19.9	21.1	-1.2%p
Earnings before, interest, taxes, depreciation and amortization (EBITDA)	€ million	59	47	+12	197	187	+10
EBITDA margin	%	3.4	3.0	+0.4%p	3.8	3.9	-0.1%p
Earnings before interest and taxes (EBIT)	€ million	38	25	+13	133	121	+12
Earnings before taxes (EBT)	€ million	30	17	+13	109	96	+13
Net income	€ million	22	13	+9	76	72	+4
Net income attributable to shareholders of Klöckner & Co SE	€ million	22	12	+10	75	71	+4
Earnings per share (basic)	€	0.22	0.12	+0.10	0.75	0.71	+0.04
Earnings per share (diluted)	€	0.21	0.12	+0.09	0.71	0.68	+0.03
Cash flow statement		Q3 2018	Q3 2017	Variance	Jan. 1– Sep. 30, 2018	Jan. 1– Sep. 30, 2017	Variance
Cash flow from operating activities	€ million	-5	42	-47	-160	-38	-122
Cash flow from investing activities	€ million	-13	-8	-5	-37	16	-53
Free cash flow*)	€ million	-18	34	-52	-197	-22	-175
Balance sheet		September 30, 2018	December 31, 2017	Variance	September 30, 2018	September 30, 2017	Variance
Net working capital**)	€ million	1,467	1,132	+335	1,467	1,282	+185
Net financial debt	€ million	569	330	+239	569	435	+134
Gearing***)	%	44	28	+16%p	44	37	+7%p
Equity	€ million	1,320	1,202	+118	1,320	1,188	+132
Equity ratio	%	40.6	41.7	-1.1%p	40.6	39.5	+1.1%p
Total assets	€ million	3,250	2,886	+364	3,250	3,007	+243
Employees		September 30, 2018	December 31, 2017	Variance	September 30, 2018	September 30, 2017	Variance
Employees as of the end of the reporting period		8,623	8,682	-59	8,623	8,753	-130

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

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

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

Klöckner & Co SE

Consolidated statement of income

for the nine-month period ending September 30, 2018

(€ thousand)	Q3 2018	Q3 2017	Jan. 1– Sep. 30, 2018	Jan. 1– Sep. 30, 2017
Sales	1,754,177	1,565,288	5,171,229	4,807,030
Other operating income	6,391	9,103	23,528	21,085
Changes in inventory	8,235	840	9,921	12,303
Cost of materials	-1,430,117	-1,255,719	-4,153,867	-3,803,507
Personnel expenses	-150,259	-150,106	-454,841	-464,528
Depreciation and amortization	-21,247	-21,616	-63,326	-66,283
Other operating expenses	-129,132	-122,458	-399,236	-385,532
Operating result	38,048	25,332	133,408	120,568
Finance income	1,726	482	3,700	2,709
Finance expenses	-9,497	-8,561	-28,190	-27,297
Financial result	-7,771	-8,079	-24,490	-24,588
Income before taxes	30,277	17,253	108,918	95,980
Income taxes	-8,526	-4,574	-33,092	-23,806
Net income	21,751	12,679	75,826	72,174
<i>thereof attributable to</i>				
– shareholders of Klöckner & Co SE	21,513	12,408	75,021	71,273
– non-controlling interests	238	271	805	901
Earnings per share (€/share)				
– basic	0.22	0.12	0.75	0.71
– diluted	0.21	0.12	0.71	0.68

Statement of comprehensive income

for the nine-month period ending September 30, 2018

(€ thousand)	Q3 2018	Q3 2017	Jan. 1– Sep. 30, 2018	Jan. 1– Sep. 30, 2017
Net income	21,751	12,679	75,826	72,174
Other comprehensive income not reclassifiable				
Actuarial gains and losses (IAS 19)	24,761	18,869	52,374	56,350
Related income tax	-5,486	-4,414	-10,695	-9,973
Total	19,275	14,455	41,679	46,377
Other comprehensive income reclassifiable				
Foreign currency translation	11,338	-26,338	25,434	-56,686
Gain/loss from cash flow hedges	-7	-141	-143	333
Reclassification of available for sale securities to profit and loss upon sale	-	-4,693	-	-
Reclassification to profit and loss due to sale of foreign subsidiaries	7	-	7	-
Total	11,338	-31,172	25,298	-56,353
Other comprehensive income	30,613	-16,717	66,977	-9,976
Total comprehensive income	52,364	-4,038	142,803	62,198
<i>thereof attributable to</i>				
– shareholders of Klöckner & Co SE	52,124	-4,307	141,997	61,294
– non-controlling interests	240	269	806	904

Consolidated statement of financial position

as of September 30, 2018

Assets

(€ thousand)	September 30, 2018	December 31, 2017
Non-current assets		
Intangible assets	150,236	162,749
Property, plant and equipment	627,568	623,816
Non-current investments	7,437	5,417
Other assets	44,456	11,486
Current income tax receivable	4,284	6,612
Deferred tax assets	21,606	24,371
Total non-current assets	855,587	834,451
Current assets		
Inventories	1,261,691	1,105,131
Trade receivables	957,842	679,778
Current income tax receivable	9,480	14,812
Other assets	104,993	98,619
Cash and cash equivalents	60,057	153,561
Total current assets	2,394,063	2,051,901
Total assets	3,249,650	2,886,352

Equity and liabilities

(€ thousand)	September 30, 2018	December 31, 2017
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,412	682,412
Retained earnings	332,342	282,873
Accumulated other comprehensive income	48,394	-18,584
Equity attributable to shareholders of Klöckner & Co SE	1,312,523	1,196,076
Non-controlling interests	7,207	6,235
Total equity	1,319,730	1,202,311
Non-current liabilities		
Provisions for pensions and similar obligations	244,511	281,538
Other provisions and accrued liabilities	18,178	18,196
Financial liabilities	609,967	425,988
Other liabilities	78	18
Deferred tax liabilities	61,054	45,955
Total non-current liabilities	933,788	771,695
Current liabilities		
Other provisions and accrued liabilities	140,890	137,958
Income tax liabilities	15,576	20,942
Financial liabilities	14,855	52,709
Trade payables	752,407	653,292
Other liabilities	72,404	47,445
Total current liabilities	996,132	912,346
Total liabilities	1,929,920	1,684,041
Total equity and liabilities	3,249,650	2,886,352

Consolidated statement of cash flows

for the nine-month period ending September 30, 2018

(€ thousand)	Q3 2018	Q3 2017	Jan. 1– Sep. 30, 2018	Jan. 1– Sep. 30, 2017
Net income	21,751	12,679	75,826	72,174
Income taxes	8,526	4,574	33,092	23,806
Financial result	7,771	8,079	24,490	24,588
Depreciation and amortization	21,247	21,616	63,326	66,283
Other non-cash income/expenses	-122	112	-393	163
Gain on disposal of non-current assets	202	-4,942	-1,095	-5,854
Change in net working capital				
Inventories	-40,172	3,851	-158,498	-144,899
Trade receivables	28,438	30,143	-232,957	-198,650
Trade payables	-19,372	-33,881	85,664	118,014
Change in other operating assets and liabilities	-16,187	-985	-2,550	28,659
Interest paid	-7,778	-6,746	-20,466	-19,372
Interest received	171	315	681	946
Income taxes paid	-9,585	7,335	-26,991	-3,697
Cash flow from operating activities	-5,110	42,150	-159,871	-37,839
Proceeds from the sale of non-current assets and assets held for sale	2,233	8,328	4,332	12,081
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	-	-	55,090
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-14,925	-16,147	-41,281	-50,820
Cash flow from investing activities	-12,692	-7,819	-36,949	16,351
Dividend payments to shareholders of Klöckner & Co SE	-	-	-29,925	-19,950
Net change of other financial liabilities	7,612	-15,439	133,731	62,920
Proceeds from derivatives	1,980	5,695	-1,579	21,634
Cash flow from financing activities	9,592	-9,744	102,227	64,604
Changes in cash and cash equivalents	-8,210	24,587	-94,593	43,116
Effect of foreign exchange rates on cash and cash equivalents	1,023	-782	1,089	-2,545
Cash and cash equivalents at the beginning of the period	67,244	150,994	153,561	134,228
Cash and cash equivalents at the end of the reporting period as per statement of financial position	60,057	174,799	60,057	174,799

Segment reporting

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017
Sales	3,114	3,003	2,057	1,804	-	-	5,171	4,807
Gross Profit	609	651	418	365	-	-	1,027	1,016
Segment result (EBITDA)	84	119	136	81	-23	-13	197	187
Earnings before inter- est and taxes (EBIT)	49	83	109	53	-25	-15	133	121

	Europe		Americas		Headquarters/ Consolidation		Total	
(€ million)	9M 2018	FY 2017	9M 2018	FY 2017	9M 2018	FY 2017	9M 2018	FY 2017
Net Working Capital as of closing date	952	742	514	390	1	-	1,467	1,132
Net financial debt as of closing date	553	418	373	344	-357	-432	569	330
Number of employees as of closing date	6,015	6,078	2,453	2,470	155	134	8,623	8,682

Financial calender

March 12, 2019	Annual Financial Statements 2018 Financial statement 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&CoSE

Christina Kolbeck
Head of Investor Relations & Sustainability

Telephone: +49 203 307-2122
Email: ir@kloeckner.com

Christian Pokropp
Head of Corporate Communications

Telephone: +49 203 307-2050
Email: pr@kloeckner.com

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Rounding

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

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 management statement 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 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.

