ANNUAL REPORT 2017

klöckner & co

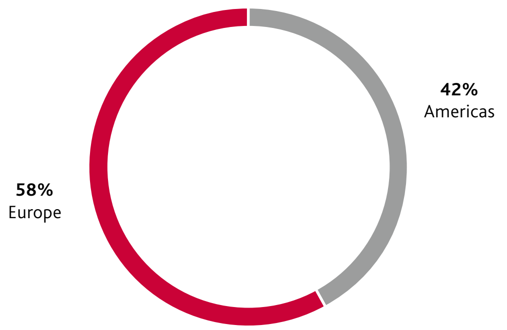
Key figures

Klöckner & Co SE

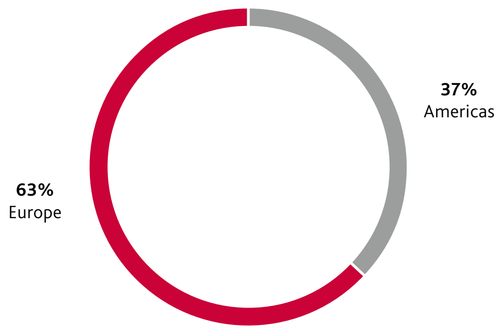
in € million		2017	2016	2015	2014	2013	Change 2017–2016
Shipments	Tto	6,135	6,149	6,476	6,598	6,445	–14
Sales		6,292	5,730	6,444	6,504	6,378	+562
EBITDA before restructuring		220	196	86	191	150	+24
EBITDA		220	196	24	191	124	+24
EBIT		130	85	–350	98	–6	+45
EBT		97	52	–399	39	–79	+45
Net income		102	38	–349	22	–90	+64
Earnings per share (basic)	€	1.01	0.37	–3.48	0.22	–0.85	+0.64
Earnings per share (diluted)	€	0.96	0.37	–3.48	0.22	–0.85	+0.59
Cash flow from operating activites*)		79	73	276	68	143	+6
Cash flow from investing activities		2	–52	–85	–132	–36	+54
Free cash flow		81	21	191	–64	107	+60
Liquid funds		154	134	165	316	595	+20
Net working capital		1,132	1,120	1,128	1,321	1,216	+12
Net financial debt		330	444	385	472	325	–114
Equity ratio	%	41.7	39.6	39.2	39.4	40.2	+2.1%p
Balance sheet total		2,886	2,897	2,841	3,629	3,595	–11
Employees as of December, 31		8,682	9,064	9,592	9,740	9,591	–382

*) Starting in 2014 cash flows from hedging transactions are presented in cash flows from financing activities (previously: operating activities).

SHIPMENTS BY SEGMENTS IN 2017



SALES BY SEGMENTS IN 2017



Content

€ 6,292 m
SALES

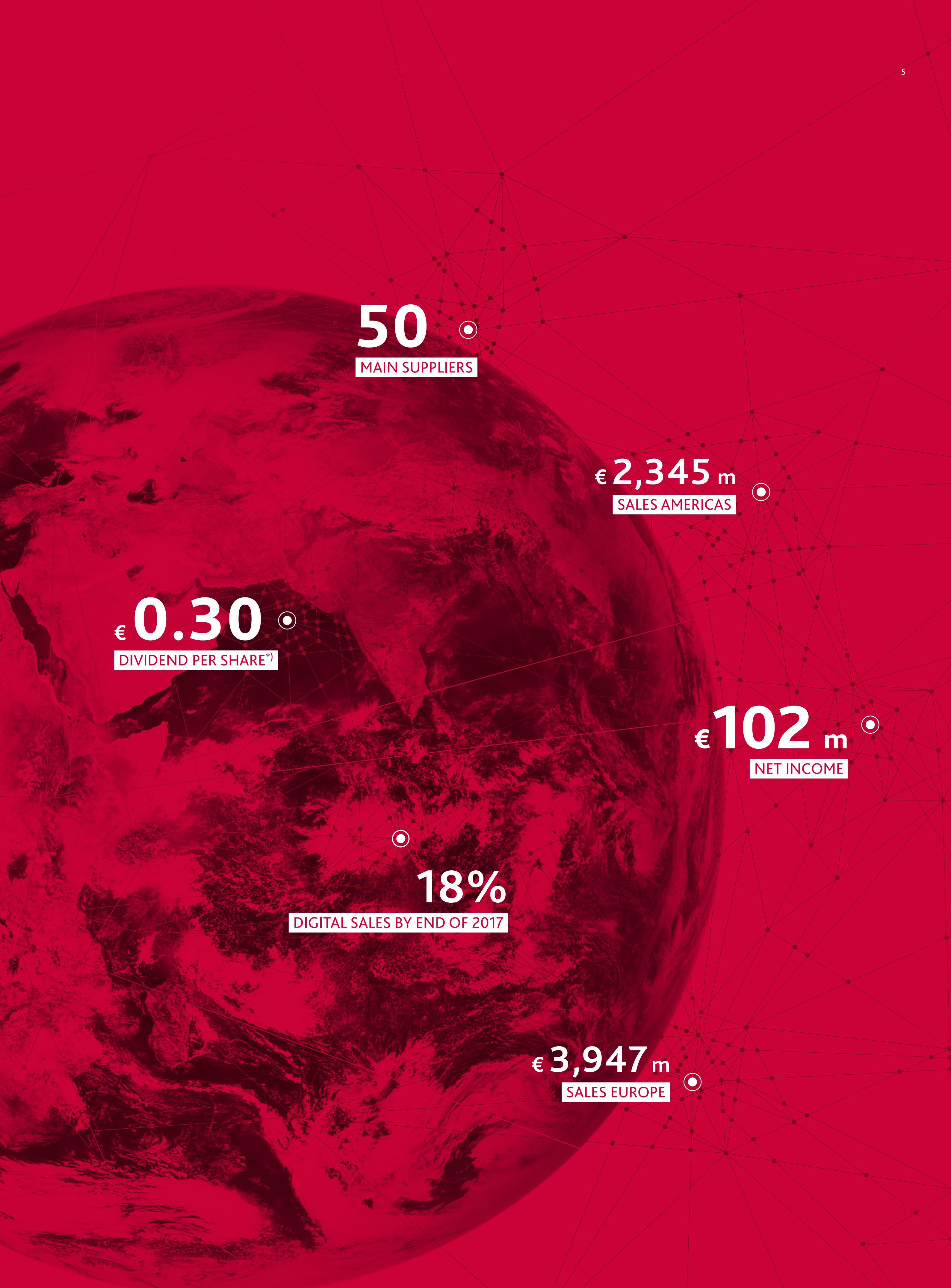
6,135 Tt
SHIPMENTS

120,000
CUSTOMERS

~170
LOCATIONS

8,682
EMPLOYEES

€ 220 m
EBITDA



*) Proposal to the Annual general Meeting on May 16, 2018.

Gisbert Rühl

Dear Shareholders,
Ladies and Gentlemen,

The 2017 fiscal year was both a demanding and successful one for Klöckner & Co. In what is a still challenging environment, we continued to advance the digitalization of our business and improve our operating performance.

We once again succeeded in improving our operating income (EBITDA), from €196 million in the previous year to €220 million. The increase was even sharper for net income, which rose from €38 million to €102 million. In light of these positive developments, we will propose to our shareholders at the Annual General Meeting on May 16, 2018 an increased dividend of €0.30 per share for the 2017 fiscal year, up from €0.20 per share in the prior year.

In spite of the successive improvements in our results in recent years, the earnings situation is not yet satisfactory. This is mainly due to the ongoing fierce competition. In a nutshell, our extended strategy "Klöckner & Co 2022", which we presented at the end of 2017, clearly states: Klöckner & Co shall become more digitalized, more efficient and thus more profitable.

In 2017, we once again confirmed and further consolidated our role as a digital pioneer in the industry. Digitalization and the refinement of our platforms play a prominent role in the "Klöckner & Co 2022" strategy. Attesting to this, digital sales as a share of total sales increased from 13% to 18% over the course of the year. After making excellent progress in digital interaction with our customers, we are now focusing our activities more on opening our online channels for third-party providers. For example, we are opening our online shops to distributors of complementary products in order to offer our customers an ever broader range – in a simple, transparent and efficient way. At the same time, we launched the first version of our industry platform XOM. By offering this open platform that can also be used by our direct competitors, we are once more putting the needs of our customers first.

Our strategy also envisions our continuing to increase the percentage of sales generated by our higher value-added business. In the reporting year, we were able to boost this share to as much as 48%. The aim is for this business to make up 60% of our sales by 2022.

Another pillar of the "Klöckner & Co 2022" strategy is efficiency improvements. With our "One Europe" program, we are bringing activities in Austria, Belgium, France, Germany, the Netherlands and the United Kingdom even closer together. This meant we were able to achieve significant synergies and reduce costs in the year under review. In 2018, we will additionally be initiating the program "One US", which also aims for considerable cost savings by bundling the activities in the US market. After launching diverse online channels aimed at customers and suppliers, another focus will be fully digitalizing internal processes.

With a view to pushing ahead with achieving our strategic goals across the Group, we have created the new position of Chief Operating Officer at Klöckner & Co: In Jens Michael Wegmann, Klöckner & Co has gained an internationally experienced manager with in-depth technology expertise.

The business transformation at Klöckner & Co is flanked by a far-reaching cultural shift. For instance, the vast majority of the workforce has joined the internal social network Yammer, a platform which enables non-hierarchical communication with colleagues across national borders. We are also pleased that more than 1,000 employees are already taking advantage of the offerings of the Klöckner & Co Digital Academy, which provides continuing education relating to mainly digital topics and can be used during working hours to the extent employees choose. These various measures have already substantially honed our innovative edge.

Klöckner & Co's positive overall performance during the year under review was not reflected in the share price. At year-end 2017, Klöckner shares closed around 14% lower than at the start of the year. This prompted us to intensify our capital market communications in order to highlight our increased profitability and what we consider to be the attractive risk-return profile of Klöckner shares.

Klöckner & Co started the year 2018 on a sound footing and we are determined to remain at the forefront during these times of rapid change. The fiscal year under review showed that we are well on track. This is thanks primarily to our employees and their incredible efforts. They have impressively demonstrated Klöckner & Co's capacity for transformation and thus play an instrumental role in advancing our Company.

Last but not least, I would like to thank our shareholders for their loyalty and trust in Klöckner & Co as well as for accompanying and supporting this great company during these exciting times.

Gisbert Rühl
Chairman of the Management Board

Management Board

Gisbert Rühl

CHAIRMAN OF THE MANAGEMENT BOARD (CEO)

Born in 1959. CEO since November 1, 2009 and CFO from July 2005 to December 2012, appointed until December 31, 2020. He is responsible for the coordination of the Management Board and functionally responsible for the headquarter departments Corporate Communications, Corporate Development/M&A, Group Data Protection Office, Group HR, Investor Relations & Sustainability and Legal & Compliance. As part of his responsibility for Corporate Development Gisbert Rühl is in charge for implementing the digitalization strategy.

Marcus A. Ketter

CHIEF FINANCIAL OFFICER (CFO)

Born in 1968. CFO since January 1, 2013, appointed until December 31, 2020. He is functionally responsible for the headquarter departments Corporate Accounting, Corporate Controlling, Corporate IT, Corporate Taxes, Corporate Treasury and Internal Audit.

Jens M. Wegmann

MEMBER OF THE MANAGEMENT BOARD (COO)

Born in 1965, Member of the Management Board since December 1, 2017, and appointed until November 30, 2020. As Chief Operating Officer (COO) he is responsible for the operative business of Klöckner & Co SE.

Karsten Lork

Member of the Management Board since February 1, 2013, appointed until February 28, 2018. Born in 1963.

William A. Partalis

Member of the Management Board until December 31, 2017.
Born in 1953.

Report of the Supervisory Board

The Supervisory Board performed the tasks required of it by law and under the Articles of Association and Rules of Procedure with due care throughout the reporting year. It regularly advised and continuously supervised the Management Board, and assured itself that the Management Board's decisions and actions were legally compliant, orderly and fit for purpose. Where appropriate, the Supervisory Board made use of external experts and relevant studies. The Supervisory Board adopted resolutions as required by law, the Articles of Association and the Rules of Procedure, in each instance after thorough and careful appraisal. This notably included legal transactions and measures for which the Articles of Association and/or the Rules of Procedure require the Management Board to obtain Supervisory Board approval; after extensive consultation, the Supervisory Board granted the approval thus required in each case.

In all matters of fundamental importance, the Supervisory Board was involved on a timely basis. To this end, the Management Board provided the Supervisory Board with information on planning, the Company's business and financial situation, and all transactions of importance to the Company and the Group, both during the Supervisory Board meetings and in the intervals between meetings. Supervisory Board meetings include reports on the overall economic climate, the industry situation and the performance of the Klöckner & Co Group and its segments as well as on key performance indicators and the performance of the Klöckner & Co share price. Risk exposure, risk management, compliance and changes in the shareholder structure are also regularly covered. The fall meeting focused on the new "Klöckner & Co 2022" strategy, and notably the further implementation of the digitalization strategy and the establishment of a vertical industry platform together with the expansion of higher value-added services. In all instances, the Supervisory Board was supplied with full and pertinent documentation.

Both in plenary sessions and committee meetings, the members of the Supervisory Board thoroughly reviewed the Management Board's reports and intended actions and made various suggestions. Information was also exchanged on a regular basis between meetings. In 2017, written Management Board reporting again centered on the detailed monthly Board Reports. Furthermore, the CEO, in some instances together with another member of the Management Board, held monthly meetings with the Chairman of the Supervisory Board to report on, discuss and consult about current business developments, salient issues and upcoming decisions.

Organization of the Supervisory Board's work

The six-member Supervisory Board is made up entirely of shareholder representatives. To carry out its duties, the Supervisory Board has established two committees: An Executive Committee and an Audit Committee, each comprising three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Uwe Roehrhoff (Deputy Chairman), Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh and Ute Wolf. All Supervisory Board members have – in most cases longstanding – experience on the management and supervisory boards of various entities together with expertise that optimally covers the full range of responsibilities required by the Company. Without exception, the members of the Supervisory Board meet the criteria of independence as laid down in Section 5.4.2 of the German Corporate Governance Code (the "Code"). In assessing its independence, the Supervisory Board refers to the criteria specified in the recommendation by the European Commission of February 15, 2005 (Appendix 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees [2005/162/EC]). Currently, no members of the Supervisory Board are former members of the Company's Management Board.

The Executive Committee comprises Prof. Dr. Vogel (Chairman), Uwe Roehrhoff and Prof. Dr. Loh. Other functions performed by the Executive Committee are those of a Personnel Committee, a Committee for Urgent Matters and a Nomination Committee. The Audit Committee consists of Ute Wolf (Chairwoman), Prof. Dr. Vogel and Prof. Dr. Köhler. Ute Wolf is a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the Code. The committees carry out preparatory work in support of the Supervisory Board's responsibilities, agenda topics and resolutions. At the plenary meetings, the committee chairmen reported regularly and in-depth on the topics dealt with and the outcomes of the committee meetings. Certain decision-making powers have been delegated to the committees where permitted by law.

The Management Board is closely involved in the work of the Supervisory Board. All members of the Management Board took part in the Supervisory Board meetings. Meetings of the Executive Committee were attended by the CEO, and those of the Audit Committee by the CFO and in some instances the CEO.

Meeting attendance

The Supervisory Board held a total of six plenary meetings in fiscal year 2017, including one in the form of a teleconference. In addition, resolutions were adopted by circulation as follows (the date stated in each case being the date of confirmation of the resolution by the Chairman of the Supervisory Board): The sale of the Spanish subgroup was approved on January 19, 2017, approval for extension and modification of the syndicated loan was granted on March 23, 2017, sale of the London site belonging to ASD Limited was approved on June 14, 2017, and a resolution on Management Board matters was adopted on November 14, 2017. There were four meetings of the Executive Committee in the reporting year, all four of which were face-to-face meetings, including one in the capacity of Personnel Committee in connection with the new composition of the Management Board. The Audit Committee met five times in fiscal year 2017. Three of those meetings involved discussion of the interim report and the interim management statements prior to their respective publication. These three meetings were held in the form of conference calls. On three occasions (in May, July and November), decisions were made in circulation with regard to non-audit services by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

A detailed member-by-member overview of meeting attendance during the reporting year can be viewed on the Company's website (http://www.kloeckner.com/en/supervisory-board.html). Except for two meetings at which, in each case, one member was unable to attend, all Supervisory Board and committee members attended all meetings in fiscal year 2017 (see Section 5.4.7 of the Code). The attendance rate for all Supervisory Board meetings, including committee meetings, was thus 96.9%.

Supervisory Board meeting agenda items and resolutions

The Supervisory Board regularly considered the business situation, strategy implementation, strategy development and Group finances in the year under review. Multiple meetings also addressed corporate governance matters (such as the Declaration of Conformity and the Act on Equal Participation of Women and Men in Leadership Positions), compliance issues and matters relating to the Management Board and the Supervisory Board.

A regular topic of discussion was the business situation. During the year under review, the business situation improved across the Group in line with the general upturn in the world economy, although the steel market remained challenging due to global overcapacity. This notably showed through in steel prices, the trend in which was positive in the reporting year but still very volatile.

Implementation of the "Klöckner & Co 2022" strategy and, in particular, progress in the Company's digital transformation were reported on at all meetings. The online shop and contract platform developed by kloeckner.i GmbH were further expanded and rolled out in additional countries as planned. Also implemented was the opening of the online shop for distributors with complementary products. As a percentage of total sales, the proportion of sales generated via digital channels went up as a result in the reporting year to 18% (as of December 2017). Key milestones were also attained in the creation of a vertical industry platform, notably with the participation of a major steel producer as service center. The Management Board was confident that the industry platform can be established in the market as an independent platform with investor participation in fiscal year 2018. To this end, highly promising discussions were held with investors during the reporting year. A process of cultural change is already underway in the Company in support of the digital transformation.

The Management Board also made progress on the other pillars of the corporate strategy comprising higher value-added services and efficiency enhancements. A new service center for aluminum products, primarily for the automotive and manufacturing industries, was thus opened at the Bönen operating location. Capital expenditure was also incurred to expand processing services at various locations, including for laser and surface processing technologies. A 3D printing pilot project was additionally implemented at Velten. Finally, the "One Europe" optimization program – involving a major reorganization of management levels, including their amalgamation, across our European country organizations – delivered efficiency gains as budgeted. This was paralleled by the successful launch of the "One US" optimization program in the USA. A further key milestone in fine-tuning the portfolio was the sale of the Spanish subgroup, a loss generator in recent years.

The Group continued to improve its solid and well-diversified finances, notably with a view to the maturity profile. For instance, the syndicated loan was extended – ahead of schedule – on better terms and on a reduced scale.

Alongside these topics, significant issues dealt with by the Supervisory Board included the following:

At its meeting of February 22, 2017, the Supervisory Board approved the Company's annual and consolidated financial statements for 2016. Furthermore, the Supervisory Board adopted the motions for the Company's 2017 Annual General Meeting (with the exception of the nominations for election to the Supervisory Board), including the proposal for election of the auditor. In accordance with the law, the proposal for election of the auditor was preceded by a tendering/selection procedure that was the responsibility of the Audit Committee. With the term of office of Gisbert Rühl due to end on December 31, 2017, the resolution was passed to extend his appointment to December 31, 2020.

The March 13, 2017 meeting, which was held as a teleconference, concerned the nomination of Ute Wolf and Uwe Roehrhoff, the two new Supervisory Board members proposed for election at the Annual General Meeting 2017.

In an extraordinary meeting on April 28, 2017, the Supervisory Board addressed Management Board matters.

The Supervisory Board meeting on May 12, 2017 notably entailed preparations for the Company's subsequent Annual General Meeting as well as the adoption of resolutions on individual measures requiring approval (rental contract for the French subsidiary and extension of the European ABS program). Following the Annual General Meeting, the newly elected Supervisory Board held its constitutive meeting, which included electing the new Deputy Chairman of the Supervisory Board and appointing the new membership of the Supervisory Board committees.

Agenda items at the meeting of the Supervisory Board on September 19 and 20, 2017 included corporate governance topics (effects of amendments to the German Corporate Governance Code and amendment of the Rules of Procedure for the Supervisory Board and Management Board) and Management Board topics. The scheduled review of the efficiency of the Supervisory Board's activities was also undertaken. Additionally, the Supervisory Board consulted in detail on the "Klöckner & Co 2022" strategy.

At its meeting of December 12, 2017, the Supervisory Board once again addressed strategy, notably the launch of the industry platform as well as corporate planning for fiscal year 2018 (including the following two years). Another focal point comprised discussion of the first mandatory non-financial statement (corporate social responsibility report). In addition, the Supervisory Board discussed with the Management Board the Chief Compliance Officer's annual report and, together with the Management Board, approved the 2017 Declaration of Conformity. Among other matters addressed at the same meeting, the Supervisory Board also consulted on Management Board topics (the schedule of responsibilities and – as had been decided in the meantime – the termination of Karsten Lork's appointment) as well as various transactions subject to approval (modification and renegotiation of two financial instruments and the consolidation of locations in Switzerland, including the sale of a property rendered surplus to requirements as a result).

Reports from the committees
Executive Committee:
The Executive Committee met a total of four times in 2017. At its meeting of February 24, 2017, the Executive Committee addressed topics including bonuses for Management Board members in fiscal year 2016 and submitted proposals for bonus setting to the plenary Supervisory Board. The Executive Committee also drew up targets for the Management Board bonuses for fiscal year 2017. In addition, it resolved to propose to the plenary Supervisory Board that Gisbert Rühl's appointment be extended. Finally, the Executive Committee addressed succession considerations in relation to William A. Partalis as outgoing member of the Management Board as of the year-end.

The proposal to the plenary Supervisory Board for the nomination of candidates for election to the Supervisory Board at the Annual General Meeting on May 12, 2017 was made by written resolution of March 7, 2017 on the basis of prior consultations as part of a selection process.

Among the topics addressed at the Executive Committee's meeting on September 19, 2017 was corporate governance (effects of amendments to the German Corporate Governance Code and amendment of the Rules of Procedure for the Supervisory Board and Management Board) as well as Management Board topics, together with the annual review of the efficiency of the Supervisory Board's activities. In its capacity as Personnel Committee, the Executive Committee additionally discussed succession considerations in relation to the departure of William A. Partalis as member of the Management Board at the end of the reporting year.

At an extraordinary meeting on October 24, 2017, the Executive Committee consulted on the new composition of the Management Board, which was then resolved upon.

On December 12, 2017, the Executive Committee held a preparatory meeting for the Supervisory Board meeting on the same day, dealing with Management Board topics (including amendment of the schedule of responsibilities for the Management Board) and corporate governance topics (notably the Declaration of Conformity). An additional focus comprised preparatory discussion of the budget for 2018 and, in particular, the "Klöckner & Co 2022" strategy.

Audit Committee:
The Audit Committee met five times in all, including three teleconference meetings preceding publication of the interim report and the interim management statements.

The three meetings on the draft interim report and the draft interim management statements focused on the performance of the Group's business and financial situation, which the committee discussed with the Management Board members in attendance on the basis of the key performance indicators. The Audit Committee brought up points and suggestions that were incorporated into the final versions of the interim report and the interim management statements. Risk management and compliance topics were also regularly addressed in connection with interim financial reporting.

At the two scheduled meetings held in February and December 2017, the Audit Committee likewise discussed risk management and compliance issues. Discussions at the February meeting centered on the Company's annual and consolidated financial statements for 2016. At the same meeting, the Audit Committee discussed the proposal and recommendation for the election of the auditors for 2017 and prepared the groundwork for the plenary Supervisory Board to engage them. Proposals and recommendations were made on the basis of the preceding tendering/selection procedure and using a rating system devised for the purpose. The Audit Committee saw no need to recommend to the Supervisory Board additional focal points for the auditors' activities beyond the statutory mandate. It also resolved on an amendment to the Audit Committee Rules of Procedure.

The December meeting covered matters including adoption of the fiscal year 2018 audit plan for Internal Audit and evaluation of the required biennial internal assessment on the work of the auditors. Other topics comprised implementation of the statutory requirements on corporate social responsibility and individual financial reporting questions.

Finally, both in meetings and in written resolutions, the Audit Committee dealt in the course of the reporting year with the approval of various non-audit services provided by the auditors and/or audit network firms.

Corporate governance and Declaration of Conformity
On December 12, 2017, the Supervisory and Management Boards issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG). The Declaration, which is permanently available to shareholders on the Company's website, states that Klöckner & Co SE complies in full with all recommendations of the Code as currently amended. Further information on corporate governance can be found on page 24 et seq. of this Annual Report. The Management Board and Supervisory Board keep abreast of changes to Code recommendations and suggestions, along with their implementation, and also take part in related consultation procedures as required.

Audit of the 2017 annual and consolidated financial statements including the consolidated non-financial statement

Klöckner & Co SE's annual financial statements for fiscal year 2017 and the consolidated financial statements and combined management report were audited and issued an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditors elected by the Annual General Meeting and engaged by the Supervisory Board. The annual financial statements of Klöckner & Co SE and the combined management report for Klöckner & Co SE and the Group were prepared in accordance with German commercial law. Pursuant to Section 315e of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The audit reports and further documentation relating to the financial statements, including the separate consolidated non-financial report, were made available to all members of the Supervisory Board in good time. The documents were dealt with in detail by both the Audit Committee and the plenary Supervisory Board in the presence of the auditors. The auditors took part in the discussions, reported on the material findings of their audit and responded to questions. At the Supervisory Board meeting held on February 23, 2018 to approve the annual financial statements, the Chairman of the Audit Committee reported on the Audit Committee's consultations regarding the annual and consolidated financial statements and the combined management report. With regard to the risk early warning system, the auditors stated that the Management Board had taken the appropriate measures required by Section 91 (2) AktG, in particular to establish a monitoring system, and that the monitoring system was capable of promptly identifying developments that threaten the Company's ability to continue as a going concern. The Supervisory Board received and approved the auditors' findings and the explanations provided by the Chairwoman of the Audit Committee. On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the combined management report, as well as in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting of February 23, 2018, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted.

As part of its examination, the Supervisory Board also examined the consolidated non-financial statement contained in the Annual Report (in the separate consolidated non-financial report) that was required to be prepared in accordance with Section 315b of the German Commercial Code (HGB). In particular, the Supervisory Board's examination for this purpose encompassed the following aspects: (i) critical review and scrutiny of policies, (ii) review of the processes for data collection and preparation of the non-financial statement and (iii) ascertainment of quality assurance measures. The Supervisory Board was supported in its examination by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich was requested to perform a limited assurance engagement on the consolidated non-financial statement in accordance with ISAE 3000, prepared a corresponding report which it submitted to the Supervisory Board, and reported on its activities verbally to the Supervisory Board. That report and the consolidated non-financial statement were discussed and validated in detail both by the Audit Committee and by the plenary Supervisory Board. The Supervisory Board noted with approval the findings of the limited assurance engagement performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich and, following its own examination, came to the conclusion that the consolidated non-financial statement meets the applicable requirements and that there are no objections to be raised.

Changes on the board

In fiscal year 2017, the composition of the Supervisory Board of Klöckner & Co SE changed as follows: The mandates of Ulrich Grillo and Dr. Hans-Georg Vater terminated on the day of the Annual General Meeting, May 12, 2017. Both elected to refrain from running for an additional term of office. Ute Wolf, CFO of Evonik Industries AG, and Uwe Roehrhoff, CEO of Perrigo Company plc, were elected to the Supervisory Board at the Annual General Meeting. Uwe Roehrhoff was elected Deputy Chairman of the Supervisory Board at the constitutive meeting on May 12, 2017. The personnel changes on the Supervisory Board also impacted the composition of the Supervisory Board committees. Since the constitutive meeting of the Supervisory Board on May 12, 2017, the Executive Committee has comprised Chairman of the Supervisory Board Prof. Dr. Vogel, Uwe Roehrhoff and Prof. Dr. Loh. The Audit Committee is composed of Ute Wolf (Chairwoman), Prof. Dr. Vogel and Prof. Dr. Köhler.

In fiscal year 2017, the composition of the Management Board of Klöckner & Co SE changed as follows: Jens M. Wegmann was appointed member of the Management Board effective December 1, 2017 for the period up to November 30, 2020. He is to serve in the future as Chief Operating Officer (COO), with Management Board responsibility for the entire operating business. Formerly in charge of the operating business in the Americas segment, William A. Partalis departed from the Management Board on expiration of his appointment as of the end of the reporting year and went into retirement.

Karsten Lork departs from the Management Board of Klöckner & Co SE as of February 28, 2018 in connection with the restructuring of the Management Board.

The Supervisory Board would like to thank the Management Board as well as all employees and employee representatives of Klöckner & Co SE and all Group companies for their hard work and dedication throughout the past fiscal year, during which the market environment remained challenging.

Duisburg, February 23, 2018

Prof. Dr. Dieter H. Vogel
Chairman

Supervisory Board

Supervisory Board

Prof. Dr. Dieter H. Vogel
Managing Partner of Lindsay Goldberg Vogel GmbH, Düsseldorf, Germany
(Chairman)

Uwe Roehrhoff
CEO of Perrigo Company plc, Dublin, Ireland
(Member since May 12, 2017)
(Deputy Chairman)

Ulrich Grillo
Chairman of the Management Board, Grillo Werke AG, Duisburg, Germany
(Member until May 12, 2017)

Prof. Dr. Karl-Ulrich Köhler
CEO of RITTAL International Stiftung & Co. KG and Chairman of the Management Board of Rittal GmbH & Co. KG, Herborn, Germany

Prof. Dr. Tobias Kollmann
Chair of E-Business and E-Entrepreneurship at the University of Duisburg-Essen, Germany

Prof. Dr. Friedhelm Loh
Owner and chairman of Friedhelm Loh Stiftung & Co. KG, Haiger, Germany

Dr. Hans-Georg Vater
Former Member of the Management Board, HOCHTIEF Aktiengesellschaft, Essen, Germany
(Member until May 12, 2017)

Ute Wolf
Chief Financial Officer of Evonik Industries AG, Essen, Germany
(Member since May 12, 2017)

Executive Committee

(also the Personnel Committee, the Committee for Urgent Matters and the Nomination Committee)

Prof. Dr. Dieter H. Vogel
Chairman

Prof. Dr. Friedhelm Loh

Uwe Roehrhoff

Audit Committee

Ute Wolf [1)]
Chairman
(Member since May 12, 2017)

Prof. Dr. Karl-Ulrich Köhler

Dr. Hans-Georg Vater
(Member until May 12, 2017)

Prof. Dr. Dieter H. Vogel

[1)] Financial Expert within the meaning of Section 100 (5) German Stock Corporation (AktG).

1. Klöckner & Co on the capital market

€10.29

Year-end closing price on December 29, 2017

KLÖCKNER & CO SHARES

ISIN DE000KC01000 – German Securities Code (WKN) KC0100
Stock exchange symbol: KCO
Bloomberg: KCO GR
Reuters Xetra®: KCOGn.DE

SHARE PRICE PERFORMANCE

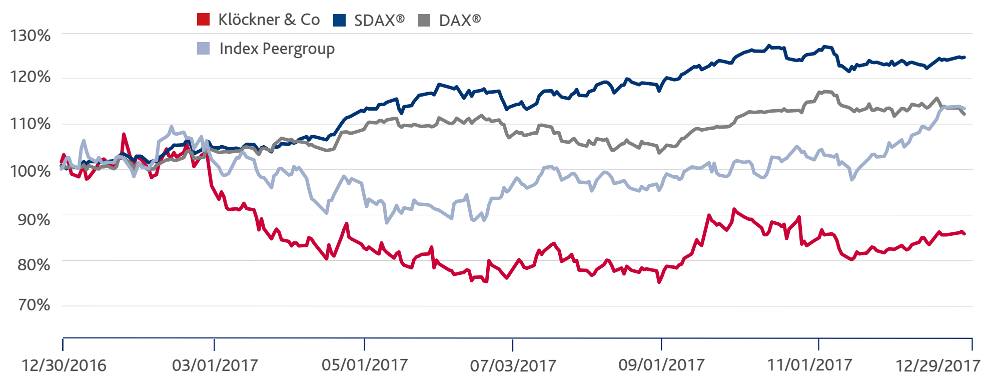
The Klöckner & Co share price initially climbed at the beginning of 2017 to reach its high for the year at €12.89 on January 27. The share price subsequently fell for a long period – with brief but unsustainable recovery episodes – and marked its lowest level of €9.03 on August 29. A significant upward movement followed in September. The share price then largely stabilized to close 2017 at €10.29.

KEY DATA – KLÖCKNER & CO SHARE

		2017	2016	2015	2014	2013
Share Capital	€	249,375,000	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	99,750,000
Closing pirce (Xetra®, Close)	€	10.29	11.91	8.04	8.96	9.95
Market capitalization	€ million	1,026	1,188	802	894	993
High (Xetra®, Close)	€	12.89	12.91	10.12	12.66	11.50
Low (Xetra®, Close)	€	9.03	7.08	7.03	8.37	8.15
Earnings per share (basic)	€	1.01	0.37	–3.48	0.22	–0.85
Average daily trading volume	in shares	619,819	527,299	819,771	645,814	646,743
Dividend per share[1)]	€	0.30	0.20	-	0.20	-
Dividend yield based on closing stock price	%	2.9	1.7	-	2.2	-
Total dividend paid[1)]	€ million	29.9	20.0	-	20.00	-

1) In each case for the fiscal year. 2017: Proposal to the Annual general Meeting on May 16, 2018.

PERFORMANCE OF KLÖCKNER & CO SHARES COMPARED WITH DAX®, SDAX® AND INDEX PEERGROUP (VALUES INDEXED)

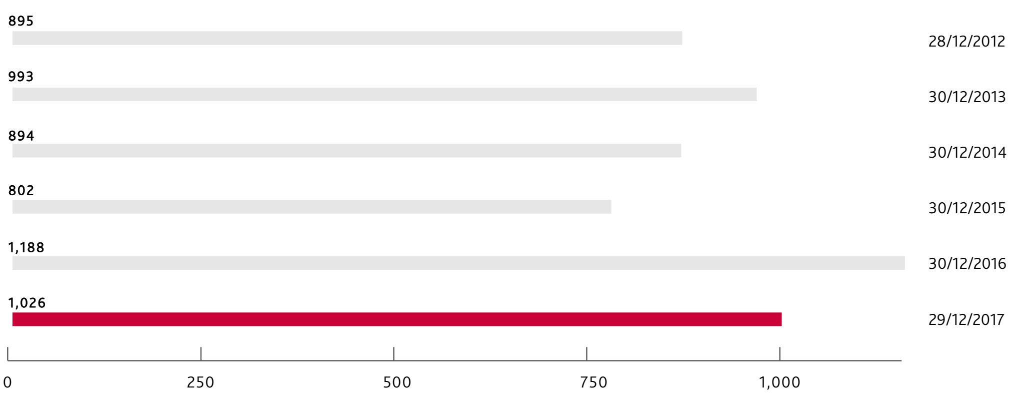


Relative to the prior year-end, the Klöckner & Co share price fell by 14%. Klöckner & Co's stock is benchmarked against a peer group index ("Index Peergroup") that went up by around 14% in the year under review. The peer group index tracks the share price performance of companies that are comparable to Klöckner & Co. Alongside Thyssenkrupp, Salzgitter and Arcelor Mittal, the index also includes Reliance, Olympic Steel and Ryerson. The SDAX® recorded a gain of 25% in 2017 while the DAX® went up by 13%. Klöckner & Co shares ranked 73rd by free float market capitalization and 43rd by trading volume in Deutsche Börse AG's December 2017 joint rankings of MDAX® and SDAX® stocks.

MARKET CAPITALIZATION

The Company's market capitalization was approximately €1,026 million at the end of the reporting period, compared with €1,188 million as of December 30, 2016.

MARKET CAPITALIZATION
in €m



KLÖCKNER & CO CONVERTIBLE BOND: KEY DATA

	Convertible Bond 2016
Convertible Bond	2016
German securities code	A185XT
ISIN	DE000A185XT1
Issue volume	€147.8 million
Issue date	September 8, 2016
Maturity date	September 8, 2023
Coupon p. a.	2.00%
First Conversion price	€14.82

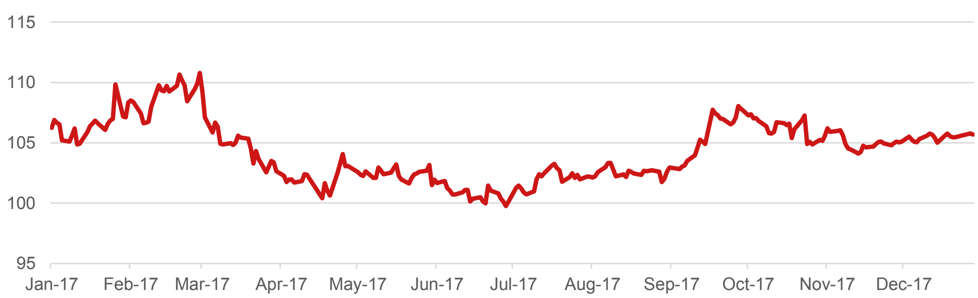
Right to early redemption via investor put

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BOND

Klöckner & Co SE successfully launched a €148 million convertible bond issue in September 2016 with a maturity of seven years and a denomination of €100,000 per bond. As intended, the bonds were taken up exclusively by institutional investors. The bonds feature a 2.00% p.a. coupon. They are traded on the open market at Frankfurt Stock Exchange (ISIN DE000A185XT1). The initial conversion price was set at €14.82. The conversion price was modified to €14.52 in light of the 2017 dividend payment. Klöckner & Co uses the proceeds from the issue for general business purposes.

On December 29, 2017, the 2016 convertible bond was trading at approximately 105.7%.

CONVERTIBLE BOND 2016



2017 ANNUAL GENERAL MEETING

The eleventh Annual General Meeting of Klöckner & Co SE was held in Düsseldorf on May 12, 2017. Some 300 shareholders and shareholder representatives attended the meeting. In all, approximately 60% of the voting capital took part in voting. Shareholders approved all of the resolutions proposed by the Supervisory and Management Boards by a large majority.

Annual General Meeting attendance at around 60%

Klöckner & Co once again made an online service available to shareholders in the run-up to the Annual General Meeting. Shareholders were able to register for the Annual General Meeting on our website at www.kloeckner.com. An online tool made it easy to order an admission ticket, submit authorizations and instructions for proxy holders and order postal voting documents. The tool also allows shareholders to request the invitation to the Annual General Meeting electronically through the e-mail service (electronic delivery). For registered users, this will take the place of delivery by postal mail in future years.

At the AGM, investors were able to visit our “Digi Booth” and gain their own impression of our transformation process. Apart from getting to know our digital tools, visitors were given an overview of milestones attained in our digitalization strategy. They were provided with first-hand information by our digitalization experts from Berlin and invited to try out new working methods for themselves.

GROUP OF ANALYSTS

Klöckner & Co SE continues to attract strong interest in the financial community. At the end of 2017, Klöckner & Co’s shares were being watched and rated by 18 analysts, who published a total of more than 140 research reports. Eight securities houses currently have “buy” recommendations out for our shares, and ten have issued “hold” recommendations. None have recommended selling. Both HSBC and Metzler Equity Research added us to their coverage in 2017. We provide an up-to-date overview of investment recommendations on our website under Investors/Shares/Analysts.

18

analysts cover Klöckner & Co shares

Klöckner & Co shares were analyzed by the following banks and securities houses as of the end of 2017:

Baader Bank	HSBC
Bankhaus Lampe	Independent Research
Citigroup	Jefferies International Equities
Commerzbank	Kepler Cheuvreux
Credit Suisse	LBBW
Deutsche Bank	Metzler Equity Research
DZ Bank	M. M. Warburg
Exane BNP Paribas	NordLB
Goldman Sachs	UBS Equities

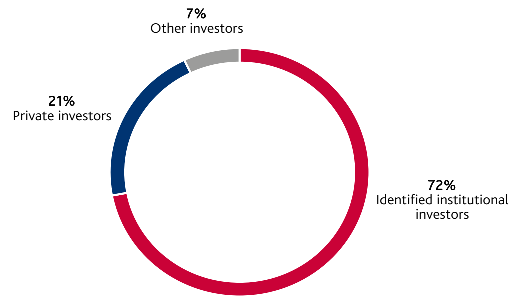
21%

of the share capital is held by private investors

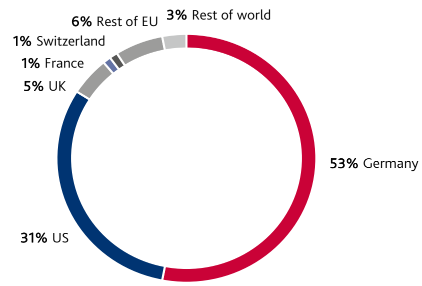
OWNERSHIP STRUCTURE

To gain a current overview of the regional distribution of its investors, Klöckner & Co again had shareholder identification analyses carried out on a regular basis in 2017. The findings are an aid in targeting investor relations activities to specific groups as well as in effective roadshow and conference planning. Some 96% of investors were identified in February 2018. Identified institutional investors held 72% of the share capital and private shareholder 21%.

SHAREHOLDER STRUCTURE OF KLÖCKNER & CO SE



GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



At the end of the year, 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.

OPEN AND CONTINUOUS COMMUNICATIONS

At Klöckner & Co, Investor Relations (IR) is all about transparent and continuous communications with private and institutional investors. Throughout 2017, members of the Management Board and the IR team once again kept domestic and international investors up to date on the results and the potential of the Klöckner & Co Group.

In-depth communication with institutional and private investors

Institutional investors were able to find out about Klöckner & Co SE at the Annual General Meeting, at conferences in all the major financial centers in Europe and the USA as well as at numerous additional individual meetings. Talks with investors primarily focused on the Klöckner & Co Group results, progress with the Company's digitalization strategy, and changes in ownership structure.

Our Capital Markets Day was held in Frankfurt am Main during September. The event stood under the banner of digitalization. We provided interested members of the financial community with an in-depth insight into the development steps in our digital transformation and presented our "Klöckner & Co 2022" strategy. The latest digital tools and investment trends at Klöckner were also on show.

In our "focus call" – the first of its kind – in November, we provided investors and analysts with comprehensive information about our other strategic pillar of higher value-added business. During the 90-minute phone conference, numerous interested parties were provided with deep insights into our international processing portfolio, along with progress and goals regarding higher value-added products and services.

Klöckner & Co SE also stepped up activities targeting private investors. At numerous events held by shareholder protection organizations, the CEO and the IR team at all times engaged in open and constructive dialogue with existing and potential Klöckner & Co shareholders.

Our website is a key part of our financial market communications. Interested parties will find complete information on Klöckner & Co shares and convertible bonds in the Investor Relations section of our website at www.kloeckner.com/en/investors.php. 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.

Last September, we started using Twitter as an additional channel for swiftly connecting with the financial community on current topics of interest. This social media channel allows us to draw attention to interesting news and interviews relating to our stock. Each day shortly 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 and suggestions. Please feel free to contact us at any time by telephone, e-mail or letter mail.

CONTACT

Investor Relations & Sustainability
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E-mail: ir@kloeckner.com

2. Corporate Governance

In this section, the Management Board reports – in its own capacity and on behalf of the Supervisory Board – on Corporate Governance at Klöckner & Co SE pursuant to Section 3.10 of the German Corporate Governance Code. This section also includes the Remuneration Report.

The entire Section 2, Corporate Governance, is an integral part of the Management Report.

2.1 Corporate Governance Report and Corporate Governance Statement

The Management Board and Supervisory Board of Klöckner & Co SE are required under Section 161 of the German Stock Corporations Act (AktG) to submit an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code (the "Code") published by the „Regierungskommission Deutscher Corporate Governance Kodex" in the official section of the Federal Gazette have been and continue to be complied with, or listing those recommendations that have not been or will not be complied with and, if applicable, the reasons why. In the year under review, the Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention to meeting the recommendations and suggestions of the Code. The last annual declaration was submitted in December 2017. It is reprinted below and is also available on the Klöckner & Co SE website. All Declarations of Conformity previously submitted are also available on the website.

2017 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporation Act on the German Corporate Governance Code

Klöckner & Co SE had complied with the recommendations of the German Corporate Governance Code in the applicable versions of May 5, 2015 (published on June 12, 2015 in the Federal Gazette) and of February 7, 2017 (published on April 24, 2017 in the Federal Gazette) since the last Declaration of Conformity dated December 15, 2016 and will comply with the recommendations of the German Corporate Governance Code in the latter mentioned version in future without any exceptions.

Duisburg/Germany, December 12, 2017

The Supervisory Board The Management Board

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE

Responsible corporate governance is given high priority at Klöckner & Co. Good corporate governance denotes responsible business management and control, geared to sustained value creation, by the Management Board and the Supervisory Board.

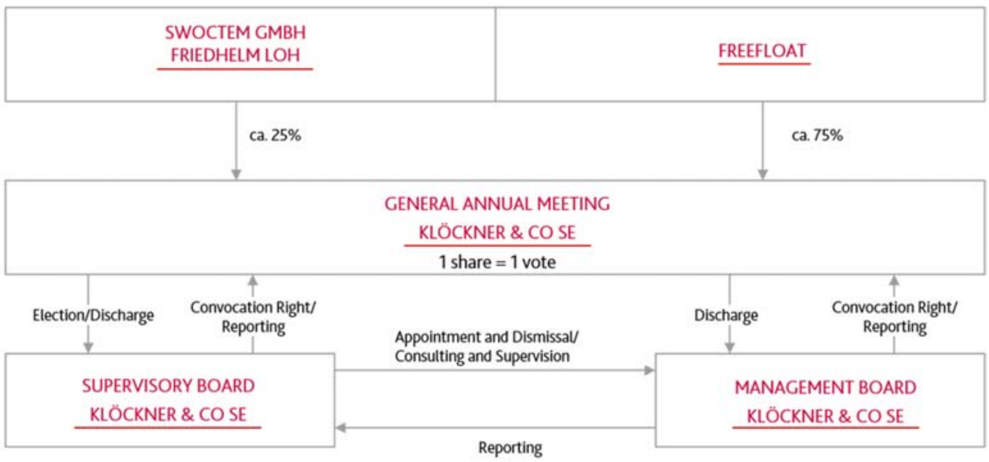
In applying the recommendations and suggestions of the Code – as amended – as our guidance, Klöckner & Co advances the Code's binding objective for German listed companies of promoting the confidence of international and national investors, customers, employees and the general public in the management and supervision of the Company. All recommendations of the Code as amended on February 7, 2017 have been complied with. In general, the Management Board and Supervisory Board treat suggestions in the German Corporate Governance Code no differently from recommendations. With two exceptions, all suggestions in the Code as amended on February 7, 2017 have been complied with.

Section 3.7 of the Code states that in the event of a takeover offer, the Management Board should convene an extraordinary General Meeting at which shareholders will discuss the takeover offer and, if appropriate, decide on corporate actions. Convening a General Meeting poses organizational challenges – even considering the reduced notification periods provided for in the Securities Acquisition and Takeover Act (WpÜG) – and ties up considerable personnel and financial resources. It appears questionable whether the expense involved would also be justified in those cases in which the Annual General Meeting is not required to vote on such matters. For this reason, extraordinary General Meetings will continue to be convened in appropriate cases only.

As a new addition to the February 7, 2017 amendment to the Code, Section 4.2.3 (2) sentence 8 states that early disbursements of multiple-year, variable remuneration components for Management Board members should not be permitted. At Klöckner & Co SE, Management Board members receive a multiple-year, variable remuneration component in the form of their personal investments in Company shares with a three-year vesting period. Although it is not entirely clear to the Company whether the end of the vesting period for the personal investment in shares counts as a "disbursement" within the meaning of the aforementioned suggestion, we are taking the precaution of declaring our non-compliance with such suggestion given that we intend to continue deciding on a case-by-case basis regarding the best method for releasing a personal investment in Company stock of Management Board members leaving the Board. It could well be in the fundamental interest of the Company to come up with its own comprehensive, final regulation for handling cases in which a Management Board member leaves the Board early. In addition, the Company would like to retain the flexibility in other conceivable scenarios (such as a change of control or a delisting) to stipulate in agreements with its Management Board members that the personal stock investment of a member leaving the Board may be released from the vesting restriction. The reasoning for the suggestion made in Section 4.2.3 (2) sentence 8 of the Code indicates that it is intended to act as a malus clause based on an assumption of "personal misconduct" by the departing Management Board member. However, this neglects to consider that for one thing, the law supplies sufficient tools of recourse for the Company other than malus provisions, such as options to claim damages or to assert claims of unjustified enrichment. There are also other reasons why a Management Board member might leave the Board apart from poor performance or breaches of due diligence obligations. Moreover, personal investments in company stock such as exist at Klöckner & Co SE are not suited to the application of malus clauses due to their structure. Finally, the suggestion does not take adequate account of the fact that once a member has left the Board, that individual can no longer exercise influence on the future performance of the Company.

GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

Klöckner & Co SE is a European Company under German law whose Articles of Association stipulate a two-tier management system as for a German stock corporation (Aktiengesellschaft). The two-tier system is characterized by strict separation, with no shared membership, between the executive decision-making body (the Management Board) and the advisory and supervisory body (the Supervisory Board). The Management Board and Supervisory Board work closely together to further the Company's interests. Intensive ongoing dialogue between the two decision-making bodies provides a sound basis for responsible and efficient corporate management.



As of: December 31, 2017.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE bears full responsibility for management of the Group and the Group holding company. It sets the targets and the strategies for the Group and its segments as well as the country organizations and defines the guidelines and principles for the resulting corporate policy. The corporate strategy is developed by the Management Board in consultation with the Supervisory Board. The Management Board must act in accordance with the interests of the Company and work toward increasing enterprise value on a lasting basis. It discharges its management responsibility as a collegiate body with joint responsibility for management of the Company. Notwithstanding the overall responsibility borne by all Management Board members, the individual members each manage their allotted responsibilities on their own within the framework of the Management Board resolutions. The members of the Management Board keep each other informed with regard to important measures and developments in their field of responsibilities. Responsibilities of the Management Board include preparing the Company's interim reports and interim management statements, its annual financial statements and consolidated financial statements as well as the Combined Management Report of Klöckner & Co SE and the Klöckner & Co Group. Moreover, the Management Board must ensure that all legal provisions, official regulations and corporate guidelines are adhered to and take steps to ensure that these are also adhered to by the Group companies (compliance).

In the past fiscal year, the Management Board of Klöckner & Co SE comprised five individuals who are appointed and dismissed by the Supervisory Board in accordance with the European Company Regulation, the German Stock Corporations Act (AktG) and the Articles of Association: Chief Executive Officer (CEO) Gisbert Rühl, Chief Financial Officer (CFO) Marcus A. Ketter, Karsten Lork, who was in charge of the operating business in Europe in the reporting year (leaving the Management Board on February 28, 2018), William A. Partalis, who is responsible for the operating business in North and South America (until December 31, 2017) and Chief Operating Officer (COO) Jens M. Wegmann who is responsible for global operations since January 1, 2018 (member of the Management Board since December 1, 2017).

The work of the Management Board is governed, among other factors, by the Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure describe the responsibilities of each Management Board member, specify those matters that are reserved for the full Management Board and describe the decision-making procedures as well as rights and obligations of the Chairman of the Management Board. They also contain rules on the reporting to the Supervisory Board and a list of transactions for which the Management Board requires Supervisory Board approval. Such approval is necessary for all significant, high-risk or unusual transactions as well as for decisions of fundamental importance to the Company. The Rules of Procedure specifically require the Management Board to hold meetings at least once a month, although the Management Board usually meets twice monthly. At such meetings, the Management Board coordinates its work and makes joint decisions.

In addition to the 20 meetings and six resolutions by circulation in the year under review, the members of the Management Board held coordinating discussions on numerous occasions and met or held telephone conferences with the management teams of the major segment country organizations.

SUPERVISORY BOARD

The Supervisory Board of Klöckner & Co SE advises the Management Board and oversees the latter's management of the Company. The Supervisory Board approves the annual budget, the financing arrangements and the annual financial statements of Klöckner & Co SE and the Klöckner & Co Group, the combined Management Report and the consolidated non-financial statement, taking into account the auditor's reports, the Corporate Governance Statement and the Corporate Governance Report. In addition, the Supervisory Board is involved in monitoring adherence to legal provisions, official regulations and corporate guidelines (compliance) by the Company. Moreover, the Supervisory Board is responsible for appointing members to the Management Board and allocating their responsibilities.

The Supervisory Board of Klöckner & Co SE comprises six members, all of whom represent shareholders and are generally elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel; his deputy is Uwe Röhrhoff. As with all members of the Supervisory Board, both have extensive experience in managing and supervising international corporations and possess the high level of professional expertise required to carry out their duties. Costs of external training for Supervisory Board members are met by the Company. All Supervisory Board members are independent within the meaning of Section 5.4.2 of the Code.

The Management Board and Supervisory Board work closely together for the good of the Company. The Supervisory Board is directly involved in decisions of fundamental importance to the Company. It also consults with the Management Board on the Company's strategic positioning and regularly discusses with it the development and the status of business strategy implementation. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings of the plenary Supervisory Board. Regular meetings of the Supervisory Board meetings were conducted in English in the reporting year. The Supervisory Board maintains an ongoing, intensive dialogue with the Management Board to ensure that it stays abreast of business policy, corporate planning and strategy.

Moreover, the Management Board provides regular, timely and comprehensive written and verbal reports to the Supervisory Board. Written reporting centers around the monthly Board Reports, which provide information on the financial position, cash flows and results of Europe and Americas operations of the Group as well as those of its operating segments. The reports also cover capital market developments, macroeconomic indicators relevant to Klöckner & Co SE, an assessment of the Company's situation compared with the rest of the industry as well as trends in steel and metal prices. Items on the agenda of all Supervisory Board meetings include the overall economic situation, the industry situation, the business performance of the Group and its operating segments and the performance of Klöckner & Co shares price relative to industry peers.

In accordance with the Supervisory Board's Rules of Procedure, resolutions are adopted by simple majority unless otherwise stipulated by law or by the Articles of Association. As in past years, all resolutions were adopted unanimously in the year under review.

Once a year, the Supervisory Board evaluates and reviews the efficiency of its own activities. The Supervisory Board does not consider any changes to be necessary in the preparation, running or agendas of its meetings, or in the manner in which tasks are divided between the plenary Supervisory Board and its committees. It considers the division of its work to be well balanced between strategic issues, advisory activities and supervisory duties. The Supervisory Board prepares detailed annual reports for the Annual General Meeting on its work and the main focus of its activities for each fiscal year (p. 10 et seq.).

SUPERVISORY BOARD COMMITTEES

The plenary work of the Supervisory Board is supplemented by its committees. The Supervisory Board has established two committees: a three-member Executive Committee and an Audit Committee, which also has three members. The Executive Committee additionally serves as Nomination Committee, Personnel Committee and Committee for Urgent Matters. No additional committees have been established in view of the relatively small number of Supervisory Board members and the resulting high level of efficiency in plenary work. The committees' chairmen report regularly and comprehensively to the plenary Supervisory Board on the agendas and outcomes of the committee meetings.

EXECUTIVE COMMITTEE

The Executive Committee is composed of the Chairman of the Supervisory Board as Committee Chairman, his Deputy Chairman and one additional member. Thus, the Chairman of the Executive Committee is Supervisory Board Chairman Prof. Dr. Dieter H. Vogel. The remaining members of the Executive Committee are Uwe Roehrhoff, Deputy Chairman of the Supervisory Board, and Prof. Dr. Friedhelm Loh.

In accordance with the Rules of Procedure, the Executive Committee also acts as a Personnel Committee for the purpose of preparing staffing decisions at Management Board level. The Executive Committee proposes suitable candidates to the Supervisory Board for appointment to membership on the Management Board and in particular makes proposals with regard to their remuneration. It also advises on long-term succession planning for the Management Board. In addition, the Executive Committee acts as a Committee for Urgent Matters with decision-making power. It furthermore fulfills the function of a Nomination Committee, in which capacity it proposes suitable candidates to the plenary Supervisory Board for election to the Supervisory Board at the Annual General Meeting.

AUDIT COMMITTEE

The primary task of the Audit Committee is to review the accounting process and the effectiveness of the internal control system, the risk management system and the internal audit system, the audits of the financial statements (notably with regard to the pre-selection, engagement and independence of the auditor), the services additionally rendered by the auditor, issuance of the audit engagement to the auditor, the establishment of focal points for the auditor's activities, fee arrangements, the preparation of the Supervisory Board review of the consolidated non-financial statement and compliance. The Supervisory Board has also entrusted the Audit Committee with discussing the half-year interim reports and the quarterly interim management statements with the Management Board ahead of publication. The Chairman of the Audit Committee, Ute Wolf, is an (independent) financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the Code respectively and, based on multiple years of service as Chief Financial Officer of a listed major international chemicals group, has specific expertise and experience in applying financial reporting principles and internal control systems. Alongside Committee Chairman Ute Wolf, the other members of the Audit Committee are Supervisory Board Chairman Prof. Dr. Vogel and Prof. Dr. Karl-Ulrich Köhler.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board holds at least four, and the Executive Committee at least three regular meetings each year. The Audit Committee normally meets five times a year, but no fewer than four times. Three of those meetings are to discuss the half-year financial report and the quarterly statements Those bodies also hold meetings on an ad-hoc basis as needed. The relevant documentation is always made available at the meetings of the Supervisory Board and its committees. The Supervisory Board held six meetings in the year under review, the Executive Committee four and the Audit Committee five.

PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS

At its September meeting, the Supervisory Board added a profile of skills and expertise for the entire Supervisory Board to the objectives regarding its composition as recommended in the amended Section 5.4.1 of the Code.

Building on the existing nomination criteria, the new profile shall ensure that the Supervisory Board in its entirety has the skills, and professional expertise that are essential for the Company's activities. Such skills and expertise include, for example, experience with and knowledge of managing a large or medium-sized, internationally operating company, experience with and knowledge of distribution/sales, digitalization/online commerce, accounting, financial control, risk management, internal audit and compliance.

In addition, the Supervisory Board should generally be composed in such a way that, taken together, its members possess the knowledge, skills and professional experience required for the proper execution of their duties. Members should also be independent (taking the ownership structure into account).

When proposing candidates to the Annual General Meeting, potential candidates should fit the profile of skills and expertise as stipulated in the Rules of Procedure for the Supervisory Board. Consideration should also be given to diversity in the composition of the Supervisory Board. Moreover, Supervisory Board members should usually not be appointed beyond the age of 75. The regular limit for terms on the Supervisory Board has been set at 15 years. In addition, to avoid potential conflicts of interest, the Supervisory Board members should not be employed by major lenders, competitors, customers or suppliers unless such parties are controlling shareholders of the Company. Another objective laid out in the Rules of Procedure is that two-thirds of the members of the Supervisory Board should be independent within the meaning of Section 5.4.2 of the German Corporate Governance Code, taking into account the ownership structure. In assessing the independence of its members, the Supervisory Board refers to the criteria specified in the recommendation by the European Commission of February 15, 2005 (Appendix 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees [2005/162/EC]). Finally, the nomination must take into account that the Supervisory Board should include at least one financial expert to satisfy the requirements of Section 100 (5) of the German Stock Corporations Act (AktG).

The requirements for nomination to membership on the Supervisory Board depend among other factors on which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's current composition.

STATUS OF IMPLEMENTATION OF THE PROFILE OF SKILLS AND EXPERTISE AND OF COMPOSITION TARGETS/INDEPENDENT MEMBERS OF THE SUPERVISORY BOARD

In the opinion of the Supervisory Board, the objectives set out above and the profile of skills and expertise for the entire Supervisory Board are met in the best possible manner with the current composition of the Supervisory Board. The members of the Supervisory Board possess the requisite knowledge, skills and professional experience. With regard to the profile of skills and expertise, almost all members of the Supervisory Board are or have been in management positions at large or medium-sized companies operating internationally, and hold or have held a variety of responsibilities covering distribution/trading, accounting, controlling, risk management, internal audit and compliance. Furthermore, Prof. Dr. Tobias Kollmann is also regarded as an identified digitalization expert. Therefore, in the Supervisory Board's opinion, all criteria under the newly formulated profile of skills and expertise are currently met with the present composition of the Supervisory Board. Ute Wolf, as CFO of Evonik Industries AG, is financial expert on the Group's Supervisory Board.

Finally, the Supervisory Board also has an appropriate number of independent members. In the assessment of the Supervisory Board, not only two-thirds – as stipulated in the Supervisory Board's Rules of Procedure – but all members of the Supervisory Board are independent within the meaning of Section 5.4.2 of the Code; namely, Prof. Dr. Dieter H. Vogel, Uwe Röhrhoff, Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh and Ute Wolf.

DIVERSITY CONCEPT FOR THE COMPOSITION OF THE MANAGEMENT BOARD AND OF THE SUPERVISORY BOARD

Diversity plays a key role in Klöckner's personnel policy. This also applies to the composition of the Management Board and Supervisory Board. In some respects, diversity is already stipulated here by law (in the Act on Equal Participation of Women and Men in Leadership Positions) or in the German Corporate Governance Code. Klöckner's policy on diversity in the Management Board and Supervisory Board is described in the following.

DIVERSITY CONCEPT FOR THE COMPOSITION OF THE MANAGEMENT BOARD

The diversity policy for the composition of the Management Board takes into account the following diversity aspects, although it should be noted that, on new appointments, account naturally has to be given to executive market conditions with due regard for industry-specific circumstances.

Age:
In accordance with the Supervisory Board's Rules of Procedure, members of the Management Board should usually not to be appointed beyond the age of 67. The Supervisory Board has additionally resolved that, on reappointment of Management Board members who have reached the age of 60 at the time of reappointment, appointments are to be limited to one year as a rule, wheras members may be reappointed multiple times.

Gender:
The target for the percentage of women in the Management Board is 0% (see also the subsequent section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 34).

Educational/professional background:
By law, the Articles of Association and the Rules of Procedure, the Management Board is tasked with orderly management of the business. This gives rise to certain requirements that must be satisfied by the Management Board as a whole and by the individual Management Board members. Besides other general requirements and those relating to each specific responsibility, these notably include management experience and leadership skills. Diversity with regard to educational and professional background therefore necessarily follows from the differing areas of responsibility of the respective Management Board members.

Internationality:
A further criterion is that of internationality. This can already be part of the educational/professional background where a Management Board member has spent part of his or her career and/or education abroad.

OBJECTIVES OF THE DIVERSITY CONCEPT FOR THE COMPOSITION OF THE MANAGEMENT BOARD

With regard to the age of Management Board members, the objective is to attain an appropriate and balanced age structure. The standard retirement age serves a twin purpose here: Firstly, it is intended to enable the retention of incumbent Management Board members for as long as possible so that they can continue to contribute their professional and personal experience to the benefit of the Company. Secondly, the age limit is directed at ensuring regular renewal of the Management Board. Additional flexibility is provided in this regard by the arrangements for reappointing Management Board members.

The target for the percentage of women on the Management Board has been introduced by the Act on Equal Participation of Women and Men in Leadership Positions and is intended to help increase the percentage of women executives. As the target for the Management Board, the Supervisory Board has set a figure of 0%. This partly relates to the size and the current composition of the Management Board. With no new appointments or changes of appointments currently planned, it was necessary to set the target at 0%. The Supervisory Board is conscious of the importance of this topic. However, it is severely constrained here by market and industry conditions.

In terms of educational and professional background, the Supervisory Board believes that diversity is necessary for two reasons: Firstly, to ensure proper fulfillment of the Management Board's duties and obligations as required by law, the Articles of Association and the Rules of Procedure. Secondly, diversity in this regard has the effect of ensuring the widest possible range of approaches in management as a corollary of differing perspectives and experiences. Special emphasis is placed here on management experience and the ability to further advance the digitalization and restructuring of Klöckner & Co.

Finally, internationality must notably be seen against the backdrop of Klöckner & Co SE's global activities with its core markets in Europe and America. This criterion should be met in particular with regard to Management Board members for whom it is necessary to their work.

The aforementioned objectives are generally to be construed relative to, and met by, the Management Board as a whole. Given the size and structure of the Management Board, the Supervisory Board does not consider it appropriate to set specific targets in this regards.

IMPLEMENTATION OF THE DIVERSITY CONCEPT FOR THE COMPOSITION OF THE MANAGEMENT BOARD

The Management Board is appointed by the Supervisory Board. In this connection, the Supervisory Board's supervisory and advisory function, ongoing dialog with the Management Board and, in particular, its involvement in strategy place it in a position to assess the strategic, economic and factual situation of the Company.

Within the Supervisory Board, human resources and succession planning is the responsibility of the Executive Committee which, acting in its capacity as Personnel Committee, submits proposals to the full Supervisory Board. The Executive Committee, and the Supervisory Board itself, regularly consults with the CEO on any suitable internal and external candidates, including with a view to successions. In addition, the Executive Committee and the Supervisory Board hold their own consultations and also discuss these in the absence of the Management Board. In all of this – to the extent that the executive market allows – the diversity aspects described above are also taken into account in the Supervisory Board's decisions on Management Board appointments.

OUTCOMES FOR THE MANAGEMENT BOARD IN FISCAL YEAR 2017

Jens M. Wegmann was appointed member of the Management Board effective December 1, 2017. The term of office of William A. Partalis came to an end with the close of the fiscal year. William A. Partalis also left the Company at this date. Furthermore, as a result of the new composition of the Management Board as resolved by the Supervisory Board, Karsten Lork will leave as of February 28, 2018. In addition, the Supervisory Board resolved on February 22, 2017 to extend Gisbert Rühl's appointment by a further three years.

The target for the percentage of women on the Management Board was 0%. This is consistent with the Management Board's current composition. In the opinion of the Supervisory Board, the current members of the Management Board ensure an appropriate degree of diversity on the Management Board, in particular through their careers as well as their respective educational and professional backgrounds. With his engineering education and comprehensive operating management experience – partly acquired abroad – Jens M. Wegmann represents an ideal addition to the team. All members of the Management Board also have extensive international experience. One Management Board member, William A. Partalis, had his primary place of residence in the USA during the year under review.

The Supervisory Board currently sees no acute need for action in terms of diversity on the Management Board and considers the current size and composition to be appropriate.

Further information on the members of the Management Board is provided in the CVs on the Company's website and in announcements following Supervisory Board resolutions.

DIVERSITY CONCEPT FOR THE COMPOSITION OF THE SUPERVISORY BOARD

In accordance with the Supervisory Board's Rules of Procedure, its members must, in principle, possess the knowledge, skills and professional experience required for the proper execution of their duties and be independent. In addition, the aspect of diversity also has to be taken into account, with the aim of attaining a Supervisory Board that is as diverse as possible in terms of age and gender as well as educational and professional background. The requirements profile for nomination of a Supervisory Board member is largely driven by which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's composition at the time (see also the section, "PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS", on page 29).

OBJECTIVES OF THE DIVERSITY CONCEPT FOR THR COMPOSITION OF THE SUPERVISORY BOARD

The age limit and regular term of service are geared to the objective of being able to find and retain suitable candidates with sufficient professional experience and personal aptitude for office. The regular length of service ensures the requisite continuity with a view to ongoing support for corporate development. At the same time, the limits are intended to help achieve an appropriate rate of renewal on the Supervisory Board. The Supervisory Board considers the age limit and regular length of service to be suitable means of attaining those two objectives.

With regard to the participation of women in leadership positions, the Supervisory Board set a target of 16.6%. The Supervisory Board continues to consider this target appropriate (see also the subsequent section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS," on page 34).

The remaining goals with regard to composition (such as industry knowledge, professional background and internationality) reflect the requirements placed on the Supervisory Board in view of its advisory and supervisory role. Where possible, specific characteristics of the Company must be taken into account here. Due consideration of shareholdings in the Company is a further aspect.

IMPLEMENTATION OF THE DIVERSITY CONCEPT FOR THE SUPERVISORY BOARD

Members of the Supervisory Board are elected by the Company's General Meeting. For this purpose, the Supervisory Board makes nominations for election that are prepared by the Executive Committee (acting in its capacity as Nomination Committee).

Implementation of the diversity policy takes place in the process of nomination for the election of Supervisory Board members at the General Meeting. In this connection, the Supervisory Board takes into account the requirements of the law, the Code and the Rules of Procedure.

These include the need to make a declaration of conformity with respect to corporate governance pursuant to Section 161 of the Stock Corporation Act (AktG) as well as the determination and publication of the target for the percentage of female members. The Supervisory Board also undergoes regular efficiency reviews in the form of a self-evaluation that includes aspects relating to its composition.

OUTCOMES FOR THE SUPERVISORY BOARD IN FISCAL YEAR 2017

In accordance with the recommendation in the second sentence of Section 5.4.1 of the German Corporate Governance Code (as amended on February 7, 2017), the Supervisory Board, by resolution of September 19/20, 2017, established a profile of skills and expertise for the composition of the Supervisory Board as a whole (see also the subsequent section, "PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS", on page 29).

Additionally, with the nomination and election of Ms. Wolf, the Supervisory Board met its self-selected target of 16.6% for the percentage of women members as planned, and its composition thus also meets the statutory requirements in this regard.

Regarding age structure, the election of Ute Wolf and Uwe Roehrhoff has further reduced the overall age of the Supervisory Board. While Prof. Dr. Vogel has exceeded the regular age limit of 75, account must be given in this regard to the fact that the limit is merely intended as a guide, and also to the many changes on the Supervisory Board in the last two years. In this light, the continuity represented by Prof. Dr. Vogel is to be welcomed. His professional and personal qualification are beyond doubt.

From the point of view of the Supervisory Board, its composition meets the selected diversity targets in the best possible manner. In particular, its members present a welcome mix of industries as well as occupational and educational backgrounds, as can be seen from their CVs, which are published on the website and updated annually. Regarding Prof. Dr. Vogel's exceeding the regular age limit, the Supervisory Board considers this to be appropriate for the reasons stated and therefore no change in the composition of the Supervisory Board is planned in this regard. The Supervisory Board thus currently sees no acute need for further action with regard to diversity on the Supervisory Board.

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

Pursuant to the German Act on Equal Participation of Women and Men in Leadership Positions, (i) the Supervisory Board established targets for women on the Supervisory Board and the Management Board and (ii) the Management Board established targets for women at the upper two leadership levels below Management Board level. The date for reaching the targets was set for June 30, 2017.

The Supervisory Board set a target of 16.6% for women on the Supervisory Board and 0% for women on the Management Board. Both targets were met.

The Management Board established the following targets for women at the upper two leadership levels below Management Board level: 12.5% for level 1 and 25% for level 2. As of June 30, 2017, the percentage of women was 25% at level 1 and 0% at level 2. While the level 1 target for the percentage of women was not just reached but exceeded significantly, the percentage of women at level 2 remained below the 25% target during the brief initial implementation period. This is simply the outcome of a corporate department being divided into two and the resulting promotion of a female member of senior management from head of department at Level 2 to head of corporate department at Level 1. The former head of department role has additionally been assumed by the new head of corporate department, with the effect that the percentage of women at Level 2 is now below target. For us, this is a welcome development, as it means we have been able to promote a female member of senior management to the first management level from our own ranks. No other vacancies arose in the reporting period and consequently no further senior management positions were created.

In the year under review, (i) the Supervisory Board was required to set the targets for women on the Supervisory Board and the Management Board and (ii) the Management Board was required to set the targets for women at the upper two leadership levels below Management Board level.

The Supervisory Board has set a target of 16.6% for women on the Supervisory Board and 0% for women on the Management Board. The targets must be met by June 30, 2022.

The Management Board has established the following targets for women at the upper two leadership levels below Management Board level: 33.3% for level 1 and 20% for level 2. These two targets must likewise be fulfilled by June 30, 2022.

ANNUAL GENERAL MEETING

The shareholders of Klöckner & Co SE exercise their rights, including their voting rights, at the Annual General Meeting (AGM). The most recent Annual General Meeting took place in Düsseldorf on May 12, 2017. The next will likewise be held in Düsseldorf, on May 16, 2018. The Management Board and Supervisory Board have provided that the shareholders receive all support and information in accordance with the law, the Articles of Association and the recommendations and suggestions contained in the Code. Klöckner & Co SE publishes the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on its website. The opening of the Annual General Meeting by the Chairman of the Meeting, the CEO's speech and the report by the Supervisory Board are broadcast live online and are made available in recorded form after the Annual General Meeting.

DIRECTORS' DEALINGS (MANAGERS' TRANSACTIONS)

Under Article 19 of the Market Abuse Regulation (EU) No 596/2014, members of the Management Board and Supervisory Board as well as individuals and legal entities closely associated with such members are required by law to disclose to Klöckner & Co SE and to the German Federal Financial Supervisory Authority (BaFin) all purchases or disposals of shares or related financial instruments, notably derivatives, insofar as the value of the transactions reaches or exceeds a total of €5,000 in a single calendar year. All such disclosures are published immediately by the Company. Klöckner & Co sends the corresponding documentation to the German Federal Financial Supervisory Authority (BaFin); the information is furthermore saved in the company register.
The reports are also available on the Company's website at
www.kloeckner.com/en/investors-managers-transactions.html.

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Financial reporting by the Klöckner & Co Group is performed in accordance with International Financial Reporting Standards (IFRS). The financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB). For reasons of simplicity and clarity, the Management Report takes the form of a combined management report covering the separate and consolidated financial statements. By law, the auditor of the separate and consolidated financial statements is elected by the Annual General Meeting. We also ensure that the provisions of the German Corporate Governance Code are adhered to with regard to auditor independence. The auditor and Group auditor appointed by the Annual General Meeting 2017 for fiscal year 2017 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Dr. Markus Zeimes (from 2011, seven signatures) and Ulrich Keisers (from 2016, two signatures) are the key audit partners. KPMG AG, Berlin (or its subsidiary, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been the auditor for Klöckner & Co SE (or its legal predecessor) since fiscal year 2005. For further information on the auditors of the annual financial statements and consolidated financial statements for fiscal year 2018, please see our website www.kloeckner.com.

The audit engagement for the auditor of the annual and consolidated financial statements is prepared by the Audit Committee and then discussed and issued by the Supervisory Board. The Management Board provides a detailed report on the management of opportunities and risks in the Klöckner & Co Group as Section 4.3 of the Combined Management Report.

TRANSPARENCY

Reporting on the Group's situation and on significant events relating to the Group is provided in the Annual Report containing the financial statements and the Management Report as well as other statutory and voluntary disclosures. Other elements of reporting include the half-year financial report in July and the interim management statements published in April after the first quarter and in October after the third quarter of each year. A financial statements press conference as well as an analysts' and investors' phone conference are held on publication of the Annual Report. On publication of the quarterly and half-year reports, we hold conference calls for journalists, analysts and investors. In addition, we organize events and numerous consultations with financial analysts and investors in Germany and internationally, as well as with journalists. Regular dates and events relating to Klöckner & Co SE are listed in the financial calendar on our website. We use the Internet as our main channel of communication for providing shareholders and the public with equal access to timely, comprehensive information. Roadshow presentations for financial analysts and investors are made available to the general public on our website soon after each roadshow. We also publish press releases as needed. Specific information likely to have significant influence on the price of Klöckner & Co shares or other securities is additionally published in ad-hoc announcements as required by the Market Abuse Regulation (EU) No 596/2014). Such matters are governed by a Group policy and an internal committee of experts (ad-hoc committee) who obtain outside advice, particularly on legal issues, as needed.

FUNDAMENTAL CORPORATE PRACTICES – COMPLIANCE

Ensuring adherence to international regulations and fair conduct toward our business partners and competitors is one of our Company's guiding principles. Klöckner & Co SE considers itself to be bound in this connection not only by statutory and other legal provisions. Voluntary obligations and ethical principles are likewise integral to our corporate culture. Observance of such regulations by Group companies, their decision-making bodies and employees is a fundamental management and supervisory responsibility at Klöckner & Co SE. All employees, and in particular managerial employees, are called upon to contribute actively in applying these principles across their areas of responsibility and to act with integrity in their work within our Company.

For this purpose, a compliance management system was installed in 2007. It was most recently reviewed for suitability and effectiveness by an independent expert at the end of fiscal year 2016. The Management Board approved and implemented the fourth generation of the compliance management system during the year under review. Focus areas include antitrust law, anti-corruption, anti-money laundering, export controls and prevention of involvement in human rights violations.

A compliance organization has been established to manage and implement the program and further its development. Compliance officers keep employees informed about the applicable statutory provisions and internal policies at regular intervals. They serve as points of contact for individual questions as they arise. Classroom training is complemented by a Group-wide interactive e-learning program and kept up to date with regular refresher sessions addressing sector-specific compliance issues. All compliance e-learning modules were newly conceived both didactically and with regard to content, and brought up to the latest technical standards during the year under review.

The Code of Conduct published on the Company website and elsewhere and revised in July 2016 sets out basic rules and principles as a framework for our business activities and social engagement. The Code of Conduct is supplemented by a range of Group policies and procedural instructions. Members of the Management Board and all managerial personnel are required to lead by example and have heightened responsibility for ensuring that the Code of Conduct is put into practice.

All employees and business partners have the means to report to the Company any potential compliance violations and instances of non-compliance with the Code of Conduct. A telephone and webbased whistleblower system operated by an external service provider is available for this purpose. The whistleblower system can be accessed free of charge from anywhere in the world and can also be used anonymously.

In addition, we have adopted extensive measures to ensure adherence notably to antitrust, anti-corruption and antimoney laundering rules and regulations as well as to Group policies based on them. The Management Board of Klöckner & Co SE has unequivocally expressed its policy with regard to compliance violations in “Tone at the top” published on the Company intranet and website. Antitrust, anti-corruption and anti-money laundering violations are subject to a zero tolerance policy and result in sanctions against the offending decision-making bodies and/or employees. To prevent corruption risks, we have additionally established strict rules on hiring third-party brokers, whom we assess with the aid of an external service provider before entering into any contract. This review is repeated at regular intervals according to risk. Before being hired or appointed, the top two management levels and all board members are subjected to integrity screenings. The screenings are repeated at regular intervals.

Other compliance measures relate to areas such as supply chain compliance (monitoring conflict minerals, dual-use goods and anti-human trafficking and restricting the use of certain hazardous substances in electrical and electronics devices [ROHS]), capital market law and compliance with relevant Group policies. Statutory provisions prohibiting insider trading are supplemented by a Group insider-trading policy governing dealings with information that could potentially impact the price of Company shares as well as transactions in Company securities by board members and employees. Individuals who have legitimate access to insider information as part of their work are registered on an insider list as stipulated in the Market Abuse Regulation.

2.2 Data protection

Data protection and its central pillars of trust and transparency in the handling of personal data play a vital role at the Klöckner & Co Group. We are conscious of the high standards to which we are held by our customers, our employees and even the vendors in our online marketplaces. Fully meeting these expectations and gaining the trust that goes hand in hand with this is an integral part of our digitalization strategy. In data protection, as elsewhere, customer needs and wishes are at the center of everything we do.

With a view to the above, and in preparation for the new and comprehensive regulatory framework under the EU General Data Protection Regulation, which applies from May 25, 2018, a Group-wide implementation project has been launched. As part of this, we are fully overhauling our existing data protection management system while adapting it to the needs arising from the ongoing digitalization of the Klöckner & Co Group. In the same context, Group Data Protection has been separated out of the compliance organization and now forms a standalone unit with a direct reporting line to the CEO. Reflecting the greater overall prominence of data protection, we have also recruited a new Group Data Protection Officer.

2.3 Remuneration Report

The Remuneration Report reproduced below summarizes the salient features of the remuneration systems for the Management Board and the Supervisory Board and describes the structure and the amounts of the remuneration provided. The Remuneration Report takes into account the recommendations of the German Corporate Governance Code.

Management Board compensation

The remuneration system applicable during the reporting period to members of the Management Board of Klöckner & Co SE was approved at the Annual General Meeting on May 13, 2016 with a majority of 87.03% of votes cast.

Remuneration for Management Board members consists of non-performance-related and performance-related components. The non-performance-related components comprise a basic (fixed) salary, ancillary benefits and pension benefits. In the reporting period, the performance-related component of Management Board remuneration consisted of a variable annual bonus.

The annual fixed salary of ordinary members of the Management Board is €480,000 and that of the CEO is €860,000.

The variable annual bonus for ordinary members of the Management Board is €720,000 at 100% target attainment, subject to a maximum of €1,440,000. The variable annual bonus for the CEO is €1,280,000, subject to a maximum of €2,560,000. In each case, the maximum amounts correspond to 200% target attainment. Total annual remuneration (fixed salary plus bonus) at 100% target attainment is therefore €1,200,000 for ordinary members of the Management Board and €2,140,000 for the CEO.

However, only 49% of the variable annual bonus is paid directly to each Management Board member. Management Board members must use the remaining 51% for a personal investment in Company shares with a vesting period of three years, thus linking it to the Company's sustained performance. Hence, the performance-related component offers mainly long-term performance incentives, gearing the remuneration structure toward the sustained growth of the Company. The size of the variable annual bonus is calculated based on the achievement of targets set by the Supervisory Board at the beginning of each fiscal year. In the report-ing period, as in previous years, target figures for EBITDA and cash flow from operating activities were set for the purposes of the annual bonus based on the Group's budget. For calculation purposes, each of these target figures accounts for 35%. The achievement and implementation of other targets and measures is factored into the bonus calculation at a total weighting of 30%. In the reporting year, these related primarily to (i) attainment of cost savings in the One Europe restructuring and optimization program, (ii) further implementation of the digitalization strategy (among other things by increasing digital sales as a percentage of total sales and integrating third-party providers in the online shops), (iii) increasing the proportion of earnings from sales of higher value-added products and (iv) reducing the lost time injury frequency (LTIF) across the Company.

Under the Management Board members' contracts, the Supervisory Board also has discretionary power to award a special bonus to individual Management Board members for exceptional performance or exceptional accomplishment. In total, however, the special bonus and annual bonus may not exceed the cap on the annual bonus stated above. No special bonus has been awarded since 2010, including during the reporting year.

The remuneration paid to the members of the Management Board – fixed salary and bonus (including the aforementioned discretionary bonus) – is subject to a cap. The cap is €1,920,000 for ordinary members of the Management Board and €3,420,000 for the CEO.

The ancillary benefits primarily consist of insurance premiums and private use of company cars, in the case of the CEO with a driver. In addition to the remuneration components set out above, Management Board members Gisbert Rühl, Jens M. Wegmann and Karsten Lork have defined-benefit pension plans in accordance with the rules of Essener Verband, which in this instance provide for a life-long pension with benefits for surviving dependants. Management Board member William A. Partalis, who departed as of the end of the reporting year, has a comparable pension plan commensurate with the arrangements applicable to him at the US subsidiary prior to his ap-pointment to the Management Board, which likewise include a life-long pension. Instead of pension benefits, Management Board member Marcus A. Ketter receives a fixed amount each year that he must use to provide for his own retirement income (a defined contribution pension plan). Management Board member Jens M. Wegmann additionally receives an accommodation allowance of €1,500 per month limited to a maximum of 18 months from commencement of his contract of service. The accommodation allowance will be discontinued before that time if Jens M. Wegmann relocates his principal place of residence to within commuting distance of the Company.

Other arrangements

Management Board contracts provide for compensation in the event of early termination other than for cause. Such compensation depends on the remaining term of the Board member's contract, but is capped at two years' annual remuneration (severance cap). Under a change-of-control provision, the Company's Management Board members have a special right of termination if the threshold of 30% of the voting rights is exceeded. On exercising this right, they are entitled to payment of their target income until the end of the term of their contract, capped at three times the total remuneration they received in the last fiscal year prior to termination. The personal investment requirement is waived for the remaining term. Also, any personal investment shares still vesting are unlocked and released. The Management Board members are subject to a 24-month post-contractual noncompetition covenant compensated for by payment of half of their final overall remuneration (fixed salary plus bonus at 100% target attainment) p.a. unless the Company waives the clause. In such case, the personal investment requirement is also waived. The Company has directors and officers (D&O) insurance, including for members of the Management Board. For members of the Management Board, this features a deductible of 10% of the claim, limited to one-and-a-half times the annual fixed salary. Management Board member William A. Partalis, who in the reporting year was in charge of the Americas segment, has his principal place of residence in the USA. His employment contract, which provides for remuneration in euros, includes an anti-devaluation clause to limit the impact of exchange rate changes.

Appropriateness

Criteria determining the appropriateness of Management Board remuneration include the individual Management Board member's responsibilities, his or her personal performance, the business situation, earnings and future prospects of the Company, the extent to which the remuneration matches that of industry peers and the remuneration structure adopted by the Company. Both positive and negative factors are taken into account in the performance-related remuneration components. Remuneration levels are set overall to be internationally competitive and to give incentives geared to the Company's sustainable growth and a sustained increase in enterprise value in a dynamic environment. To aid the Supervisory Board in setting the fixed and variable components of Management Board remuneration under the current remuneration system, a horizontal comparative survey of remuneration was carried out. Among other factors, the study was based on an independently compiled study of remuneration paid to regular management board members and CEOs at other companies. Due to the lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies are included in the analysis. The Supervisory Board also regularly reviews the current remuneration system with regard to its components and the amount of fixed and variable remuneration.

Horizontal comparison of the Management Board remuneration with that of other companies for the purpose of establishing the current remuneration system showed Klöckner & Co SE to be below the average of comparative figures regarding the amount and structure of remuneration. In addition, a vertical comparison with the compensation for senior management and the Group workforce as a whole was carried out. In this case, the Supervisory Board determined that the structure and the amount of the total remuneration paid to the Management Board members was commensurate with their duties and performance, the remuneration structures in the Company and the situation of the Company, was geared to the Company's sustainable growth and did not exceed normal levels. Regular checks are made to ensure that these findings remain up to date.

Compensation for 2017

The tables below show the individual remuneration entitlements of Management Board members for 2017 as provided for in the German Corporate Governance Code:

Granted compensation	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2016	2017	2017 (Min.)	2017 (Max.)	2016	2017	2017 (Min.)	2017 (Max.)
Fixed compensation	860	860	860	860	480	480	480	480
Ancillary benefits[1)]	41	41	41	41	127	128	128	128
Total	**901**	**901**	**901**	**901**	**607**	**608**	**608**	**608**
One year's variable compensation	1,280	1,280	-	2,560	720	720	-	1,440
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**2,181**	**2,181**	**901**	**3,461**	**1,327**	**1,328**	**608**	**2,048**
Postemployment benefits	664	746	746	746	-	-	-	-
Total compensation	**2,845**	**2,927**	**1,647**	**4,207**	**1,327**	**1,328**	**608**	**2,048**

1) Includes for Marcus A. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) The virtual stock option plan was terminated in 2015. More information on the stock option plan can be found in our Annual Report 2015.

Granted compensation	Karsten Lork				William A. Partalis			
(€ thousand)	2016	2017	2017 (Min.)	2017 (Max.)	2016	2017	2017 (Min.)	2017 (Max.)
Fixed compensation	480	480	480	480	480	480	480	480
Ancillary benefits	29	30	30	30	29	30	30	30
Total	**509**	**510**	**510**	**510**	**509**	**510**	**510**	**510**
One year's variable compensation[3)]	720	720	-	1,440	762	720	-	1,440
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**1,229**	**1,230**	**510**	**1,950**	**1,271**	**1,230**	**510**	**1,950**
Postemployment benefits	152	184	184	184	218	-	-	-
Total compensation	**1,381**	**1,414**	**694**	**2,134**	**1,489**	**1,230**	**510**	**1,950**

3) In the case of William A. Partalis, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.

Granted compensation	Jens M. Wegmann (COO since December 1, 2017)			
(€ thousand)	2016	2017	2017 (Min.)	2017 (Max.)
Fixed compensation	-	40	40	40
Ancillary benefits	-	3	3	3
Total	**-**	**43**	**43**	**43**
One year's variable compensation[3)]	-	60	-	120
Multi-year variable compensation[2)]	-	-	-	-
Total	**-**	**103**	**43**	**163**
Postemployment benefits	-	36	36	36
Total compensation	**-**	**139**	**79**	**199**

Proceeds	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2016	2017			2016	2017		
Fixed compensation	860	860			480	480		
Ancillary benefits[1)]	41	41			127	128		
Total	**901**	**901**			**607**	**608**		
One year's variable compensation	1,424	1,471			801	827		
Multi-year variable compensation[2)]								
- Virtual stock option plan	162	534			54	84		
Total	**2,487**	**2,906**			**1,462**	**1,519**		
Postemployment benefits	664	746			-	-		
Total compensation	**3,151**	**3,652**			**1,462**	**1,519**		

1) Includes for Marcus A. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) The virtual stock option plan was terminated in 2015. More information on the stock option plan can be found in our Annual Report 2015.

Proceeds	Karsten Lork				William A. Partalis			
(in T€)	2016	2017			2016	2017		
Fixed compensation	480	480			480	480		
Ancillary benefits[1)]	29	30			29	30		
Total	**509**	**510**			**509**	**510**		
One year's variable compensation[3)]	801	827			848	827		
Multi-year variable compensation[2)]								
- Virtual stock option plan	54	84			80	218		
Total	**1,364**	**1,421**			**1,437**	**1,555**		
Postemployment benefits	152	184			218	-		
Total compensation	**1,516**	**1,605**			**1,655**	**1,555**		

3) In the case of William A. Partalis, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.

Proceeds	Jens M. Wegmann (COO since December 1, 2017)			
(€ thousand)	2016	2017		
Fixed compensation	-	40		
Ancillary benefits	-	3		
Total	**-**	**43**		
One year's variable compensation	-	69		
Multi-year variable compensation				
Total	**-**	**112**		
Postemployment benefits	-	36		
Total compensation	**-**	**148**		

Supervisory Board

The structure and amount of remuneration paid to Supervisory Board members are governed by Article 14 of the Articles of Association, which are published on the Company's website.

Remuneration consists mainly of fixed remuneration allocated pro rata temporis in the event of personnel changes during the fiscal year. An attendance fee is also paid and reasonable out-of-pocket expenses and value added tax are reimbursed. The Company covers the cost of external training for Supervisory Board members via expense accounts. The fixed amount is €40,000 per fiscal year. The Chairman of the Supervisory Board receives two-and-a-half times the fixed remuneration amount, and his or her deputy receives one-and-a-half times that amount. The Chairman of the Audit Committee is paid one-and-a-quarter times the fixed amount.

The attendance allowance is €2,000 per meeting. The Chairman of the Supervisory Board and any Chairman of a Supervisory Board committee each receive two-and-a-half times this amount and their deputies one-and-a-half times this amount. Pursuant to Section 314 (1) No. 6 of the German Commercial Code (consolidated financial statements) and Section 285 No. 9 of the German Commercial Code (single-entity financial statements), Supervisory Board remuneration totaled €517,166 in 2017 (2016: €500,334). The table below shows the individual remuneration entitlements of Supervisory Board members for 2017 pursuant to Section 5.4.6 (3) sentence 1 of the German Corporate Governance Code. All payments are due after the close of the Annual General Meeting in 2018.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	60,000	160,000
Ulrich Grillo (Deputy Chairman) – until May 12, 2017	25,000	14,000	39,000
Uwe Roehrhoff (Deputy Chairman) - since May 12, 2017	40,000	15,000	55,000
Prof. Dr. Karl-Ulrich Köhler	40,000	20,000	60,000
Prof. Dr. Tobias Kollmann	40,000	10,000	50,000
Dr. Friedhelm Loh	40,000	20,000	60,000
Dr. Hans–Georg Vater (until May 12, 2017)	20,833	18,000	38,833
Ute Wolf (since May 12, 2017)	33,333	21,000	54,333
Total	**339,166**	**178,000**	**517,166**

In 2016, the Company contracted with Prof. Dr. Tobias Kollmann to develop and implement a training program for Klöckner & Co Group employees. The program consists of online seminars on digitalization (e-business). Prof. Dr. Kollmann also provided services under the same contract in the reporting year, for which he was paid €92,778.35. This includes the payment of €29,700 already shown in the Annual Report 2016. No further remuneration is outstanding under the contract, nor is any stipulated.

No other remuneration or benefits for services rendered on an individual basis – particularly consulting or agency services – were granted to Supervisory Board members in the year under review.

GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report[1] for Fiscal Year 2017

[1] For the Remuneration Report and the Corporate Governance Statement pursuant to Section 289f and Section 315d of the German Commercial Code (HGB), which are integral parts of the Group Management Report, please see the Corporate Governance section on pages 24–43 of this report.

1. Fundamental information about the Group

1.1 Group structure

Klöckner & Co SE is the parent and ultimate holding company of the Klöckner & Co Group. It controls the management companies of the Europe and Americas segments with their operational country organizations. The Group's legal and financial structure has changed as follows relative to the prior year:

After restructuring the European distribution business at country level as well as downsizing capacity and pooling operations over the last few years, we have brought the activities of the European country organizations even closer together under the "One Europe" program. The first region comprises Austria, Belgium, Germany and the Netherlands. The second consists of France and Great Britain. In this way, we aim to generate synergies – notably in procurement, logistics and higher value-added processing – and to facilitate the ongoing implementation of our digitalization strategy.

Alongside "One Europe", we developed another program during the year under review, "One US", which begins in 2018. Our aim with "One US" is to further boost efficiency within our U.S. subsidiary. The program entails merging the American units, which until now have been divided into product groups. They are now to be brought together into a single organization in order to further accelerate implementation of our digitalization strategy and growth of higher value-added business.

As a key pillar of our "Klöckner & Co 2022" strategy, we have established XOM Metals GmbH. The vertical, open industry platform is operated independently of our online activities such as, for instance, our online shops and enables both steel makers and steel distributors, some of whom are in competition with us, to market their products online.

Klöckner & Co SE's subscribed capital remains unchanged at a total of €249.4 million, composed of 99.75 million no-par-value registered shares carrying full voting rights. Since the initial public offering at the end of June 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard).

1.2 Business activities/business model

Around 170 distribution and service locations in 13 countries

Klöckner & Co SE is one of the world's largest producer-independent distributors of steel and metal products and one of the leading steel service center companies. We act as a connecting link between steel producers and consumers. As we are not tied to any particular steel producer, customers benefit from our centrally coordinated procurement system and wide range of national and international sourcing options from over 50 key suppliers worldwide. We also have an outstanding procurement network and work exclusively with companies of above-average reputation. Our key competitive factors are scale economies in global procurement, our broad product portfolio and customer access via an extensive logistics and distribution network, plus a very wide range of processing services. Spanning 13 countries with a focus on Europe and the US, our global network provides customers with local access to some 170 distribution and service locations. Our high product availability levels largely eliminate the need for customers to hold inventory. Concentrated mainly in construction as well as the machinery and mechanical engineering industries, our customer base comprises around 120,000 mostly small to medium-sized steel and metal consumers. In addition, we supply intermediate products for the automotive, shipbuilding and consumer goods industries. We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes we are increasingly migrating to digitalization. For example, we use a variety of digital tools and portals to enable us to offer our customers and business partners a broader spectrum of steel and metal products as well as services, and we are constantly refining the range of products and services offered based on user feedback. We have thus taken on a pioneering role in the digitalization of steel distribution.

Our approximately 8,700 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. About 70% of our workforce is employed in Europe and 30% in the Americas.

Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented and served by wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and some 1,200 in the more consolidated North American market. Our market share in steel and metal distribution is around 7% in Europe and approximately 4% in the USA. In Europe and the USA, we are one of the top three distributors and steel service centers.

1.3 Corporate strategy

“Klöckner & Co 2022” – our strategy

The international steel 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. Operating on the leading edge of the digitalization movement, Klöckner & Co has broadened its strategy with the goal of increasing digitalization, efficiency and thus profitability. We have defined three strategic cornerstones, 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: Digital transformation of our business is the cornerstone of our strategy. 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 industrial platform. We will benefit from the clear line we have taken here in incorporating the opportunities and potential inherent in online marketplaces in our business.

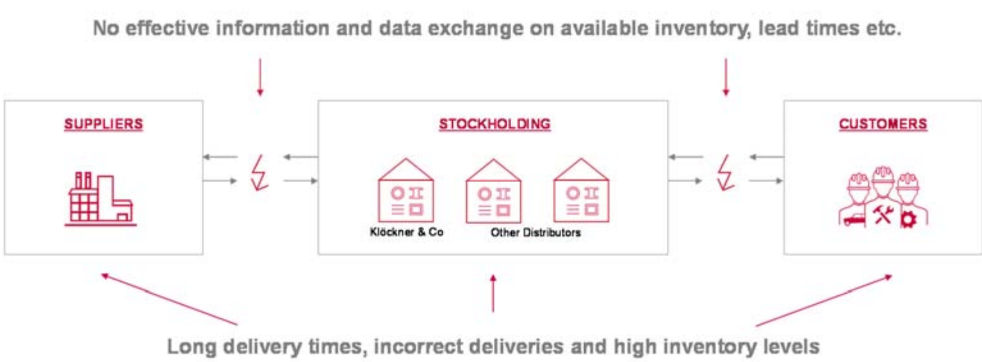
2. Higher value-added business: Focusing on business with higher margins remains a key thrust of our “Klöckner & Co 2022” strategy. We expect digitalization to give this pillar of our business an additional boost as well.

3. Efficiency improvement: Launched in 2017, our “One Europe” program has already noticeably increased efficiency. We are making progress in the USA as well, having initiated “One US” with the aim of generating another substantial boost to efficiency.

Our new, extended “Klöckner & Co 2022” strategy is backed up by a broad range of flanking activities as well as a self-prescribed cultural transformation for the entire workforce and our Group divisions.

DIGITALIZATION AND PLATFORMS

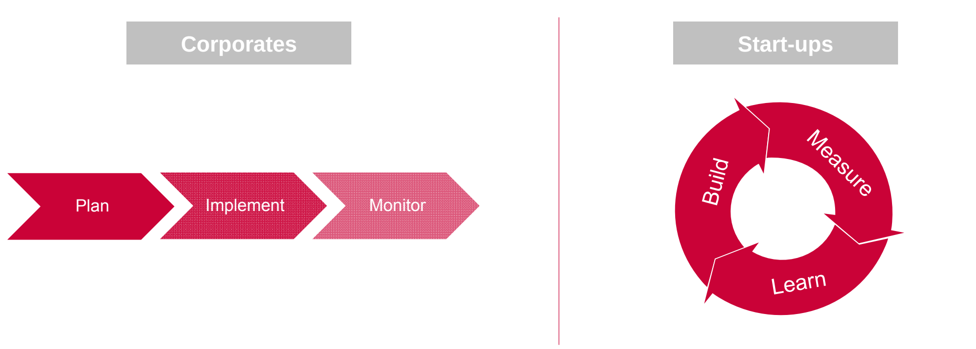
The supply and value chain in the steel industry remains highly inefficient to this day. Many transactions continue to be carried out by telephone, fax or e-mail. There is no end-to-end digital order and production management. The intransparency resulting from the disruption in the flow of information at multiple points means that too many market participants are stockpiling a lot of steel at all levels of the supply chain. Process costs are also too high.



The digitalization strategy developed by Klöckner & Co aims to eliminate information asymmetries by digitally connecting all market participants in order to increase efficiency for all.

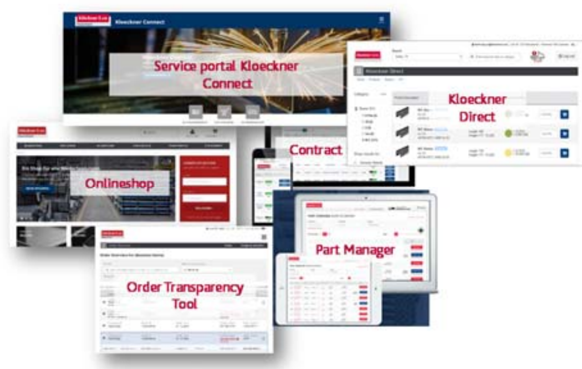
All projects and initiatives relating to Klöckner & Co’s digitalization and digital networking are being driven forward by kloeckner.i, our Group Center of Competence for Digitalization, from the heart of the German start-up scene in Berlin. Approximately 80 employees now work at kloeckner.i in the fields 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. To this end, we first go directly to the customer’s premises and evaluate on site how we can create added value. Once we have made our evaluation, we need just a few weeks to develop simple prototypes. The initial prototypes are specifically designed to cover solely the most important functions. Through constant testing, we then check with our customers whether and to what extent the individual tool meets the given requirements. This ensures that only prototypes that have already been validated with customers are developed into solutions. These new workflows have also given us a boost in speed when compared with the traditional methods employed by large corporations.



kloeckner.i is our own start-up enterprise, which we founded as a separate operation in Berlin. The new company is far enough removed from Klöckner & Co for it to act more independently in rapidly developing digital tools and portals than would be possible from within Klöckner & Co. However, kloeckner.i is connected closely enough with Klöckner & Co for it to harness the Company's in-depth expertise in steel distribution and leverage our relationships with customers and suppliers in developing solutions.

Thanks to our agile working methods, the online order processing system first outlined in our 2014 Annual Report has now largely become a reality. Our customers have already successfully implemented digital tools such as contract portals, online shops and order reviews. Apart from developing new tools, we have also continued to roll out existing solutions across the Group. As a result, the percentage of sales generated via digital channels rose steadily, increasing from 9% in the first quarter of 2016 to 18% at the end of the fourth quarter of 2017. At the same time, we have connected up with wholesalers and major steel producers on the procurement side.

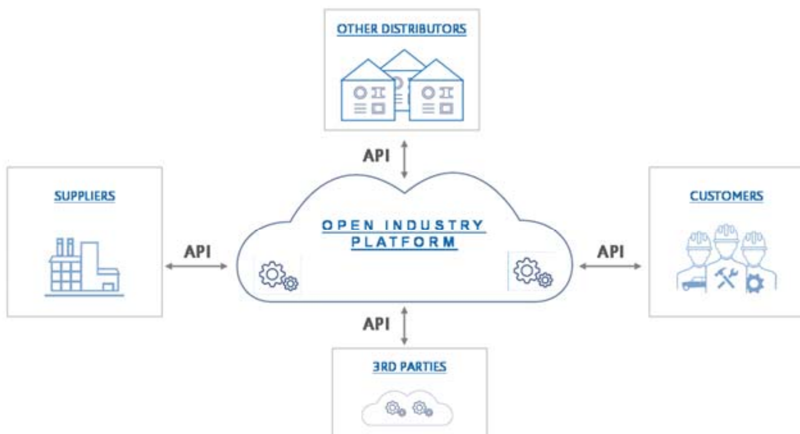


At many of our country organizations, the digital tools in use have already been integrated into our "Kloeckner Connect" service portal. The platform gives both customers and partners a central access point for all tools and data, which they are then able to use much more efficiently than before.

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

Alongside digitalization of processes throughout the Group, intelligent use of the data generated is also gaining 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). AI has already helped us to automate parts of our IT infrastructure through permanent learning processes and continuous self-improvement. Going forward, having access to improved data assessments incorporating a wide variety of factors will make it possible to predict demand for steel and price trends with much greater accuracy. At the same time, a more in-depth analysis of customer behavior will open up additional growth potential.

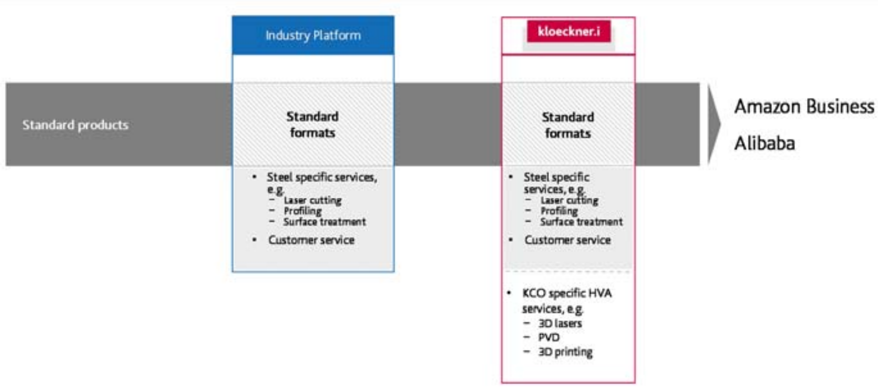
Moreover, we have already gone live with the first version of our open industry platform. By contrast with the Klöckner & Co online shops, the industry platform operates as a completely independent marketplace for the steel and metal industry and is therefore also open to direct competitors of Klöckner & Co. Growth of the open industry platform is to be funded by venture capital, which will also ensure its gradual independence from Klöckner.



API = Application Programming Interface

In digitalizing steel and metal distribution, Klöckner & Co has initiated a process that marks the beginning of the end of the linear supply and value chains typical of the sector. Trading in steel and metal products is increasingly moving to three digital channels. In the future, distribution will occur via the proprietary online shops of individual dealers, industry-specific vertical platforms and cross-sector horizontal platforms.

We will be in a position to offer the entire range of products and services, irrespective of manufacturer, via all online sales channels. Yet our portfolio will be strictly geared to the needs of our customers. The end result will be procurement processes for products and services that are considerably simpler, more transparent and more efficient.

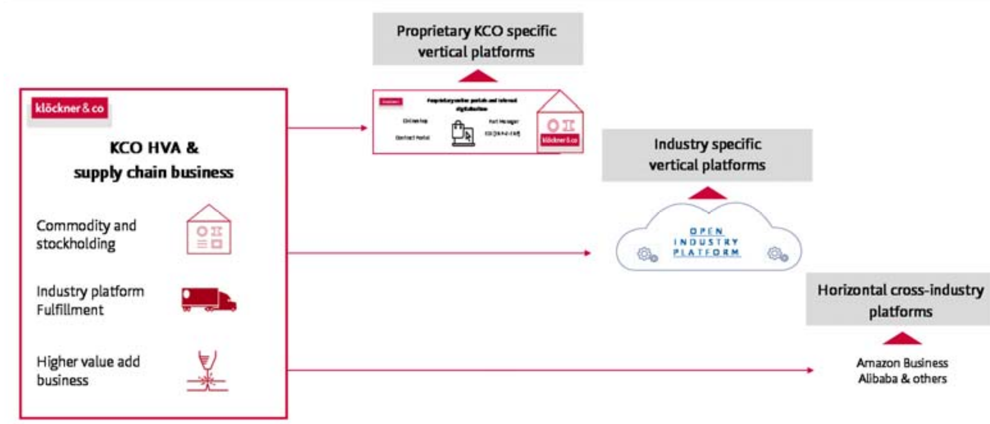


Proprietary online shops: Klöckner & Co is already setting new standards in steel and metal product trading with its online shops. Customized online shop solutions will enable us to offer customers more specialized products and services in the future.

Vertical platform: Klöckner & Co is set to revolutionize steel distribution by building an open, vertical industry platform. The platform will be directed at price-sensitive customers with product expertise, whom we will offer a vertical platform containing a wide-ranging product portfolio with transparent pricing and availability. To this end, the platform will aggregate the products and services offered by various suppliers.

Horizontal platforms: We will be taking active advantage of our extensive online marketing expertise to offer standardized steel and metal products, without any add-on services, on cross-sector, horizontal platforms operated by third parties. The focus here will be on infrequent, low-volume customers.

We are perfectly poised to take on a market-dominating position in all online sales channels for steel and metal products going forward.



With regard to the ongoing implementation of our digitalization strategy, we have set ourselves ambitious goals: By 2022, we want to see 60% of all Group sales generated via digital channels. Digitalization is then projected to contribute more than one percentage point to our EBITDA margin, essentially by generating additional business and improving efficiency.

We connect up with external start-ups via our kloeckner.v venture capital company. This company invests both through selected venture capital firms and directly in start-ups that support our digitalization strategy with disruptive approaches. Our first such direct investment was in Contorion, an online building supplies marketplace for tradespeople. In the second quarter of 2016, we invested an amount in the mid seven digits, and sold our stake for more than twice that amount in the second quarter of 2017. Also in the second quarter of 2017, we invested in tech start-up BigRep. BigRep develops and manufactures the world's largest commercially available 3D printer. Apart from the financial investment in the company, Klöckner & Co plans to deploy BigRep's industrial-scale 3D printers across its extensive location network in Europe and the USA.

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. For example, 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 being 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 all of Germany in the category of Leadership Culture. We also achieved an outstanding ranking in the category of Work Climate, coming in at 38th place.

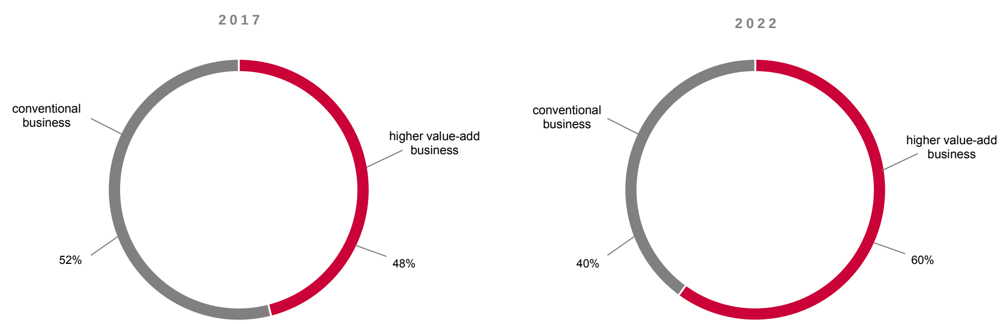
HIGHER VALUE-ADDED BUSINESS

Higher value-added business has great potential in the market. 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. At home in Germany, we have already taken our third 3D laser into operation, thus very successfully occupying a market niche.

3D printing is a new technology that we brought to our organization in the reporting period. After successful initial tests with our first 3D printer at kloeckner.i in Berlin, Klöckner & Co Deutschland GmbH – our German country organization – invested in a 3D printer to enter the growth market of additive manufacturing.

In addition, we will also be undertaking a major expansion of our higher-margin business in higher value-added products. 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 in the reporting year. The service center has a total processing capacity of 80,000 tons of aluminum per year.

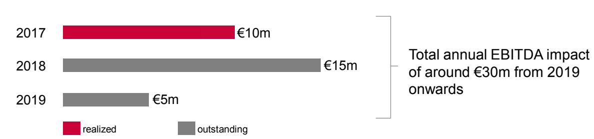
After having generated 48% of sales in higher value-added business in fiscal year 2017, we aim to increase this share to 60% by 2022.



Efficiency improvement

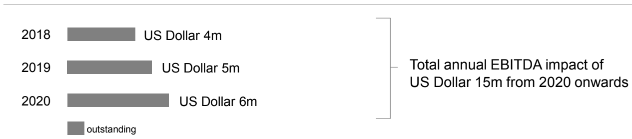
"ONE EUROPE" PROGRAM

Over the last few years, we have restructured the European distribution business at the country level, downsized capacity and pooled operations. Under the "One Europe" program, we have brought the activities of our country organizations in Austria, Belgium, France, Germany, the Netherlands and Great Britain even closer together. In this way, we not only aim to generate cost savings and synergies more readily – especially in purchasing and logistics – but also to enable even faster, more efficient implementation of the "Klöckner & Co 2022" strategy. "One Europe" is projected to contribute around €30 million per year to EBITDA from 2019 onward, and the program already brought in €10 million in fiscal year 2017.



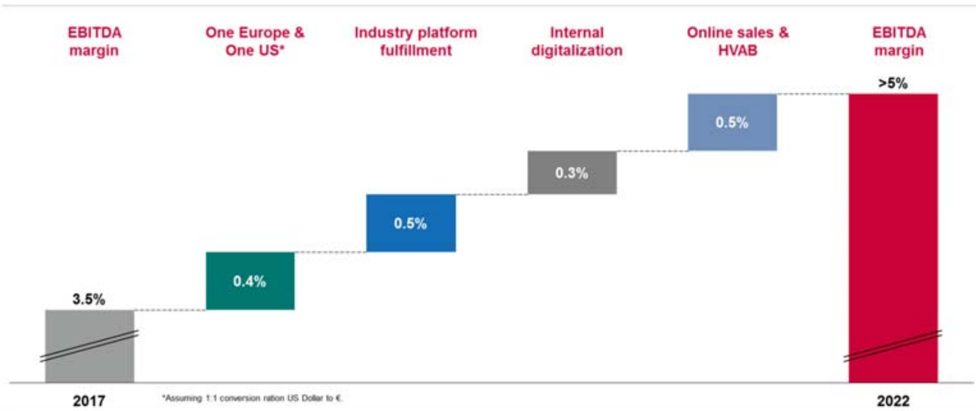
ONE US PROGRAM

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



EBITDA MARGIN TO EXCEED 5% BY 2022

In total, we plan to improve our EBITDA margin from the 3.5% recorded in the reporting period to over 5% in 2022. Digitalization, our "One Europe" and "One US" optimization programs as well as our expanded higher value-added business (HVAB) are expected to deliver the main contributions to the increase.



1.4 Control system

Financial performance indicators

Key performance indicators pursuant to GAS 20

The most significant key performance indicators (KPIs) used in the management of Klöckner & Co's business are sales, gross profit and gross profit margin, operating income (EBITDA – earnings before interest, taxes, and depreciation and amortization including impairments and impairment reversals on intangible assets and property, plant and equipment) the EBITDA margin, and net working capital. These central KPIs are reported and monitored at the level of the Group as a whole as well as at segment level.

Sales is a key performance indicator used in management of the distribution business. Gross profit is sales less cost of goods sold and is thus an important indicator of the Company's profitability. In view of the time lag between the setting of procurement and selling prices, we support our analysis by keeping a close watch on price trends in procurement markets. Windfall effects have a notable impact on the gross profit margin (gross profit as a percentage of sales). In the medium term, our strategy of increasingly marketing higher value-added products and services is geared to boosting our gross profit margin to a higher level with smaller fluctuations. The most significant KPI for results of operations is operating income (EBITDA), or, if major restructuring is in progress, EBITDA before restructuring measures. This takes into account all costs subject to short-term influences. Based on this, the EBITDA margin – EBITDA as a percentage of sales – is a key indicator in steel distribution and in the capital markets.

Fixed asset intensity ratios tend to be low in steel distribution, while current asset intensity tends to be very high. We therefore keep a close eye on net working capital. In the Klöckner & Co Group, net working capital is defined as inventories plus trade receivables less trade payables. Just-in-time procurement by customers calls for high levels of availability in our merchandise inventories. Stockholding levels are thus closely tied to shipments and our results of operations. For this reason, we keep a constant watch on net working capital, including against the backdrop of changes in EBITDA. From a risk perspective, we therefore place special emphasis on trade receivables here as well, while fine-tuning inventories less trade payables.

Other key figures

One of our most significant key performance indicators back in 2016, net financial debt is now a performance metric used to capture the capital tied up in the business, which in turn is substantially influenced by changes in net working capital. In addition to these primary key performance indicators, we also monitor other important KPIs. Net financial debt (financial liabilities less cash and cash equivalents) is an important indicator in corporate finance management. Changes in net financial debt also reflect cash generated by the business. The capital markets, too, look to net financial debt in determining the value of our stock. For that reason, we constantly monitor gearing (net financial debt), equity and the leverage ratio (net financial debt/EBITDA).

These key performance indicators are the basis of management processes and decision making at strategic and operating level, including for purposes such as investment and acquisition decisions. Changes in the key performance indicators are reported on in the “Results of operations, financial position and net assets” section.

Non-financial performance indicators

Focus on lost time injury frequency rate

We believe that non-financial objectives are likewise critical to the Company's success. Accordingly, we give high priority to health and safety in the workplace. Initiatives we have adopted to this end include, for example, our Group-wide "Safety 1st" program. The measures aim to ensure safe working conditions as well as to reduce accidents at work and the costs they entail. Our key performance indicator for this purpose is the lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. Our LTIF target is to reduce accident frequency to an LTIF value of less than 10 at all subsidiaries. This target is integrated as a variable component in the remuneration system for European management.

2. Economic report

2.1 Macroeconomic conditions

Economic environment

MACROECONOMIC SITUATION

Global GDP growth in 2017: 3.7%

After a start to the year marked by ongoing political uncertainty due to the newly elected American administration, the global economy grew considerably in the course of 2017. Key drivers were a favorable global financial market environment, economic recovery in industrialized nations and a broadly positive trend in raw materials markets. Global economic growth came in at 3.7% in 2017.

Performance of the eurozone economy continued to be influenced in 2017 by the European Central Bank's expansionary monetary policy, elections in various European countries and preparations for Brexit. Economic output was up in many countries across the currency area. Overall economic growth stood at 2.4%.

In the USA, growth was initially weak at the start of the year after the new administration took office. However, the economic upswing picked up again considerably thanks to the robust employment market in particular. Total economic output rose by 2.3%.

Gross domestic product (GDP) in China saw a somewhat more substantial increase to 6.8% thanks to a more expansionary economic policy, which includes economic policy easing and reforms to cut overcapacity in the industrial sector.

Brazil succeeded in pulling itself out of its recession in 2017 to grow by 1.1% year on year. Both private consumption and stronger export growth were key factors in the turnaround. However, political conflicts and weak public finances continue to make for an unstable economic environment.

Development of GDP (in percent)	2017 vs. 2016
Europe	**2.4**
Germany	2.5
Great Britain	1.7
France	1.8
Spain	3.1
Switzerland	1.0
China	**6.8**
Americas	
USA	2.3
Brazil	1.1

Source: International Monetary Fund, estimates (in some cases provisional).
*) Eurozone.

Industry-specific situation

Although the macroeconomic climate remains favorable, the steel industry continues to face challenges. Global crude steel production gained 5.3% in 2017 to reach a level of 1,691 million tons of crude steel. According to the World Steel Association, the production volume in the European Union rose by around 4.1%. The increase was even greater in North America, where volumes came in at 4.9%. China saw production increase by about 5.7%.

Global crude steel production up by 5.3%

While there are positive signs of the persistent overcapacity in the Chinese and European steel industries being scaled down, this continues to cause problems, resulting in structural underutilization at prevailing demand levels. At the end of December 2017, steel producers worldwide were operating at only 70% capacity. There is also significant excess capacity at the distribution level. This results in sustained intense competition.

Steel production

(in million tons)	2017	2016	Variance
France	15.5	14.4	7.6%
Germany	43.6	42.1	3.6%
Spain	14.5	13.6	6.6%
Great Britain	7.5	7.6	-1.3%
EU–28, total	**168.7**	**162.0**	**4.1%**
Rest of Europe	**40.6**	**35.9**	**13.1%**
C.I.S.	**102.1**	**102.1**	**0.0%**
United States	81.6	78.5	3.9%
Rest of North America	34.4	32.1	7.2%
North America total	**116.0**	**110.6**	**4.9%**
South America total	**43.7**	**40.2**	**8.7%**
Africa	**15.0**	**13.1**	**14.5%**
Middle East	**34.9**	**31.5**	**10.8%**
China	831.7	786.9	5.7%
Rest of Asia	330.8	316.3	4.6%
Asia total	**1,162.5**	**1,103.2**	**5.4%**
Oceania total	**6.0**	**5.8**	**3.4%**
Other countries	**16.5**	**19.0**	**-13.2%**
Global	**1,691.2**	**1,606.3**	**5.3%**

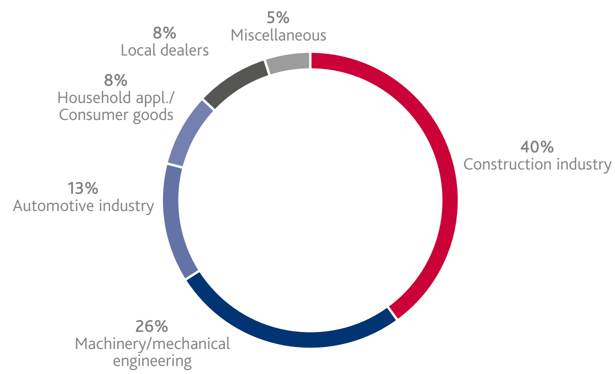
Source: World Steel Association (as of January 2018, preliminary figures for 2017).

2.2 Sector environment

CUSTOMER SECTORS OF KLÖCKNER & CO SE (BY SALES)

Klöckner & Co's highest revenue customer sector in the past fiscal year was the construction industry, accounting for 40% of sales, followed by machinery and mechanical engineering (26%) and the automotive industry (13%).

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

The construction industry is the world's biggest consumer of steel and its performance is therefore a major determinant of steel demand. According to estimates by industry association EUROFER, European construction activity grew by approximately 4% in 2017. In Western Europe, the increase was driven mainly by residential construction, although infrastructure activities also picked up. The construction industry in the USA likewise profited from trends in private-sector construction. Construction spending increased by 4% compared with the prior-year period according to the U.S. Census Bureau.

Machinery and mechanical engineering

EUROFER estimates that the European machinery and mechanical engineering sector picked up considerably relative to the prior year with growth of approximately 5%. The increase was notably favored by greater investment in automation and robotics. In the USA, mechanical engineering production rose by 4%. The higher volume of investment was reinforced by international competition.

Automotive industry

Fiscal year 2017 was a positive year for the international automotive industry. According to the German Association of the Automotive Industry (VDA), global demand for passenger cars grew by 2% relative to the already strong prior year. In Europe, unit sales rose by 3%. The US market shrank by 2%. The Chinese market was also able to grow again, with a 2% increase year on year.

2.4 Comparison of the Group's actual business performance with the forecast from the prior year

Market assumption confirmed and in part exceeded

Our guidance for the reporting period set out in the Annual Report 2016 was based on the assumption of slightly higher steel prices in Europe and the USA, the two regions of importance to our business. Expectations were exceeded in both regions given the unexpectedly high increase in prices. We had also forecast a slight increase in steel demand in both Europe and the US. This expectation proved correct.

With our market expectations largely confirmed, sales increased measurably and even slightly more strongly than projected. At Group level, sales amounted to €6,292 million, up 9.8%. Despite the sale of our Spanish activities and the withdrawal from the pipe business in the USA, sales rose noticeably in the Europe segment (9.4%) and even significantly in the Americas segment (10.4%).

For the Europe segment, we had projected that gross profit would remain constant. This expectation was confirmed in the course of the fiscal year. Gross profit in the Americas segment increased slightly – also in line with our forecasts. In total, gross profit rose by 0.1%, which is within the expected range.

The gross profit margin decreased measurably in both segments and hence also at Group level. The drop of 2.0 percentage points to 20.9% was the result of higher price levels and decreasing price momentum over the course of the year. We had originally anticipated a slight decrease in the Europe segment and a constant outcome for the Americas segment as well as at overall Group level.

Whereas last year we anticipated a slight increase in operating income (EBITDA) at Group level, EBITDA developed considerably better, growing by 12.3% to €220 million.

Although we had previously anticipated a slight decrease, operating income in the Europe segment was stable due to higher-than-expected price levels. Operating income in the Americas segment saw a strong increase, thus even exceeding our prior-year expectations of a considerable increase. The reasons for the especially positive outcome were the development of the price level in the USA and cost savings in excess of expectations.

The EBITDA margin in the Europe segment went down considerably, whereas our forecast had anticipated only a slight decrease. The main reason for the discrepancy was increasing pressure on gross profit margins as the year progressed. At the levels of the Americas segment and the Group, the EBITDA margin performed close to expectations with a considerable and a slight increase, respectively.

Net working capital increased moderately in the Europe segment due to the higher prices after we had projected that it would merely remain constant at both Group and segment level. In the Americas segment, on the other hand, net working capital showed a noticeable decrease. Gratifying progress in our internal optimization measures contributed to this outcome. As a result, net working capital at Group level went up by just 1.0% to €1,132 million.

Contrary to our forecast, net debt dropped sharply from €444 million to €330 million. This notably relates to the sale of our Spanish activities.

2.5 Workplace injury frequency

We measure the frequency of workplace accidents using the key performance indicator of lost time injury frequency (LTIF). LTIF is defined as the number of accidents/number of hours worked x 1,000,000. Our LTIF target is to reduce average accident frequency to an LTIF of less than 10 at all Group companies. That target has also been integrated in the remuneration system for European management as a variable component. As a result of the measures adopted, we were able to reduce LTIF across the Group by 1.8 points relative to the prior year to 9.3 in 2017 (2016: 11.1).

Due to the measures and initiatives we have implemented in the area of occupational safety we expect to succeed in continuing to slightly reduce the number of workplace injuries at Group level.

2.6 Results of operations, financial position and net assets

The most significant key performance indicators for our results of operations, financial position and net assets for fiscal 2017 – as presented under “Control system” on page 56 – are set out in the following. The consolidated financial statements are prepared in euros. Discrepancies may arise relative to the unrounded figures.

MOST SIGNIFICANT KEY PERFORMANCE INDICATORS ACCORDING TO GAS 20

(€ million)	2017	2016	Variance	
Sales	6,292	5,730	562	9.8%
Gross profit	1,316	1,315	1	0.1%
Gross profit margin	20.9%	22.9%		–2.0%p
EBITDA	220	196	24	12.3%
EBITDA margin	3.5%	3.4%		0.1%p
Net Working Capital (NWC)	1,132	1,120	12	1.0%

OTHER KEY PERFORMANCE INDICATORS

(€ million)	2017	2016	Variance	
Shipments (Tt)	6,135	6,149	–14	–0.2%
Net financial debt	330	444	–114	–25.6%
Gearing (Net financial debt/shareholders' equity*))	28%	40%		–12%p
Leverage (Net financial debt/EBITDA)	1.5x	2.3x		–0.8x

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

Shipments and sales

Group shipments totaled 6.1 million tons in the past fiscal year, down 0.2% on the comparative period. Shipments were up by 2.9% (organic growth), however, after adjusting for contributions from the divested Spanish activities in Europe and taking account of the Group’s exit from the pipe business in the USA.

In the Europe segment, shipments fell by 1.3% relative to the prior year. The decrease was mainly due to the aforementioned sale of our Spanish activities. In terms of organic growth, however, shipments were up by 3.5%. Shipments in Germany – by Klöckner & Co Deutschland GmbH and Becker Stahl-Service GmbH – and in the Netherlands performed especially well, while shipments in Switzerland and France remained stable. In Great Britain, shipments showed a slight decrease.

Shipments in the Americas segment were up slightly on the prior year with a gain of 1.2% despite the sale of the pipe business in the second quarter of 2016 and heightened focus on high-margin business. Organic growth came in at 2.2%.

SALES BY SEGMENTS

(€ million)	2017	2016	Variance Total	Variance Currency effects	Variance Net of currency effects	
Europe	3,947	3,606	341	–38	379	10.5%
Americas	2,345	2,124	221	–45	266	12.5%
Group sales	**6,292**	**5,730**	**562**	**–83**	**645**	**11.3%**

Sales up due to higher average price levels

Group sales grew by 9.8% to €6.3 billion due to considerable improvement in price levels, especially in the first half of the year. Currency-adjusted sales rose by 11.3%.

Compared with the previous year, sales in the Europe segment rose measurably by 9.4% to €3.9 billion. After adjusting for currency effects, sales increased by 10.5% to €4.0 billion. Organic growth came in at 12.9%. All continuing-operation country organizations reported sales increases, albeit with declining momentum as the year progressed.

Sales in the Americas segment saw an even greater increase of 10.4%, despite falling exchange rates, due to the stronger improvement in price levels compared with Europe. The rate of increase likewise began slowing in the second quarter, however. The currency-adjusted sales increase was 12.5%.

NET INCOME

(€ million)	2017	2016	Variance Total	Variance Currency effects	Variance Net of currency effects	
Sales	6,292	5,730	562	–83	645	11.3%
Gross profit	1,316	1,315	1	–19	20	1.6%
Gross profit margin	20.9%	22.9%	–2.0%p			
OPEX*)	–1,096	–1,119	23	16	7	0.6%
EBITDA	220	196	24	–3	27	13.9%
EBIT	130	85	45	–2	47	53.9%
EBT	97	52	45	–1	46	87.3%
Net income	102	38	64	–1	65	n.a.

*) OPEX: Other operating income less personnel expenses less other operating expenses.

Gross profit at prior year's level despite sale of Spanish activities and negative currency effects

At €1.3 billion gross profit was on a level with the previous year despite the sale of our Spanish activities (€–26 million) and negative currency effects (€19 million). After adjusting for those factors, gross profit showed an increase of €46 million. The less dynamic price trend during the course of the fiscal year and higher input prices in both operating segments made for a decrease in the gross profit margin, however, from 22.9% in the prior year to 20.9%.

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

OPEX

(€ million)	2017	2016	Variance Total	Variance Currency effects	Variance Net of currency effects	
Other operating income	40	40	0	0	0	0.0%
Personnel expenses	–622	–641	19	9	10	1.4%
Other operating expenses	–514	–518	4	7	–3	–0.5%
OPEX	**–1,096**	**–1,119**	**23**	**16**	**7**	**0.6%**

OPEX declined by €23 million year on year. Adjusted for positive currency effects of €16 million and the impact of the disposal of our Spanish activities at the start of the fiscal year (€24 million), there was an operational increase in sales by €17 million.

At €40 million, other operating income was at the level of the previous year. This item includes €14 million in proceeds on the sale of property, plant and equipment and held-for-sale real estate and equity investments (2016: €14 million).

Personnel expenses dropped from €641 million to €622 million, principally due to lower share-based payments and the disposal of our Spanish activities. The decline in expenses would have been €9 million less without accounting for changes in exchange rates.

Comparability of other operating expenses was also impacted by the decrease in expenses of €12 million following the sale of the Group's Spanish activities. By contrast, shipment expenses and data processing costs went up due to increased business activity. After adjustment for currency effects, a decline of €7 million was registered.

EBITDA increased from €196 million to €220 million as a result of the above factors.

GROSS PROFIT AND EBITDA BY SEGMENTS

(€ million)	2017 Gross profit	2017 Gross profit margin	2016 Gross profit	2016 Gross profit margin
Europe	850	21.5%	859	23.8%
Americas	466	19.8%	456	21.5%
Klöckner & Co Group	**1,316**	**20.9%**	**1,315**	**22.9%**

(€ million)	2017 EBITDA	2017 EBITDA margin	2016 EBITDA	2016 EBITDA margin
Europe	151	3.8%	151	4.2%
Americas	94	4.0%	74	3.5%
Headquarters	–25	-	–29	-
Klöckner & Co Group	**220**	**3.5%**	**196**	**3.4%**

In the Europe segment, gross profit dropped only slightly year-on-year to €850 million despite the disposal of our Spanish activities (€–26 million). The gross profit margin decreased from 23.8% to 21.5% due to a disproportionate increase in procurement prices. EBITDA remained at the prior-year level (€151 million). Performance varied at our continuing-operation country organizations. Whereas earnings growth was reported at Becker Stahl-Service GmbH and in the Netherlands and France, earnings in Switzerland and at the German country organization were weaker. “KCO WIN+” and “One Europe” contributed €13 million to earnings. The EBITDA margin declined from 4.2% to 3.8%.

Strong positive EBITDA performance in Americas segment, Europe segment at prior-year level

Gross profit of the Americas segment came in with €466 million significantly above prior year figure of €456 million despite negative currency effects. This was due in large part to the strong trend in selling prices in the USA. The gross profit margin for the Americas segment nonetheless decreased to 19.8% compared with the prior-year figure of 21.5%. EBITDA increased in line with gross profit, rising from €74 million to €94 million. The EBITDA margin improved from 3.5% to 4.0%.

Headquarters EBITDA was a negative €25 million (2016: negative €29 million). The reduction in net expenses was mainly due to the proceeds from the disposal of the Group’s share in Contorion GmbH along with lower personnel expenses.

RECONCILIATION TO NET INCOME

(€ million)	2017	2016	Variance	
EBITDA	**220**	**196**	**24**	**12.3%**
Depreciation, amortization and impairments	–90	–110	20	18.5%
EBIT	**130**	**85**	**45**	**52.0%**
Financial result	–33	–33	0	0.3%
EBT	**97**	**52**	**45**	**85.6%**
Income taxes	5	–14	19	n.a.
Net income	**102**	**38**	**64**	**n.a.**

When analyzing depreciation, amortization and impairments, it should be noted that the prior-year figure included €16 million in impairment losses on property, plant and equipment recognized on disposal of our Spanish activities in accordance with IFRS 5, whereas only €3 million in impairment losses was recognized in the year under review.

The net outcome was EBIT of €130 million, up considerably from the previous year’s figure of €85 million.

As in the prior year, the financial result was a negative €33 million. Higher interest expenses from the convertible bond issued in fiscal year 2016 were offset by lower expenses for interest, promissory notes and pensions.

Financial result at prior-year level

EBT was €97 million, compared with €52 million in the prior-year period. Despite the improved earnings situation, tax income of €5 million was recognized for 2017 (2016: tax expense of €14 million) due to deferred tax benefits of €25 million. The deferred tax assets resulted firstly from the remeasurement of deferred tax liabilities in the USA based on the lower federal tax rate due to the tax reform act. In addition, in Germany it was possible to recognize additional deferred tax assets on tax loss carryforwards and temporary differences as a result of the projected improvement in future taxable profits.

Consolidated net income of €102 million

The bottom line comprises positive consolidated net income of €102 million, up from €38 million in the previous year.

Basic earnings per share came to €1.01, compared with €0.37 in the prior year.

Cash flows, financing, and liquidity

Financing and financial management

Group financing is centrally managed through Klöckner & Co SE. We secure the liquidity of our Group companies through intra-Group liquidity equalization arrangements with central and bilateral credit facilities. In the eurozone, a cross-border cash pooling system is used for this purpose. Centralized financing strengthens our negotiating position with banks and other lenders, making it easier to implement a uniform finance policy and limit financing risk.

Financing for the Group is secured on a highly flexible and diversified basis using a portfolio of funding instruments comprising a convertible bond issue, ABS programs, a syndicated loan, an asset-based lending facility and bilateral loan agreements.

Syndicated loan

The Group's syndicated loan was extended early and now runs until May 2020

A central component of Group financing is our syndicated loan (a revolving credit facility). In April 2017, the facility was extended ahead of term until May 2020. An opportunity to extend the term in two steps until May 2022 with prior approval of the banks was again granted. In light of the ample headroom for borrowing under the available lines of credit, the currently undrawn facility was reduced in size from €360 million to €300 million. The covenant concept was retained.

The financial covenants stipulate that net financial debt may not exceed adjusted equity (equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 23, 2013) by more than 150%. In addition, adjusted equity must be at least €600 million. That figure was adjusted from €800 million to €600 million when the facility was extended in order to provide greater latitude for exploring business opportunities. Furthermore, the scope for drawing on the syndicated loan is tied to its virtual collateral, defined as the current totals for unrestricted receivables and inventories less merchandise payables.

All covenants were complied with throughout the reporting period.

ASSET-BACKED SECURITIZATION PROGRAMS

Long-term ABS programs with a volume of €300 million in Europe and USD 275 million in the USA

Since July 2005, the Klöckner & Co Group has operated a European ABS program. The program was most recently extended in July 2016 and now runs until 2019 while retaining the €300 million loan amount. The covenants agreed upon are likewise based on the balance sheet and are equivalent to those for the syndicated loan. Accordingly, the minimum equity ratio was adjusted from €800 million to €600 million in May 2017 in line with the syndicated loan.

The ABS program in the US was most recently extended ahead of term in March 2016 and now runs until 2021. The volume of the ABS program remained unchanged at USD 275 million.

Utilization under the two programs totaled €235 million as of the reporting date. The covenants on both the European and the US ABS programs were complied with throughout the reporting period.

Convertible bond

In September 2016, Klöckner & Co placed a €148 million convertible bond issue with institutional investors.

Convertible bond with a volume of €148 million

The coupon on the bonds was set at 2.00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. The conversion price was modified to €14.52 in light of the 2017 dividend payment. The bonds have a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option). The issuer does not have an early call option during the first five years. It does have such an option thereafter provided the market price of Klöckner & Co shares exceeds 130% of the conversion price over certain stipulated periods.

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

At the end of 2017, around 21% of the Group's bilateral credit facilities in the amount of €537 million had been drawn down. The facilities include a USD 275 million asset-based lending facility at our US country organization that expires in March 2021.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

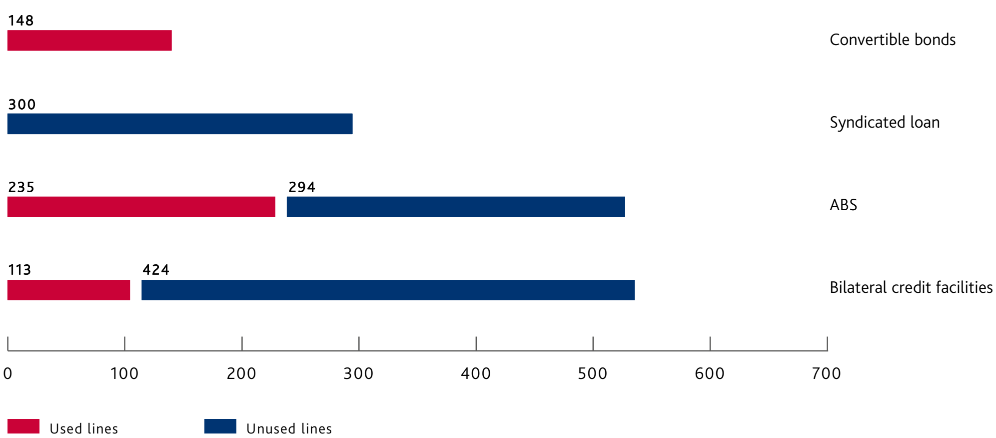
The Group uses an international cash pooling system to handle inter-company settlements and manage liquidity. Our country organizations in Switzerland and the Americas segment are not part of the cash pooling system as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2017.

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Klöckner & Co maintains credit facilities totaling approximately €1.5 billion. As shown in the following table, drawing on these facilities totaled only around €0.5 billion as of December 31, 2017.

Financial headroom remains ample at €1.5 billion

FINANCIAL VOLUME
in € million



The table below shows the changes during the year under review in the key financial debt indicators used by the Group:

NET FINANCIAL DEBT

(€ million)	December 31, 2017	December 31, 2016	Variance Total	Currency effects	Net of currency effects	
Net financial debt	330	444	– 114	– 56	– 58	-13.0%
Gearing (Net financial debt/shareholders' equity *))	28%	40%	-12%p			
Leverage (Net financial debt/ EBITDA)	1.5x	2.3x	-0.8x			

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

Leverage considerably improved to 1.5x

Gearing was at 28% at year-end 2017 or well below the 150% limit applicable to the syndicated loan and the European ABS program. Leverage improved considerably from 2.3x to 1.5x as a result of the lower debt level in particular.

Klöckner & Co's operating business entails interest-rate, currency and credit risk. The instruments used to hedge and manage such risks and their potential impact on earnings are described in detail in the notes to the consolidated financial statements, under the notes on financial instruments.

We safeguard liquidity through rigorous inventory and receivables management as well as by adhering to internally defined indicators. Financial risk management is governed by a Group-wide financial guideline. We use derivative financial instruments to hedge interest-rate and currency risk. Derivatives are used exclusively to hedge risk related to the underlying transactions. Foreign currency exposure at Group companies is generally hedged against currency risk at corporate level, or, where applicable, via local forex trading lines with banks having impeccable credit ratings. We also centrally monitor and hedge interest-rate risk.

CASH FLOW ANALYSIS

The consolidated statement of cash flows shows the sources and uses of cash flows during the fiscal year. The full consolidated statement of cash flows is presented on page 133 as part of the consolidated financial statements. The cash and cash equivalents reported in the consolidated statement of cash flows correspond to the cash and cash equivalents shown in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	2017	2016	Variance	
Cash flow from operating activities	79	73	6	8.4%
Cash flow from investing activities	2	–52	54	n.a.
Free cash flow	**81**	**21**	**60**	**n.a.**
Cash flow from financing activities	–58	–46	–12	–25.8%

Cash flow from operating activities was up slightly to €79 million after €73 million in the prior year. The increase was mainly due to the good performance of operating income, which compensated for the additional funds tied up in working capital.

Free cash flow once again positive

Investing activities resulted in a net cash inflow of €2 million in fiscal year 2017 (2016: cash outflow of €52 million). This figure contains the disposal proceeds from the sale of our Spanish activities at the start of the fiscal year in the amount of €55 million along with additional proceeds from the disposal of property, plant and equipment and financial assets amounting to €29 million, which were offset by the remaining payments for investments in fixed assets of €82 million (2016: €80 million). A total of €47 million of the capital expenditure was incurred in the Europe segment and €24 million in the Americas segment. Accordingly, free cash flow amounted to €81 million compared to €21 million in the prior year.

Cash flow from financing activities was a negative €58 million (2016: negative €46 million) and includes a €20 million cash outflow for dividend payments to shareholders of Klöckner & Co SE and repayments of financial liabilities in the amount of €63 million. Cash flow from financing activities likewise includes €26 million in proceeds from extensions and settlements of currency hedges as part of the Group headquarters financing arrangements (2016: payments of €67 million).

FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet			Variance			
(€ million)	31.12.2017	31.12.2016	Total	Currency effects	Net of currency effects	
Non-current assets	834	897	–63	–67	4	0.5%
Current assets						
Inventories	1,105	1,006	99	–66	165	16.4%
Trade receivables	680	654	26	–40	66	10.0%
Assets held for sale and assets of disposal groups	-	88	–88	-	–88	–100.0%
Other current assets	113	118	–5	–8	3	3.6%
Liquid funds	154	134	20	–4	24	17.1%
Total assets	**2,886**	**2,897**	**–11**	**–185**	**174**	**6.0%**
Equity	1,202	1,148	54	–70	124	10.9%
Non-current liabilities						
Financial liabilities	426	527	–101	–57	–44	–8.5%
Provisions for Pensions	282	359	–77	–9	–68	–19.1%
Other non–current liabilities	64	63	1	–4	5	9.4%
Current liabilities						
Financial liabilities	53	44	9	–3	12	26.7%
Trade payables	653	540	113	–35	148	27.4%
Other current liabilities	206	194	12	–7	19	10.4%
Liabilities from disposal groups	-	22	–22	-	–22	–100.0%
Total equity and liabilities	**2,886**	**2,897**	**–11**	**–185**	**174**	**6.0%**

Total assets remain at 2.9 Mrd. € due to significant FX losses from weaker US dollar

Total assets stood at €2.9 billion as of December 31, 2017 and was thus roughly on a par with the prior-year figure. It should be taken into account in the analysis that the change in balance sheet items includes significant currency translation losses from our international subsidiaries, mostly relating to our US activities. Adjusted for currency translation, total assets increased by 6%.

Currency translation effects were also almost entirely responsible for the decline of €63 million in non-current assets. Intangible assets decreased by €44 million to €163 million , with the additions of €5 million offset by depreciation and amortization of €29 million and currency translation losses of €19 million. Property, plant and equipment performed similarly with a decrease from €662 million to €624 million. Additions from investments amounting to a negative €73 million were offset by depreciation and amortization of €58 million and currency translation losses of €47 million.

While the effected restructuring measures are already delivering significant contributions to earnings, the carrying amounts of the cash generating units in the Great Britain and France – and also in Germany, with the exception of Becker Stahl-Service GmbH – continue to exceed their value in use pursuant to IAS 36. Detailed information on this is provided in Note 15, Intangible assets, property, plant and equipment.

The assets held by our former Spanish activities, which were recognized as assets held for sale in the 2016 financial statements, were derecognized on completion of the sale transaction in January 2017.

Despite the solid net income of €102 million and the positive effects of the actuarial pension provision valuation of €44 million, equity rose only slightly from €1,148 million to €1,202 million, mainly due to the negative currency effects of translating the financial statements of our international subsidiaries.

Equity ratio increases to 42 %

The equity ratio increased by 2% points compared with the prior-year level to a solid 42%.

Financial liabilities decreased, chiefly as a result of lower utilization of our ABS facilities.

When including non-current liabilities in the calculation, the excess of equity and non-current liabilities over non-current assets amounted to €1,140 million, compared with €1,200 million in 2016.

Net working capital developed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2017	December 31, 2016	Variance Total	Variance Currency effects	Variance Net of currency effects	
Inventories	1,105	1,006	99	–66	165	16.4%
Trade receivables	680	654	26	–40	66	10.1%
Trade payables	–653	–540	–113	35	–148	–27.4%
Net Working Capital	**1,132**	**1,120**	**12**	**–71**	**83**	**7.4%**

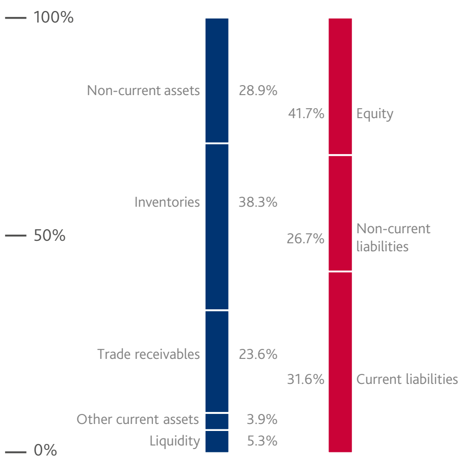
Net working capital was €1,132 million as of December 31, 2017, compared with €1,120 million a year earlier. The currency-adjusted increase on the prior year amounted to €83 million and resulted from the higher price levels prevailing in the reporting year.

Cash and cash equivalents were at €154 million at the end of the fiscal year (2016: €134 million).

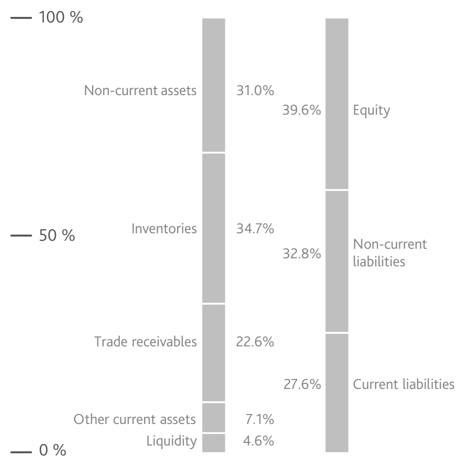
Financial liabilities declined from €571 million to €479 million, a decrease of €92 million on the prior-year figure. This item includes €235 million in drawings under ABS programs, €133 million for the debt component of the convertible bond issue and €111 million in bilateral facilities and lease liabilities. The syndicated loan was undrawn as of year end.

Pension provisions dropped from €359 million to €282 million in the reporting year. The decrease was the result of higher discount rates compared with the previous year, higher returns on the underlying plan assets and currency translation effects.

BALANCE SHEET TOTAL 2017: 2,886
in € million



BALANCE SHEET TOTAL 2016: 2,897
in € million



2.7 Overall assessment of the business situation

Key drivers: strategic orientation and improved price environment

The Klöckner & Co Group's operating income (EBITDA) performed very well in fiscal year 2017. Key factors driving the considerable growth achieved were the good economic situation in our markets and the recovering price environment in international steel markets. Our internal optimization measures and our strategy also delivered results. This made for a further considerable improvement on the good prior-year result.

Net income almost trebled in the year under review, partly influenced by positive tax effects.

We continue to regard our finances as very stable. Despite considerably higher steel prices, we were able to hold net working capital relatively stable compared with the prior year. This was notably an outcome of our internal optimization measures. As a result, we once again generated a positive free cash flow. Net financial debt went down considerably due in particular to the sale of our Spanish activities and was consequently at a relatively low level. Financing for the Group continues to be based on a widely diversified portfolio of funding instruments. The equity ratio remains very solid at 42% as of the 2017 year-end.

3. Individual financial statements of Klöckner & Co SE

3.1 Notes to the annual financial statements of Klöckner & Co SE

As holding company, Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group. It coordinates central Group financing and directly holds the ownership interests in most management companies heading the national and international country organizations as well as the ownership interests in individual country operating organizations. The financial statements are prepared in euros. Discrepancies may arise relative to the unrounded figures.

BALANCE SHEET OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	December 31, 2017	December 31, 2016	Variance	
Intangible assets and property, plant & equipment	3	1	2	n.a.
Non-current investments	1,102	1,163	–61	–5.2%
Fixed assets	**1,105**	**1,164**	**–59**	**–5.1%**
Receivables from affiliated companies	335	256	79	31.2%
Other receivables	7	4	3	85.9%
Cash and cash equivalents	94	91	3	2.0%
Current assets	**436**	**351**	**85**	**24.1%**
Prepaid expenses	16	20	–4	–18.2%
Total assets	**1,557**	**1,535**	**22**	**1.5%**
Equity	**1,281**	**1,098**	**183**	**16.7%**
Provisions for pensions and similar obligations	91	92	–1	–1.2%
Other provisions	29	29	–	–0.7%
Bonds	148	148	–	0.0%
Liabilities to affiliated companies	7	166	–159	–95.8%
Other current liabilities	1	2	–1	–38.8%
Total equity and liabilities	**1,557**	**1,535**	**22**	**1.5%**

The annual financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

Financial position reflects holding company status

Klöckner & Co SE's financial position reflects its position as a holding company and its function as the Group's central financing company. The opportunities and risks of Klöckner & Co SE correspond to those of the Group and primarily impact the carrying amounts of investments and future dividend payout potential. The Company's fixed assets consist almost entirely of financial assets. These mostly comprise the investments in management companies heading the Group's national and international country organizations, investments in individual country operating organizations, and long-term loans to those companies.

When analyzing financial assets, it should be noted that, in the reporting year, we reversed the impairment loss recognized in 2015 on the carrying amount of the investment in Klöckner USA Holding Inc., Wilmington, Delaware, USA in the amount of €143 million due to the considerably better earnings prospects for our US business. We also paid out reserves of €160 million to Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany, which were offset by liabilities to the subsidiary in the same amount, and accordingly reduced the carrying amount of the investment.

Reversal of impairment loss on the carrying amount of the investment in Klöckner USA Holding Inc.

Klöckner & Co SE's equity ratio increased to 82% as of December 31, 2017 (2016: 71%).

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2017	2016	Variance	
Revenues	18	16	2	10.9%
Other income	148	30	118	n.a.
Cost of purchased services	–10	–10	-	–4.3%
Personell expenses	–21	–14	–7	–41.9%
Other operating expenses	–16	–21	5	23.3%
Impairments of investments	–	–2	2	100.0%
Income from investments	88	78	10	12.9%
Interest income, net	1	4	–3	–79.5%
Result from ordinary activities	**208**	**81**	**127**	**n.a.**
Taxes	– 5	–6	1	24.4%
Net income	**203**	**75**	**128**	**n.a.**
Retained profit prior year	75	–	75	–
Dividends	–20	–	20	–
Appropriation to other revenue reserves	–55	–	–55	–
Unapproppriated profits	**203**	**75**	**128**	**n.a.**

Sales mainly relate to services for Group companies.

Other operating income includes €143 million in income from the reversal of the impairment loss recognized in 2015 on the carrying amount of Klöckner USA Holding Inc., Wilmington, Delaware, USA due to the considerably improved earnings outlook for our US business. The impairment loss of €2 million recognized on the carrying amount of Buysmetal N.V., Harelbeke, Belgium was also reversed during the reporting year.

Personnel expenses increased year on year. It should be noted that the prior-year figure included income from the adjustment of €10 million in retirement benefits due to a statutory change in the discount rates used to calculate defined benefit obligations.

Investment income at Klöckner & Co SE consists of profit distributions and profit transfers from subsidiaries. Income from equity investments includes dividends received from Debrunner Koenig Holding AG, St. Gallen, Switzerland. Income from profit transfer agreements relates mostly to Becker Stahl-Service GmbH, Duisburg, and Becker Besitz GmbH, Duisburg.

Net interest income continued to decline. Although interest income remained largely stable, interest expenses were higher as a result of the prior-year convertible bond issues. On balance, net interest income decreased from €4 million in the previous year to €1 million.

Net income considerably up on the prior year due to non-recurring items

After generating net income of €75 million in 2016, notably reversals of impairment losses resulted in net income of €203 million in fiscal year 2017.

Dividend proposal of €0.30 per share

The Management Board and Supervisory Board will propose to the Annual General Meeting to distribute a dividend of €0.30 per share (€29,925 thousand in total) from unappropriated profits and transfer the remaining €173 million to other revenue reserves.

As a holding company, the performance of Klöckner & Co SE is materially determined by the performance and dividend policies of its holdings. In light of the potential to distribute reinvested profits at subsidiaries as well as the profit transfer agreements we have in place, we expect net income to be noticeably positive again in 2018, although less than the fiscal year 2017 figure, which included the positive impact of impairment reversals.

The complete annual financial statements of Klöckner & Co SE, including the auditor's unqualified opinion, are published in the company register. Interested parties can obtain the annual financial statements at the Company's headquarters or on the Internet at www.kloeckner.com.

3.2 Takeover disclosures

REPORT PURSUANT TO SECTIONS 289a (1) AND 315a (1) OF THE GERMAN COMMERCIAL CODE IN CONJUNCTION WITH SECTION 176 (1) SENTENCE 1 OF THE GERMAN STOCK CORPORATIONS ACT AND ARTICLE 9 (1) lit. c (ii) OF THE EUROPEAN COMPANY REGULATION

STRUCTURE OF SHARE CAPITAL

As of December 31, 2017, Klöckner & Co SE's subscribed capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares carry the same rights and obligations. Each share has one vote.

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions on voting rights or the transfer of shares, including any agreements between shareholders.

INTERESTS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2017, the following direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of the voting rights were reported to the Company in accordance with the German Securities Trading Act (WpHG): SWOCTEM GmbH (Prof. Dr. Friedhelm Loh), Haiger, 25.25% as of February 2, 2016.

SHARES WITH SPECIAL CONTROL RIGHTS

There are no shares with special control rights.

EXERCISE OF VOTING RIGHTS BY EMPLOYEES OWNING SHARES IN THE COMPANY

Shares held by employees of the Klöckner & Co Group are not subject to any rules controlling voting rights.

LEGISLATION AND PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Management Board of Klöckner & Co SE comprises one or more members who are appointed and dismissed by the Supervisory Board as stipulated by Article 9 (1) c, Article 39 (2) and Article 46 of the European Company Regulation, Sections 84 and 85 of the German Stock Corporations Act and Section 6 of the Company's Articles of Association. Under Article 59 (1) of the European Company Regulation, amendments to the Articles of Association require, in principle, a two-thirds majority of the votes cast, unless the German Stock Corporations Act requires or permits a greater majority. Under Article 59 (2) of the European Company Regulation and Section 51, sentence 1 of the German SE Implementation Act (SEAG), read in conjunction with Section 19 (2), sentence 2 of the Klöckner & Co SE Articles of Association, amendments can be implemented with a simple majority of votes cast if at least one half of the share capital is represented. Section 51, sentence 2 of the SEAG exempts from this rule amendments to the Company's business purpose, resolutions on cross-border relocation of the Company's headquarters and cases in which a larger majority representing capital is mandatorily required by law. For resolutions that require a three-fourths majority of capital under the German Stock Corporations Act, a three-fourths majority of votes cast is also necessary at Klöckner & Co SE.

Under Section 21 of the Articles of Association, the Supervisory Board is authorized to make certain formal changes to the Articles of Association itself as and when required.

POWERS OF THE MANAGEMENT BOARD TO ISSUE AND REPURCHASE SHARES

The Management Board of Klöckner & Co SE has the following authorizations to issue and repurchase shares:

Subject to approval from the Supervisory Board, the Management Board is authorized to increase the Company's share capital on or before May 11, 2022 by up to a total of €124,687,500 by issuing, on one or more occasions, up to 49,875,000 new no-par-value registered shares against cash or non-cash contributions. For further details, see Section 4 (3) of the Articles of Association (Authorized Capital 2017).

The Management Board has been authorized to issue warrant-linked bearer bonds and/or convertible bearer bonds, or combinations of such instruments, at any time on or before May 11, 2022, on one or more occasions, in one or more separate tranches, and to grant holders of said bonds option or conversion rights on up to 19,950,000 no-par-value registered shares in the Company having a proportionate amount in the share capital of up to €49,875,000. Authorization has thus been granted for a contingent capital increase in the amount of €49,875,000 (Conditional Capital 2017), which may be carried out insofar as conversion rights are exercised and/or bonds are converted in fulfillment of conversion obligations with respect to bonds issued by the Company or its subsidiaries under authorization of the Annual General Meeting of May 12, 2017 but also in case of an adjustment of the conversion ratio of the 2016 Convertible Bond. For further details, see Section 4 (7) of the Articles of Association.

Authorization has further been granted for a contingent capital increase in the amount of €24,932,500 by issuing up to 9,973,000 no-par-value registered shares (Conditional Capital 2013), which may only be carried out for the fulfillment of conversion rights of the holders of convertible bonds issued by the Company or a Group company in accordance with the authorization of the Company's Annual General Meeting of May 24, 2013, adopted under agenda item 6 (this relates solely to the 2016 Convertible Bond). For further details, see Section 4 (6) of the Articles of Association.

Under Section 71 (1) No. 8 of the German Stock Corporations Act, and in accordance with the resolution adopted by the Annual General Meeting on May 12, 2017, the Company is also authorized to acquire treasury stock in a volume of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board has been additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, by affiliates of the Company or by third parties acting on the Company's account or on the account of affiliates of the Company. The authorization is valid until May 11, 2022.

SIGNIFICANT AGREEMENTS TO WHICH THE COMPANY IS PARTY AND WHICH ARE CONDITIONAL ON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

If a person, or persons acting in concert within the meaning of Section 2 (5) of the Securities Acquisition and Takeover Act (WpÜG), directly or indirectly acquire(s) more than 50% of the voting rights in the Company, any of the individual lenders under the currently €300 million syndicated revolving credit facility may demand repayment of any outstanding loan it has disbursed.

In the event of an acquisition of control, the terms and conditions of the 2016 Convertible Bond permit the bondholders to demand early repayment of the principal amount plus accrued interest in certain cases. Pursuant to those terms and conditions, an acquisition of control is deemed to have occurred if a person, or persons acting in concert, directly or indirectly hold(s) more than 50% of the voting rights in the Company (acquisition of control).

Individual bondholders are also entitled to exercise their conversion rights at an adjusted conversion price in the event of a change of control under certain conditions. Pursuant to the terms and conditions of the 2016 Convertible Bond, a change of control is, among other instances, deemed to have occurred if (i) an acquisition of control as referred to above occurs or (ii) a mandatory offer within the meaning of the Securities Acquisition and Takeover Act is published or (iii) the bidder holds at least 30% of the voting rights in the Company in the event of a voluntary takeover offer as defined by the Securities Acquisition and Takeover Act, regardless of whether the bidder's stake results from the holding or attribution of voting rights or from voting rights in relation to which the takeover bid has already been accepted, whereby in the event of a conditional takeover bid a change of control is only deemed to have occurred if the offer conditions have been either met or waived.

For additional information, please refer to the terms and conditions of the 2016 Convertible Bond.

The termination rights agreed upon represent standard industry practice, especially with respect to the granting and extension of long-term credit facilities.

AGREEMENTS CONCLUDED BETWEEN THE COMPANY AND MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES PROVIDING FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

If a threshold of 30% of voting rights is exceeded, members of the Management Board have the right to early termination of their service contracts. Should they exercise that right, they will be entitled to payment of their budgeted salary (fixed component plus budgeted bonus) up to the end of their contract term, capped at three times the total remuneration received in the last full fiscal year prior to termination of their service contracts. The personal investment requirement is waived. Any personal investment shares still vesting will be unlocked and released to the Management Board member in question. In addition, all virtual stock options already granted to the Management Board may be exercised prior to the end of the contractual vesting period.

Virtual stock options granted to senior executives include a provision under which the options may be exercised immediately if a threshold of 30% of voting rights is exceeded.

3.3 Dividend planning

Dividend proposal: €0.30 per share

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's unappropriated profits for fiscal year 2017 of an amount of 29,925 T€ to shareholders as dividend and transfer of the remaining 173,246 T€ of the unappropriated profits to other revenue reserves. At 99,750,000 eligible no-par-value shares, the dividend proposal corresponds to a dividend of €0.30 per share. In general, Klöckner & Co follows a dividend policy of distributing 30% of consolidated net income before non-recurring items.

4. Macroeconomic outlook including key opportunities and risks

4.1 Expected global economic growth

Expected global economic growth in 2018: 3.9%

The International Monetary Fund (IMF) estimates growth of 3.9% for the world economy in 2018. The increase is likely to be fueled by favorable economic conditions worldwide and in particular by the tax reform in the US. Potential risks include financial market corrections, the further progress of the Brexit negotiations, actions of the US administration, the monetary policy pursued by the four major central banks (USA, Europe, Great Britain and Japan) and geopolitical conflicts.

The eurozone economy is projected to grow by 2.2% in 2018, with both internal and external demand being a key factor in the upward momentum. Although supportive monetary policy measures are expected to continue, risk to growth ensues from the potential adverse effects of Brexit on exports.

The IMF forecasts economic growth of 2.7% for the USA in 2018. Positive impetus could come from the US administration's newly adopted tax reforms as well as the infrastructure measures announced. In addition, a supportive financial market environment coupled with strong consumer sentiment and a robust labor market provide conditions for positive economic development.

For China, the IMF expects economic growth to slow to 6.6% in 2018 despite further policy stimulus in the form of expansionary reforms. After many years of at times double-digit growth, the government plans to rejig the export-led economic model toward the domestic market – hence the projected growth slowdown.

For Brazil, the IMF anticipates a recovery in 2018 due to rising private consumption. Growth of 1.9% is forecast.

Expected development of GDP (in percent)	2018
Europe*)	**2.2**
Germany	2.3
Great Britain	1.5
France	1.9
Spain	2.4
Switzerland	1.9
China	**6.6**
Americas	
United States	2.7
Brazil	1.9

Source: IMF, Bloomberg.
*) Eurozone.

Expected steel sector trend

The World Steel Association predicts that global steel consumption will grow by 1.6% in 2018. The forecast calls for growth of 1.4% for the European Union, 1.2% for the North American Free Trade Agreement (NAFTA) region and 4.7% for South and Central America, while consumption in China is expected to remain flat.

4.2 Expected trend in our core customer sectors

Construction industry

EUROFER estimates that the European construction industry will grow by approximately 3% in 2018. Growth is expected to be supported by continued robust consumption in addition to low financing costs. In the USA, the high rate of employment and planned infrastructure projects will aid industry growth, with an anticipated increase of around 3% in 2018.

Machinery and mechanical engineering

EUROFER projects growth of approximately 3% for machinery and mechanical engineering across the eurozone in 2018. Investment spending combined with good demand levels are expected to continue providing a favorable market environment. Growth of around 2% is projected for the USA. In particular, the recently adopted tax reform are expected to support growth.

Automotive industry

The German Association of the Automotive Industry (VDA) projects growth of about 1% for the global passenger car market in 2018. A decline of 1% is expected for Western Europe due to the weak British market. For the US market, a decrease of 2% is forecast, while growth of 2% is anticipated for China. Unit sales in Brazil are expected to continue recovering.

4.3 Risks and opportunities

Driven by solid growth of the global economy, steel demand was up slightly in our key markets of Europe and North America. It remains to be seen whether the hoped-for boost in infrastructure investment pinned on the adoption of US tax reforms will materialize, and whether steel demand in the USA will recover as a result. In both Europe and the USA, a considerable improvement in steel price levels could be traced through large parts of the reporting period. Especially in Europe, major factors driving the higher prices were the sharp drop in steel imports – first and foremost from China – due to anti-dumping measures and rising raw material prices. The market environment was negatively impacted by uncertainties relating to continuing political risks, particularly in Europe, as well as by ongoing geopolitical risks.

Risk policy

Optimizing the Group's risk position

Risks are frequently unavoidable in our business activities if we are to leverage market opportunities. We therefore aim not to minimize but to optimize the Company's risk position, as otherwise opportunities would have to be passed up. This makes risk and opportunity management an integral part of our management process. Our Risk Management System (RMS) is supplemented by our Group-wide Internal Control System (ICS) and our Compliance Management System (CMS).

Central authority to issue guidelines, our Group-wide risk management guideline and comprehensive annual updating of the risk inventory at both the country and corporate department level of Klöckner & Co SE ensure a uniform understanding of risk throughout the Group. Our risk management system is an integrated system that supports structured risk analysis across the entire Group. Its flexible architecture allows for adaptation to changing company requirements and continuous improvement of the system itself. Both our RMS and our ICS are based on generally accepted standards, including the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the additions to that framework – COSO ERM (Enterprise Risk Management) – for Group-wide risk management. It should be noted, however, that even with an appropriate and properly functioning system in place, there can be no absolute guarantee that risks will be fully identified and managed and their potential negative impact entirely averted.

Risk management system

The primary objectives of the RMS are to identify and assess material risks and to eliminate going concern risk. Any significant risks identified are continually monitored in our risk management system, enabling us to prevent or limit their potential negative impact.

The RMS, which has been implemented Group-wide, is supported by web-based risk management software for greater ease of use and efficiency in data collection and data updating as well as for improved documentation. Continuous revision of the RMS further enhances risk transparency and information quality.

Risk management structure

SUPERVISORY BOARD

Monitoring of effectiveness of Risk Management System
Assessment of risk reporting

AUDIT COMMITTEE

Evaluation of Risk Management System regarding legality, apropriateness and cost effectiveness as well as report to entire Supervisory Board

MANAGEMENT BOARD

Responsible for appropriate group risk management

RISK COMMITTEE

Supervision and consulting

CORPORATE RISK MANAGEMENT

Risk evaluation and control, reporting to Management Board and Supervisory Board

RISK MANAGEMENT FUNCTIONS

Risk owner respectively country risk manager:
Identification and assessment respectively control and reporting

The structure of our RMS is geared toward promoting risk awareness throughout the Group and ensuring the effectiveness and efficiency of the RMS. Overall responsibility for the RMS lies with the Management Board, while the Supervisory Board monitors its effectiveness. The Audit Committee is involved in the process via regular reporting and also makes assessments of the risk strategy and the RMS.

Risk owners identify, assess and carry responsibility for their respective risks and responses. As the link between the operating units and the Corporate Risk Management Department, local risk managers serve a control and reporting function. The Corporate Risk Management Department reviews, validates and evaluates the risks identified and assessed by the risk owners from the perspective of the Company as a whole and prepares reports for the Management Board and Supervisory Board. The Risk Committee critically reviews the resulting current risks as well as supervising and advising the Corporate Risk Management Department.

The basis of consolidation for Group risk consolidation purposes is the Group as a whole. By and large, the primary risks relating to the steel distribution and steel service center business are identical in both the Europe and the Americas segments. Presentation of risk management information by segment is therefore not meaningful.

Risk management process

The risk management process mainly involves the following four components:

1. Risk identification – A risk field matrix showing the key risk fields along pre-defined risk categories is used to identify material risks in a structured manner as well as to enable risk to be recorded systematically and uniformly at both a country and corporate department level. Risks are analyzed with regard to their impact over a one-year period and – particularly in the case of going concern risks and all material risks – their long-term impact. The result of this process is a risk inventory, which is updated at regular intervals.
2. Risk assessment – The relevance of each risk is assessed using a five-level scale. A risk's relevance represents its overall significance and thus combines various aspects such as expected value, realistic maximum loss and risk duration. Relevance is used to classify identified risks and show their potential impact on earnings before interest, taxes, depreciation and amortization (EBITDA) – this being one of our key performance indicators – at the time of risk analysis and before risk mitigation measures (i.e. on a gross basis): We also include risks that do not impact EBITDA, such as impairment losses as well as interest, currency and tax risk. However, on the basis of reasonable commercial appraisal, these risks could have a significant effect on liquidity, equity or the Group's net income.

RELEVANCE SCALE

Relevance	Degree of influence	Definition	Potential impact (€m)
1	Insignificant risk	Insignificant risks that could cause barely noticeable deviations from the operating result.	< 6
2	Intermediate risk	Intermediate risks which could cause significant deviations from the operating result.	≥ 6
3	Significant risk	Significant risks that could greatly affect the operating result or have long-term effects.	≥ 18
4	Serious risk	Serious risks which could lead to very large deviations from the operating result or have substantial long-term significant impact.	≥ 60
5	Critical risk	Critical risks that could potentially jeopardize the continued existence of the Company (threat to going concern).	≥ 180

Given the differences in individual company size and financial capacity, various relevance scales are employed across the Group. Aggregation for the Group as a whole is done on the basis of the individual risks identified and assessed at the country and corporate department levels of Klöckner & Co SE, which are combined into risk groups and further aggregated into primary risks in accordance with the underlying reference target (EBITDA). Identified individual risks are analyzed with regard to both their impact on the relevant primary risk items and on the interdependencies among them.

3. Risk management and control – Local risk managers and the Corporate Risk Management Department at Group level share responsibility for managing and controlling risks classified as "significant," "serious" or "critical".
4. Internal monitoring – Twice annually, in parallel with compilation of the risk report, these processes are monitored internally by the Group-wide Risk Committee. The committee comprises representatives from the corporate departments of Klöckner & Co SE as well as the operating units and is headed by the CFO of Klöckner & Co SE. In addition, the Supervisory Board as governing body monitors the RMS and examines risk reporting.

Risk reporting

Each half year, a risk report documents the risks identified. The Corporate Risk Management Department supplements this report as and when necessary by ad hoc reporting on any material risks emerging at short notice and any material changes in risks already identified. Intended primarily for the Management Board and Supervisory Board, the report addresses risk at the overall Group level as well as at the level of the individual country organizations.

In addition, the CFO of Klöckner & Co SE reports regularly on changes in significant risks and opportunities at meetings of the Supervisory Board's Audit Committee. Furthermore, at the regular monthly meeting, the Chairman of the Supervisory Board is provided with a detailed overview of the Company's results of operations and cash flows as well as the related risks and opportunities.

Internal control system

The internal control system (ICS) encompasses the principles, processes and measures applied to ensure the effectiveness and profitability of business operations, compliance of the accounting system with generally accepted principles, accounting system reliability and adherence to the applicable legal provisions. The objective of the ICS is to use the controls that have been implemented to obtain reasonable assurance that risks can be monitored and managed, thereby enabling the Company to guarantee that its objectives will be met.

A key element of the internal monitoring system comprises process-integrated monitoring measures. These constitute organizational safeguards such as the stipulation of guiding principles, clearly defined responsibilities and application of the dual control principle, under which no significant transaction is entered into by Klöckner & Co without further cross-checking. Another fundamental element of the ICS is to ensure the separation of approval, execution, administrative and invoicing functions. IT-based controls also form a key component of process-integrated monitoring.

In addition, process-integrated monitoring measures are ensured by specific Group functions such as Corporate Legal & Compliance and Corporate Controlling & Development/M&A. For instance, the country organizations' control units produce monthly reports, which Corporate Controlling & Development/M&A aggregates at Group level. All notable and quantifiable factors impacting results at country level are discussed at regular meetings of the country organizations' management with the Management Board of Klöckner & Co SE.

Monitoring measures not tied to a specific process are carried out by the Corporate Internal Audit Department, which regularly examines the Company's organizational structures and processes, thereby supplementing the system of process-integrated monitoring measures. Our compliance with international quality standards for internal auditing promulgated by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision e.V. [DIIR]) is regularly confirmed in quality assessments carried out by an independent auditing firm. The most recent review of the suitability and effectiveness of the internal audit system of Klöckner & Co SE was conducted in November 2017 on the basis of IDW Auditing Standard 983. The review concluded that the requirements for effective and efficient internal auditing had been met in full.

The Supervisory Board's Audit Committee reviews the effectiveness of the internal control system once a year and additionally on an ad-hoc basis as needed. At the same time, the external auditor assesses the internal control system in relation to the financial reporting process as part of audit activities.

Compliance management system

Our Group-wide compliance management system (CMS) stresses value-driven management based on ethical and law-abiding conduct. It is our clear goal to ensure that conduct toward employees, customers and suppliers is responsible and respectful. We have set up a telephone and web-based whistleblower system that enables both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. Our contractual partners outside the Company are likewise expected to implement and comply with the principles and standards enshrined in our Code of Conduct or a comparable code of conduct. The implementation and effectiveness of our CMS are subject to continuous review by the Corporate Internal Audit Department and external appraisers.

We expect to prevent large-scale compliance violations with the aid of the CMS. Our focus here is on prevention through information within a corporate culture of trust. Despite the extensive measures taken, however, we cannot rule out the possibility that isolated violations will occur or have occurred. Any suspicions are fully investigated by the Corporate Compliance Office wherever possible and the necessary action is taken by the Management Board or by the management of country organizations.

In the reporting period, we continued to carry out training in order to raise employee awareness of compliance-related issues and thus prevent any kind of violation. Alongside classroom training, the measures primarily include an e-learning tool that is mandatory throughout the Group. A key element of our CMS is the Group-wide introduction of our Code of Conduct and other compliance-related Group guidelines. These are published on the Internet and elsewhere and relate in particular to fighting corruption, to antitrust law and to preventing money laundering, as well as integrity due diligence on intermediaries we engage and system-integrated export controls and sanction list screening. Our aim here is to maintain a clear, unambiguous stance on ethical, law-abiding conduct both internally and externally, among other things to help prevent risk.

The Management Board of Klöckner & Co SE has, both internally and externally, unequivocally expressed its zero-tolerance attitude toward antitrust violations and corruption in its "Tone from the top." In the event of violations, Klöckner & Co will take action under labor law against the employees involved and may hold them personally liable for any losses incurred. We notify our employees that bribery and other forms of corruption may also be subject to criminal prosecution. All employees are called upon to work actively toward preventing compliance violations in their spheres of responsibility.

Presentation of individual risks

As part of the RMS, we have identified material risks, classified them by risk category and assessed their relevance. On the whole, our primary risks fall into the categories of strategic risk and market risk. These types of risk are described in more detail below. We subsequently discuss the most significant risks in all other risk categories.

Relevance *Risk category*	4 Serious risk (≥ €60 million)	3 Significant risk (≥ €18 million)	2 Intermediate risk (≥ €6 million)
Strategic risk	Traditional steel distribution model might not be sustainable		
	High level of dependence on profitability from US, Swiss and Becker Stahl business units		
	Dependence on construction industry and commodity products		
	Possibility of new financial crisis		
		Threat of disruptive market players	
		Lack of success in future acquisitions	
		Excessive sovereign debt as a trigger for sovereign debt and/or liquidity crisis	
Market risk	High correlation of commercial success to economic cycles		
	Demand and price development		
		Competitive environment	
Value chain risk			Non-achievement of “One Europe” project targets
Financial risk	Impairment of non-current assets1)		
		Year-on-year decrease in discount rate for pension obligations2)	
			Future long-term weak profitability
Legal/ Compliance risks		Antitrust violations	
			Changes in tax legislation or administrative interpretation of tax matters
IT risk		Cyber risk	
			Project risks
Personnel risk			Loss of key employees

1) Does not impact the key performance indicator EBITDA, but does impact net income.

2) Does not impact the key performance indicator EBITDA, but may impact the Group's financing covenants.

Strategic risk

Our serious strategic risks relate to traditional steel distribution potentially ceasing to be a sustainable business model, high levels of dependence on the profitability of our US and Swiss business units and that of Becker Stahl-Service as well as on the construction industry and commodity products, together with the risk of another financial crisis. Further significant risks comprise the potential threat of disruptive market players, future acquisitions that are lacking in success and excessive sovereign debt in many industrial countries, which could lead to a sovereign debt and/or liquidity crisis and additionally burden the economic situation in our markets.

We are gradually moving away from the traditional steel distribution business model, which is potentially no longer sustainable, by digitalizing our supply and value chain, developing an open industry platform and continuing to step up efforts to increase the percentage of sales from higher value-added products and processing services.

Over the medium term, we aim to reduce our high levels of dependence on earnings from our US and Swiss business units and from Becker Stahl-Service by more closely integrating our traditional steel distribution activities in Europe under a single organization via the "One Europe" program in order to unlock synergies, save costs and enable faster, more efficient implementation of our strategy. Most notably, our leading role in digitalizing the steel distribution value chain is expected to deliver enhanced market differentiation and hence competitive advantages. In addition, our ongoing investment in higher value-added products and processing services makes an important contribution to improving earnings from steel distribution. We are also reinforcing the US business through implementation of our One US program.

We counter our dependence on the construction industry by diversifying our international presence, targeting other customer sectors such as machinery and mechanical engineering and the automotive supplier industry, and streamlining our portfolio in the low-margin construction business. To reduce our proportion of commodity products, we are expanding processing services and increasing sales of higher value-added products. In addition, we are quickly and effectively devising new digital services together with customers to create added value for customers and set ourselves apart from the competition.

We address the risk of potential upheaval on the financial and capital markets and the consequences of any such upheaval for our Company by maintaining solid balance sheet ratios and a diversified financing portfolio, This is demonstrated by our stable equity base (42% equity ratio) and our comparatively low net financial debt in relation to equity (28% gearing). Our available working capital facilities ensure that we are able to finance our operating activities and cover our liquidity requirements at all times. The main financing tools are the €300 million European ABS program, which runs to July 2019, the €300 million syndicated holding credit facility running to May 2020 and a syndicated ABS/ABL facility in the USA totaling USD 550 million and running to March 2021. Our financing portfolio is supplemented by a €148 million senior unsecured convertible bond issue closing in September 2023 plus an investor put option in September 2021. At 154 Mio. €, we also had adequate holdings of cash and cash equivalents as of the year-end 2017. These are invested on a short-term basis with the Group's prime-rated core banks.

We meet the potential risk of disruptive market players by taking on a pioneering position in the digital transformation of the steel industry. Our aim is to digitalize the supply and value chain from beginning to end. This is why we launched kloeckner.i and kloeckner.v in Berlin in 2014 and 2015. kloeckner.i serves as the Group's center of competence for digital solutions, innovation, intra-Group knowledge transfer, online marketing and liaison with the start-up community, while kloeckner.v sounds out the market and invests in either venture capital funds or directly in start-ups that support our digitalization strategy with their potentially disruptive business models. Other objectives are to digitalize the metal industries in Europe and the USA and to develop the leading open industry platform in those markets. In August 2017, we founded XOM Metals GmbH in Berlin for that purpose.

As with all M&A activities, acquisitions are governed by a comprehensive M&A policy. Compliance with the policy is monitored centrally. When selecting acquisition targets, we do not enter into any going concern risk. All acquisitions undergo thorough due diligence prior to purchase. No later than three years after an acquisition, the Corporate Internal Audit Department carries out a review of the investment.

In an ongoing process, we also identify new risks emerging from past acquisitions so that we can respond quickly and appropriately. We are nonetheless unable to entirely rule out negative developments, as the business situation of acquirees is subject to the same strategic risks as our other activities.

To improve our resilience to negative influences acting on our business environment, such as a sovereign debt crisis, we pursue ongoing efforts to optimize workflows and processes in our business operations. For that reason, we followed up our "One Europe" program by initiating a One US program in 2017 aimed at another considerable efficiency increase in the US.

Market risk

A serious market risk to Klöckner & Co ensues from the economic situation, as we are highly dependent on the economic cycle due to our large share of commodity products and the structure of our customer sectors. Given the magnitude of our US business, which accounts for 41% of Group shipments, any economic slowdown there would represent a particular market risk. In France – an important European market – structural weaknesses currently still present a major obstacle to long-term economic recovery. Klöckner & Co is additionally subject to significant market risk resulting from trends in demand and prices, and especially from the highly competitive situation, which will only intensify as digitalization advances.

Current risks to the economic trend relate above all to the potential negative impact on the economy of central banks moving away from their cautious stance and implementing a significant hike in key interest rates. In Europe, unresolved problems at a number of European banks continue to make for uncertainty, as does the political risk arising from government coalition talks in Germany, parliamentary elections in Italy, the unresolved situation in Catalonia and arrangements for Brexit. Brexit could have negative consequences on investment decisions relating to our activities in Great Britain. A potentially weak economic trend in combination with a "hard" Brexit could further weaken the pound sterling and consequently lead to higher consumer prices. However, the low exchange rate has already reduced steel imports to Great Britain, which has revived demand and stabilized price levels. For information on the effects on the Group's financial position and profit or loss, please refer to the disclosures on impairment testing in Note 15 (b) ("Property, plant and equipment") of the notes to the consolidated financial statements. In addition, changes in interest rate levels could lead to a significant increase in pension obligations with the related impact on the capital base of our British country organization.

Optimism prevails in Great Britain after adoption of the proposed tax reforms, even though economists expect little impact on the economy. However, tax cut optimism could be offset by increased protectionism and isolationism, which would negatively impact world trade. Further concerns surround the fraught situation on the lending and real estate market in China – despite government countermeasures – and increasingly critical attitudes toward globalization in many countries that could lead to rising barriers to trade and, via falling global investment activity, to a drop in steel demand.

Demand continues to be subject to high risk in our core sectoral markets due to their predominantly cyclical nature; these include the construction industry, machinery and mechanical engineering, and the automotive industry. With regard to the construction industry – the customer sector accounting for the lion's share of shipments – there is a strong dependence on public sector spending.

We sell most of our products at spot market prices. The time lag of up to several months between the setting of procurement prices and the point at which we invoice sales means that we are constantly exposed to margin and valuation risk. In a climate of falling selling prices, excessive inventory values can have a negative impact on current earnings (negative windfall effect). Earnings can also be impacted if it is necessary to adjust the carrying amount of inventories to the detriment of earnings when preparing the financial statements. Given the ongoing major global surplus capacity in steel production, especially in China, there continues to be a threat of price collapse, which would have a negative impact on earnings performance each time. Interdependencies between price trends in different markets around the world could be temporarily affected by anti-dumping duties and further government intervention such as considerations of the US administration regarding the Section 232 probe on the national security impact of steel imports. Any sustainable solution would have to involve a reduction in global capacities, however, particularly in China. Global capacity utilization is currently at somewhat over 70%. Market observers estimate that a capacity utilization of at least 80% would have to be reached to obtain a healthy balance between supply and demand and thus a lasting recovery in steel prices. Other factors such as, for instance, devaluation of the yuan or another drop in raw material prices could also adversely affect any sustained price recovery. Moreover, there are still no signs of any major capacity adjustment despite the announcements made by the Chinese government. The structural disequilibrium between production capacity and actual demand will therefore persist for the time being. This is especially the case in Europe, where only moderate demand growth is expected in the years ahead and, unlike in the USA, there is no strict separation between production and sales to make for greater price discipline among manufacturers. Consequently, prices and margins can come under pressure time and again.

Overcapacities also exist in steel distribution, which has led to intensification of the competitive situation. Excess inventories or downward trends in prices, for example, could prompt individual competitors to introduce special offers, leading to additional price pressure in the market. As this could negatively impact earnings, we monitor our competitive environment very closely. In addition, alongside numerous opportunities, digitalization also harbors risks. Notably when this goes beyond digitalization of the existing business model to entail change in the business model itself, there is a medium-term possibility that competition will further intensify and pressure on prices will become even greater. This could cancel out the operating benefits of digitalization.

To respond to changes in the market as swiftly as possible – such as by taking specific measures in inventory management – we analyze trends and leading indicators along with the available forecasts. The main early warning indicators for steel prices are price trends in iron ore, coking coal and scrap as well as market inventory levels.

We adjust to market circumstances in the short and medium term by focusing on improving sales effectiveness and reducing costs. One of the primary challenges here is adapting our existing organizational structure to make it leaner and more effective so that we can better compete with small to medium-sized enterprises. Our "One Europe" and "One US" programs are a major part of this. Another key factor in minimizing market risk is our increasing differentiation in relation to competitors. The core elements in this connection are digitalization of the supply and value chains together with continuing to develop our industry platform as well as driving forward our business in higher value-added products and processing services. We also aim to be more rigorous in obtaining the margins available in the market for our products and services by continuously fine-tuning our pricing. For more information on the action we are taking to minimize any potential negative effects of digitalization on Klöckner & Co's competitors, or to benefit from those same effects, please refer to our digitalization strategy.

To combat the risks arising from demand and price trends, our Group continues to place special emphasis on price and inventory risk management, supported by a comprehensive set of tools and very close, continual monitoring of price trends in regional, national and international markets. We collect price information using a price information system and exchange it online within the Group. Internationally coordinated procurement, further enhanced via "One Europe", enables us to respond quickly to changing situations in the procurement market. In this way, we are able to manage our portfolio of suppliers and make even greater use of pooled procurement to obtain preferential prices, quantities and terms. Procurement coordination is supported by our centralized monitoring function for inventories and orders. Price trends are also identified regularly in order to determine the risk of write-downs on individual products. This information is incorporated into the quarterly inventory valuation. At the same time, price risk is reduced by our inventory and product range policy, which is tailored to demand and logistically optimized.

Inventory management and valuation are similarly central elements of the monthly reporting process. Our reporting system allows us to quickly detect any major variances and immediately initiate the necessary countermeasures.

Value chain risk

To place Klöckner & Co's business success on a broader base and to be successful in the long term, it is necessary to achieve a substantial and long-term improvement in earnings from our traditional steel distribution business in Europe. Effective implementation of our "One Europe" program plays a key role in achieving this. Should "One Europe" fail to reach its objectives, this would at present constitute an intermediate risk to the requisite optimization of the value chain. Although we have already reached significant milestones, some of the defined targets will have to be achieved in 2018 and 2019 to ensure full success of the program.

Implementation of a matrix structure in Europe has laid the foundation for deeper integration of the value chain across national borders and business units while firmly embedding the central building blocks of our strategy – such as higher value-added products and processing services, or digitalization – as cross-cutting functions in our organization. We also foster a spirit of cooperation based on common interests by systematically ensuring that performance-based remuneration is linked to the success of the "One Europe" organization.

Financial risk

The Corporate Treasury Department manages the financial risk of Klöckner & Co SE and ensures the liquidity of the Group companies. Financial risk management is governed by a Group-wide financial guideline that stipulates scopes of action, responsibilities and the necessary controls.

On the basis of Klöckner & Co's growth strategy, we acquired several target companies in recent years. In measuring the value of those companies, we made assumptions regarding future business performance. There is a risk of actual developments diverging from these assumptions. As of December 31, 2017, non-current intangible assets from acquisitions in North America totaled €94 million. A significant reduction in the value in use of those assets would result in further impairment losses. Even though it does not affect our key performance indicator EBITDA, this is rated a serious risk overall as it has a major impact on net income. Notable countermeasures include the continuous optimization of our North American activities, including our newly launched "One US" program, with a view to achieving lasting improvements in the earnings situation in the USA.

The Group recognizes pension provisions for current and future benefits to eligible current and former employees. Defined benefit or defined contribution plans are in place depending on the legal, economic and tax environment in each country. The risk associated with defined benefit pension obligations corresponds to the expenditure necessary to meet the obligation. Such risk is calculated on the basis of actuarial assumptions and also requires the use of estimates. Benefit costs may increase or – in the case of funded plans – additional contributions to fund assets may be necessary due to tighter legal requirements.

In the case of funded pension obligations, such as in the USA and Great Britain, plan assets are exposed to capital market risk.

With regard to defined benefit obligations, a falling discount rate relative to the prior year would have a considerable impact on the measurement of our obligations given the persistent low interest rate environment. A potential decrease in the discount rate would necessitate further additions to pension provisions, with the effect of reducing equity. In light of the high volatility in the steel distribution industry, we regard changes in the discount rate as a significant risk, even though this does not impact our key performance indicator EBITDA, as under certain circumstances it could affect our Group's financing covenants.

We therefore monitor interest rate changes and their balance sheet impact so that we can take timely countermeasures as needed. In addition, we regularly commission independent experts to produce asset/liability studies as part of risk analysis and, where necessary, adapt our investment policy accordingly. Worldwide, decisions on the allocation of funds to pension schemes are made centrally by the Klöckner Global Retirement Benefits Committee. These decisions require the approval of the Group's Management Board. New commitments are on a defined contribution basis only so as to minimize the financial risk arising from pension commitments.

Operating earnings power is a key criterion in the assessment of our creditworthiness by banks. Weak profitability over longer periods would limit our future scope for refinancing. Thanks to the positive earnings trend in past quarters and the favorable outlook for Klöckner & Co, however, we downgraded this risk from "significant" to "intermediate" in the reporting year. Among the measures we deploy to counter earnings risk are our "One Europe" and "One US" optimization programs along with our "Klöckner & Co 2022" strategy, which are geared to lasting improvements in profitability.

Legal, tax and compliance risks

Steel distribution is a sector in which legal risk generally tends to be lower than in many other sectors. We do not see any significant or intermediary risk in this area at present.

In the area of compliance, however, we continue to view the risk of antitrust violations as significant, particularly the risk of collusion with competitors – for instance, involving price fixing, market allocation or agreeing on production, procurement and supply quantities. With regard to the measures to reduce such risk, please refer to the information on our compliance management system.

In the area of taxes, the risk of changes in tax legislation or in the administrative interpretation of tax matters continues to pose an intermediate risk. Based on the guidelines and directives in force, our Corporate Taxes Department is involved in the legal assessment of such matters in Germany and abroad. We constantly monitor the situation to detect any changes early on. This allows us to take suitable measures to minimize risk and recognize provisions as appropriate.

IT risk

Our business processes depend heavily on the IT systems installed. In addition to our administrative systems, these primarily include systems in procurement, sales and logistics.

We consider our IT systems to be exposed to cyber risk due to the general increase in outside attacks on IT systems and notably also in light of the increasing digitalization of our supply and value chain. By cyber risk, we mean risks of adverse modification to, loss or misuse of or interruption to the availability of data or IT systems, and data breaches. We regard the threat of viruses, targeted hacking, carelessness, deliberate data falsification or modification and IT system failure as a significant risk. To counter the threat from cyber risks, we have added resources and know-how to Klöckner Group IT (Klöckner Shared Services GmbH) and appointed a new Group Data Protection Officer and an Information Security Officer. We also deploy various preventive measures, for instance, against system failure and employee carelessness, in addition to specific protection from cyber attacks. On top of that, outside experts carried out a cyber security review of systems and applications at selected Group companies in 2017.

Personnel risk

As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees. In the industry and regions in which we operate, competition for eager, dedicated and highly qualified employees and executives remains fierce. The loss of employees in key positions, particularly when integrating newly acquired companies and in the case of subsidiaries with specialty activities, therefore poses an intermediate risk. It has moreover proved difficult to find qualified employees in a timely manner in the countries in which we operate, the main reason being that countries such as the USA, Germany and Switzerland are operating at near full employment. Employment levels are also very high in the other European countries.

We have designed our remuneration systems to motivate and retain employees; the same applies to our personnel development programs and measures. Our HR tools help us to safeguard existing expertise and new talent. At the same time, they ensure that our resources are transparent. Moreover, we regularly identify potential personnel risks through our internal monitoring process. We also have our executives undergo an evaluation by external experts and conduct Group-wide employee surveys, most recently in 2015. In the reporting year, we launched an employer branding campaign called "Mehrwertmacher (Added Value Makers)" with the goal of positioning Klöckner & Co even more strongly as an attractive employer within the Company. In 2018, we will be extending the campaign to present ourselves as a strong employer brand also in the external employment market.

Opportunities and opportunity management

At the holding company, the systematic identification as well as the coordination and control sides of opportunity management are primarily the responsibility of the Corporate Controlling & Development/M&A Department. Financing and implementation of the opportunities resulting from our corporate strategy are supported by the corporate departments and the country-level management teams. The resulting projects are managed and monitored at country level together with the holding company management.

A secure financial structure, effective procurement and inventory management, optimized sales processes, human resources management that promotes innovation potential and, most notably, the digitalization of our business for sustained efficiency gains provide the basis for leveraging opportunities at Klöckner & Co.

Strategic opportunities

We have expanded our "Klöckner & Co 2020" growth strategy to place greater emphasis on digitalization as the key element. Now known as "Klöckner & Co 2022", the strategy focuses above all on digitalization and disruption in steel and metal trading via an open industry platform. We also continue to develop our other two strategic pillars aimed at increasing the proportion of sales from higher value-added business and achieving additional efficiency improvements. In the higher value-added business, we plan to push organic growth with the goal of reducing volatility and raising profitability. This is expected to additionally boost our efforts to digitize our business model to be more forward-looking, create added value and be less prone to risk. Acquisitions remain an option, assuming they are well aligned with our existing business and add value, for instance, through synergies.

To ensure our sustained success, we plan to raise the share of higher value-added products and services in Group sales to more than 60% by 2022. One way we are approaching this is by investing in 3D laser equipment. In Great Britain, we have already built the country's second-largest 3D laser center, and we now also successfully occupy a niche in the German market as well. We intend to continue expanding our 3D laser capacity across Europe to ensure efficient use of our network.

A new development in the reporting year was our launch of 3D printing technology in Germany. Furthermore, the growth market of additive manufacturing has the potential to provide our customers with a promising complement to our portfolio of products and services.

Alongside systematic expansion of our business with aluminum, a key material for the future, at our service center at Becker Aluminium-Service to process aluminum flat products at our Bönen location, we also invested in three special facilities for coating sheet metal and sections in the United States during the reporting period. The processes used improve both the functionality as well as the surface of the products and is of particular interest for architectural and gastronomy applications. Our US subsidiary not only has access to this technology, but has also secured the exclusive distribution rights for the United States and Brazil with our Chinese partner.

Designed to bring a sustained earnings increase in our core business, our "One Europe" and "One US" programs are delivering added efficiency improvements. In Europe, we have brought the activities of the country organizations even closer together for this purpose, enabling us to save costs while leveraging synergies, especially in the areas of procurement and logistics, and to ensure faster, more efficient implementation of our "Klöckner & Co 2022" strategy. Our goal in the USA is to combine the three product groups resulting from multiple acquisitions into a single unit and to focus more closely on regional aspects in order to promote regional cooperation. Our objective here is to not only leverage synergies but also to streamline our organization to give us greater efficiency as well as to implement our digitalization strategy and develop the higher value-added business even more rapidly.

Alongside growth in the areas mentioned, the main focus of our strategy is on the digitalization of our entire supply and value chain together with the phased development of an open industry platform as a further element in our differentiation from competitors. We are at the forefront of our industry in this regard. Our digitalization strategy aims to eliminate information asymmetries in the steel industry by digitally connecting all market participants in order to increase efficiency for all. Our goal here is for Klöckner & Co to take a dominant position in offering the entire range of products and services via all online sales channels. A part of this is offering customized online shop solutions, especially for specialized products and services. Another key component is our vertical open industry platform, the first version of which has already gone live, with a broad product portfolio and high level of transparency regarding prices and availability from various suppliers. We also plan to leverage our expertise on cross-sector horizontal platforms operated by third parties to offer standardized products without any add-on services and thus reach customers who make infrequent purchases of smaller quantities.

Operational opportunities

Our "Klöckner & Co 2022" strategy brings with it numerous opportunities from operational-level changes. To further leverage our two key strategic approaches for enhanced differentiation from the competition – digitalization and expansion of our business in higher value-added products and services – we have embedded them into the structures of both the "One Europe" organization and the new "One US" organization.

As an integral part of our efficiency improvement strategy, "One Europe" also brings together measures and projects directed at improving workflows and processes in our operating business. Alongside further streamlining and focusing of procurement and logistics, a notable emphasis here is on more differentiated pricing and other measures to boost effectiveness and efficiency in sales, such as better sales control. As our chief competitors comprise a host of small and medium-sized enterprises, we are exploiting our economies of scale across business units and national borders to delineate ourselves more distinctly than ever from that competition. This applies especially to the core strategic areas just mentioned.

Our newly launched "One US" program is another part of our efficiency improvement strategy. The primary objective of "One US" is to improve cooperation in sales and in other operating functions so that we can offer our customers end-to-end services. A new regional structure will replace the previous classification by product group. This will give our customers access to our entire range of products and services from a single source, and bring us closer to leveraging the full potential of our customers in all product areas.

To achieve greater differentiation from competitors, we plan to maintain our broad product portfolio as well as increasingly offer customers higher value-added products and services. The prime focus here is on customers whose strong vertical integration provides greater scope for successfully and profitably selling such services. More and more, we also supply customers from our network rather than solely from individual locations. This enables us to offer a broader portfolio of steel and metal products, especially in comparison with smaller and mid-size competitors, without adding to inventories. In procurement, we plan to better leverage the economies of scale we have compared with many of our competitors by extending centrally controlled procurement activities to additional product ranges. We anticipate more appreciable economies of scale by stepping up pooled procurement from suppliers who grant commensurate terms and by making greater use of global procurement options. Notably this is one of the focal areas of the "One Europe" program, which alongside materials procurement also combines and optimizes procurement of non-merchandising items and services across Europe.

Digitalization is not just about streamlining our entire supply and value chain from supplier to customer. We also use the working methods and tools of business start-ups to be faster and more effective as well as to create added value for customers. With this in mind, we already have several digital tools in deployment across various country organizations. Based on such solutions and working jointly with suppliers and in particular customers, we are committed to making all processes simpler and more efficient. To this end, we launched a dedicated Group Center of Competence for Digitalization in Berlin back at the end of 2014 to develop and test digital solutions before rolling them out across the Group. The company, called kloeckner.i, additionally furnishes a platform for in-house knowledge transfer, has forged a network with the start-up scene and is active in the areas of product innovation, software development, online marketing and business analytics. Kloeckner.i develops innovative tools together with Klöckner & Co Deutschland GmbH, our German country organization, and Kloeckner Metals Corporation, our US subsidiary. Customers are involved in the process at an early stage to test functionality and customer benefit step by step. We also make use of digitalization internally with a view to improving the efficiency of our processes.

On the sales side, we have already successfully rolled out contract portals and online shops to customers, among other activities. In procurement, we have full digital integration with growing numbers of wholesalers and major steel producers. All tools and data are gradually being integrated into the Kloeckner Connect service platform. In this way, customers and partners have a central access point for data, which they can leverage profitably. We furthermore began creating a marketplace in the reporting year by gradually opening up our online shops to competitors. This will enable us to offer our customers a considerably wider range of products without having to invest in expanding our product portfolio.

While kloeckner.i operates like an internal start-up, it is through our venture capital company kloeckner.v, which we launched in 2015, that we establish links with external start-ups. Kloeckner.v invests via selected venture capital firms and also makes direct investments in start-ups that support our digitalization strategy with disruptive approaches.

We see great potential in digitalization for making major improvements at every link in the inefficient traditional steel and metal distribution chain. End-to-end data flow with the aid of digitalized processes makes it possible to produce to demand, removes the need for stock transfers and shortens time to delivery from the shop floor. Fewer inefficiencies also enable us to keep less inventory. In addition, we are looking to future opportunities to offer further services such as stockholding and transport of steel and metal products to users of the open industry platform.

Alongside our financial stake in Berlin-based German tech start-up BigRep, the investment offers potential for cooperation. BigRep develops and manufactures the world's largest commercially available 3D printer. The investment has thus provided Klöckner & Co with access to know-how in an attractive growth market in industrial manufacturing. Now that the initial testing has been successfully completed, we are already working on implementing industrial 3D printers from BigRep in our extensive network of locations throughout Europe and the USA going forward.

We are also the exclusive partner of an Industry 4.0 project launched by machinery manufacturer Trumpf. Going forward, the partnership will enable production machines to order steel from us autonomously. With this in mind, our contract portal has been integrated into Trumpf's Axoom customer platform.

In Germany, Klöckner & Co additionally collaborates with Sage, one of the market leaders in integrated business software. We are jointly marketing an ERP solution specially preconfigured for steel and metal processors. The system enables our customers to professionally manage their business processes as well as automatically trigger online orders for steel and metal products in the Klöckner range.

A further source of leverage for our Group's ongoing digital transformation is our artificial intelligence (AI) innovation partnership with Arago GmbH. Our aim in this is to drive forward the digital transformation of Klöckner & Co by using AI. To that end, we use Arago's Hiro AI platform to automate our IT infrastructure and thus support attainment of our strategic goals. Hiro gives us a boost in terms of efficiency, flexibility and speed. In the reporting year, we entered into an additional partnership with Aera Technology, Inc., a leading AI provider.

Exploiting process optimization opportunities is another key step toward sustainably improving the earnings situation. This is why various projects geared to optimizing processes in sales and distribution, logistics and prefabrication are underway in a number of countries as well as transnationally. The projects hold substantial potential for leveraging opportunities to enhance service quality, efficiency and effectiveness. Examples of cross-border projects in Europe include the introduction of our KliCC CRM system and of semi-automated pricing. In addition, we have launched a medium-term project to introduce a dynamic pricing approach. Software-based algorithms are used to draw lessons from customer behavior and apply them in the pricing process. Continuous improvement of processes and workflows in our stockholding locations and in transport management is the core task of our Logistics/Operations function. Correspondingly, we have for many years been developing Europe-wide best practices and standards such as "Safety 1st" and our "10 Commandments of Operations." Successfully introducing paperless stockholding processes in our POW:R project has delivered significantly better transparency regarding current order status, both internally and for customers. Having online information on current stockholding capacity utilization permits efficient resource management and enables us to further improve stockyard service levels. In addition, the pro^2 project in Logistics/Operations helps us in further professionalizing our processing activities.

Our Logistics/Operations function is working to advance and expand the successful standardization process in the new organizational structure under Kloeckner Metals Europe. Introduction of a Europe-wide transport planning tool will have a major impact here. This will provide time and cost optimization in cross-border customer delivery scheduling. Analysis of transport performance data will flag up further scope for improvements in service-mindedness and customer satisfaction. We also plan to leverage available telemetry data for purposes such as actively informing customers of delivery times.

Ultimately, we also set ourselves apart from the competition through our state-of-the-art technologies and systems, which we fine-tune on an ongoing basis. As mentioned earlier, these enable us, for instance, to take customer analysis and service to even higher professional levels. In-house, we harness global collaboration solutions to improve the exchange of information as well as raise the efficiency and effectiveness of collaboration. Furthermore, we ensure continuous development of our management potential via a structured management review process.

Key features of the internal control and risk management system in relation to the financial reporting process, in accordance with Section 289 (5) and Section 315 (2) no. 5 of the German Commercial Code (HGB)

ELEMENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

Our internal management and control system is primarily the responsibility of the Corporate Accounting, Corporate Finance, Corporate Controlling & Development/M&A and Internal Audit departments, assisted by the Legal and Corporate Taxes departments. The Group's Supervisory Board, in particular as represented by the Audit Committee, is also an integral part of our control system. The objective of the internal control and risk management system in relation to the financial reporting process is to identify and appropriately quantify all material risks in the context of the consolidated financial statements prepared under IFRS and the single-entity financial statements prepared under the German Commercial Code (HGB).

In our Group, the controls take place both as part of an integrated process and on an ad hoc basis. In addition to IT-based controls, we also use manual controls such as application of the dual-control principle. Administrative, execution, invoicing and approval functions are separated, reducing the possibility of fraudulent acts.

FINANCIAL REPORTING RISKS

Specific financial reporting risks include complex and/or non-routine accounting issues such as the presentation of changes in the composition of the consolidated Group (business combinations or disposals) and new Group financing measures. The application of management judgment in financial statement preparation, such as in annual impairment testing, harbors increased potential for errors. Potential risks from derivative financial instruments are presented in detail in the notes to the consolidated financial statements.

IT SYSTEMS IN FINANCIAL REPORTING

Financial accounting for the subsidiaries included in the consolidated financial statements and Klöckner & Co SE is carried out mainly through the standardized use of SAP software.

We use SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. Local financial accounting data is entered into BOFC and supplemented with additional reporting data. All eliminations in the course of the consolidation process are prepared, entered and documented in the central consolidation software. These include consolidation of investments, elimination of inter-company payables and receivables, elimination of inter-company revenue and expense as well as elimination of inter-company profit and loss.

Access restrictions and defined user profiles protect both the original financial accounting data and the consolidation software from unauthorized access and prevent inappropriate read and/or write access to the systems.

CONTROL ACTIVITIES TO ENSURE COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Our control activities aimed at ensuring reliability and compliance with generally accepted accounting principles make sure that we present transactions in full, reliably and in a timely manner. Transactions are recorded in the consolidated and the single-entity financial statements in accordance with legal requirements. The accounts of the entities included in the consolidated financial statements are kept correctly and in full as well as in compliance with generally accepted accounting principles. Information on inventories and assets is systematically verified by stocktaking. Other assets and liabilities are recognized and presented correctly and measured appropriately in the financial statements. Each quarter, we use a centrally managed, standardized procedure to verify the accuracy of intra-Group financial and trading balances for the Group companies concerned.

Appropriate control mechanisms are in place to reduce the probability of errors in working procedures and to detect any errors that do occur. Selected items are examined for this purpose using analytical methods such as ratio analysis. Our Corporate Internal Audit Department and, on a case-by-case basis, the external Group auditor promptly review the proper migration of IT systems and the effects of other changes at the Company, such as in business activities, from restructurings and changes in the economic or legal environment.

We prepare Klöckner & Co SE's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. In doing so, the Group accounting guidelines, continuously updated by the Corporate Accounting Department, ensure that the IFRSs are applied uniformly throughout the Group. All accounting guidelines, which are binding on every Group company, are made available to the employees involved at the relevant reporting units through an Internet portal. The guidelines are supplemented by a standardized Group chart of accounts, which is maintained and updated exclusively by Klöckner & Co SE's Corporate Accounting Department.

A standardized Group reporting package is used for all subsidiaries to ensure the completeness and uniformity of the additional information required to be published in the notes to the consolidated financial statements. We use IFRS checklists to verify the disclosures in the consolidated financial statements.

At the level of the reporting units, plausibility checks integrated into the SAP consolidation software validate the formal consistency of all of the data fed into the Group accounting software from Group reporting packages. In addition to the automated quality assurance procedure, the Corporate Accounting Department carries out substantive checks and arranges for any necessary corrections to be made or makes corrections centrally. In doing so, it also considers the audit opinions of local auditors.

The Corporate Accounting and the Corporate Controlling & Development/M&A Departments carry out annual goodwill impairment tests under IAS 36 on a centralized basis. We thus ensure a uniform approach when it comes to measuring cash-generating units and applying management judgment. Share-based payment is also determined centrally – with the assistance of an external expert – while pension obligations are computed locally with the assistance of actuarial experts. The calculation parameters are approved by the Corporate Accounting Department. An additional actuary coordinates the overall process of presenting pension obligations for overall assurance with regard to the quality of the complex calculations and disclosures.

The effectiveness of financial reporting control and management systems is constrained by management judgments, the possibility of errors in implementing controls and deliberate avoidance through criminal circumvention. Through the processes and controls we have put in place, we obtain reasonable assurance that both the process of preparing the consolidated financial statements and the process of preparing the single-entity financial statements are carried out in accordance with IFRS, the German Commercial Code (HGB) and other financial reporting-related rules and pronouncements. There can, of course, be no absolute guarantee that all items will be fully and correctly presented in the consolidated financial statements.

Overall statement on the risk situation of the Group

In what is still a volatile market environment, newly emerging risks were identified at an early stage and suitable measures implemented to counter them wherever necessary or economically expedient. The Management Board is confident that the Group's risk management system is effective.

Moreover, the Management Board believes that Klöckner & Co has recognized sufficient provisions to cover all risks required to be accounted for when preparing the financial statements. Based on the measures taken and planned, in particular to ensure liquidity, the Management Board is not presently aware of any risks that, either individually or taken as a whole, cast doubt upon the Company's ability to continue as a going concern

5. Group forecast

Under our extended “Klöckner & Co 2022” strategy, we aim to increase our EBITDA margin to above 5%. The improved profitability is to be achieved via the three pillars of digitalization and platforms, higher value-added business, and efficiency improvement.

For fiscal year 2018, we expect a moderate increase in real steel demand in our key markets of Europe and the USA. The main driver of the projected growth in demand is the Americas segment, where steel demand is set to rise by about 3% in real terms. In Europe, on the other hand, we anticipate only a slight 1% to 2% recovery in demand.

We expect that sales will track this with a slight increase. In parallel, gross profit should rise while the margin remains constant. As a result of the sales performance, we assume a moderate increase in net working capital.

Alongside operating improvements, the growth in the earnings figures in the prior year was additionally aided by market-related price rises. While we are not likely to benefit from positive price effects to the same extent this year, we expect – with the support of our internal optimization measures and stronger steel demand – to at least succeed in generating operating income and the corresponding operating margin at their prior-year levels. If the current trend toward higher steel prices were to persist, this would have an additional positive impact on operating income. Reflecting the demand recovery in the USA, we also expect to noticeably increase EBITDA in the Americas segment, whereas in Europe we project a moderate decrease in EBITDA unless stronger positive price effects emerge.

In light of the above forecast, net income, too, is projected to be clearly positive again.

Duisburg, February 23, 2018

The Management Board

SUSTAINABILITY REPORTING

of Klöckner & Co SE

Sustainability reporting 2017 of Klöckner & Co SE

1. Klöckner & Co SE sustainability reporting 2017

[Klöckner & Co ("Klöckner") is one of the largest producer-independent distributors of steel and metal products worldwide. As we are not tied to any particular steel producer, customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options from over 50 main suppliers. These include the world's largest steel producers and their distribution arms. Sustainability is a topic of special importance along the steel value chain. Although the steel industry's historically large environmental impact has already shrunk considerably in recent years, production in particular is still associated with high levels of resource use. We too as a distributor, however, see it as our duty to continuously improve processes in order to minimize the adverse effects of our business activities. Our approximately 8,700 employees apply their skills and enthusiasm day in, day out to meeting our customers' needs and wishes. At Klöckner & Co, we provide customers with all key product-related services: consulting, procurement, stockholding, processing and distribution of steel and metals. Plus, we are increasingly focusing on process digitalization. With our know-how and technical capabilities, we develop and deliver comprehensive solutions – for companies of all sizes and industries of all kinds. Through our distribution and service network comprising around 170 locations in 13 countries, both in Europe and on the American continent, we serve some 120,000 customers. Concentrated mainly in the construction as well as the machinery and mechanical engineering industries, our customer base consists primarily of small to medium-sized steel and metal consumers. In addition, we supply intermediate products for the automotive, shipbuilding and consumer goods industries.

Responsible conduct plays a central role in relation to our business model and our self-perception as a tradition-rich company. For us, responsibility means aligning our entire enterprise around good ethical behavior, social responsibility, environmental compatibility as well as commercial success.

Consolidated non-financial statement in accordance with Section 315b of the German Commercial Code

The sustainability reporting for 2017 in the following includes the non-financial statement ("non-financial group report") of Klöckner & Co SE in accordance with Section 315b of the German Commercial Code (HGB). In the non-financial statement, we report on the non-financial topics of major relevance to Klöckner's business activities together with the impact of those activities, and of the upstream supply chain, on aspects comprising environmental topics, employee topics, respect for human rights as well as anti-corruption and bribery. In addition, we provide transparent reporting in the following on our broader engagement with regard to sustainability.

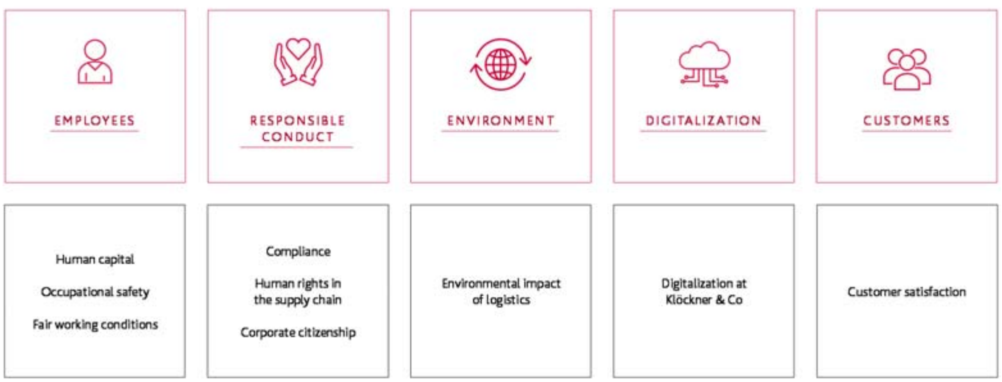
The reporting period for the non-financial statement is fiscal year 2017. The information covers all fully consolidated companies of the Klöckner & Co SE Group. No framework was used in preparation of the non-financial statement as we have not previously carried out sustainability reporting on the basis of national, European or international frameworks.

Ernst & Young GmbH was engaged to provide a limited assurance review of the information items marked with the "√" symbol in the German PDF version of the report for the period January 1, 2017 to December 31, 2017. Only the information for the 2017 reporting year was reviewed. Prior-year information was not part of the review.] √

Materiality analysis

[Identification and formulation of the topics to be included in the non-financial statement was performed in the context of our sustainability management. The findings were subsequently confirmed in dialog with internal and external stakeholders. In order to identify the material content, we conducted a comprehensive Group-wide materiality analysis during the reporting period. Potential sustainability topics were initially identified in a working group comprising selected departmental and functional managers. The prioritization of those topics reflects their importance in terms of business relevance (net assets, financial position and results of operations, innovation and reputation) as well as the impacts of our business activities and the upstream supply chain. In this context, topics were only categorized as material that are both highly relevant to our business and have a strong impact on reporting-related aspects. The results were coordinated with the CEO to ensure comprehensive and integrated reporting for the Group.] √

Our five action areas



Our five action areas: employees, responsible conduct, environment, digitalization and customers

[Our sustainability strategy and sustainability management are arranged around the five action areas of employees, responsible conduct, environment, digitalization and customers. In addition, these are further divided into subsections. The topics are reviewed in a regular process and refined, if necessary. Material topics for reporting under the CSR Directive Implementation Act are human capital, occupational safety, compliance, human rights in the supply chain and environmental impacts of logistics. In addition, we also report on other topics in our sustainability reporting for 2017 that are of relevance to Klöckner in connection with sustainability.] √

Risk assessment

No reportable risks

[A risk assessment has been conducted for all material topics under the CSR Directive Implementation Act. This investigated whether our business activities or our supply chain give rise to material risks to reportable aspects under Section 315b read in conjunction with Section 289c (2) of the German Commercial Code (HGB). The investigation took into account the probability of occurrence and the scale of negative impacts on each aspect. No reportable risks were identified. The classification was performed this year for the first time as part of our Group-wide risk management and will be regularly reviewed and updated in future years.] √

Sustainability management

The three dimensions of our sustainability management are economy, environment and social

As a tradition-rich company, Klöckner & Co considers it its task to ensure its own future viability by means of long-term, strategic goals. In this process, responsibility for the bulk of internal and external stakeholders plays an important role that follows from the size and international presence of our business activities. To shape these relationships for the long term and in a responsible manner for the benefit of all, we have developed a Group-wide sustainability management system that covers the three dimensions of sustainability – economic, environmental and social.

The member of the Management Board with responsibility for this thematic area is the CEO, Gisbert Rühl. Responsibility for sustainability management, coordinating all sustainability activities and compiling the non-financial statement lies with the Investor Relations & Sustainability department. In addition, at the end of 2016, a Sustainability Committee was established that is composed of managers from Investor Relations & Sustainability, Compliance, Group HR, Legal as well as Quality, Health, Safety and Environment (QHSE) Management. The Sustainability Committee determines the main pillars of the sustainability strategy and in its implementation is in close consultation with the respective departments across the Klöckner & Co SE Group.

EMPLOYEES

The **Employees action area** includes the two topics of human capital and occupational safety that are material to the non-financial statement. This section also contains reporting on the topic of fair working conditions.

Added value at Klöckner & Co

A qualified and motivated workforce of employees who feel at ease in the workplace pave the way for Klöckner & Co to generate added value – for employees, for the Company and hence also for our customers. If we are to keep the entire workforce motivated, recruit new talents and secure employee loyalty, we need a working environment characterized by long-term security, supportiveness, professionalism and mutual respect. Such a working environment is vital to Klöckner's success – and for every one of us to be able to develop and realize their full potential.

Human capital

[Dedicated and qualified employees are a key factor in our success as a service provider. To this end, we provide a wide variety of further training and personal development opportunities for employees. A further focus is on nurturing new talents. Particularly with a view to demographic change, recruiting and securing talent for the long term is central to our corporate success.

Our activities are directed at keeping workforce qualifications fully up to date, further enhancing skills – notably with regard to the digitalization of our business model – and promoting talent within our own ranks. We are currently carrying out a qualitative review of progress toward target attainment, although we also plan to use quantitative indicators in the future.

The great majority of country organizations perform these activities locally and have their own Human Resources (HR) developers. Target agreements for managerial staff and HR developers include – in addition to individual targets – long-term targets for implementation of the Group-wide HR strategy, such as promoting diversity, talent management and helping to shape Group-wide cultural change.

The CEO is involved via ongoing exchange about developments in and outcomes of such activities, and ensures that the thematic areas covered by the Group-wide HR strategy constantly stay on the agenda. Our HR strategy is based on the pillars of leadership and corporate culture, systematic performance, talent and succession management, and improvements to make us an even more attractive employer.

In the KME (Kloeckner Metals Europe) Talent Management initiative, we have created a framework for our European country organizations in which Human Resources (HR) developers from the various countries can share ideas on new activities in the area of talent development and devise joint programs for professional and personal development in close cooperation with Group HR. Similar programs are in place as part of talent management at our American country organizations.

In-house training on offer

Throughout the Group, our employees have access to job-specific, in-house training and language courses, including via our Group-wide Digital Academy. This enables our employees to take part in online training on a voluntary basis during working hours. The Digital Academy provides numerous online courses for users, mostly with the aim of enhancing digital skills. We place a special focus on the future of employment against the backdrop of digitalization and the fourth industrial revolution. All employees are to be given the opportunity to acquire digital skills at their own pace. The E-Business License course offered to all employees by our Supervisory Board member Prof. Dr. Tobias Kollmann, for example, equips them with the tools they need to successfully navigate the digital economy. Users' feedback and requests are also taken into account in the development of new course topics so that they have a hand in shaping future training packages.

As part of Klöckner's digitalization strategy, we have implemented the "Digital Experience" exchange program within the Group especially for sales staff at our country organizations. Participants' digital and individual skills are further enhanced in a several-week stay at our digital unit kloeckner.i in Berlin. In return, kloeckner.i gains first-hand expertise in steel.

Klöckner additionally provides individual support for training at employees' own initiative. At Group companies in Germany, individual wishes and training courses are incorporated as part of target agreements in annual performance appraisals. Annual employee appraisals of this kind are to be rolled out successively throughout the Group. By means of a structured management review process, we ensure that the management potential of our managerial employees is realized to the full and continuously enhanced.

Fostering young talent, e.g. with the Emerging Leaders Program

In parallel, there are internal measures to foster young talents, such as the Emerging Leaders Program – a development program for the upcoming generation of branch managers. The program refreshes and trains the skills needed for future-focused branch management. Topics range from contemporary business administration knowledge and sales training to leadership skills and design thinking methods, as an effective toolkit for innovative and customer-centric business practices in the context of our digital transformation. The first Emerging Leaders, making up 38% of the first cohort from the 2014/15 program year, already successfully hold branch manager positions or operating leadership positions. January 2017 marked the start of the second year and the third cohort will follow in 2018/19.

For career starters and students, Klöckner & Co offers internships and working student positions, where they can apply and consolidate content from their studies in real-life business situations. Our German activities in this connection follow the quality standards of the "Fair Company" initiative, for which Klöckner & Co reaffirms its commitment each year. We also offer a large number of apprenticeships and equivalent programs to provide young people with a career entry point while ensuring that Klöckner is able to secure well-qualified young talents.

The fact that our further training activities are well received is demonstrated, for instance, by the steadily growing user numbers in our Digital Academy and the positive feedback regarding our Emerging Leaders Program, as well as our kununu rankings. In this way, we meet the challenges of digital transformation and demographic change.] √

Occupational safety

Emphasis on a healthy and safe working environment

[Occupational safety is a key topic for us as a steel distributor with a high percentage of wage earners employed at our branches. A healthy and safe working environment both protects our employees and ensures smooth process workflows. Compliance with occupational safety regulations and laws forms the basis for safe and healthy workplaces.

The Group-wide goal of our occupational safety initiatives and activities is a consistent reduction in occupational accidents as measured by the Lost Time Injury Frequency (LTIF).

Throughout the Group, QHSE teams at each of our country organizations work continuously to systematically reduce the risk of accidents and to raise occupational safety awareness in the workforce.

In Europe, a QHSE committee comprising experts from our European country organizations meets twice a year and is responsible for monitoring the overall activities and coordinating our occupational safety strategy. The QHSE committee liaises closely with the US country organizations and reports directly to the Chief Operating Officer and to the KME Management Board. Our occupational health and safety officer at the holding company additionally prepares a monthly Group-wide accident report. This is a fixed feature of the Management Board's regular meetings, at which the Chief Operating Officer keeps the remaining Board members abreast of "health and safety" matters.

Most European country organizations have already adopted British Standard BS OHSAS 18001 occupational health and safety certification. Implementation of the standard at our Dutch and Belgian country organizations is planned for 2018.

Numerous occupational safety initiatives

Since 2013, our occupational safety activities have been brought together under the "Safety 1st" initiative in Europe and similar initiatives at our American country organizations. In line with our Group-level objectives, these initiatives are geared to raising occupational safety awareness among employees and feature a broad package of measures to reduce accident numbers. Officers at each country organization are responsible for the regional implementation of adopted measures, subject accident causes to plausibility checking, perform risk analysis and coordinate cross-location training.

Local occupational health and safety officers sensitize employees at individual branches. This is done by such means as training courses and training videos as well as by visual means including posters, accident reports and a safety card that presents key rules in credit card format. Furthermore, all visitors are required to wear helmets and high-visibility vests, while operational processes are optimized on an ongoing basis with individual improvements according to context.

Accidents are always avoidable and preventive action enables us to avert loss or harm to employees and our business in advance. In the event that an accident does happen, the occupational health and safety officer analyzes it together with those concerned in local teams to identify measures for improvement and systematically avoid a repeat occurrence. The country organization officer files a detailed accident report via our reporting system to the holding company occupational health and safety officer. Additional specific action is taken in the event of any unusual occurrences such as a spate of similar accidents at one country organization or location.

LTIF target of less than 10 already met

Our key performance indicator in this connection is the lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. Our LTIF target is to reduce average accident frequency to an LTIF of less than 10 at all Group companies. This target is also integrated as a variable component in the remuneration system for European management. As a result of the measures adopted, we were able to reduce the LTIF across the Group in 2017 by 1.8 points relative to the prior year to 9.3* (2016: 11.1)] √

Fair working conditions

For Klöckner & Co, fair working conditions are the basis for the motivation and hence the productivity of our employees. A working environment characterized by mutual respect and free from discrimination of any kind is a necessary precondition for commitment and creativity.

We are required by the Code of Conduct to ensure, among other things, that our colleagues, applicants and business partners are met with respect and judged according to their qualifications, skills and performance. We respect diversity of cultural, ethical and religious backgrounds and are committed to the principle of equality. Detailed rules of conduct for our employees are set out in our Code of Conduct on our website.

In general, we strive to increase diversity in our workforce as well as foster creativity and an innovative spirit in the Company with employees of differing cultural backgrounds, lifestyles and values. For us as an international Group, serving our customers every day in numerous countries around the world calls for a strong global team with a high level of diversity. In total, we employ people from some 70 different nationalities in our Group. Recruitment criteria are based exclusively on professional aptitude. In accordance with collective agreements, we also do not differentiate in terms of payment.

We aim to foster communication and networking among female specialists and executives with our “ladies lunch” and “ladies talk” event series that have been developed. These provide an opportunity to share experience across working areas and for constructive discussion of topics.

Workshops raise awareness of treating each other with respect as a success factor

Diversity, mindfulness and mutual respect are not only good for the working environment. They also create the right setting for the creation of marketable ideas and innovations. In December 2017, we consequently launched a series of workshops on respect as a success factor in order to raise awareness among all managerial staff in Europe. In the USA, employees have already been provided with training that also reflects the different legal situation there. CEO Gisbert Rühl has emphasized in this context that “Neutrality and openness with regard to gender, origin, age and appearance are our overriding principles in mutual dealings. We are pleased to say that most colleagues abide by this. Discriminatory behavior is completely unacceptable to us both from a human and from a business perspective and is in no way tolerated.” For management, this means resolving critical situations, supporting affected employees and thus ensuring a constructive and respectful working environment. In the workshops, managers learned among other things how to recognize, avoid and eliminate disrespectful and discriminatory behavior. To do justice to its importance, the topic of respectful interaction is included in the Group-wide compliance training for all employees.

*Not including commuting accidents. For our Swiss country organization, vacation and sick days are included pro rata in the calculation.

RESPONSIBLE CONDUCT

The **Responsible Conduct action area** encompasses the material topics of compliance and human rights in the supply chain as well as Klöckner & Co's corporate citizenship, which is additionally reported on within this section.

Klöckner & Co takes a holistic approach to responsible conduct. Consequently, although it is defined here as a single action area, responsible conduct may also be regarded as an overarching concept that embraces all other action areas. This is because, for Klöckner & Co, responsible conduct based on ethical convictions paves the way for long-term business success and hence also for sustainability.

Underscoring this aspiration, we have also publicly committed to a responsible leadership culture. Accordingly, in January 2017, CEO Gisbert Rühl co-signed the "Compact for Responsive and Responsible Leadership" sponsored by the International Business Council of the World Economic Forum. Klöckner & Co is also among the signatories of the German industry's Code of Responsible Conduct for Business and thus gave its commitment as long ago as May 2011 to both success-oriented and value-oriented leadership in the spirit of the social market economy.

Code of Conduct is of central importance

An integral part of our corporate culture is compliance on the part of our employees and business partners, constituting the basis of corporate responsibility. Alongside consistent respect for human rights, adherence to our fundamental corporate values and principles is of central importance to us. We have formulated those values and principles in our Code of Conduct. Compliance with this is the direct responsibility of each individual and cannot be delegated.

As a tradition-rich company, Klöckner & Co also regards it as its duty to contribute to the well-being of society. Active involvement in the immediate vicinity of our headquarters and branches is a key aspect and an identity-building factor for our Group.

Compliance

[As an international Group with numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity and responsibility both within the Company and in interactions with business partners, as well as to establish responsible relationships.

One of Klöckner's fundamental principles is that our employees act in accordance with prevailing competition law. We are committed to free competition and the recommendations of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of December 17, 1997. Klöckner & Co also endeavors to comply with all anti-corruption laws of the countries in which we do business, including the UK Bribery Act and the US Foreign Corrupt Practices Act.

We aim to avoid potentially corrupt and antitrust situations as a fundamental rule and to counteract potential violations at an early stage.

Klöckner expects employees at all levels of the Company, regardless of their hierarchical position, to comply with prevailing competition rules and antitrust laws. The Management Board has unequivocally expressed in its "Tone at the Top" that antitrust violations and corruption are not tolerated at Klöckner & Co and any infringements are systematically pursued. Our employees are provided with a frame of reference and guidance in the form of our Group-wide Code of Conduct together with internal Group guidelines on topics such as adherence to antitrust rules, the engagement of intermediaries and anti-corruption in business dealings.

Compliance management system with a focus on competition law and anti-corruption

To support compliance with these stipulations, we have established a compliance management system based on the OECD Principles of Corporate Governance. Focal areas of this system include competition law and anti-corruption. For the onward development, control and implementation of the compliance management system, we have set up a compliance organization that provides employees with regular information and appropriate training on relevant statutory provisions and internal guidelines. In addition, the Chief Compliance Officer reports to the entire Management Board each month on current developments and immediately escalates ad-hoc reports to the CEO.

Moreover, the compliance organization conducts risk analyses of compliance topics and, in cooperation with the Corporate Internal Audit Department, ongoing compliance audits at our country organizations, thereby checking compliance with statutory provisions as well as our in-house rules and regulations. As part of risk analysis, the compliance organization analyzes individual compliance risks together with the managing directors of the various country organizations and takes precautionary action as appropriate. No further need for action in the risk areas of antitrust law and corruption was identified during the reporting year.

To prevent corruption, we established strict criteria for the engagement of intermediaries as long ago as 2010 and subject intermediaries to compliance screening before entering into a contract with them. Klöckner makes use of an external service provider for this purpose. The screening is repeated at set intervals and according to risk. In addition, level 1 and level 2 managerial employees are subjected to independent integrity screening supplemented with regular self-disclosure questionnaires.

In the interest of all employees and to avert damage to the Company, procedural instructions are provided that detail permissible conduct. The country organizations publish the Group guidelines and procedural instructions in their area of responsibility and adopt the measures needed to implement the respective requirements. For this purpose, use is made among other things of the Corporate Compliance Office's Compliance SharePoint, where all relevant compliance documents are provided online as a "Single Point of Truth" for all Group employees.

Classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of, for instance, compliance-related topics such as antitrust law, corruption risks and fraud. We conduct refresher e-learning sessions throughout the Group to keep our employees up to date and address specific compliance-related topics with examples from their day-to-day work. Some 3,500* employees and interns were provided with training on these subjects during the reporting period. We expect external business partners to comply with the ethical values and principles enshrined in our Code of Conduct or a comparable code of their own and to implement them effectively in their organization.

* Data for period October 1, 2016 to September 30, 2017.

If they have a question about ethical conduct or doubts about the legal position in a given business situation, employees can always approach a contact within our compliance organization at the holding company or locally in their country organization. Our employees and business partners additionally have the option of directing information on potential compliance violations and/or breaches of our Code of Conduct directly to the Corporate Compliance Officer. A telephone and web-based whistleblower system operated by an external service provider is available for this purpose. The whistleblower system can be accessed free of charge from anywhere in the world and can also be used anonymously.

All Board members, managerial staff and employees must be aware of the extraordinary risks that can be involved in any antitrust or corruption case, both for Klöckner & Co and for the individual. Every employee is called upon to actively help implement the Klöckner & Co compliance program within their sphere of responsibility.

The effectiveness of our compliance management system is reflected in the figures: We had no serious breach of our guidelines to report this year, and none of our thirteen reviews of individual business locations by Internal Audit identified significant antitrust risks or corruption or bribery infringements.] √

Human rights in the supply chain

[Klöckner & Co SE and its country organizations ensure ethically correct and compliant behavior in business dealings. This includes prudent and responsible product procurement. As stated in our Code of Conduct and moreover in our internal human rights policy, Klöckner does not tolerate any violation of the principles set out in them under any circumstances.

Reviewing our product portfolio for conflict minerals

An important concern for us as distributor is the origin of the minerals incorporated in the products we sell. Of particular interest in this regard are conflict minerals such as columbite tantalite (coltan), cassiterite, gold, wolframite and their derivatives, which include tantalum, tin and tungsten. An in-depth review of our product portfolio in fiscal year 2017 showed that less than 1% of our products possibly contain tantalum, tin or tungsten.

One goal in the procurement process is to ensure that minerals contained in such products are not from conflict states. The importance of this topic is also reflected in requirements laid down by our international customers, who expect us to provide clear proof of origin.

Since the entry into force of the Dodd-Frank Wall Street Reform and Consumer Protection Act and in particular the Conflict Minerals Rule, Klöckner analyzes with due care every year whether conflict minerals are used in the manufacture of the products concerned and, if so, whether they originate from the Democratic Republic of the Congo (DR Congo) or neighboring states. Those neighboring states today comprise Angola, Burundi, the Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

If suppliers manufacture components, parts or products using the minerals in question, we require proof that those materials are not sourced from the aforementioned states. For all relevant suppliers, the EICC-GeSI Conflict Minerals Reporting Template is used to systematically track the provenance of conflict minerals. If a supplier fails to comply with the foregoing principles on conflict minerals and proof cannot be provided, the supplier is systematically blocked with regard to further purchases.

Our expectations of our suppliers

We expect our suppliers for their part to formulate and implement conflict minerals policies and principles and to communicate these to their subcontractors. If possible, they should require their upstream providers to adopt and follow corresponding policies and principles. Klöckner expects its suppliers, together with their subcontractors, to trace conflict minerals at least to where they were smelted and to commit to standard reporting processes. Klöckner reserves the right to demand supply chain verification from its suppliers and, where appropriate, to trace conflict minerals back to the mine of origin. We expect our suppliers to retain the relevant documentary proof for five years and to submit it to Klöckner on request.

One supplier had to be blocked during the reporting period after failing to provide the necessary evidence despite multiple requests.

We generally seek long-term relationships with suppliers and work together with them wherever possible to achieve improvements and sustainable solutions. Over two-thirds of our core suppliers have been supplying Klöckner for more than five years and have shown themselves to be reliable business partners who apply similar sustainability principles.

Alongside observance of applicable laws and human rights, basic principles of Klöckner & Co include the prohibition of child labor and ensuring workforce health and safety, as well as compliance with the statutory minimum wage and working hours. We expect everyone in our supply chain to follow the same principles. To monitor this better in the future, we plan to introduce a Supplier Code of Conduct for core suppliers in Europe during fiscal year 2018.] √

Corporate Citizenship

Actively committed to our immediate surroundings

Klöckner & Co operates in 13 countries worldwide, maintains some 170 locations and employs around 8,700 people. This gives rise to responsibility not only for our employees, but also toward the regions in which our branches are located. We consequently give our commitment to the immediate surroundings of our locations and, in this way, play our part in meeting social challenges.

Our goal is for the financial support we provide to benefit those who really need it. Donation and sponsoring activities are conducted autonomously by our country organizations as they are best placed to judge individual needs in their region. They are provided with a framework in the form of Group-wide procedural instructions through which we ensure a uniform thrust in corporate citizenship activities while catering to the individual circumstances of our markets. The focus of our activities is on supporting selected scientific, sports, art and cultural projects along with ongoing promotion of education initiatives and the integration of refugees into our society.

In order to avoid conflicts of interest, we do not as a matter of principle donate to political parties, individuals, for-profit organizations or organizations whose goals conflict with our corporate governance principles or could harm our reputation.

REGIONAL AID PROJECTS

Joining forces with the Ruhr Piano Festival Foundation, we developed an education project to foster children's musical and artistic development at different types of schools. This was implemented for the first time with two schools in 2012. No fewer than five schools with over 400 children took part in 2017. Our musical education work has since earned supraregional recognition. In October 2016, the education program garnered the Echo Klassik award presented by Deutsche Phono-Akademie. The prestigious music award was conferred in the Fostering Young Talent category. These and other awards confirm our successful cooperation, which is to remain part of our activities going forward. In addition, Klöckner & Co supports participating schools and a youth center in the provision of healthy meals, the modernization of premises and many other projects in Duisburg's Marxloh, Germany, district, which has a high proportion of residents with a migrant background.

REFUGEE INTEGRATION

Klöckner & Co supports the German Industry "We together" initiative

The integration of refugees into our society is another major concern for us. This notably includes creating employment opportunities. One area with an especially large number of vacancies is the IT sector, which often makes it hard for companies to find qualified programmers. To help refugees with IT skills entering the job market, the knowledge they bring with them needs to be enhanced and supplemented in line with the needs of the German labor market in general and our business in particular. Under the umbrella of the "We together" German Industry Integration Initiative, Klöckner & Co therefore supports the ReDI School of Digital Integration in Berlin as main sponsor and provides premises for the project.

ReDI is short for Readiness and Digital Integration. Students are provided with laptops and can take part in free beginners and advanced programming courses. Additionally, students are each assigned a mentor to help them take the course content to a deeper level. Organized networking events make for lively contact with the Berlin start-up scene. We also have our own presence in Berlin with kloeckner.i, our Group Center of Competence for Digitalization, where we are adding to staff numbers on an ongoing basis. When filling new positions, we place special emphasis on recruiting ReDI School graduates. Internships prepare ReDI students for potential permanent employment at kloeckner.i, our digital subsidiary in Berlin.

The German Chancellor, Dr. Angela Merkel, also convinced herself of the success of this collaboration in April 2017 when visiting the ReDI School of Digital Integration in its new premises at kloeckner.i. During her visit, the Chancellor gained an impression of how the highly motivated refugees are learning modern programming languages and techniques, projects that have already been successfully implemented and their next goals going forward. Refugees who have been successfully integrated into companies reported alongside their new employers and colleagues about their daily work and spoke constructively with the Chancellor.

Klöckner & Co also supports a special Stifterverband program targeting the integration of refugees through education as part of "Kiron Open Higher Education's Computer Science study track". The program aims to offer refugees access to a course of study leading to an accredited bachelor's degree.

EDUCATION

In Germany, we maintain close contact with the European Business School (EBS) and the University of Duisburg-Essen. As well as high-ranking executives from our Company giving lectures at these two higher education institutions, we also take part in dialog events and answer students' questions. Furthermore, we offer students internships during which they can apply content from their studies to real business situations.

For some years now, we have supported the Germany Scholarship in collaboration with the German Federal Ministry of Education and Research. Primarily directed at talented and high-achieving college students, the scholarship gives consideration to specific family and social circumstances. Our aim here is to provide support so that students can excel both academically and socially as well as within the family.

Since 2013, we have additionally supported the German National Scholarship awarded by Roland Berger Foundation. This program promotes gifted children with a strong will to learn who come from socially disadvantaged families, with the aim of guaranteeing them the best possible education opportunities and enabling them to complete upper secondary education and/or go on to university. It is our way of helping to remove barriers to equal opportunities among people of different social backgrounds.

ENVIRONMENT

Environmental impact of logistics

[One of the greatest challenges in the **Environment action area** and of our times is climate change, and Klöckner considers it its duty to counter related risks with a suitable contribution to protecting the environment.

Goal: reducing our delivery fleet's CO_2 emissions

A significant part of our business model involves shipping products to customers by truck. In inbound logistics, goods are mainly delivered to our stockyard locations by suppliers. This places our main focus on optimizing outbound logistics by reducing the environmental impact in the form of CO_2 emissions from our delivery fleet. In supplying customers with goods from around 110 branches in Europe, we pay particular attention to efficient delivery route planning.

Our Group-wide goal is to maintain our current high service level with fewer trucks, thereby both cutting costs and reducing CO_2 emissions.

Environmental protection is an important part of our quality, health, safety and environment (QHSE) policy. In bi-annual international working groups, logistics and quality managers from all country organizations share best practice solutions for resource efficiency in logistics. Common goals and projects are developed here and systematically advanced. The KME Management Board is informed after each meeting about the outcomes and subsequently ensures that promising projects are implemented.

Certified to ISO 14001

All locations at our country organization Kloeckner Metals UK and our German company Becker Stahl-Service are certified to the ISO 14001 environmental standard, which also covers logistics.

Key aspects of efficient planning quality include adherence to delivery dates along with constant optimum utilization of truck capacity and optimized route planning. In 2017, we consequently launched the universal rollout of transportation planning software. With the aid of data analysis from this transportation planning software, we will go on to develop approaches for improving truck fuel consumption. These can include tactics such as avoiding empty runs and fine-tuning delivery frequencies.

Our Dutch country organization Kloeckner Metals ODS Nederland already deploys state-of-the-art on-board computers that provide continuous feedback on driving behavior, vehicle speed and engine speed, thus helping to reduce truck fuel consumption and hence CO_2 emissions. In Germany, the drivers operating our fleet – currently around 30 trucks, most with Euro-6 engines – are provided with road training and regular feedback on their driving behavior. At Kloeckner Metals UK, too, a fuel-efficiency program was launched during 2017, which also encompassed a course in "safe, fuel-efficient driving" for all drivers.

With these measures and above all the improved delivery route planning, we meet the ever increasing challenges – including smaller consignment sizes – faced in transportation logistics. By universal deployment of the transportation planning software, we will be able to meet our targets for cutting transportation cost while reducing CO_2 emissions through more efficient routes.] √

DIGITALIZATION

Digitalization at Klöckner & Co

Our **Digitalization action area** includes both our digitalization strategy and the area of innovation. The use of digital tools has become essential for every trading company the world over. This naturally also applies to steel distribution.

Customers want things to work the same way in business as they do elsewhere. Klöckner envisions an open industry platform for the steel and metal industry in which information asymmetries have been eliminated by digitally connecting all market participants in order to enable significant efficiency increases for all.

As well as aligning our business for the long-term future and making life simpler for customers, digitalization also marks a key step forward in sustainability. Lower transaction costs, for instance, or just-in-time stock-holding make it possible to further optimize resource consumption. Our incubator in the start-up scene, kloeckner.i, and the activities of our venture firm, kloeckner.v, also bring us into contact with the latest solutions the market has to offer.

As part of the “Klöckner & Co 2022” strategy, we have set ourselves the target of generating 60% of sales via digital channels by 2022. Digitalization is an ongoing process for us. This is why kloeckner.i is not only about developing promising product ideas, but also about constantly refining them. Reviewing the performance of each digital tool plays a key role. As a case in point, we use information available to us, such as page views, logins or customer stay duration to further enhance the online shops for users. Among other things, weekly meetings help us share and discuss the findings. This is critical to our ability to implement new ideas without delays.

Target: generating 60% of sales via digital channels by 2022

In addition, target group analysis helps us precisely pinpoint customers who would benefit most from ordering online in the future but do not yet make use of the option to do so. For 2018, we plan to further improve user-friendliness and gradually enlarge the product range. This is to be implemented by means of targeted customer personalization and by adding complementary products from other suppliers (marketplace functionality). As a result, we aim to provide customers with the optimum procurement experience.

Applying start-up methods such as design thinking

In many cases, today's tasks have increased in complexity. This makes it no longer efficient to apply outdated solutions. It would not be the first time that a carefully crafted solution failed because it lacked user relevance and acceptance. This happens when the problem being worked on is not accurately focused on the target group. For complex challenges, increasing use is therefore made of the design thinking approach. Unlike before when specialists would go after the ideal solution on their own, colleagues from ostensibly unrelated disciplines are also brought into the process. Design thinking enables us to pool creative potential for generating ideas. At the same time, the process is always geared toward the targeted customers, who should be involved and their feedback incorporated from the earliest possible stage. Involving customers in the innovation process is fundamental to verifying initial assumptions through to the point of certainty. Design thinking thus aims to produce innovations that are user-oriented and specifically meet and satisfy user needs and wishes.

To ensure that everyone in the Company embraces and sees themselves as part of these changes, we make use of formats such as our self-developed DigiDays event series. The goal here is for employees to voluntarily familiarize themselves with start-up methods in order to devise solutions to problems in a creative environment. We launched the first of these events in November 2016. Participants had the opportunity to generate digital and innovative ideas for everyday office tasks. From the many ideas that resulted, we implemented the top three across our Company. In light of the very high participation rates and positive feedback, we held DigiDays 2.0 in July 2017. The objective this time was to find solutions for the holding company in Duisburg to better support our country organizations' operating business without neglecting its management function. In both series of events, we likewise applied the design thinking approach. Scheduled to take place in the first half of 2018, the next DigiDays will focus on a healthy failure culture and agile working methods.

Establishing a culture of learning and failure in the Group

On the subject of failure culture, we additionally launched a series of failure sessions in 2017 of the kind that are typically used in the start-up scene. In a failure session, failed start-up entrepreneurs report on their experiences, what they did wrong and what they learned. Although still fairly rare, such events are also beginning to be held within large corporate groups. Here, too, the focus is on people openly talking about their mistakes and the lessons learned and then going on to discuss them in the round. For Klöckner, the goal is to establish a start-up-style learning and failure culture in our Group in order to become faster and more agile as well as less perfectionist in our work.

Employees benefit from digitalization with opportunities for flexible hours and home office working. Our in-house social network Yammer provides staff with a non-hierarchical platform for contributing and sharing ideas. Using our Digital Academy, employees are able to train on digitalization or e-commerce during working hours. We have also provided employees with a DigiBook to present the strategic messages of our digitalization strategy in clear language with numerous illustrations.

The difference that can be made by every individual is seen in the German country organization, where a digitalization officer has been appointed for each location. Digitalization officers serve as points of contact for local colleagues and so advance the digital transformation at regional level. We plan to deploy this successful model across Europe in the year ahead.

To further boost our digital share of sales, we invited 80 operational (management) employees from all over the Klöckner & Co Group in September 2017 to a Digital Sales Accelerator (DSA) seminar at our start-up subsidiary kloeckner.i in Berlin. Working together with the Klöckner & Co Management Board, participating employees focused intensively on the development and acceleration of processes to promote digital sales.

The proportion of Group sales generated via digital channels increased to 18% at the end of the year. We are now additionally setting about disrupting steel and metal distribution with an open industry platform. This platform will operate independently on the market and also be open to our competitors. The independent platform company will enable our Berlin start-up kloeckner.i to focus even more closely on supporting our country organizations in expanding their digital business.

18% of sales generated online by the end of 2017

CUSTOMERS

Customer satisfaction

In the **Customers action area**, both customer satisfaction and customer loyalty are key factors for us that secure Klöckner & Co's long-term market success.

As an international steel and metal distributor, we aim to offer customers the highest quality and optimum service. Reliable service strengthens our position as the connecting link between customers and suppliers on a lasting basis. High product quality, an extensive range of services and our digital solutions make us a reliable partner to customers from all industries.

Our high level of customer satisfaction – which we aim to continue improving – is a key competitive advantage for Klöckner & Co. In keeping with the design thinking approach, we always conceptualize products and services, sales channels and innovations from the customer perspective. Accordingly, we actively involve our customers in the process and analyze their personal wishes and needs on a targeted basis.

Focusing on customers when developing products and tools

We make use of various agile working methods from the start-up world for this purpose. To keep product development moving forward and on target, we conduct results-oriented interviews with customers and use new insight methods such as mapping customer journeys. These involve visualizing the customer experience, from first product contact through the entire use process to long-term product adoption. The resulting insights help us refine our products, tools and services. On this basis, we first develop what is referred to as a "minimum viable product" – one that initially meets just the most basic requirements. In the past, our development of such products or tools involved significantly greater effort and expense. Every conceivable feature and business contingency had to be catered for in the quest for perfection. The consequence was too much time spent on product development, high costs and dissatisfaction on all sides. That's why we have adopted the "lean start-up approach", also in a variety of in-house projects. This approach makes us significantly faster in that we meet only the most important requirements in an initial stage. Improvements can always be added progressively later on. That way, we also avoid the risk of tying up capacity for new product features that ultimately offer no added value for customers.

To ensure the effectiveness of our working approaches, we conduct regular customer surveys via our country organizations. In fiscal year 2017, all customers of our German and Austrian country organizations were asked to give their opinions on various points. Our other companies also conduct customer surveys as needed. Aspects covered include availability, product range, product quality, product availability, the processing range, employee proficiency, delivery time, delivery punctuality, order documentation and complaint handling. Klöckner Deutschland received an overall grade of 1.96 and our Austrian country organization a grade of 1.80. We use these customer surveys to constantly improve our systems and workflows. At kloeckner.i, we will conduct a customer survey this year and hope to receive even more detailed feedback.

In addition, we are going to introduce net promoter score (NPS) as a rating in our online shop. This is a measure of brand perception. Users are asked, “How likely is it that you will recommend Klöckner to a friend or colleague?”. Responses are rated on a scale from 0 (unlikely) to 10 (highly likely). The higher the value, the stronger the brand perception. We will use the findings to derive future customer loyalty measures. For Klöckner & Co, satisfied customers are the foundation and precondition for sustained, long-term growth.

Customer surveys are a key feedback tool in optimizing systems and processes

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German PDF version of the combined non-financial statement 2017 of Klöckner & Co SE. The following text is a translation of the original German Independent Assurance Report.

To Klöckner & Co SE, Duisburg

We have performed a limited assurance engagement on the group non-financial statement of Klöckner & Co SE according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code) whose disclosures are marked with the symbol „√" in the Sustainability Report 2017 ("Nachhaltigkeitsberichterstattung 2017") for the reporting period from January 1, 2017 to December 31, 2017. Our engagement is exclusively relates to the disclosures marked with the symbol „√" in the German PDF version of the Sustainability Report. Our engagement did not include any disclosures for prior years.

MANAGEMENT'S RESPONSIBILITY

The legal representatives of the Company are responsible for the preparation of the group non-financial statement in accordance with § 315c HGB.

This responsibility includes the selection and application of appropriate methods to prepare the group non-financial statement as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a group non-financial statement that is free from material misstatement, whether due to fraud or error.

AUDITOR'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY CONTROL

We are independent from the entity in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the group non-financial statement based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the group non-financial statement of the Company has been prepared, in all material respects, in accordance with § 315c HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between January 2018 and February 2018, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the group non-financial statement, the risk assessment and the concepts of Klöckner for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the group non-financial statement, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the group non-financial statement,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas, e.g. environment and employees in the reporting period and testing such documentation on a sample basis,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Analytical procedures at group level regarding the quality of the reported data,
- Evaluation of the presentation of the disclosures in the group non-financial statement.

ASSURANCE CONCLUSION

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the group non-financial statement of Klöckner & Co SE for the period from January 1, 2017 to December 31, 2017 has not been prepared, in all material respects, in accordance with § 315c HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with Klöckner & Co SE. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

ENGAGEMENT TERMS AND LIABILITY

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated January 1, 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (http://www.ey.com/Publication/vwLUAssets/EY-idw-aab-2017-en/$FILE/EY-idw-aab-2017-en.pdf). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their pur-poses and to supplement, verify or update it by means of their own review procedures.

Munich, February 23, 2018

Ernst & Young GmbH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Nicole Richter	Jan Kaiser
WIRTSCHAFTSPRÜFERIN	WIRTSCHAFTSPRÜFER
(GERMAN PUBLIC AUDITOR)	(GERMAN PUBLIC AUDITOR)

FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements
Consolidated statement of income

for the 12-month period ending December 31, 2017

(€ thousand)	Notes	2017	2016
Sales	7	6,291,560	5,730,064
Other operating income	8	40,250	39,912
Changes in inventory		14,052	829
Own work capitalized		-	12
Cost of materials	9	-4,989,801	-4,416,331
Personnel expenses	10	-622,442	-640,702
Depreciation and amortization	15	-89,723	-110,113
thereof impairment losses	*15*	*-2,544*	*-17,546*
Other operating expenses	11	-514,059	-518,255
Operating result		**129,837**	**85,416**
Income from investments		**-1**	**-6**
Finance income		1,456	1,862
Finance expenses		-34,768	-35,269
Financial result	**12**	**-33,312**	**-33,407**
Income before taxes		**96,524**	**52,003**
Income taxes	13	5,727	-14,046
Net income		**102,251**	**37,957**
thereof attributable to			
– shareholders of Klöckner & Co SE		*101,136*	*36,797*
– non-controlling interests		*1,115*	*1,160*
Earnings per share (€/share)	14		
– basic		1.01	0.37
– diluted		0.96	0.37

Statement of comprehensive income

for the 12-month period ending December 31, 2017

(€ thousand)	2017	2016
Net income	**102,251**	**37,957**
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	59,425	-34,309
Related income tax	-15,195	-1,661
Total	**44,230**	**-35,970**
Other comprehensive income reclassifiable		
Foreign currency translation	-68,562	15,732
Gain/loss from net investment hedges	-	-326
Related income tax	-	103
Gain/loss from cash flow hedges	402	-267
Reclassification to profit and loss due to sale of foreign subsidiaries	-373	-
Total	**-68,533**	**15,242**
Other comprehensive income	**-24,303**	**-20,728**
Total comprehensive income	**77,948**	**17,229**
thereof attributable to		
– shareholders of Klöckner & Co SE	*76,830*	*16,107*
– non-controlling interests	*1,118*	*1,122*

Consolidated statement of financial position

as of December 31, 2017

ASSETS

(€ thousand)	Notes	December 31. 2017	December 31. 2016
Non-current assets			
Intangible assets	15 a	162,749	206,317
Property, plant and equipment	15 b	623,816	661,548
Non-current investments		5,417	5,732
Other assets	18	11,486	10,162
Current income tax receivable	13	6,612	8,415
Deferred tax assets	13	24,371	4,855
Total non-current assets		**834,451**	**897,029**
Current assets			
Inventories	16	1,105,131	1,006,255
Trade receivables	17	679,778	653,784
Current income tax receivable	13	14,812	19,725
Other assets	18	98,619	97,606
Cash and cash equivalents	19	153,561	134,228
Assets held for sale	20	-	87,909
Total current assets		**2,051,901**	**1,999,507**
Total assets		**2,886,352**	**2,896,536**

EQUITY AND LIABILITIES

(€ thousand)	Notes	December 31, 2017	December 31, 2016
Equity			
Subscribed capital		249,375	249,375
Capital reserves		682,412	682,412
Retained earnings		282,873	201,687
Accumulated other comprehensive income		-18,584	5,722
Equity attributable to shareholders of Klöckner & Co SE		**1,196,076**	**1,139,196**
Non-controlling interests		6,235	8,757
Total equity	**21**	**1,202,311**	**1,147,953**
Non-current liabilities			
Provisions for pensions and similar obligations	23	281,538	358,887
Other provisions and accrued liabilities	24	18,196	22,614
Financial liabilities	25	425,988	527,494
Other liabilities	27	18	275
Deferred tax liabilities	13	45,955	39,308
Total non-current liabilities		**771,695**	**948,578**
Current liabilities			
Other provisions and accrued liabilities	24	137,958	137,737
Income tax liabilities	13	20,942	14,422
Financial liabilities	25	52,709	44,013
Trade payables	26	653,292	540,130
Other liabilities	27	47,445	41,296
Liabilities of disposal groups		-	22,407
Total current liabilities		**912,346**	**800,005**
Total liabilities		**1,684,041**	**1,748,583**
Total equity and liabilities		**2,886,352**	**2,896,536**

Consolidated statement of cash flows 2017

(€ thousand)	2017	2016
Net income	102,251	37,957
Income taxes	-5,727	14,046
Financial result	33,312	33,407
Depreciation and amortization	89,723	110,113
Other non–cash income/expenses	363	-351
Gain on disposal of non–current assets	-13,032	-13,186
Change in net working capital		
Inventories	-164,760	-69,168
Trade receivables	-65,695	-21,938
Trade payables	147,796	69,299
Change in other operating assets and liabilities	-14,551	-39,110
Interest paid	-25,214	-25,698
Interest received	1,164	977
Income taxes paid	-6,761	-23,600
Cash flow from operating activities	**78,869**	**72,748**
Proceeds from the sale of non–current assets and assets held for sale	21,041	18,675
Proceeds from the sale of financial assets	8,157	-
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	55,090	9,921
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-82,374	-80,017
Cash flow from investing activities	**1,914**	**-51,421**
Dividend payments to shareholders of Klöckner & Co SE	- 19,950	-
Dividend payments to non–controlling interests	-1,342	-933
Issue proceeds of convertible bond (incl. equity component)	-	145,398
Repayment convertible bond	-	-24,850
Repayment promissory notes	-	-133,000
Borrowings	464,568	653,896
Repayment of financial liabilities	-527,124	-619,898
Proceeds from derivates	26,043	-66,606
Cash flow from financing activities	**-57,805**	**-45,993**
Changes in cash and cash equivalents	**22,978**	**-24,666**
Effect of foreign exchange rates on cash and cash equivalents	-3,645	-3,197
Cash and cash equivalents at the beginning of the period	134,228	164,853
Cash and cash equivalents at the end of the period	153,561	136,990
Thereof included in “Assets held for sale”	-	- 2,762
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**153,561**	**134,228**

Cash and cash equivalents including short-term deposits (€14 million) came to €154 million at the year-end 2017 (2016: €134 million).

See Note 34 for notes on the cash flow statement.

Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings	
Balance as of January 1, 2016	**249,375**	**664,182**	**164,852**	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Related income tax				
Gain/loss from cash flow hedges				
Actuarial gains and losses (IAS 19)				
Related income tax				
Other comprehensive income				
Net income			36,797	
Total comprehensive income				
Change of non–controlling interests			38	
Dividends				
Equity component of convertible bond		18,230		
Balance as of December 31, 2016	**249,375**	**682,412**	**201,687**	
Balance as of January 1, 2017	**249,375**	**682,412**	**201,687**	
Other comprehensive income				
Foreign currency translation				
Gain/loss from cash flow hedges				
Actuarial gains and losses (IAS 19)				
Related income tax				
Reclassification to profit and loss due to sale of foreign subsidiaries				
Other comprehensive income				
Net income			101,136	
Total comprehensive income				
Change of non–controlling interests				
Dividends			-19,950	
Balance as of December 31, 2017	**249,375**	**682,412**	**282,873**	

	Accumulated other comprehensive income					
	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	Total
	175,109	**-146,849**	**-1,848**	**1,104,821**	**8,606**	**1,113,427**
	15,733			15,733	-1	15,732
			-326	-326		-326
			103	103		103
			-267	-267		-267
		-34,266		-34,266	-43	-34,309
		-1,667		-1,667	6	-1,661
				-20,690	**-38**	**-20,728**
				36,797	1,160	37,957
				16,107	**1,122**	**17,229**
				38	-38	
					-933	-933
				18,230		18,230
	190,842	**-182,782**	**-2,338**	**1,139,196**	**8,757**	**1,147,953**
	190,842	**-182,782**	**-2,338**	**1,139,196**	**8,757**	**1,147,953**
	-68,562			-68,562		-68,562
			402	402		402
		59,421		59,421	4	59,425
		-15,194		-15,194	-1	-15,195
	-373			-373		-373
				-24,306	**3**	**-24,303**
				101,136	1,115	102,251
				76,830	**1,118**	**77,948**
					-2,298	-2,298
				-19,950	-1,342	-21,292
	121,907	**-138,555**	**-1,936**	**1,196,076**	**6,235**	**1,202,311**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2017

(1) Company information

Klöckner & Co SE is a listed corporation domiciled at Am Silberpalais 1, Duisburg, Germany and entered in the commercial register of Duisburg Local Court under HRB 20486. The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

The consolidated financial statements of Klöckner & Co SE, as the ultimate parent company, and its subsidiaries (the Klöckner & Co Group) were authorized for submission to the Supervisory Board by resolution of the Management Board on February 23, 2018. The Supervisory Board has the task of examining the consolidated financial statements and stating whether it approves them.

(2) Basis of accounting

The consolidated financial statements as of December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional requirements under Section 315e (1) of the German Commercial Code (Handelsgesetzbuch/HGB). All IFRS and the associated interpretations of the IFRS Interpretations Committee (IFRIC) effective as of December 31, 2017 have been applied.

The financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of the reporting date of the consolidated financial statements, are based on uniform accounting policies.

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (€ thousand). There may be discrepancies relative to the unrounded figures.

With the exception of certain financial instruments that are accounted for at fair value, the consolidated financial statements have been prepared on a historical cost basis.

(3) Basis of consolidation and consolidation methods

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Klöckner & Co SE and the companies it controls (subsidiaries).

The financial statements of subsidiaries acquired or divested during the fiscal year are included in the consolidated financial statements from the date when control is obtained to the date when control is lost.

Intra-Group receivables, liabilities, balances, income and expenses are eliminated in consolidation. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset against each other where they relate to taxes levied by the same taxation authority and to the same period.

The number of consolidated companies changed as follows during the year under review:

	2017	2016
Consolidated entities at the beginning of the financial year*)	76	74
+ newly formed/consolidated companies	2	2
– mergers	– 1	-
– disposals and liquidations	– 8	-
Consolidated entities at the end of the financial year	**69**	**76**
*thereof domestic entities including Klöckner & Co SE**)	*13*	*13*

*) Including consolidated special-purpose entities.

As in the prior year, two subsidiaries that do not have a significant impact on the Group's results of operations, financial position, net assets and are not consolidated. A list of affiliated companies included in the consolidated financial statements is attached as an annex to the notes.

Special-purpose entities

A total of two special-purpose entities exist in connection with the Group's European asset-backed securitization program (ABS program), comprising a parent, Klöckner Receivables Funding (DAC), Dublin, Ireland, and a country-specific subsidiary. The interests in the latter special-purpose entity are held by two independent and privately owned service companies that are responsible for accounting in the parent. The entities purchase merchandise receivables from the subsidiaries participating in the ABS program on contractually agreed terms. They are financed by conduit credits refinanced by placement of commercial papers or loans granted by the banks involved. The rating required for the commercial papers is ensured by maintaining accounts receivable reserves and meeting performance indicators.

Utilization of the program depends on the level of receivables and monthly variation in cash flow requirements. This decision is the responsibility of Klöckner & Co SE.

Klöckner & Co SE is contractually responsible for payment execution, reporting, management of the purchased receivables, including credit management and collection of receivables in the special-purpose entities, and for accounting in the country-specific special-purpose entities. In addition, Klöckner & Co determines the factor that subsidiaries are required to pay in order to cover all running costs of the special-purpose entities. The special-purpose entities are controlled by Klöckner & Co SE and are therefore included in the consolidated financial statements. They are subject to control due to the fact that Klöckner & Co is exposed to variable returns from the special-purpose entities and is able to influence those returns with its control over them.

For the purposes of the ABS program in Germany, Klöckner & Co SE has extended loans to Klöckner Receivables Funding (DAC), Dublin, Ireland, in the amount of €125 million (2016: €100 million).

For the ABS program in place in the USA since 2007, only one special-purpose entity has been established (NC Receivables Corporation, Wilmington, Delaware, USA), which is wholly owned by Klöckner Metals Corporation, Wilmington, Delaware, USA. The special-purpose entity purchases merchandise receivables from the subsidiaries in the USA and Mexico, which transfer the receivables. NC Receivables Corporation in turn resells the receivables to a conduit that finances the purchase either by issuing commercial papers to investors or by drawing on a liquidity fund.

The companies participating in the program continue to be assigned responsibility by Klöckner & Co SE for collection and receivables management, and bear all related costs but do not receive any corresponding remuneration. The special-purpose entity covers its own running costs.

(4) Acquisitions and disposals

The group structure changed, as listed below, as a result of the following acquisitions and disposals during fiscal years 2017 and 2016, with corresponding impacts on the presentation of the net assets, financial position and results of operations.

ACQUISITIONS

No acquisitions were made in 2016 or 2017.

DISPOSALS AND LIQUIDATIONS

2017

Disposal of the Klöckner & Co Group's Spanish activities was completed on January 27, 2017. For further information on the divested assets and liabilities, see Note 20 (Assets held for sale and disposal groups). The prior-year income statement includes the following items relating to the Spanish activities:

(€ thousand)	2016
Sales	119,933
Gross profit	28,579
OPEX	-25,911
Net income	-13,467

As such, the comparability of the consolidated statement of financial position and the consolidated statement of income is limited.

Liquidation of Kloeckner Metals (Changshu) Co., Ltd., Changshu, China, was completed in fiscal year 2017. Reclassification of the foreign currency translation differences resulted in an income item in the amount of €373 thousand.

2016

The pipe business of Kloeckner Metals Corporation, Wilmington, Delaware, USA, was disposed of in an asset deal in June 2016. This resulted in a loss on disposal of approximately €150 thousand.

(5) Significant accounting policies

Currency translation

Transactions in foreign currency are translated at the transaction date exchange rate. Monetary items are translated at the reporting date exchange rate. Translation differences arising on the measurement of monetary assets (except exchange differences on net investments) or monetary liabilities are recognized, regardless of any hedging, in profit or loss as part of other operating income or expenses.

In accordance with the functional currency approach, the annual financial statements of foreign Group companies prepared in foreign currency are translated into euros by the modified current rate method. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency is the local currency in each case. The assets and liabilities of subsidiaries are translated at the reporting date closing exchange rate. Income and expenses are translated at the average rate for the reporting period. All translation differences are recognized in other comprehensive income and are not recognized in profit or loss until the period of a subsidiary's disposal.

The exchange rates for the Group's main currencies changed as follows:

	Closing rate		Average rate	
€1=	December 31, 2017	December 31, 2016	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Brazilian Real (BRL)	3.9729	3.4305	3.6054	3.8562
Pound Sterling (GBP)	0.8872	0.8562	0.8767	0.8195
Swiss Franc (CHF)	1.1702	1.0739	1.1117	1.0902
US Dollar (USD)	1.1993	1.0541	1.1297	1.1069

Revenue recognition

Revenues from sales of goods are recognized when the significant risks and rewards of ownership have been transferred to the buyer and the amount of the revenues can be measured reliably. This mostly coincides with the delivery date. Prior to delivery, revenues are only recognized when, at the request of the buyer, goods have not been delivered, but title has been transferred, the buyer has accepted the invoice, and goods are available and stored separately. Sales are reported net of allowances such as commissions, trade discounts and rebates.

Interest income is accrued on a time basis by reference to the principal amount and the effective interest rate. Dividends are recognized when the right to receive payment is legally established.

Share-based payment

The share-based compensation plans in the Klöckner & Co Group are cash-settled virtual stock option (VSO) plans. A provision is recognized pro rata temporis in the amount of the fair value of the payment obligation as of each reporting date; any subsequent change in the fair value is recognized in profit or loss.

Earnings per share

Basic earnings per share are calculated by dividing consolidated net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period. Potential shares from convertible bonds are treated as dilutive when, and only when, their conversion to shares would decrease earnings per share or increase loss per share.

Income taxes

Income tax expense is the sum total of current and deferred tax expenses.

Current tax expense is calculated on the basis of taxable income for the fiscal year. Tax liabilities are measured at the amount for which payment to the taxation authorities is expected. The liabilities are measured at the tax rates that have been enacted by the reporting date.

Deferred taxes are calculated in line with the concept of the balance sheet liability method. They result from temporary differences between the tax bases of assets and liabilities and their carrying amounts of assets and liabilities in the consolidated statement of financial position and from consolidation entries. Goodwill on initial consolidation is excluded. Deferred taxes are measured based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are also recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow part or all of deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and a previously unrecognized deferred tax asset is recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Klöckner & Co Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off and they relate to income taxes levied by the same taxation authority and it is intended to settle current tax liabilities and assets on a net basis.

Current and deferred taxes are recognized in income unless they relate to items that are recognized directly in equity/in other comprehensive income. In such cases, they are also charged or credited to equity or other comprehensive income.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses if economic benefits are expected from the asset and the cost of the asset can be measured reliably.

Intangible assets are amortized on a straight-line basis over their expected useful life. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rate.

The expected useful lives are as follows:

	Useful life in years
Software	2-5
Customer relations	4-15
Trade names	3-15
Other intangile assets	1-15

The useful life is reviewed annually and changed as necessary in accordance with future expectations. Intangible assets with an indefinite useful life – in the Klöckner & Co Group solely goodwill – are reviewed for impairment annually and whenever there is an indication that they may be impaired.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairments. The cost of self-constructed assets comprises all direct costs and attributable overheads. Administrative costs are only included in the cost of an asset to the extent that they relate to its construction. Property, plant and equipment subject to depreciation is normally depreciated on a straight-line basis. Maintenance and repair costs are expensed as incurred.

Depreciation is based on the following useful lives:

	Useful life in years
Office building, factory and warehouse buildings	10-50
Plant facilities similar to buildings	8-33
Warehouse and crane equipment and other technical equipment	2-20
Operating and office equipment	1-15

Leases

Leases that transfer substantially all risks and rewards to the Group are classified as finance leases. All other leases in which Klöckner & Co is the lessee are accounted for as operating leases.

Items of property, plant and equipment leased under finance leases are initially recognized at fair value at the inception of the lease or, if lower, the present value of the minimum lease payments. The obligation to pay future lease payments is initially recognized as a financial liability and subsequently accounted for using the effective interest method. The assets are depreciated over the shorter of the lease term and their useful life.

For operating leases where the Group is the lessee, lease payments are recognized as an expense on a straight-line basis over the lease term.

Impairments

The Group assesses at each reporting date whether there is any indication that intangible assets, property, plant and equipment and investment property may be impaired. If there is an indication that an asset may be impaired, its recoverable amount is measured in order to determine the size of any impairment loss to be recognized. The recoverable amount is the greater of fair value less costs of disposal and value in use. In the event that a recoverable amount for the specific asset cannot be estimated, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. If an impairment loss recognized in prior periods for an asset other than goodwill no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

Goodwill arising in business combinations is tested for impairment at least annually. The impairment test is performed at the level of the CGU to which the goodwill has been assigned. In the Klöckner & Co Group, the CGUs Becker Stahl-Service GmbH (BSS) and Switzerland record a goodwill. Goodwill is tested for impairment in the fourth quarter of each financial year or whenever there is an indication that it may be impaired. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the amount of the difference and cannot be reversed in subsequent periods.

The recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. Value in use and fair value less costs of disposal are usually determined using a DCF approach. The estimated cash flows are based on the Company's current three-year business plan and management's estimates for each business unit. The discount rates used reflect the risk specific to the underlying business and the country in which the business operates. They are based among other things on peer group data. The composition of the peer group is regularly reviewed and modified as necessary.

For additional CGUs whose recoverable amount is less than their carrying amount, fair values are determined at the level of individual assets. Detailed information is provided in Note 15 (b) (Property, plant and equipment). Depending on future changes in those fair values, additional impairment losses and impairment reversals cannot be ruled out.

Impairment losses are presented in the income statement under depreciation, amortization and impairments. Impairment reversals are presented in other operating income.

Government grants and government assistance

Grants are recognized as income over the periods in which the related costs are recognized as expense.

Government grants related to assets – mainly property, plant and equipment – are deducted from the cost of the asset.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognized in profit or loss as other operating income in the period in which they become receivable for Klöckner & Co.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of conversion include costs directly related to the units of production, based on normal capacity.

As well as directly attributable costs, costs of conversion also include a systematic allocation of indirect materials and indirect labor, including production-related depreciation (e.g. for certain coil inventories). Measurement is normally on a monthly moving average basis. In certain cases, cost is assigned by specific identification of individual costs.

Financial instruments

The Group's financial assets primarily consist of cash and cash equivalents, available-for-sale financial assets, trade receivables and derivative financial instruments with positive fair values. The Group's financial liabilities include bonds, liabilities to banks, trade payables, finance lease liabilities and derivative financial instruments with negative fair values.

The Klöckner & Co Group recognizes all regular way contracts as of the settlement date, regardless of their classification. For derivative financial instruments classified as held for trading, the Group applies trade date accounting.

The fair value option provided by IAS 39 (Financial Instruments: Recognition and Measurement) is not applied.

Financial instruments are measured on initial recognition at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are included in the carrying amount except in the case of financial instruments at fair value through profit or loss. For the purpose of subsequent measurement, financial assets and liabilities are classified into the categories in IAS 39.

a) Non-derivative financial assets and financial liabilities and equity instruments issued by Klöckner & Co
Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value and are stated at nominal value. They are measured at nominal value. Foreign currency balances are measured at the mid-point rate at the reporting date.

Financial assets at fair value through profit or loss include financial assets initially classified as held for trading. In the Klöckner & Co Group, this classification is applied exclusively to derivative financial instruments that are designated hedging instruments. Such assets are presented as other assets in the statement of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost using the effective interest method. Also classified in this category are non-current securities that are not quoted in an active market and long-term loans measured at amortized cost.

All identifiable risks are accounted for by making appropriate valuation allowances to reflect the risk of default, taking into account any credit insurance. The carrying amounts of financial assets are assessed for impairment if there is objective evidence that an asset may be impaired, such as substantial financial difficulty on the part of the obligor, knowledge of an insolvency filing or overdue obligations. Impairments are recorded in separate accounts. In the event that a financial asset is categorized as bad debt, it is written off, including the amount of the impairment.

Non-derivative financial assets that are not assigned to any of the other categories described in IAS 39 are classified as available-for-sale financial assets and are measured at fair value. Such assets also include shares in non-consolidated subsidiaries and other equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are accounted for at cost. Any impairment losses are recognized in profit or loss. Impairment losses are reversed when the reasons for such impairment losses no longer apply unless they relate to available for sale financial assets, which are accounted for at cost for which no reversal of impairment losses is permitted.

Financial instruments are initially recognized as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Equity instruments are recognized in the amount of the issue proceeds less directly attributable transaction costs.

The components of compound financial instruments such as convertible bonds are recognized separately as financial liabilities and equity. At the issue date, the fair value of the liability component is determined by discounting at the market interest rate for comparable financial instruments without conversion rights. Subsequent accounting of the liability component as a financial liability is on an amortized cost basis until conversion or maturity of the bond. In line with the residual method, the remaining difference represents the equity component, which is reported within capital reserves with no subsequent adjustment.

Financial liabilities are either classified as liabilities at fair value through profit or loss or as other financial liabilities.

In the Klöckner & Co Group, only derivative financial instruments that are not designated and effective hedging instruments are recognized as liabilities at fair value through profit or loss. Any negative fair value of such instruments is presented in other liabilities.

Other financial liabilities, including borrowings, are initially recognized at fair value less transaction costs. Other financial liabilities are subsequently measured at amortized cost, normally using the effective interest method.

An exchange between Klöckner & Co SE and a lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Subject to qualitative considerations, terms are deemed to be substantially different if the discounted present value of the future cash flows under the new terms differs from the discounted present value of the future cash flows under the original terms by more than 10%.

b) Derivative financial instruments

The Group uses a variety of derivative financial instruments to manage its exposure to interest rate risk and currency risk. These include forward exchange transactions, currency swaps, cross-currency swaps, interest rate swaps and interest rate caps. Further information is disclosed in Note 30 (Derivative financial instruments).

Derivatives are initially measured at fair value on inception and subsequently measured at fair value at each reporting date. Any gain or loss from a change in the fair value of a derivative financial instrument that is not a designated and effective cash flow hedge or hedge of a net investment is immediately recognized in profit or loss. For derivative financial instruments that are designated hedges, the timing of the recognition of gains or losses depends on the type of hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. Certain unrecognized firm commitments are also hedged.

Forward exchange transactions are measured item by item at the forward rate as of the reporting date, and exchange differences arising due to the contracted forward exchange rate are recognized in profit or loss.

Interest exchange amounts from interest rate swaps are recognized in profit or loss at the payment date or on accrual at the reporting date. In all other respects, interest rate swaps, like interest rate caps, are measured at fair value at the reporting date and – unless hedge accounting is applied –changes in their fair value during the reporting period are recognized in profit or loss.

Derivatives held for hedging purposes are classified as non-current assets or liabilities if the remaining term of the hedging relationship is more than twelve months and as current assets or liabilities if the remaining term of the hedging relationship is less than twelve months.

Derivatives not designated in a hedging relationship are classified as current assets or liabilities.

c) Hedge accounting
The Klöckner & Co Group designates individual derivatives held for hedging purposes either as cash flow hedges or as hedges of foreign net investments, according to volume, term and risk structure.

The relationship between the hedged item and the hedging instrument, including the risk management objectives and the Company's strategy for undertaking the hedge, are documented at the inception of the hedge. At the inception of the hedge and regularly on an ongoing basis, the hedge is assessed and it is documented whether the hedge is highly effective in offsetting changes in the cash flows attributable to the hedged risk or the net investment. Information on the fair values of these derivative financial instruments is provided in Note 30 (Derivative financial instruments); changes in the reserve for fair value adjustments of financial instruments within other comprehensive income are shown in the summary of changes in consolidated equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment hedges is recognized in other comprehensive income; the ineffective portion is recognized directly in profit or loss. The amounts recognized in other comprehensive income are reclassified to profit or loss in the period in which the hedged item is recognized in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or ceases to be effective. Any cumulative gain or loss that has been recognized in other comprehensive income from changes in the fair value of the derivative remains in other comprehensive income and is reclassified to profit or loss when the forecast transaction is recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately recognized in profit or loss.

Non-current assets held for sale, disposal groups and associated liabilities
Non-current assets or groups of assets that are disposed of in a single transaction (disposal groups), including the associated liabilities, are classified as such if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Depreciation and amortization is no longer recognized on non-current assets held for sale. They are carried at the lower of carrying amount and fair value less costs of disposal.

Provisions for pensions and similar obligations

Pension obligations arising from defined benefit plans are determined using the projected unit credit method. The expected benefits, including dynamic components (e.g., pension and salary increases), are recognized over an employee's entire period of service. Actuarial advice is obtained.

Actuarial gains or losses resulting from differences between the expected and actual changes in plan participants and actuarial assumptions are recognized in other comprehensive income in the period in which they arise. They are presented separately in the statement of comprehensive income. The statement of financial position consequently shows the full scale of the obligation while avoiding earnings fluctuations in the income statement as a result of changes in measurement parameters.

Service cost is reported in personnel expenses. Interest expense from the unwinding of the discount on pension obligations and returns on plan assets are presented in the financial result as net interest expense at the rate used to discount the obligations.

Any surplus of the assets over the liabilities to be recognized is limited to the cumulative unrecognized net actuarial losses and past service cost plus the present value of any available refunds or reductions in future contributions to the plan.

Past service cost is recognized in profit or loss.

Employer contributions to defined contribution plans under which Klöckner & Co Group pays set contributions into a separate entity under defined contribution plans and has no legal or constructive obligation to pay further contributions are expensed as incurred.

Other provisions

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and where applicable IAS 19 (Employee Benefits), other provisions allow for all identified obligations and anticipated losses as well as all uncertain liabilities, provided they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and that a reliable estimate can be made of their amount. Provisions are only recognized for legal or constructive obligations to third parties.

Provisions are recognized at the expected settlement amount and not net of any reimbursement rights. The settlement amount also includes any cost increases to be taken into account at the reporting date. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

Warranty provisions are recognized on the basis of the estimated probability of claims. Provisions are recognized for onerous sale or purchase contracts when the total costs of meeting the obligations under the contract exceed the expected sales.

Provisions for restructuring measures are recognized if there is a detailed restructuring plan and it has been announced to those affected.

Provisions for onerous contracts are recognized if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Presentation of the consolidated statement of financial position and consolidated statement of income

Individual items have been combined in the consolidated statement of financial position and the consolidated statement of income; further information is provided separately in these Notes. Assets and liabilities realized within twelve months of the reporting date, or that will be settled within one year of the reporting date are classified as current.

The consolidated statement of income is prepared according to the nature of expense method.

Estimates, judgments and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates are recognized in the period in which the estimate is revised if the change affects only that period. If more than one period is affected, the change is reflected in the period of the revision and subsequent periods.

Material judgments, estimates and assumptions are required in the following areas:

	Note
Judgements	
- Determination of scope of consolidation in relation to special-purpose entities , where there is no majority of voting rights or capital	3
- Judgements are involved whether the criteria have been met for the statement of assets and liailites as held for sale	20
Estimates and assumptions	
- Measurement of intangible assets and property, plant and equipment acquired in business combinations within the meaning of IFRS 3	4
- Assessment of intangible assets and property, plant and equipment for triggering events for an impairment	15 (a) – (b)
- Measurement of the net realizable value for inventories	16
- Recognition and measurement of tax receivables related to the estimation if sufficient taxable income is available	13
- Assumptions regarding discount rates, mortality rates and, where applicable, expected returns on plan assets for the measurement of provision for pensions and similar obligations	23
- Recognition and measurement of other provisions	24

New accounting standards and interpretations

The following standards were applied for the first time in fiscal year 2017:

Standard/Interpretation
Amendments to IAS 7: Disclosure Initiative
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014– 2016: Amendments to IFRS 12

Amendments to standards had no material impact on the consolidated financial statements

The amendment to IAS 7 (Disclosure Initiative) improves the information on changes in the Company's debt. IAS 7 requires additional disclosures about changes in financial liabilities whose cash inflows and outflows are shown in the cash flow statement as part of cash flow from financing activities. Related financial assets (such as assets relating to hedges) are also included in the disclosures.

The disclosures are presented in the form of a reconciliation from the opening balance to the closing balance in Note 34 (Notes to the consolidated statement of cash flows).

The amendments to IAS 12 (Recognition of Deferred Tax Assets for Unrealised Losses) clarify the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. First-time application of the amended standard had no significant impact on the Klöckner & Co consolidated financial statements.

The amendments to IFRS 12 did not have an effect on Klöckner & Co's consolidated financial statements.

The table below lists the published standards and interpretations not yet applied in the Klöckner & Co Group:

Standard/Interpretation	Mandantory application
Endorsed by the EU until authorization date for issuance	
IFRS 9 Financial Instruments (finaler Standard)	2018
IFRS 15 Revenue from Contracts with Customers	2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	2018
IFRS 16 Leases	2019
Improvements to IFRS 2014-2016: Amendments to IFRS 1 and IAS 28	2018
EU endorsement outstanding	
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	2018
Amendments to IFRS 10, IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	outstanding
Amendments to IAS 40: Transfers of Investment Property	2018
IFRIC 22: Foreign Currency Transactions and Advance Consideration	2018
Improvements to IFRS 2015-2017	2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	2019
Amendments to IAS 28 Long-term interests in Associates and Joint Ventures	2019
IFRIC 23 Uncertainty over Income Tax Treatments	2019
IFRS 17 Insurance Contracts	2021

On July 24, 2014, the IASB issued the final IFRS 9 (Financial Instruments), incorporating the previous releases of the standard issued in 2009, 2010 and 2013 in partially slightly modified form. 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 existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The change in classification for derivatives classified as held for trading and hence measured at fair value through profit or loss will have 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 must be measured in the future at fair value. The carrying amount of such investments, which currently approximates to their fair value, is €5,157 thousand.

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 will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

For financial liabilities designated as at FVTPL under IAS 39, the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI in the future under IFRS 9. This change is not expected to have any material impact on the Klöckner & Co consolidated financial statements.

Additionally, the stipulations on hedge accounting have been revised for closer alignment with risk management. On initial application, there is an option to continue applying the hedge accounting requirements of IAS 39. In the Klöckner & Co Group, the requirements of IFRS 9 will nonetheless be met.

As a fundamental rule, it must be assured that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and that a more qualitative and forward-looking approach is applied to the assessment of hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. While Klöckner & Co has not so far undertaken hedges of such risk components, it is nonetheless conceivable that the Group may make future use of the possibility of applying hedge accounting to individual components, such as alloy surcharges, for the purchase or sale of inventories.

Klöckner & Co uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. Only the change in fair value of the spot element of the forward exchange contract as the hedging instrument is designated in the future in cash flow hedging relationships. As Klöckner & Co makes use of the election to further use IAS 39 for hedge accounting purposes as of January 1, 2018 there will be no impact on the Group's financial statements. Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ("forward points") will continue to be recognized immediately in profit or loss.

The types of hedge accounting relationships that are currently designated meet the requirements of IFRS 9 and are aligned with the Group's risk management strategies and objectives. No impact is expected as a result of the change in hedge accounting relationships.

IFRS 9 must be applied retrospectively with regard to classification and measurement, whereas the new hedge accounting rules are generally to be applied prospectively. Klöckner & Co will make use of the option of not restating prior-period information with regard to the changes in classification and measurement (including impairment). Instead, differences from the application of IFRS 9 are recognized in retained earnings as of January 1, 2018.

On May 28, 2014, the IASB published the new standard IFRS 15 (Revenue from Contracts with Customers). 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. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. On first-time application, Klöckner & Co will make use of the cumulative effect method.

Revenue from sales of goods is currently recognized on the basis of Incoterms. These specify the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is 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 is currently recognized when the customer withdraws 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. Management estimates that the application of IFRS 15 to consignment arrangements will result net of tax in an increase in retained earnings by €2 million. The impacts of this change on other items in the consolidated financial statements consist of a rise in trade receivables by €23 million and a decrease in inventories by €20 million.

The Klöckner & Co Group supplies the automotive supplier industry with fabricated parts. Upfront discounts in this connection are paid in advance. These discounts are recognized as a deduction from revenue in the year of entry into contract. Under IFRS 15, however, such discounts must be allocated over the duration of the contract. Application of the new standard will increase retained earnings by €36 thousand.

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 is not expected to have a material impact on the consolidated financial statements of Klöckner & Co SE.

On January 13, 2016, IFRS 16 (Leases) was published. The new standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for leases. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are exceptions for short-term leases and leases where the underlying asset has low value. Lessor accounting is comparable to the current standard, meaning that lessors must continue to classify leases as finance and operating leases.

IFRS 16 supersedes the existing pronouncements on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The Klöckner & Co Group has begun assessing the potential impacts of the application of IFRS 16 on its consolidated financial statements but is not yet able to quantify them. However, assets and liabilities will increase on first-time application by a figure in the triple-digit millions of euros, with an attendant reduction in the equity ratio. We nonetheless expect that the reduction in the equity ratio will not lead to any inability to comply with minimum equity ratio covenants attached to loan agreements. In addition, EBITDA will increase and interest income (net) will deteriorate, in each case by an amount in the millions of euros. Under the current status, use will be made of the cumulative effect method.

The standard is effective for annual periods beginning on or after January 1, 2019.

On June 20, 2016, the IASB published amendments to IFRS 2 (Classification and Measurement of Share-based Payment Transactions). The amendments relate to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments settled net of tax withholdings, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Provided that they are endorsed by the EU, the amendments are effective for payment transactions made or modified in annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) published on September 11, 2014 clarify that, in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

The amendments to IAS 40 (Investment Property) were published on December 8, 2016 and are effective from January 1, 2018. They amend the rules on classification as investment property.

Interpretation IFRIC 22 (Foreign Currency Transactions and Advance Consideration) was published on December 8, 2016. This clarifies the accounting for payments of consideration in a foreign currency. It is effective for annual reporting periods beginning on or after January 1, 2018. The impacts on the consolidated financial statements of Klöckner & Co SE are currently being assessed.

On December 8, 2016, the Annual Improvements to IFRSs 2014–2016 were issued. Publication of the Annual Improvements project results in clarifications to the standards IAS 28 (Investments in Associates and Joint Ventures), IFRS 1 (First-time Adoption of IFRS) and IFRS 12 (Disclosure of Interests in Other Entities).

On December 12, 2017, the Annual Improvements to IFRSs 2015–2017 were issued. The Annual Improvements to IFRSs (2015–2017) amended IFRS 3 (Business Combinations), IFRS 11 (Joint Arrangements), IAS 12 (Taxes) and IAS 23 (Borrowing Costs).

On October 12, 2017, the IASB published Amendments to IFRS 9 (Prepayment Features with Negative Compensation). The amendments relate to a narrow-scope change in the criteria relevant to the classification of financial assets. In certain circumstances, financial assets having a prepayment feature with negative compensation may be accounted for at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss.

Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures) were likewise published on October 12, 2017. These clarify that IFRS 9 is to be applied to long-term interests in an associate or joint venture to which the equity method is not applied.

On June 7, 2017, the IASB published IFRIC 23 (Uncertainty over Income Tax Treatments). The tax treatment of certain events and transactions can depend on future acceptance by the tax authorities or fiscal courts. IFRIC 23 supplements the stipulations in IAS 12 with regard to accounting for uncertainties over the income tax treatment of events and transactions. The interpretation is effective for annual periods beginning on or after January 1, 2019.

On May 18, 2017, the IASB published IFRS 17 (Insurance Contracts). IFRS 17 replaces IFRS 4 and, for the first time, stipulates uniformly on recognition, measurement and presentation of and notes disclosures for insurance contracts, reinsurance contracts and discretionary investment contracts.

Early application is permitted but not planned. Except for the impacts of IFRS 9, IFRS 15 and IFRS 16 as presented, Klöckner & Co does not expect that the new standards, interpretations and amendments will have any material impact on the consolidated financial statements.

Notes to the consolidated statement of income

(6) Special items affecting the results

2017

There are no reportable special items affecting the results.

2016

As part of the process of enhancing the focus of the business on core markets in Europe, a contract for the sale of the Spanish activities was signed on January 20, 2017. The transaction closed on January 27, 2017. All assets and liabilities of the Spanish companies were reclassified in accordance with IFRS 5 as assets held for sale or associated liabilities in the consolidated financial statements as of December 31, 2016. The remeasurement carried out in the course of the sale process resulted in recognition of an impairment loss of €16 million on non-current assets and deferred taxes of €3 million. Further information is provided in Note 20 (Assets held for sale and disposal groups).

(7) Sales

The Group's sales are broken down by region as follows:

(€ thousand)	2017	2016
Germany	1,579,980	1,298,723
EU excluding Germany	1,344,386	1,306,792
Rest of Europe	945,479	913,946
North America	2,256,890	2,056,166
Central and South America	96,858	81,672
Asia/Australia	18,268	16,958
Africa	49,699	55,807
Sales	**6,291,560**	**5,730,064**

Sales largely relate to sales of goods.

(8) Other operating income

(€ thousand)	2017	2016
Gain on sale of other non-current assets and assets held for sale	12,767	1,910
Reversal of provisions	7,613	3,383
Rental income	4,511	5,254
Income from written-off receivables	2,806	3,491
Foreign currency exchange gains	2,004	3,160
Gain on sale of land and buildings	1,330	12,377
Other income	9,219	10,337
Other operating income	**40,250**	**39,912**

Of the gain on sale of other non-current assets and assets held for sale, €6 million is accounted for by assets held for sale in Switzerland.

Other income mainly relates to derecognition of statute-barred supplier payables, customer overpayments and income from discounts.

(9) Cost of materials

(€ thousand)	2017	2016
Cost of materials, supplies and purchased merchandise	4,983,611	4,411,276
Cost of purchased services	6,190	5,055
Cost of materials	**4,989,801**	**4,416,331**

(10) Personnel expenses

(€ thousand)	2017	2016
Wages and salaries	499,278	508,995
Social security contributions (including welfare benefits)	96,780	107,015
Retirement benefit cost	26,384	24,692
Personnel expenses	**622,442**	**640,702**

Wages and salaries include restructuring expenses under the KCO WIN+ program in the amount of €13,200 thousand (2016: €2,948 thousand).

The average number of employees in the Klöckner & Co Group pursuant to Section 314 (1) 4 of the German Commercial Code (HGB) was as follows in the reporting year:

	2017	2016
Salaried employees	4,618	4,822
Wage earners	3,841	4,069
Apprentices	246	250
Employees	**8,705**	**9,141**

(11) Other operating expenses

(€ thousand)	2017	2016
Forwarding cost	143,100	139,114
Third-party services	92,685	80,094
Rental and leasing expenses	65,250	68,914
Supplies	45,237	46,534
Repair and maintenance	45,035	49,067
Other taxes	22,394	21,929
Travel expenses	16,675	17,682
Audit fees and consulting	15,313	19,214
Postal charges and telecommunication	8,467	9,426
Other insurance	8,256	8,773
Advertising and representation expenses	7,916	7,170
Bad debt expenses	5,400	6,786
Credit insurance	4,039	4,151
Foreign currency exchange losses	3,026	3,373
Other expenses	31,266	36,028
Other operating expenses	**514,059**	**518,255**

Other expenses include closure costs in the amount of €4.8 million (2016: €5.3 million).

Other than the above, other expenses mainly relate to fringe benefits, office supplies, membership fees, commissions and incidental bank charges.

(12) Financial result

(€ thousand)	2017	2016
Other interest and similar income	1,456	1,862
Interest and similar expenses	– 28,879	– 27,574
Interest cost for post–employment benefits	– 5,889	– 7,695
Financial result	**– 33,312**	**– 33,407**

The financial result includes net interest expense of €-27,384 thousand (2016: €-26,785 thousand) measured and recognized using the effective interest rate method.

(13) Income taxes

Income taxes in the income statement

Income tax income/expense for the Klöckner & Co Group is as follows:

(€ thousand)	2017	2016
Current income tax expense (+)/benefit (–)	**18,961**	**13,761**
thereof related to prior periods	*– 1,004*	*– 1,991*
Domestic	4,445	5,052
Foreign	14,516	8,709
Deferred tax expense (+)/benefit (–)	**– 24,688**	**285**
Domestic	– 17,799	– 530
Foreign	– 6,889	815
Income tax expense/benefit	**– 5,727**	**14,046**

The combined income tax rate is 31.8% (2016: 31.6%), comprising corporate income tax (including solidarity surcharge) of 15.8% and trade tax for Klöckner & Co of 16.0%. Foreign tax rates vary between 10.0% and 40.0%.

The Company incurred current income tax of €18,961 thousand (2016: €13,761 thousand). It should be noted that cross-border offsetting of tax profits and tax losses is not permitted. In particular, tax losses in individual European countries cannot be offset against tax profits in other European countries.

Deferred tax expense and deferred tax income in the income statement is made up as follows:

(€ thousand)	2017	2016
Deferred tax expenses (+)/benefit (–)	– 24,688	285
thereof from		
– temporary differences	*– 17,974*	*– 5,059*
– loss carryforwards / interest carryforwards	*– 6,714*	*5,344*

The Group operates in numerous different countries. Its income is therefore subject to various tax jurisdictions. Tax receivables, tax liabilities, temporary differences, tax loss carryforwards and the resulting deferred taxes must be determined separately for each taxable entity. Management is required to make estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their realization is probable. This realization of deferred taxes notably depends on sufficient taxable income being available for the type of tax and tax jurisdiction concerned. Various factors must be taken into consideration when gauging the probability of the future flow of economic benefits, such as historical earnings, budgets, loss carryforward restrictions and tax planning strategies. The recognition of deferred taxes is reviewed at each reporting date.

Expected tax income/expense is reconciled to actual tax income/expense as follows:

(€ thousand)	2017	2016
Expected tax rate	**31.8%**	**31.6%**
Income before taxes	**96,524**	**52,003**
Expected tax expense/benefit at domestic tax rate	30,695	16,433
Foreign tax rate differential	– 376	– 1,034
Tax rate changes	– 13,380	– 614
Reduced tax rate	254	– 155
Tax reduction due to tax free income	– 2,342	– 572
Tax increase due to non–deductible expenses	3,028	3,302
Current income tax levied or refunded for prior periods	– 1,004	– 1,991
Tax reduction due to first–time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	– 22,983	– 4,305
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 5,466	– 6,618
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	3,665	7,510
Other income taxes	1,762	2,526
Other tax effects	420	– 436
Effective income tax benefit/expense	**– 5,727**	**14,046**
Effective tax rate	**-5.9%**	**27.0%**

The actual tax rate of -5.9% in the fiscal year under review is 37.7 percentage points below the expected combined income tax rate of 31.8%. This was mainly due to tax reductions of €23.0 million due to revaluation of deferred tax assets in the German tax group and to tax rate reductions, particularly in the USA (US Tax Reform Act), of €13.4 million.

The effect in other income taxes relates to the French territorial economic contributions (CET and CVAE).

Taxes recognized directly in other comprehensive income

Current and deferred taxes are normally recognized in the income statement, with the exception of taxes on items recognized directly in other comprehensive income.

(€ thousand)	December 31, 2017	December 31, 2016
Change in deferred tax assets and liabilities (net), not affecting net income	**– 11,818**	**– 2,145**
thereof reported		
– in other comprehensive income	*– 11,818*	*– 2,145*

Deferred taxes on adjustments of pension provisions in other comprehensive income in accordance with IAS 19, net investment hedges and changes in the fair values of derivative financial instruments designated in hedge accounting are reported in other comprehensive income.

The deferred tax assets relating to items presented in the statement of comprehensive income totaled €15,419 thousand at the end of the fiscal year under review (2016: €30,612 thousand). These relate to pension obligations.

Deferred tax assets and liabilities

Deferred tax assets and liabilities associated with items in the consolidated statement of financial position and to tax loss carryforwards are as follows:

	As of January 1, 2017		
(€ thousand)	Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 47,027*	*16,741*	*– 10,586*
Intangible assets	– 6,625	1,709	649
Property, plant and equipment	– 61,314	11,399	6,008
Non-current investments	4,287	– 619	– 420
Inventories	– 9,628	– 3,224	943
Receivables	456	– 682	– 45
Other current assets	– 674	2,163	66
Provisions for pensions and similar obligations	43,253	2,323	– 19,432
Other provisions and accrued liabilities	– 3,359	1,522	329
Financial liabilities	– 3,689	– 204	361
Other liabilities	– 9,734	2,354	954
Tax loss carryforwards/Interest carryforwards	*12,574*	*7,946*	*– 1,232*
Net amount (before offsetting)	**– 34,453**	**24,687**	**– 11,818**
Offsetting	-		
Deferred tax assets/liabilities	**– 34,453**		

	As of January 1, 2016		
(€ thousand)	Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 51,048*	*5,381*	*– 2,463*
Intangible assets	– 12,360	5,954	– 219
Property, plant and equipment	– 72,302	12,020	– 1,282
Non-current investments	5,248	– 1,054	93
Inventories	– 9,275	– 189	– 164
Receivables	1,092	– 639	19
Other current assets	– 11,672	11,205	– 207
Provisions for pensions and similar obligations	49,377	– 5,339	– 785
Other provisions and accrued liabilities	– 8,385	4,766	– 149
Financial liabilities	573	– 4,470	113
Other liabilities	6,656	– 16,873	118
Tax loss carryforwards/Interest carryforwards	*17,918*	*– 5,662*	*318*
Net amount (before offsetting)	**– 33,130**	**– 280**	**– 2,145**
Offsetting	4		
Deferred tax assets/liabilities	**– 33,126**		

	Recognized directly in equity	Aquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	As of December 31, 2017 Net balance	Deferred tax assets	Deferred tax liabilities
	-	-	-	*– 40,872*	*49,828*	*– 90,700*
	-	-	-	– 4,267	1,672	– 5,939
	-	-	-	– 43,907	1,393	– 45,300
	-	-	-	3,248	3,276	– 28
	-	-	-	– 11,909	859	– 12,768
	-	-	-	– 271	653	– 924
	-	-	-	1,555	7,530	– 5,975
	-	-	-	26,144	26,420	– 276
	-	-	-	– 1,508	3,848	– 5,356
	-	-	-	– 3,532	3,993	– 7,525
	-	-	-	– 6,426	183	– 6,609
	-	-	-	*19,288*	*19,288*	-
	-	**-**	**-**	**– 21,584**	**69,116**	**– 90,700**
				-	– 44,745	44,745
				– 21,584	**24,371**	**– 45,955**

	Recognized directly in equity	Aquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	As of December 31, 2017 Net balance	Deferred tax assets	Deferred tax liabilities
	95	-	*1,008*	*– 47,027*	*74,378*	*– 121,405*
	-	-	-	– 6,625	3,225	– 9,850
	-	-	250	– 61,314	1,644	– 62,958
	-	-	-	4,287	4,306	– 19
	-	-	-	– 9,628	1,779	– 11,407
	-	-	– 16	456	861	– 405
	-	-	-	– 674	8,015	– 8,689
	-	-	-	43,253	43,253	-
	-	-	409	– 3,359	5,585	– 8,944
	95	-	-	– 3,689	5,393	– 9,082
	-	-	365	– 9,734	317	– 10,051
	-	-	-	*12,574*	*12,574*	-
	95	**-**	**1,008**	**– 34,453**	**86,952**	**– 121,405**
				-	– 82,097	82,097
				– 34,453	**4,855**	**– 39,308**

According to IAS 12.39 no deferred tax liabilities were recognized for deductible temporary differences at the amount of €3.1 million.

No deferred tax assets were recognized for the following unused loss carryforwards and deductible temporary differences because it is not probable that they will be realized:

(€ million)	December 31, 2017	December 31, 2016
Unrecognized tax losses		
– Corporate income tax	451	503
– Trade tax and similar taxes	141	232
Temporary differences	115	166

The majority of the unrecognized loss carryforwards are not subject to a maximum carryforward period under prevailing law and therefore do not expire unless specific circumstances arise (such as change of control). The unrecognized loss carryforwards that are subject to a maximum carryforward period expire as follows:

(€ million)	December 31, 2017	December 31, 2016
until December 31, 2020	-	-
until December 31, 2031	29	33
after December 31, 2031	81	95

Temporary differences are deductible indefinitely.

(14) Earnings per share

Earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the period. In accordance with IAS 33.41, an average of 2,036 thousand potential dilutive shares under the convertible bond issues were not included in the computation of diluted earnings per share for fiscal year 2016 as this would have resulted in higher earnings per share.

		2017	2016
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	101,136	36,797
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**1.01**	**0.37**
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	101,136	
Interest expense on convertible bond (net of tax)	(€ thousand)	4,597	
Net income used to determine diluted earnings per share	(€ thousand)	105,733	
Weighted average number of shares	(thousands of shares)	99,750	
Dilutive potentiel shares from convertible bond	(thousands of shares)	10,101	
Weighted average number of shares for dilutive earnings per share	(thousands of shares)	109,851	
Diluted earnings per share	**(€/share)**	**0.96**	**0.37**

Notes to the consolidated statement of financial position

(15) Intangible assets and property, plant and equipment

a) Intangible assets

(€ thousand)	Intangible assets (without Software/ Goodwill)	Software*)	Goodwill	Total intangible assets
Cost as of January 1, 2016	440,485	92,061	341,632	874,178
Accumulated amortization and impairments	– 278,241	– 61,560	– 310,753	– 650,554
Balance as of January 1, 2016	**162,244**	**30,501**	**30,879**	**223,624**
Exchange rate differences	3,735	83	226	4,044
Additions	729	10,775	-	11,504
Disposals	– 10	-	-	– 10
Depreciation and amortization	– 21,996	– 10,582	-	– 32,578
Transfers	– 401	482	-	81
Reclassification to assets held for sale	-	– 348	-	– 348
Balance as of December 31, 2016	**144,301**	**30,911**	**31,105**	**206,317**
Cost as of December 31, 2016	456,704	101,336	350,091	908,131
Accumulated amortization and impairments	– 312,403	– 70,425	– 318,986	– 701,814
Balance as of January 1, 2017	**144,301**	**30,911**	**31,105**	**206,317**
Exchange rate differences	– 15,273	– 1,541	– 2,096	– 18,910
Additions	438	4,976	-	5,414
Disposals	– 22	– 196	-	– 218
Impaiments	-	– 652	– 156	– 808
Depreciation and amortization	– 18,414	– 10,637	-	– 29,051
Transfers	– 1,272	1,277	-	5
Balance as of December 31, 2017	**109,758**	**24,138**	**28,853**	**162,749**
Cost as of December 31, 2017	406,185	100,555	309,868	816,608
Accumulated amortization and impairments	– 296,427	– 76,417	– 281,015	– 653,859

*) The carrying amount of software includes purchases of licenses and capitalized development costs.

The software shown includes €5.5 million for self-developed software at kloeckner.i GmbH.

Goodwill impairment testing in accordance with IAS 36

The annual impairment testing of cash-generating units (CGUs) to which goodwill has been allocated, as required by IAS 36 (Impairment of Assets), is carried out on the basis of the business plan approved by the respective committees in the fourth quarter.

The recoverable amount of a CGU is calculated as value in use using a discounted cash flow method, which is based on bottom-up planning. Planning generally covers a three-year period. The last year of the detailed planning period is used to extrapolate the expected future cash flows. Klöckner & Co utilizes a uniform planning model with identical input parameters for all CGUs.

The projected cash inflows largely depend on expected future gross profit per ton. This is prognosticated on the basis of normalized gross profit. Shipments are estimated taking into account macroeconomic and industry-specific trends. Other major factors affecting the sustainable level of future cash inflows comprise the expected development of operating expenses (OPEX) and the determination of discount rates, including the future growth rate assumed in perpetuity. OPEX is determined on the basis of individual business budgeting and on assessment of macroeconomic developments (such as adjustments for inflation).

The discount rates are derived using a capital asset pricing model (CAPM) whose main inputs are the risk-free rate of return, the beta factor for Klöckner & Co shares, and the credit risk and market risk premium assumptions for return on equity.

As in the prior year, a growth rate of 1% is used in determining the expected future cash flows.

Assumptions used in impairment testing of material goodwill

The following assumptions were used for the development of sales, gross profit per ton, OPEX and EBITDA in the detailed planning period for the purposes of impairment testing of goodwill determined to be material:

CGU	Shipments	Gross profit per ton	OPEX	EBITDA
Switzerland	slightly increasing	constant	slightly decreasing	strongly increasing
Becker Stahl-Service (BSS)	slightly increasing	constant	slightly increasing	slightly decreasing

Impairment test of goodwill allocated to the CGUs

The carrying amounts of goodwill total €29 million and relate to the Switzerland CGU (€24 million) and Becker Stahl-Service (€5 million). With the exception of legacy goodwill in the amount of €156 thousand on a closed Belgian location, the impairment test confirmed that goodwill is not impaired.

Even a 100 basis point increase in the interest rate or a 10% decrease in EBITDA in perpetuity would not result in an impairment.

Value in use was measured for the Switzerland CGU on the basis of a pretax WACC of 6.5% (2016: 7.0%) and for the Becker Stahl-Service CGU on the basis of a pretax WACC of 8.8% (2016: 8.9%).

Impairment test of other intangible assets

Management is required to assess other intangible assets at each reporting date for triggering events indicating that the assets may be impaired. If triggering events are identified, the recoverable amount of the asset or CGU must be estimated.

Of the carrying amount of other intangible assets (without Software/Goodwill) of €110 million, €94 million relate to intangible assets (mainly customer relationships) from business combinations in the USA amortized on a straight-line basis over their expected useful life.

Klöckner & Co SE's market capitalization was less than equity as of December 31, 2017. There was thus a triggering event within the meaning of IAS 36.12 (d) that may be an indication of impairment. The impairment test carried out in consequence largely confirmed that intangible assets were not impaired.

Impairments in the amount of €651 thousand were recognized for software tools that are no longer subject to further development. The major part of these impairments are presented in the Headquarters segment.

b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Prepay-ments re-ceived and construction in progress	Total property, plant and equipment
Cost as of January 1, 2016	834,282	402,990	339,161	47,211	1,623,644
Accumulated amortization and impairments	– 413,187	– 270,340	– 259,626	-	– 943,153
Balance as of January 1, 2016	**421,095**	**132,650**	**79,535**	**47,211**	**680,491**
Exchange rate differences	2,760	2,276	– 336	– 636	4,064
Additions	17,189	12,275	21,278	33,496	84,238
Disposals	– 2,366	– 1,150	– 552	-	– 4,068
Disposals change in the scope of consolidation	-	– 313	– 52	-	– 365
Impaiments	– 14,347	– 2,516	– 681	– 2	– 17,546
Depreciation and amortization	– 17,747	– 23,780	– 18,462	-	– 59,989
Transfers	21,463	16,765	8,438	– 46,747	– 81
Reclassification to assets held for sale	– 22,013	– 2,257	– 923	– 3	– 25,196
Balance as of December 31, 2016	**406,034**	**133,950**	**88,245**	**33,319**	**661,548**
Cost as of December 31, 2016	769,778	371,428	344,120	33,319	1,518,645
Accumulated amortization and impairments	– 363,744	– 237,478	– 255,875	-	– 857,097
Balance as of January 1, 2017	**406,034**	**133,950**	**88,245**	**33,319**	**661,548**
Exchange rate differences	– 27,901	– 12,052	– 5,854	– 1,660	– 47,467
Additions	6,425	19,937	10,791	35,832	72,985
Disposals	– 1,140	– 845	– 1,361	– 35	– 3,381
Impaiments	– 1,132	– 502	– 102	-	– 1,736
Depreciation and amortization	– 16,302	– 23,472	– 18,354	-	– 58,128
Transfers	5,904	22,673	3,586	– 32,168	– 5
Balance as of December 31, 2017	**371,888**	**139,689**	**76,951**	**35,288**	**623,816**
Cost as of December 31, 2017	738,392	380,337	329,950	35,288	1,483,967
Accumulated amortization and impairments	– 366,504	– 240,648	– 252,999	-	– 860,151

Property, plant and equipment with a carrying amount of €27,023 thousand (2016: €33,227 thousand) was pledged as security in the form of liens for financial liabilities.

Impairment test of other non-current assets

If there are indications of impairment for CGUs to which no goodwill has been allocated, the recoverable amount is measured at the level of each CGU.

In fiscal year 2017, European steel distribution activities in Great Britain and France continued to fall short of earnings targets and resulted in further losses. For Germany, the medium-term budget indicates that (with the exception of Becker Stahl-Service), profitability has not yet regained pre-crisis levels. In addition to the external triggering event, there is thus an internal indication that assets in the consolidated financial statements may be impaired. For the remaining CGUs, determination of value in use revealed no indications of impairment.

The carrying amounts of the tested non-current assets of the CGUs in question before impairment testing were as follows as of December 31, 2017:

(€ thousand)	Germany	Great Britain	France
Other intangible assets	228	587	1
Land and buildings	21,743	15,462	26,038
Technical equipment and machinery	12,519	7,231	4,357
Other equipment, operating and office equipment	10,736	7,838	1,956
Payments on account	5,905	-	210
	51,131	**31,118**	**32,562**

Germany, Great Britain and France CGUs

Impairment testing showed that the values in use of these CGUs were materially less than their carrying amounts, hence the recoverable amount cannot be determined from the cash flows from continuing use. An alternative determination of the recoverable amount using fair value less costs of disposal of the three CGUs was not performed.

Any impairment must then be allocated to reduce the carrying amounts of the assets of the CGUs (IAS 36.104). In allocating the impairment loss, the carrying amount of an asset may not be reduced below its fair value less costs of disposal or its value in use (IAS 36.105). The fair values of the individual assets were therefore determined.

In determining the fair values of land assets, we relied on outside appraisals and external sources on land values. Any appraisals from prior periods were updated in line with observed market changes. The appraisals are based on the sales comparison approach where pertinent data is available and otherwise on the replacement value approach. The fair values were determined to exceed the carrying amounts by a substantial amount in the double-digit millions of euros.

For plant and equipment and for operating and office equipment, fair values were determined with the assistance of outside experts. The fair values were determined on the basis of an indexed replacement value approach. The price indices were obtained from the Statistical Office of the European Union (EUROSTAT) and the Genesis-Online database provided by the German Federal Statistical Office (DESTATIS). Obsolescence risk was accounted for by reductions of 5% to 10% for functional and of 5% to 30% for economic obsolescence. The assumed economic useful lives are based on a 2010 study by the ASA Machinery & Technical Specialties Committee.

The replacement values thus determined largely exceed the carrying amounts of the assets of each CGU by an amount in the single-digit to low double-digit millions of euros. However, an impairment was recognized in the amount of €570 thousand on a property in the Great Britain CGU and in the amount of €300 thousand on machinery in the Germany CGU. These assets had a recoverable amount of €3.594 thousand for the Great Britain CGU and €29.016 thousand for the Germany CGU.

The non-current assets are thus determined not to be impaired under the assumption of individual disposal. Depending on future changes in their fair values, however, the necessity for additional impairment losses and impairment reversals cannot be ruled out.

Belgium CGU
An impairment of €629 thousand was recognized on property, plant and equipment in Belgium due to a location closure.

In the prior year, impairments were recognized in the Europe segment in the amount of €16,101 thousand in connection with reclassification of the Spanish activities to non-current assets held for sale, and in the Americas segment in the full amount of the property, plant and equipment of the Brazil CGU (€1,236 thousand).

Assets held under finance leases

The Klöckner & Co Group holds various assets under finance leases, the majority of which contains purchase options. The carrying amounts of the recognized lease assets are as follows:

	Carrying amounts	
(€ thousand)	December 31, 2017	December 31, 2016
Real estate		
France	-	688
USA	13,156	15,831
Other equipment, operating and office equipment		
Switzerland	7,374	8,248
Total	**20,530**	**24,767**

Assets for which title passes to Klöckner & Co at the end of the lease term are reclassified to the appropriate category of property, plant and equipment.

(16) Inventories

(€ thousand)	December 31, 2017	December 31, 2016
Raw materials and suppoies	368,585	337,122
Work in progress	5,229	3,222
Finished goods and merchandise	725,319	661,048
Prepayments	5,998	4,863
Inventories	**1,105,131**	**1,006,255**

Inventories are measured at the lower of cost and net realizable value. Determining net realizable value requires management to estimate sales prices and costs until sale.

Raw materials and supplies also include coil inventories at steel service centers.

Of the inventories as of December 31, 2017, €248,936 thousand (2016: €245,852 thousand) are carried at net realizable value. Write-downs to net realizable value were recognized as expense in the amount of €25,431 thousand (2016: €29,740 thousand). The change in write-downs was €2,819 thousand in the fiscal year (2016: €11,407 thousand). The amount recognized as expense for inventories corresponds to the cost of materials, supplies and purchased merchandise.

In addition to reservations of title in the ordinary course of business, inventories with a carrying amount of €365,810 thousand (2016: €367,072 thousand) are pledged as security for financial liabilities. Drawings on these credit lines were €32 thousand as of December 31, 2017 (2016: €32,203 thousand).

(17) Trade receivables

Trade receivables are normally invoiced in the local currency of the relevant Group company foreign currency export receivables are generally hedged.

The Klöckner & Co Group sells trade receivables as a rule under two ABS programs. The trade receivables are sold by participating Klöckner & Co companies to special-purpose entities (SPEs).

The refinancing of the purchased receivables by the SPEs is therefore reported in the consolidated financial statements as loans from the bank conduits financing them.

The carrying amount of the receivables of the companies participating in the ABS programs as of December 31, 2017 amounts to €521 million (2016: €491 million).

For further information on the ABS programs, see Note 25 (Financial liabilities) and Note 3 (Basis of consolidation and consolidation methods).

The following table provides information on credit risk on trade receivables:

TRADE RECEIVABLES

(€ thousand)		Of which overdue by days as of the reporting date						
Gross trade receivables	Of which not overdue as of the reporting date	1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Writedowns	Carrying amount
31.12.2017								
699,355	530,046	130,054	19,297	5,702	1,747	12,509	-19,577	679,778
31.12.2016								
674,270	526,545	106,738	20,210	4,568	2,109	14,100	-20,486	653,784

As of December 31, 2017, trade receivables of companies not participating in the ABS programs were pledged in the amount of €6,847 thousand (2016: €5,435 thousand) as collateral for loan liabilities.

(18) Other assets

	December 31, 2017		December 31, 2016	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial assets				
Fair value of derivative financial instruments	2,252	-	1,638	-
Other non-financial assets				
Receivables from insurance companies	1,373	25	478	28
Commission claims	63,783	-	59,463	-
Reinsurance claims from pension obligations	-	3,273	-	3,446
Prepaid pension cost	-	2,344	-	-
Claims of other taxes	10,132	-	10,832	-
Prepaid expenses	9,865	57	11,287	935
Miscellaneous other assets	11,214	5,787	13,908	5,753
Other assets	**98,619**	**11,486**	**97,606**	**10,162**

Commission claims mainly relate to refunds to suppliers of purchased inventory.

Miscellaneous other current assets include, among other things, debit balances in accounts payable of €2,840 thousand (2016: €3,005 thousand).

(19) Cash and cash equivalents

Cash and cash equivalents mainly comprise bank balances and short-term deposits. There were no restrictions as of the reporting date.

(20) Non-current assets held for sale and disposal groups

No non-current assets held for sale, disposal groups and associated liabilities are presented as of December 31, 2017. In the prior year, assets held for sale and associated liabilities were presented in the Europe segment as follows:

(€ thousand)	December 31, 2016
Intangible assets	348
Land and buildings	30,897
Technical equipment and machinery	2,256
Other non-current assets	1,631
Inventories	25,067
Trade receivables	22,553
Cash and cash equivalents	2,762
Other current assets	2,395
Total assets	**87,909**
Non-current liabilities	1,349
Trade liabillities	17,939
Other non-current liabilities	3,119
Total liabilities	**22,407**
Total assets held for sale/disposal groups	**65,502**

The sale of the Spanish activities initiated in the previous year was closed on January 27, 2017. This related to the disposal of assets in the amount of €80,813 thousand and liabilities in the amount of €23,265 thousand. The transaction resulted in a loss of €163 thousand in the fiscal year 2017. Impairments in the amount of €16 million had already been recognized in profit or loss in the prior year in connection with reclassification to assets held for sale.

In December 2017, the property in Switzerland held for sale in connection with a location closure was sold with a gain on disposal of €6,438 thousand.

The net gain on disposals in 2017 and 2016 (€206 thousand) related to the Europe segment.

(21) Equity and non-controlling interests

a) Subscribed capital

The subscribed capital of Klöckner & Co SE is €249,375,000, as in the prior year, and is divided into 99,750,000 no-par-value shares, each notionally corresponding to €2.50 of the share capital.

Acquisition of treasury stock

The existing authorization for the acquisition of treasury stock of May 25, 2012 was due to expire in the reporting year. In order to enable the Company to continue to use the acquisition of treasury stock as a flexible additional financing instrument beyond that period, the Annual General Meeting on May 12, 2017 revoked the authorization of May 25, 2012 and authorized the Management Board to acquire, by or before May 11, 2022, treasury stock of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization can be utilized in whole or in part, on one or more occasions, by the Company, by companies of the Klöckner & Co Group or by third parties acting on the Company's account or on the account of companies of the Klöckner & Co Group. The authorization may be used for any legally permissible purpose, including for the retirement of shares. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

Conditional capital

CONDITIONAL CAPITAL 2013

By resolution of the Annual General Meeting of May 24, 2013, the share capital was conditionally increased by up to €49,875,000 by the issue of up to 19,950,000 new no-par-value registered shares (Conditional Capital 2013). At the Annual General Meeting of May 12, 2017, the Conditional Capital 2013 was canceled in the amount of €24,942,500 and adjusted such that the Company's share capital is subject to a smaller conditional increase of up to €24,932,500 by the issue of up to 9,973,000 new no-par-value registered shares. The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. Section 4 (6) sentence 1 of the Articles of Association was reworded accordingly.

CONDITIONAL CAPITAL 2017

Likewise by resolution of the Annual General Meeting of May 12, 2017, the share capital was conditionally increased by up to €49,875,000 by the issue of up to 19,950,000 new no-par-value registered shares (Conditional Capital 2017). The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. The Conditional Capital 2017 serves to grant subscription and/or conversion rights to the holders of warrant-linked and/or convertible bonds that are issued by the Company or a Group company in accordance with the authorization under agenda item 7 of the Annual General Meeting of May 12, 2017. Furthermore, it serves the purpose of issuing shares to creditors of convertible bonds issued based on the resolution under agenda item 6 of the Company's Annual General Meeting of May 24, 2013 in case of an adjustment of the conversion ratio. The corresponding provision of the Articles of Association is Section 4 (7).

Authorized capital

AUTHORIZED CAPITAL 2012

The Authorized Capital 2012 in the amount of €124,687,500 created by resolution of the Annual General Meeting of May 25, 2012 was canceled and replaced, by resolution of the Annual General Meeting of May 12, 2017, by the Authorized Capital 2017 described in the following.

AUTHORIZED CAPITAL 2017

By resolution of the Annual General Meeting on May 12, 2017, the Management Board was authorized until May 11, 2022 to increase the share capital on one or more occasions by a total of €124,687,500 against cash or non-cash contributions by the issue of 49,875,000 no-par-value registered shares. The corresponding provision of the Articles of Association is Section 4 (3) (Authorized Capital 2017).

A full listing of notifications of shareholdings reaching or crossing the notification thresholds pursuant to Section 21 et seq. WpHG is attached as an appendix to the Notes to the Consolidated Financial Statements.

b) Capital reserves

As in the prior year, capital reserves amounted to €682,412 thousand as of December 31, 2017.

c) Retained earnings

Retained earnings include the accumulated undistributed earnings of the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, as well as effects on equity from consolidation.

d) Accumulated other comprehensive income

Accumulated other comprehensive income comprises translation differences from translation of the financial statements of foreign subsidiaries, changes in the fair value of cash flow hedges and changes in actuarial gains and losses on pension obligations under IAS 19, including related deferred taxes.

e) Non-controlling interests

Non-controlling interests represent third-party interests in consolidated subsidiaries.

(22) Share-based payments

The Klöckner & Co Group has operated cash-settled share-based payment programs since 2006. The beneficiaries are the Management Board and selected members of senior management throughout the Group. The program for senior management has been extended to management levels two and three. The Management Board program was discontinued effective December 31, 2015.

Management Board program (until 2015)

The members of the Management Board had an annual entitlement to virtual stock options (VSOs). The contracts provided for a cash payment to the beneficiary on exercise of the option. The strike price was based on the average price of Klöckner & Co shares over the last 30 stock market trading days of the year prior to issuance of the respective tranche. The cash payment amounted to the difference between the average share price (Xetra trading, Deutsche Börse AG, Frankfurt am Main) over the last 30 trading days prior to exercising the option and the strike price for the respective tranche. The settlement amount was capped at a maximum amount of €25 per option after adjusting for dividend payments in the meantime and any dilutive effects of capital increases. The vesting period was three years from the allotment date for the first third of the tranche, four years for the second third and five years for the last third. The individual tranches were issued annually. The stock options granted but not yet exercised expire at the latest in 2023.

Senior management programs

In addition to the Management Board programs, 716,000 (2016: 734,000) virtual stock options for 2017 were allocated and issued during the first half of the fiscal year to selected members of the senior management throughout the Group. The conditions are largely identical to the Management Board program at Klöckner & Co SE. However, the vesting period is uniformly four years.

The total number of outstanding virtual stock options has changed as follows:

(Number of virtual stock options)	Management Board programs*)	Other executives	Total
Outstanding at the beginning of the year	**1,107,934**	**1,944,500**	**3,052,434**
Granted	-	716,000	716,000
Exercised	-274,532	-264,500	-539,032
Forfeited	-111,600	-30,000	-141,600
Outstanding at the end of the reporting period	**721,802**	**2,366,000**	**3,087,802**
thereof exercisable at the reporting date	*140,000*	*72,000*	*212,000*
weighted average remaining contractual lifetime (months)	*47*	*58*	*56*
range of strike prices (€/VSO)	*8.13-17.66*	*7.74-11.13*	*7.74-17.66*
weighted average strike price (€/VSO)	*9.59*	*9.21*	*9.30*

*) Including 140,000 options of Ulrich Becker (2016: 140,000 VSOs) who left Klöckner & Co in 2012.

Detailed information for the members of the Management Board serving in fiscal year 2017 is provided in the following table:

(Number of virtual stock options)	Gisbert Rühl	Marcus A. Ketter	Karsten Lork	William A. Partalis
Outstanding at the end of the reporting period	**241,800**	**100,001**	**100,001**	**140,000**
thereof exercisable at the reporting date	-	-	-	*20,000*
weighted average remaining contractual lifetime (months)	*72*	*48*	*48*	*46*
range of strike prices (€/VSO)	*8.13-9.57*	*8.13-9.57*	*8.13-9.57*	*8.26-9.57*
weighted average strike price (€/VSO)	*8.92*	*8.89*	*8.89*	*9.03*

539,032 virtual stock options were exercised in fiscal year 2017 (2016: 267,266) (of which Management Board program: 274,532 virtual stock options). The payments totaled €1,807 thousand (of which Management Board program: €921 thousand).

The provision recognized pro rata temporis for stock options granted to the Management Board and senior management amounts to €7,100 thousand as of the reporting date (2016: €8,700 thousand); the intrinsic value of virtual stock options exercisable as of the reporting date was €284 thousand (2016: €567 thousand). Additions to provisions amounted to €207 thousand (2016: €6,471 thousand).

The fair value of the virtual stock options is measured for the determination of provisions using Monte Carlo simulation with the following parameters:

in %	December 31, 2017	December 31, 2016
Risk-free rate of return	-0.7-0.3	-0.8-0.0
Expected volatility	32.8	37.8

The expected volatility is based on market-traded options on the shares.

(23) Provisions for pensions and similar obligations

Most employees in the Klöckner & Co Group own retirement benefit entitlements, with the type of provision varying from country to country according to the national legal, economic and tax situation. Pension plans in the Group include both defined contribution and defined benefit plans as follows:

Depending on their year of entry, employees in Germany either have a defined benefit entitlement equaling a percentage of eligible salary for each qualifying year of service or, for entrants after 1979, a fixed capital amount scaled by salary band for each qualifying year of service. There are also individual entitlements for executive staff in accordance with various Essener Verband benefits plans. Older entitlements among these are employer-funded entitlements to pension benefits, while the more recent pension plans are defined contribution plans in which employees are able to add employee-funded contributions. The more recent entitlements feature a choice between a lump sum payment and an annuity.

Defined benefit plans in France include a collectively negotiated IFC plan that provides for a lump sum payment according to length of service and salary. There is also a final salary plan, closed to new entrants since 1989, for employees taken over from a former state corporation (IRUS plan).

In Great Britain, post-2003 new entrants are entitled to participate in a contribution plan with equal employer and employee contributions at a fixed percentage of basic salary. Pre-2003 entrants instead are covered by defined benefit entitlements through two legally independent pension funds that pay a life annuity. Both plans pay final salary benefits dependent on length of service and are closed to service accruals after 2015 (move to defined contribution plan). Governance of each plan is by a Board of Trustees. Both plans are required by law to fund the obligations with plan assets. There is an agreement with the Board of Trustees to make up any pension shortfall over the long term. Under the current investment strategy, equities account for 70% to 75%.

Swiss Group companies and their employees fund pensions through a pension fund with both employer and employees subject to contributions that rise with employee age. On retirement, the accumulated capital is converted into a life annuity using a conversion factor. The fund's internal governance is ensured by a Board of Trustees (Stiftungsrat). As the pension fund is required under Swiss law to guarantee a minimum level of benefits on the capital paid in and, in the event of a pension shortfall, can impose restructuring measures that may be at the expense of the employer, the plan is accounted for as a defined benefit plan in accordance with IAS 19.

In the USA, pension benefits are provided in the form of a defined contribution plan and several defined benefit plans. A 401 (k) plan gives employees the option to pay a set percentage of their basic salary into a fund, thus entitling them to a subsidy from the employer. Employees who joined the Company by December 31, 2013, participate in a defined benefit plan that provides a life annuity equaling a set percentage of eligible salary for each qualifying year of service, or a fixed amount for unionized employees. Alongside these aforesaid regular pension plans in the USA, there is also a retiree welfare plan, likewise closed to new entrants, with post-retirement health-care benefits for former employees of an acquired company. In general, all of the above are funded plans. The pension plan bylaws provide for minimum funding if the funding quota drops below 80%, or 75% under at-risk assumptions. The only exception is a plan for upper management, which is exclusively financed through provisions. The retiree welfare plan is also financed entirely out of provisions.

RISKS ASSOCIATED WITH DEFINED BENEFIT PLANS

The main risk other than normal actuarial risk – including longevity risk and foreign exchange risk – relates to financial risk associated with plan assets.

On the pension liability side, this mostly means inflation risk on plans with salary-linked benefits (notably final salary plans); a marked rise in pay would increase the obligation under these plans. Plans of this kind exist only on a small scale in the Klöckner & Co Group or are largely closed to new entrants.

Regarding increases to pensions currently in payment, there is, with one exception, no pension arrangement within the Klöckner & Co Group that carries an obligation to increase the benefit amount in excess of inflation or in excess of the surplus generated on plan assets. Only for a number of entitlements for executive staff in Germany is there a commitment to increase benefits by 1% a year from retirement regardless of actual inflation.

The return on plan assets in accordance with IAS 19 is assumed on the basis of the discount rate for the defined benefit obligation. If the actual rate of return is below the discount rate, the net liability goes up. For the funded plans, however, notably given the share of plan assets invested in equities, we expect that long-term returns will exceed the discount rate. Nonetheless, short to medium-term fluctuations cannot be ruled out, with a corresponding effect on the net liability.

With the defined contribution plans, the Company pays contributions to private or state pension funds under statutory or contractual obligations. The Company's employee benefit obligations are settled on payment of the contributions. The amount recognized as expense for this purpose in the fiscal year was €9,234 thousand (2016: €9,288 thousand). This does not include employer contributions to the statutory pension insurance scheme. These came to €7,278 thousand in Germany (2016: €6,663 thousand).

In the fiscal year, for countries with material pension obligations, the following actuarial assumptions were used in the actuarial calculations performed by third-party actuaries:

2017

in %	Germany	Switzerland	Great Britain	France	United States
Discount rate	1.60	0.65	2.60	1.60	3.53
Salary trend	2.50	0.50	2.00	1.75	3.50
Pension trend	1.75	0.00	2.95	1.25	0.00

2016

in %	Germany	Switzerland	Great Britain	France	United States
Discount rate	1.50	0.60	2.80	1.50	3.98
Salary trend	2.50	1.00	2.05	1.75	3.50
Pension trend	1.75	0.00	3.00	1.25	0.00

The discount rates reflect the market yields in the respective jurisdiction for high-quality corporate bonds with corresponding maturities. A uniform discount rate was selected for the eurozone.

The mortality assumptions used for pension accounting in the various countries are as follows:

	2017	2016
Germany	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2015	BVG 2015
Great Britain	SAPS	SAPS
France	INSEE 10– 12; TGH05	INSEE 10– 12; TGH05
United States	Retirement Plan 2017	Retirement Plan 2016

There are also reimbursement rights – primarily life insurance policies and claims under other insurance policies – used to fund pension obligations. These changed as follows in the fiscal year:

(€ thousand)	2017	2016
Reimbursement rights as of January 1	**3,446**	**3,593**
Expected return	50	76
Benefits paid	– 223	– 223
Reimbursement rights as of December 31	**3,273**	**3,446**

The actual return on reimbursement rights was €50 thousand in the fiscal year (2016: €76 thousand).

The net provision changed as follows:

(€ thousand)	Defined benefit obligation 2017	Defined benefit obligation 2016	Fair value of plan assets 2017	Fair value of plan assets 2016	Net provision/assets 2017	Net provision/assets 2016
As of January 1	1,133,284	1,090,131	– 774,397	– 750,019	358,887	340,112
thereof fully or partly funded	914,844	879,714				
Included in statement of income						
Service cost	17,911	19,960	-	-	17,911	19,960
Interest cost for pension plans	17,674	21,677	-	-	17,674	21,677
Interest income from plan assets	-	-	– 11,735	– 13,907	– 11,735	– 13,907
Administration expenses	-	-	1,160	1,280	1,160	1,280
Settlements/amendments	– 2,418	– 8,434	-	2,289	– 2,418	– 6,145
	33,167	**33,203**	**– 10,575**	**– 10,338**	**22,592**	**22,865**
Included in other comprehensive income						
Actuarial losses (gains) due to change in demographic assumptions	– 2,689	– 6,294	-	-	– 2,689	– 6,294
Actuarial losses (gains) due to change in financial assumptions	10,488	69,117	-	-	10,488	69,117
Experience losses (gains)	– 1,071	– 12,232	-	-	– 1,071	– 12,232
Actuarial losses (gains) on plan assets	-	-	– 66,154	– 16,282	– 66,154	– 16,282
Foreign currency exchange rate differences	– 77,281	– 3,469	68,572	1,363	– 8,709	– 2,106
	– 70,553	**47,122**	**2,418**	**– 14,919**	**– 68,135**	**32,203**
Other						
Employee contributions	14,000	17,773	– 14,000	– 17,773	-	-
Employer contributions	-	-	– 23,021	– 25,471	– 23,021	– 25,471
Benefits paid	– 49,521	– 54,945	38,392	44,123	– 11,129	– 10,822
	– 35,521	**– 37,172**	**1,371**	**879**	**– 34,150**	**– 36,293**
As of December 31	**1,060,377**	**1,133,284**	**– 781,183**	**– 774,397**	**279,194**	**358,887**
thereof included in consolidated statement of other non-financial assets					2,344	-
Provisions for pensions and similar obligations					281,538	358,887
thereof fully or partly funded	850,834	914,844				

The table below shows the analysis of the net provision (asset) by countries:

	December 31, 2017			December 31, 2016		
(€ thousand)	Defined benefit obligation	Fair value of plan assets	Net provision/ assets	Defined benefit obligation	Fair value of plan assets	Net provision/ assets
Germany	213,184	28,212	184,972	219,684	26,053	193,631
Austria	1,331	-	1,331	1,310	-	1,310
France	27,141	273	26,868	27,617	265	27,352
Great Britain	98,440	72,687	25,753	103,242	71,464	31,778
Switzerland	505,578	507,922	– 2,344	560,246	503,824	56,422
United States	214,703	172,089	42,614	221,185	172,791	48,394
Total	**1,060,377**	**781,183**	**279,194**	**1,133,284**	**774,397**	**358,887**

The table below shows how the defined benefit obligation would have been affected by changes in key actuarial assumptions:

(€ thousand)	2017	2016
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	986,536	1,053,051
discount rate would be lower by 50 basis points	1,144,430	1,224,684
the expected salary trend would be higher by 0.5%	1,067,903	1,141,649
the expected salary trend would be lower by 0.5%	1,053,281	1,125,454
pension increase would be higher by 0.5%	1,104,284	1,181,722
pension increase would be lower by 0.5%	1,046,596	1,118,277
longevity would be 1 year longer	1,095,439	1,164,790

The sensitivities indicated are computed on the basis of the same methods and assumptions as are used to determine the present value of the defined benefit obligations. If one of the actuarial assumptions is changed for the purpose of computing the sensitivity of results to changes in that assumption, all other actuarial assumptions are held constant.

When appraising sensitivities, it should be noted that the change in the present value of the defined benefit obligation resulting from changing multiple actuarial assumptions simultaneously is not necessarily equivalent to the cumulative effect of the individual sensitivities.

The table below disaggregates plan assets into classes of asset:

	December 31, 2017			December 31, 2016		
(€ thousand)	Price quote from active market	No price quote from active market	Total	Price quote from active market	No price quote from active market	Total
Shares	223,260	29,818	253,078	211,887	48,855	260,742
Bonds	135,217	135,330	270,547	138,197	106,403	244,600
Real estate	37,780	117,541	155,321	42,356	128,157	170,513
Other assets	73,276	28,961	102,237	70,608	27,934	98,542
Fair value of plan assets as of December 31	**469,533**	**311,650**	**781,183**	**463,048**	**311,349**	**774,397**

Plan assets do not include any of the entity's own transferable financial instruments; plan assets that are property occupied by, or other assets used by, the entity totaled €24,584 thousand in the fiscal year (2016: €26,848 thousand).

The actual return on plan assets was €77,889 thousand in the fiscal year (2016: €30,189 thousand).

Experience adjustments (gains) in the present value of the defined benefit obligation in the year under review were €1,071 thousand (2016: €12,232 thousand); experience adjustments to the fair value of plan assets were €66,154 thousand (2016: €16,282 thousand).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2018 are expected to amount to €21,264 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2018	38,902
- due in 2019	38,400
- due in 2020	40,406
- due in 2021	39,974
- due in 2022	42,108
- due 2023- 2027	214,110

(24) Other provisions and accrued liabilities

Other provisions changed as follows in the reporting year:

(€ thousand)	As of January 1, 2017	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2017
Other provisions							
Other taxes	1,600	1,710	-	– 454	– 8	– 119	2,729
Personnel-related obligations							
– early retirement schemes	74	2	-	– 32	-	-	44
– anniversary payments	11,420	374	92	– 1,243	720	– 1,108	10,255
– other	196	112	-	– 15	– 13	– 153	127
Onerous contracts	3,256	2,772	-	– 1,989	– 279	– 171	3,589
Restructuring expenses	20,095	21,164	-	– 12,950	– 3,244	– 1,740	23,325
Pending litigation	1,952	540	-	– 718	– 351	45	1,468
Warranties	1,289	513	-	– 237	– 178	-	1,387
Miscellaneous provisions	25,530	26,617	40	– 24,956	– 1,121	– 666	25,444
	65,412	**53,804**	**132**	**– 42,594**	**– 4,474**	**– 3,912**	**68,368**
Other accrued liabilities							
Personnel-related obligations	68,305	36,127	-	– 35,888	– 1,770	– 3,171	63,603
Outstanding invoices	25,576	17,118	-	– 16,522	– 1,369	– 1,556	23,247
Miscellaneous accrued liabilities	1,058	48	-	– 15	-	– 155	936
	94,939	**53,293**	**-**	**– 52,425**	**– 3,139**	**– 4,882**	**87,786**
Other provisions and accrued liabilities	**160,351**	**107,097**	**132**	**– 95,019**	**– 7,613**	**– 8,794**	**156,154**

*) Change in scope of consolidation, foreign currency adjustments, reclassification and transfers to/from third parties.

Analysis by maturities:

	December 31, 2017		December 31, 2016	
(€ thousand)	Non-current	Current	Non-current	Current
Other provisions				
Other taxes	-	2,729	-	1,600
Personnel-related obligations				
– early retirement schemes	31	13	43	31
– anniversary payments	10,255	-	11,420	-
– other	103	24	124	72
Onerous contracts	7	3,582	8	3,248
Restructuring expenses	-	23,325	4,411	15,684
Pending litigation	146	1,322	100	1,852
Warranties	-	1,387	-	1,289
Miscellaneous provisions	7,654	17,790	6,508	19,022
	18,196	**50,172**	**22,614**	**42,798**
Other accrued liabilities				
Personnel-related obligations	-	63,603	-	68,305
Outstanding invoices	-	23,247	-	25,576
Miscellaneous accrued liabilities	-	936	-	1,058
	-	**87,786**	**-**	**94,939**
Other provisions and accrued liabilities	**18,196**	**137,958**	**22,614**	**137,737**

The provision for onerous contracts relates to procurement and sale contracts for goods and other contractual obligations.

The provisions for restructuring relate to obligations resulting from termination benefits granted in redundancy programs in an amount of €21,271 thousand (2016: €7,207 thousand) and other restructuring expenses for location closures in an amount of €2,054 thousand (2016: €12,888 thousand) that either result in an outflow of resources in the following year or, to the extent they are material, are recognized as of the reporting date at their discounted settlement amount. The provisions for site closures and social plans were determined on the basis of cost estimates (for example, site rent still to be paid for closed sites) or derived from experience from comparable social plans.

Personnel-related obligations relate with €10,255 thousand (2016: €11,420 thousand) to anniversary payments in France and Switzerland. The determination of the provision is based on actuarial calculations.

Miscellaneous provisions relate mainly to provisions for asset retirement obligations and provisions for environmental remediations.

Other accrued liabilities for employee-related obligations include bonus payments of €47,751 thousand (2016: €51,157 thousand) as well as vacation entitlements and flextime balances in the amount of €12,967 thousand (2016: €13,528 thousand).

(25) Financial liabilities

The details of financial liabilities are as follows:

	December 31, 2017				December 31, 2016			
(€ thousand)	up to 1 year	1 – 5 years	Over five years	Total	up to 1 year	1 – 5 years	Over five years	Total
Bonds	920	132,187	-	133,107	923	128,400	-	129,323
Liabilities to banks	50,245	19,366	19,346	88,957	41,658	65,725	11,174	118,557
Liabilities under ABS programs	511	234,361	-	234,872	611	298,086	-	298,697
Finance lease liabilities	1,033	5,407	15,321	21,761	821	4,885	19,224	24,930
	52,709	**391,321**	**34,667**	**478,697**	**44,013**	**497,096**	**30,398**	**571,507**

Financial liabilities of €30,212 thousand (2016: €20,552 thousand) are secured by liens. Inventories as set out in Note 16 (Inventories) and trade receivables as set out in Note 17 (Trade receivables) are also pledged as collateral.

Transaction costs directly attributable to the assumption of financial liabilities in the amount of €5,028 thousand (2016: €6,740 thousand) have been deducted from the liabilities.

The volume-weighted remaining term of the core Group financing instruments (Syndicated Loan, 2016 Convertible Bond, European ABS and US ABS/ABL) is 2.7 years as of the reporting date.

Bonds

A €148 million senior unsecured convertible bond issue was placed with non-US institutional investors closing September 8, 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE. Klöckner & Co is using the proceeds from the issue for general business purposes.

The coupon on the bonds was set at 2.00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. In accordance with the bond terms, the conversion price was adjusted to €14.5219 following the dividend payout in May 2017. The bonds have a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option). The issuer does not have an early call option during the first five years. It does have such an option thereafter provided that, over certain stipulated periods, the market price of Klöckner & Co shares exceeds 130% of the conversion price.

For accounting purposes, the convertible bond issue is divided into an equity and a debt component. The equity component was €18 million after deducting transaction costs and accounting for deferred taxes. This was credited to capital reserves.

Liabilities to banks

The syndicated loan was extended ahead of schedule in April 2017 to May 2020. An option was again granted to extend the term in two steps until May 2022 with prior approval of the banks. In light of the ample headroom for borrowing under the available lines of credit, the currently undrawn facility was reduced in size from €360 million to €300 million.

The syndicated loan is provided by a syndicate of nine banks. The financial covenants require that gearing, defined as net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations after May 23, 2013, may not exceed 150%. The thus adjusted book value of equity attributable to shareholders of Klöckner & Co SE may not fall below €600 million (minimum equity). That figure was adjusted from €800 million to €600 million when the facility was extended in order to provide greater latitude for exploring business opportunities. Breach of the financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be possible if the covenants were once again complied with. Throughout fiscal year 2017, the Group consistently complied with all loan terms, including the financial covenants.

The remaining liabilities to banks exclusively comprise bilateral borrowings by the country organizations, used among other things to finance net working capital.

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has operated a European ABS program. The European program was most recently extended ahead of term by two years in July 2016 and now runs until 2019 while retaining the €300 million loan amount. Additionally, the terms were amended in Klöckner & Co's favor. The covenants agreed upon are likewise balance sheet-oriented and equivalent to those for the syndicated loan. Accordingly, the minimum equity ratio was adjusted from €800 million to €600 million in May 2017 in line with the syndicated loan.

The ABS program in the US was most recently extended ahead of term in March 2016 and now runs until 2021. The volume of the ABS program remained unchanged at USD 275 million.

Utilization of the programs including accumulative interest totaled €235 million as of the reporting date and breaks down as follows:

(€ million)	December 31, 2017	December 31, 2016
European program		
– utilization	78	115
– maximum volume	300	300
American program		
– utilization*)	157	185
– maximum volume*)	229	261

*) Translated at closing exchange rate.

The utilization of the programs is accounted for as borrowings as the requirements in IAS 39 for derecognition of the transferred receivables are not met.

Finance lease liabilities

Finance lease liabilities have the following term structure:

(€ thousand)	December 31, 2017	December 31, 2016
Due within one year	2,205	1,599
Due between one and five years	10,815	12,011
Due after five years	21,155	26,957
Future minimum lease payments	**34,175**	**40,567**
Due within one year	1,172	778
Due between one and five years	5,408	7,126
Due after five years	5,834	7,733
Interest included in future minimum lease payments	**12,414**	**15,637**
Due within one year	1,033	821
Due between one and five years	5,407	4,885
Due after five years	15,321	19,224
Total present value of future minimum lease payments	**21,761**	**24,930**

(26) Trade payables

(€ thousand)	December 31. 2017	December 31, 2016
Advance payments received	6,989	352
Trade payables	646,209	539,765
Bills payable	94	13
Trade payables	**653,292**	**540,130**

(27) Other liabilities

	December 31, 2017		December 31, 2016	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial liabilities				
Negative fair value of derivative financial instruments	102	7	530	28
Other non-financial liabilities				
Value-added tax liabilities	4,285	-	13,007	-
Customers with credit balances	15,265	-	9,534	-
Social security contributions	6,846	-	6,727	-
Other tax liabilities	11,807	-	5,229	-
Liabilities to employees	1,727	-	1,858	-
Miscellaneous other liabilities	7,413	11	4,411	247
Other liabilities	**47,445**	**18**	**41,296**	**275**

The miscellaneous other liabilities in the fiscal year under review contain a liability in the amount of €1.1 million (2016: €0 million) to the Swiss Federal Customs Administration.

Other disclosures

(28) Information on capital management

The Klöckner & Co Group determines its capital requirements in relation to risk. Management of and any adjustment in the capital structure is carried out with due regard to changes in the economic environment. Options for maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

The capital management is based on gearing. The Klöckner & Co Group's target is to maintain gearing below the 150% required under the financial covenants in order to be able to continue borrowing on reasonable terms.

Further information about the basis of calculation for gearing and about minimum capital requirements is provided in Note 25 (Financial liabilities).

Gearing is determined as follows:

(€ thousand)	December 31, 2017	December 31. 2016	Variance
Financial liabilities	478,697	571,507	– 92,810
Transaction costs	5,028	6,740	– 1,712
Liquid funds	– 153,561	– 134,228	– 19,333
Net financial debt (before deduction of transaction cost)	**330,164**	**444,019**	**– 113,855**
Consolidated shareholders' equity	1,202,311	1,147,953	54,358
Non-controlling interests	– 6,235	– 8,757	2,522
Goodwill from business combinations subsequent to May 23, 2013	– 19,790	– 21,564	1,774
Adjusted shareholders equity	**1,176,286**	**1,117,632**	**58,654**
Gearing	**28.1%**	**39.7%**	**-11.6%p**

(29) Additional disclosures on financial instruments

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

Financial assets as of December 31, 2017

(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category					Fair value			
			Fair value through profit and loss	Fair value through OCI	Loans and receivables	Available for sale	Other financial liabilities	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	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
Not measured at fair value											
Financial assets at cost	Financial assets	5,417	-	-	2	5,415	-	-	-	-	-
Trade receivables	Trade receivables	679,778	-	-	679,778	-	-	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	153,561	-	-	152,075	1,486	-	-	-	-	-
Other financial assets at cost	Current and non-current other assets	91,816	-	-	91,816	-	-	-	-	-	-
Total		**932,824**	**2,243**	**9**	**923,671**	**6,901**	**-**	**-**	**2,252**	**-**	**2,252**

Financial liabilities
as of December 31, 2017

(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value through profit and loss	Category: Fair value through OCI	Category: Loans and receivables	Category: Available for sale	Category: Other financial liabilities	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
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 at cost	Current and non-current 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 at cost	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.

Financial assets
as of December 31, 2016

(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value through profit and loss	Category: Fair value through OCI	Category: Loans and receivables	Category: Available for sale	Category: Other financial liabilities	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
Measured at fair value											
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	1,638	1,638	-	-	-	-	-	1,638	-	1,638
Derivative financial instruments designated in hedge accounting	Current and non-current other assets	-	-	-	-	-	-	-	-	-	-
Not measured at fair value											
Financial assets at cost	Financial assets	5,732	-	-	5	5,727	-	-	-	-	-
Trade receivables	Trade receivables	653,784	-	-	653,784	-	-	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	134,228	-	-	131,452	2,776	-	-	-	-	-
Other financial assets at cost	Current and non-current other assets	91,164	-	-	91,164	-	-	-	-	-	-
Total		**886,546**	**1,638**	**-**	**876,405**	**8,503**	**-**	**-**	**1,638**	**-**	**1,638**

Financial liabilities
as of December 31, 2016

(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value through profit and loss	Category: Fair value through OCI	Category: Loans and receivables	Category: Available for sale	Category: Other financial liabilities	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
Measured at fair value											
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	298	298	-	-	-	-	-	298	-	298
Derivative financial instruments designated in hedge accounting	Other current and non-current liabilities	260	-	260	-	-	-	-	260	-	260
Not measured at fair value											
Financial liabilities at cost	Current and non-current financial liabilities	546,576*)	-	-	-	-	546,576	-	203,377	-	203,377
Liabilities held under finance lease	Current and non-current financial liabilities	24,931	-	-	-	-	24,931	-	-	24,109	24,109
Trade payables	Trade payables	540,130	-	-	-	-	540,130	-	-	-	-
Other financial liabilities at cost	Other current and non-current liabilities	16,049	-	-	-	-	16,049	-	-	-	-
Total		**1,128,244**	**298**	**260**	**-**	**-**	**1,127,686**	**-**	**203,935**	**24,109**	**228,044**

*) For carrying amounts of €174,494 thousand fair values were calculated.

The non-current financial assets are measured at cost as the fair value cannot be reliably determined. They mainly comprise financial instruments for which there is no quoted price in an active market. No disposal of investments accounted for at cost is currently planned.

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 December 31, 2017. 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. If fair values are derived from directly observable market inputs, instruments are included in Level 2. Level 3 fair values exist for non-current finance liabilities. Fair values are only determined for note disclosure purposes. For such liabilities fair values cannot be easily determined from observable market data due to individual collateralization and long duration. For such leasing controls a fair interest rate was determined at the inception of the lease. The leasing object may revert back to the lessor in case of payment default of the lessee and therefore serves as collateral for the individual liability. There is no indication that this initial fair interest rate has changed. As such, the fair value is represented by its carrying amount. Changes in hierarchy levels are considered at the end of the respective period in which the change took place. There were no transfers between hierarchy levels during the reporting year.

(30) Derivative financial instruments

Derivative financial instruments are accounted for at fair value in accordance with IAS 39.

The Klöckner & Co Group is exposed to interest and currency risk in its operating business. This risk is hedged using derivative financial instruments.

The Group exclusively uses market instruments with sufficient market liquidity. Derivative financial instruments are entered into and managed in compliance with internal directives governing the scope of action, responsibilities and controls. According to these directives, the use of derivative financial instruments is a primary responsibility of the Corporate Treasury department of Klöckner & Co SE, which manages and monitors the use of such instruments. Such transactions are only entered into with counterparties with impeccable ratings. Derivative financial instruments are not allowed to be used for speculative purposes and may only be used to hedge risks associated with hedged items.

The notional amounts and fair values of the derivative financial instruments in interest rate and currency hedges as of the reporting date are as follows:

	December 31, 2017		December 31, 2016	
(€ million)	Not designated in hedge-accounting	Designated in hedge-accounting	Not designated in hedge-accounting	Designated in hedge-accounting
Nominal values				
Forward exchange transactions	316.4	3.1	316.2	4.8
Interest rate swap	0.4	-	0.8	-
Fair values				
Forward exchange transactions	2.1	-	1.3	– 0.3

The notional amounts correspond to the non-netted sum of the currency and interest rate portfolio.

The fair values of the derivative financial instruments are determined on the basis of banks' quoted prices or by quantitative finance methods using standard banking models. Counterparty risk as of the measurement date is taken into account in the determination of fair values. Where market prices exist, these correspond to the price a third party would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in the value of hedged items.

Forward exchange contracts with a notional amount of €320 million (2016: €321 million) have a remaining maturity of less than one year. These include a notional amount of €284 million for the hedging of intra-Group loans.

Forward exchange contracts for a total of €3.1 million (2016: €4.8 million) were designated as cash flow hedges. These hedge currency risk on customer payments in the international project business of our Dutch subsidiaries ODS B.V. and ODS Metering Systems B.V..

The interest rate swap not designated in hedge accounting is an interest rate swap in the amount of €0.4 million held by Becker Besitz GmbH, Duisburg. This serves to hedge a variable-rate bilateral loan at that company.

The contractual agreements with counterparties do not give rise to any rights of set-off to be disclosed in accordance with IFRS 7.13B as of December 31, 2017.

(31) Financial risk management

IFRS 7 requires an entity to provide disclosure that enables users of financial statements to evaluate the nature and the extent of risks arising from financial instruments. These risks encompass – among others – credit risk, market risk and liquidity risk.

Credit risk

The Company's exposure to credit risks mainly arises from its operating business. A credit risk is defined as an unexpected loss on financial assets, such as if a customer is unable to meet its obligations when due. Operating receivables are locally monitored on an ongoing basis. Credit risk is taken into account by valuation allowances.

The maximum exposure to credit risk is reflected by the carrying amounts of financial assets in the statement of financial position. The Klöckner & Co Group addresses credit risk with its own credit management and by taking out credit insurance. In the fiscal year, 50% (2016: 46%) of trade receivables were covered by credit insurance.

Disclosures on interest rate risk

The Klöckner & Co Group is exposed to interest rate changes due to the use of financial instruments. The hedging policy is geared to risks arising from interest rate changes on variable-rate financial liabilities. The Klöckner & Co Group faces interest rate risk exposure on its central financing instruments in the eurozone (syndicated loan; European ABS) and on bilateral borrowings, notably by the US country organization (US ABS/ABL). There is additional interest rate risk exposure on short-term deposits of liquid funds at banks. The Corporate Treasury department monitors and controls interest rate risk on financial liabilities.

As part of central Group financing, the Group's borrowing needs are primarily met with a diversified portfolio of financing instruments. These primarily comprise the working capital instruments (Syndicated Loan, European ABS, US ABS/ABL) supplemented by the September 2016 convertible bond issue. The working capital instruments are variable-rate financial instruments, generally with flexible drawing provisions. The convertible bond was issued with a fixed coupon and is subject to no interest rate risk for its entire term to maturity.

Taking into account the fixed-coupon convertible bond and the bilateral borrowings, some 51% or €254 million (2016: €244 million) of financial liabilities before transaction costs were fixed-rate as of December 31, 2017.

Interest rate risk exposures and opportunities are presented using sensitivity analyses in accordance with IFRS 7. These show how interest income and expense and equity as of the reporting date are affected by changes in market interest rates. Interest rate risk is measured as cash flow risk (flow variable-based analysis).

Scenario-based sensitivity analysis is used to show the effects on Klöckner & Co's profit or loss of a parallel shift in yield curves in the relevant currencies. The cash flow impact from the parallel shifting only refers to interest income and interest expense in the following reporting period.

On the basis of financial liabilities as of December 31, 2017, an increase in market interest rates on each of the relevant currencies by 100 basis points would have a negative effect on the financial result in the amount of approximately €2.4 million for an analysis period of one year.

A rising interest rate scenario creates upside potential for the accumulated holdings of liquidity. Assuming a one-year investment period, an increase in market interest rates by 100 basis points would have a positive effect in the amount of €1.5 million.

Conversely, a decrease in market interest rates by 100 basis points would result in a substantially negative interest rate scenario in the eurozone and Switzerland and a very low interest level in the USA. We expect that such a scenario would show the aforesaid effects on profit or loss in the opposite direction.

Disclosures on currency risk

Within our risk strategy, only transaction risk and risk on intra-Group borrowings are subject to our hedging policy. Our hedging activities do not target translation risk relating to the translation of income and expenses into our Group currency. Currency risk therefore arises from borrowing, intra-Group dividend payments, acquisitions and operating activities.

The Klöckner & Co Group operates central foreign currency management. Domestic and foreign subsidiaries are required to identify currency risk and to hedge it through Corporate Treasury or, within set limits, individually with banks. The hedges cover currency risk on recognized sales and purchases as well as on firm sale and purchase commitments. With regard to currency risk on firm sale commitments, the hedging strategy takes into account the compensatory effects of operating measures and market changes (natural hedges).

At the reporting date, the Klöckner & Co Group did not have any material exposure to currency risk arising from its operating activities or acquisitions.

In financing, currency risk arises on foreign currency loans provided by Klöckner & Co SE to subsidiaries. These loans are granted to finance Group companies as part of central Group financing and are fully hedged. As of the reporting date, there were pound sterling and US dollar loans of this kind totaling €233 million (2016: €211 million). The intra-Group loans, including ongoing interest payments, have been hedged with forward contracts and currency swaps.

At our Dutch subsidiaries ODS B.V. and ODS Metering Systems B.V., forward exchange transactions and currency swaps totaling €3.1 million (2016: €4.8 million) were designated in a cash flow hedge. These hedge customer payments in international project business.

The impact of changes of foreign currency rates on foreign exchange gains and losses as well as on the Group's equity as of the balance sheet date is monitored by a sensitivity analysis. The exposure is assessed as cash flow risk for the following year.

The sensitivity analysis shows compensatory effects in the forward exchange transactions and swaps since they match the hedged items in term and amount.

The fair value of our currency swaps was €2.1 million as of the reporting date (2016: €1.0 million).

Disclosures on liquidity risk

Liquidity requirements are continuously budgeted by the Klöckner & Co Group and monitored by the Corporate Treasury department to ensure appropriate levels of liquidity for the Group.

In total, the Group has credit facilities (including the convertible bond issue and finance leases) in the amount of approximately €1.5 billion (2016: €1.6 billion). Financial liabilities plus transaction costs came to €479 million (2016: €572 million). This corresponds to approximately 32% of the credit facilities (2016: 35%). The syndicated loan was extended ahead of schedule in April 2017 to May 2020. An option was again granted to extend the term in two steps until May 2022 with prior approval of the banks. In light of the ample headroom for borrowing under the available lines of credit, the currently undrawn facility was reduced in size from €360 million to €300 million.

The majority of the remaining material financing instruments were most recently extended in 2016 (ABS and ABL USA; ABS Europe) or issued (2016 Convertible Bond). The following table shows contractual undiscounted interest and principal payments for non-derivative financial liabilities and derivative financial instruments as of each reporting date.

December 31, 2017		Cash outflows			
(€ thousand)		Less than 1 year	1–5 years	More than five years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	8,868	-	11,824
	Total	**2,956**	**156,668**	**-**	**159,624**
Bank loans	Nominal values	49,928	22,002	19,146	91,076
	Interest	4,612	7,343	1,345	13,300
	Total	**54,540**	**29,345**	**20,491**	**104,376**
ABS	Nominal values	-	235,154	-	235,154
	Interest	8,286	14,709	-	22,995
	Total	**8,286**	**249,863**	**-**	**258,149**
Finance lease liabilities	Nominal values	1,033	5,407	15,321	21,761
	Interest	1,172	5,408	5,834	12,414
	Total	**2,205**	**10,815**	**21,155**	**34,175**
Total financial liabilities		**67,987**	**446,691**	**41,646**	**556,324**
Cash outflows from derivative financial instruments designated in interest hedging relationships		4	-	-	4

December 31, 2016 (€ thousand)		Cash outflows Less than 1 year	1–5 years	More than five years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	11,824	-	14,780
	Total	**2,956**	**159,624**	**-**	**162,580**
Bank loans	Nominal values	41,357	69,008	11,174	121,539
	Interest	5,868	11,529	323	17,720
	Total	**47,225**	**80,537**	**11,497**	**139,259**
ABS	Nominal values	-	299,557	-	299,557
	Interest	7,719	25,611	-	33,330
	Total	**7,719**	**325,168**	**-**	**332,887**
Finance lease liabilities	Nominal values	821	4,885	19,224	24,930
	Interest	778	7,126	7,733	15,637
	Total	1,599	12,011	26,957	40,567
Total financial liabilities		**59,499**	**577,340**	**38,454**	**675,293**
Cash outflows from derivative financial instruments designated in interest hedging relationships		18	3	-	21

The table includes all instruments for which contractual payments are agreed as of the reporting date; budgeted payments for new liabilities to be assumed in the future are not included. Variable interest on financial instruments is determined on the basis of the forward yield curve as of immediately before the reporting date. For drawings on the revolving credit facility, it was assumed that the level of drawings as of the reporting date will be maintained for the remaining term of the facility.

Net gains or losses by category

Cash and cash equivalents, trade receivables and other receivables mostly have short remaining maturities. Therefore, the carrying amounts at the reporting date closely approximate fair values.

Net gains or losses for the loans and receivables measurement category are as follows:

(€ thousand)	December 31, 2017	December 31, 2016
Exchange rate differences	– 1,103	– 14
Valuation allowance	– 2,855	– 3,638
Subtotal	**– 3,958**	**– 3,652**
Net income credit insurance	– 3,739	– 3,796
Net result	**– 7,697**	**– 7,448**

Net gains or losses on liabilities measured at amortized cost are a result of currency translation. In the fiscal year, there was a net loss of €34 thousand (2016: €183 thousand).

There were no impairment losses on non-current investments in the reporting year. The expense recognized for valuation allowances on trade receivables amounted to €5,661 thousand (2016: €7,129 thousand).

(32) Litigation, contingent liabilities and commitments

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. They also include present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Unless the possibility of any outflow in settlement is remote, a description of the nature of the contingent liability is disclosed.

The Klöckner & Co Group is not involved in any litigation or arbitration proceedings that could have a material impact on the Group’s financial situation. Notwithstanding extensive compliance measures, however, isolated compliance violations and legacy cases cannot be ruled out.

There are also guarantees that are given on divestments and property disposals. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

Other financial obligations arise in the Klöckner & Co Group from contracts that qualify as non-cancelable operating leases. Operating leases mainly relate to buildings, machinery, vehicles, telephone systems and computer hardware. In some instances, the leases include purchase options.

The future payments to be made under these leases are as follows:

(€ thousand)	December 31, 2017	December 31, 2016
Due within one year	45,995	51,604
Due between one and five years	104,701	145,132
Due after five years	37,376	68,238
Future minimum lease payments (nominal amounts)	**188,072**	**264,974**

Rental income under subletting in fiscal year 2017 totaled €1,342 thousand (2016: €1,595 thousand). The future minimum payments from subleases amount to €987 thousand (2016: €2,250 thousand).

Other commitments arise from capital expenditure purchase obligations; these amounted to €5,115 thousand as of December 31, 2017 (2016: €1,429 thousand).

(33) Related party transactions

Business relations with these companies do not differ from trade relationships with other companies. There were no material transactions with related parties during the reporting year.

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the Management Report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated required in the remuneration report in accordance with the German Corporate Governance Code – pursuant to the stipulations of German commercial law:

(€ thousand)	Fixed compo-nents	Bonuses	Other remunera-tions [1]	Total	Defined Benefit Obligation	Service Cost
Gisbert Rühl (CEO)	860	1,471	41	2,372	9,509	746
	(860)	(1,424)	(41)	(2,325)	(9,113)	(664)
Marcus A. Ketter (CFO)	480	827	128	1,435	-	-
	(480)	(801)	(127)	(1,408)	(-)	(-)
Karsten Lork	480	827	30	1,337	900	184
	(480)	(801)	(29)	(1,310)	(740)	(152)
Jens M. Wegmann	40	69	3	112	36	-
	(-)	(-)	(-)	(-)	(-)	(-)
William A. Partalis	480	827	30	1,337	6,689	-
	(480)	(848)	(29)	(1,357)	(6,737)	(218)
Total	**2,340**	**4,021**	**232**	**6,593**	**17,134**	**930**
	(2,300)	**(3,874)**	**(226)**	**(6,400)**	**(16,590)**	**(1,034)**

1) Includes for Marcus A. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.

The following table illustrates the remuneration in accordance with IAS 24 (Related Party Disclosure) for the Management Board and the Supervisory Board:

(€ thousand)	2017	2016
Short-term benefits (IAS 24.17 a)	7,128	6,900
Termination benefits (IAS 24.17 d)	3,600	-
Change in fair values of share-based payments (IAS 24.17e)	–579	2,079
Service cost for pension obligations (IAS 24.17e)	930	1,034
Total remuneration IFRS	**11,079**	**10,013**

Termination benefits for Karsten Lork whose Management Board appointment is terminated with effect of February 28, 2018 amounted to €3,600 thousand.

Commercial Code (HGB)-basis pension provisions for former Management Board members amount to €3,309 thousand (2016: €2,595 thousand). Pension payments to a former member of the Management Board were made in the reporting year in the amount of €118 thousand (2016: €118 thousand).

Transactions with members of the Management Board are restricted to transactions in their capacity as members of the Management Board as set out above.

Remuneration for the Supervisory Board in fiscal year 2017 totaled €517 thousand (2016: €500 thousand). In 2016, a contract was signed with Professor Kollmann for development and implementation of a digitalization (e-business) training program (online-seminar) for Group employees. Prof. Dr. Kollmann has rendered services under this contract for which remuneration of €93 thousand was paid in 2017.

Jens M. Wegmann was appointed member of the Management Board of Klöckner & Co SE effective December 1, 2017. The term of office of William A. Partalis ended as of December 31, 2017.

A list of the members of the Management Board is provided on page 9 and a list of members of the Supervisory Board is provided on page 17 of this Annual Report.

A further related party within the meaning of IAS 24 is the pension fund of the Debrunner & Acifer Group, Switzerland. The pension fund leases premises to Swiss subsidiaries. Rental expenses for such premises in 2017 amounted to €1,400 thousand (2016: €1,518 thousand).

(34) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is presented in accordance with IAS 7 (Statement of Cash Flows). It is of central importance in assessing the cash flows of the Klöckner & Co Group.

The changes in the items of the statement of financial position that provide the basis for the statement of cash flows cannot be directly reconciled to the statement of financial position due to the effects of currency translation and changes in the scope of consolidation, which are eliminated in preparing the statement of cash flows.

Cash flow from operating activities

Cash flow from operating activities was €79 million in the fiscal year (2016: €73 million). Net working capital increased relative to the prior year (€22 million) to €83 million. Adjusted for exchange rate effects and changes in the scope of consolidation, net working capital changed as follows:

	Variance	
(€ thousand)	2017/2016	2016/2015
Inventories	164,760	69,168
Trade receivables	65,695	21,938
Trade payables	– 147,796	– 69,299
Net working capital	**82,659**	**21,807**

Cash flow from investing activities

Cash outflows of €82 million from capital expenditure on property, plant and equipment and intangible assets were offset by cash inflows from disposal of the Spanish activities (€55 million), of property, plant and equipment and financial assets and of assets held for sale (in total €29 million). The net outcome was a cash inflow of €2 million (2016: net cash outflow of €52 million). In the prior year, this item included payments for the construction of an aluminum service center in Germany in the amount of €14 million.

Cash flow from financing activities

Cash flow from financing activities was a negative €58 million (2016: negative €46 million) and includes a €20 million cash outflow for dividend payments to shareholders of Klöckner & Co SE.

The Klöckner & Co Group's business activities constantly generate short-term cash inflows. These are generally used within one month to repay working capital facilities.

Financial liabilities changed as follows:

(€ thousand)	Bonds	Liabilities to bank	Liabilities under ABS programs	Finance lease liabilities	Total
Balance as of January 1, 2017	**129,323**	**118,557**	**298,697**	**24,930**	**571,507**
Changes from financing cash flows					
Borrowings	-	463,803	765	-	464,568
Repayment of financial liabilities	-	-484,970	-41,368	-786	-527,124
Changes from financing cash flows	**-**	**-21,167**	**-40,603**	**-786**	**-62,556**
The effect of changes in foreign exchange rates	-	-8,044	-23,222	-2,676	-33,942
Other changes liability-related					
Changes in bank overdraft	-	382	-	-	382
Interest expense	6,741	11,760	8,524	1,495	28,520
Interest paid	-2,957	-12,531	-8,524	-1,202	-25,214
Total liabilitiy-related other changes	**3,784**	**-389**	**-**	**293**	**3,688**
Balance as of December 31, 2017	**133,107**	**88,957**	**234,872**	**21,761**	**478,697**

Cash and cash equivalents

Cash and cash equivalents include bank balances of €2,874 thousand (2016: €3,767 thousand) belonging to the consolidated special-purpose entities solely serving the subsidiaries participating in the European ABS program.

(35) Segment reporting

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. Internal reporting is carried out for the Europe and the Americas segment. It covers all companies domiciled in these regions. Central functions not assigned to a segment and consolidation adjustments are reported separately.

The segments use the same accounting policies as described in Note 5 (Significant accounting policies), except in the case of intra-Group transactions (especially profit distributions and impairments on consolidated affiliated companies), which are eliminated within the individual segments.

(€ thousand)	Europe 2017	Europe 2016	Americas 2017	Americas 2016
Sales	3,946,424	3,606,311	2,345,320	2,123,965
Capital expenditure for intangible assets, property, plant and equipment	47,316	51,136	24,360	19,078
Segment result (EBITDA)	151,484	151,403	93,944	73,512
Earnings before interest and taxes (EBIT)	102,172	85,537	57,616	32,490
Amortization and depreciation of intangible assets and property, plant ande equipment	47,366	49,743	36,327	39,599
Impairment losses for intangible assets and property, plant and equipment	1,947	16,124	-	1,422
Other non-cash income/expenses	– 299	– 111	-	-
Income taxes	– 8,680	– 4,528	1,205	– 4,021

(€ thousand)	Europe December 31. 2017	Europe December 31, 2016	Americas December 31. 2017	Americas December 31, 2016
Net Working Capital	741,764	706,411	390,492	410,499
Net financial debt	418,029	376,347	343,567	409,924
Employees at year-end (headcount)	6,078	6,419	2,470	2,531

	Headquarters		Consolidation		Total	
	2017	2016	2017	2016	2017	2016
	-	-	– 184	– 212	6,291,560	5,730,064
	6,723	4,878	-	-	78,399	75,092
	122,753	– 1,584	– 148,622	– 27,808	219,559	195,523
	118,670	– 4,809	– 148,622	– 27,808	129,836	85,410
	3,486	3,225	-	-	87,179	92,567
	597	-	-	-	2,544	17,546
	145,082	26,269	– 145,146	– 25,807	– 363	351
	13,202	– 5,497	-	-	5,727	– 14,046

	Headquarters		Consolidation		Total	
	December 31. 2017	December 31, 2016	December 31. 2017	December 31, 2016	December 31. 2017	December 31, 2016
	– 619	3,153	– 20	– 154	1,131,617	1,119,909
	– 431,429	– 367,995	– 3	25,743	330,164	444,019
	134	114	-	-	8,682	9,064

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

(€ thousand)	2017	2016
Earnings before inerest and taxes (EBIT)	129,836	85,410
Financial result	– 33,312	– 33,407
Income before taxes	**96,524**	**52,003**

EBITDA, as a key performance indicator, is defined as earnings before interest, taxes, depreciation and amortization and reversals of impairments of intangible assets and property, plant and equipment.

Net working capital comprises inventories and trade receivables less trade liabilities.

Non-cash income and expenses mainly relate to changes in fair values of derivative financial instruments.

Non-current assets by region

Intangible assets, property, plant and equipment and investment property are broken down by region as follows:

(€ thousand)	2017	2016
USA	286,844	341,654
Switzerland	268,653	304,517
Germany	136,504	120,795
France	32,560	35,351
Great Britain	31,118	32,695
The Netherlands	22,143	23,124
Other regions	8,743	9,729
Total	**786,565**	**867,865**

(36) Subsequent events

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

(37) Fees and services of the auditor of the consolidated financial statements

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Wirtschaftsprüfer Dr. Markus Zeimes (from fiscal year 2011) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, in the fiscal year:

(€ thousand)	2017	2016
Audit of financial statements	761	1,224
Other assurance services	10	7
Tax advisory services	259	206
Other services	395	101
	1,425	**1,538**

The auditing fees primarily relate to the audit of the IFRS consolidated financial statements and audits of the separate financial statements of the entities included in the consolidated financial statements.

The fees for tax advisory services relate to advice for individual matters and recurring consulting regarding tax returns as well as other national and international tax issues.

The fees for other services relate mainly to project-related services.

(38) Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporations Act (AktG)

The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 12, 2017 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, February 23, 2018

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN
OF THE MANAGEMENT BOARD

Marcus A. Ketter
MEMBER
OF THE MANAGEMENT BOARD

Karsten Lork
MEMBER
OF THE MANAGEMENT BOARD

Jens M. Wegmann
MEMBER
OF THE MANAGEMENT BOARD

INDEPENDENT AUDITOR'S REPORT

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

OPINIONS

We have audited the consolidated financial statements of Klöckner & Co SE, Duisburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, statement of comprehensive income, consolidated statement of cash flows and the summary of changes in consolidated equity for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter: 'group management report') of the Company for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements we have not audited the content of the corporate governance statement which is included in the 'Corporate Governance' section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment test of individual non-current assets or a group of non-current assets (without goodwill)

For the accounting policies applied, please refer to section (5) in the notes to the consolidated financial statements of Klöckner & Co SE. Further disclosures on impairment testing can be found in section (15) of the notes to the consolidated financial statements. Reporting on risks and opportunities can be found in Section '7.3 Risks and Opportunities' in the group management report

THE FINANCIAL STATEMENT RISK

Klöckner Klöckner recognises intangible assets of EUR 162.7 million in the consolidated statement of financial position as at 31 December 2017; thereof EUR 133.9 million for intangible assets (without goodwill) and EUR 623.8 million for property, plant and equipment. At 26% of total assets, this represents a significant proportion of the assets of the Company.

As at 31 December 2017 impairment losses totalling EUR 2.4 million were recognised on intangible assets (without goodwill) and property, plant and equipment.

Impairment testing of non-current assets is conducted at the level of the cash-generating units or at the level of the individual assets. Any identified impairment loss has to be allocated to the individual assets. In this regard, the carrying amount of an individual asset may not be impaired below its fair value less cost of disposal (minimum carrying amount). Klöckner made use of appraisals by external experts as well as external sources for standard ground values to derive the minimum carrying amounts needed for allocating any identified impairment loss on the individual assets.

The impairment testing of individual cash-generating units or individual assets, the allocation of an identified impairment loss to the individual assets as well as the derivation of the minimum carrying amount are complex and largely dependent on the estimate of the management board and thus subject to considerable uncertainty.

Estimates on the timing and amount of future expected cash inflows and outflows relevant for measurement as well as the discount rates used for the derivation of the recoverable amount of cash-generating units or individual assets and the minimum carrying amount of individual assets are subject to uncertainty and thus require judgement.

In determining the minimum carrying amount of the individual assets, estimates must be made for the significant measurement parameters, such as indexation, depreciation, total useful life, deductions for technical obsolescence, costs to sell and obsolescence of property, plant and equipment, as well as the location, usability and condition of land and buildings.

The financial statement risk is that an impairment need may not be identified, or not to the extent necessary and thus the Group's assets are overstated. There is also the risk that the related disclosures in the notes are not appropriate.

OUR AUDIT APPROACH

By involving our valuation specialists, we assessed, among others, the appropriateness of the significant assumptions and parameters, the calculation methods for the recoverable amount of the cash-generating unit or the individual assets as well as the minimum carrying amount of the individual assets of the Company. Our audit procedures included, among others, an audit of whether the cash inflows and outflows used to derive the value in use of the cash-generating units and the individual assets were appropriate. We evaluated the corporate planning taking into account market data and publicly available industry and analyst reports. In addition, we evaluated the appropriateness of the budget figures and the underlying assumptions of individual cash-generating units or individual assets in the corporate planning.

For the assessment of assumptions and parameters underlying the discount rates, we analysed the peer group used to derive the beta coefficient and also verified the risk-free interest rate and market risk premium derived from data provided by relevant central banks on yield curves as well as information from the German Institute of Public Auditors [IDW] for deriving the risk-free interest rate and market risk premium.

Where a potential impairment loss was identified for a cash-generating unit or individual assets, Klöckner engaged external experts to derive the minimum carrying amounts for the individual assets. We verified the expertise and objectivity of the external experts and conducted a substantive audit of the external experts' determination of the minimum carrying amounts for the individual assets. Thereby, we first ensured that all assets of the cash-generating units to be audited were fully included in the valuation. In the following step, we assessed whether the valuation methods used to derive the minimum carrying amounts were properly applied. In this context, we also verified whether the above-mentioned significant measurement assumptions and parameters were properly and reasonably applied.

Finally, on the basis of the risk-based selected assets or components, we examined whether calculations in the valuation models used to derive the recoverable amount of the cash-generating units or the individual assets and the minimum carrying amount of the individual assets were accurate.

Lastly, we assessed whether the resulting impairment loss was accurately recognised in the financial statements.

Our audit of disclosures in the notes mainly focused on the completeness of the disclosures on impairment testing.

OUR OBSERVATIONS

The underlying calculation method used for impairment testing and for the minimum carrying amount is appropriate and in line with the accounting policies to be applied. The assumptions and parameters used for measurement are appropriate and balanced overall.

The disclosures in the notes are complete and sufficiently detailed.

Measurement of inventories

For the accounting policies applied, please refer to section (5) in the notes to the consolidated financial statements of Klöckner & Co SE. Further disclosures on inventories can be found in section (16) of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of Klöckner & Co SE, inventories in the amount of EUR 1,105.1 million are recognised in the consolidated statement of financial position as at 31 December 2017; of this amount, EUR 248.9 million is stated at the lower of cost and net realisable value. Impairment losses on their net realisable value amount to EUR 25.4 million.

To determine the net realisable values, the management board used judgement with respect to the development of steel prices at the beginning of 2018. Internal as well as external information is incorporated into the assessment.

The determination of net realisable values as upper limit is highly dependent upon the management board's assessment. There is thus the risk that inventories are overstated due to any unidentified impairment losses or understated due to the determined impairment loss being too high.

OUR AUDIT APPROACH

In the course of our audit, we initially gained an understanding of the process for deriving the net realisable values and their consideration in inventory measurement. Thereby we also took into account the accuracy of estimates in the prior year. Furthermore we evaluated the appropriateness of the significant assumptions used by Klöckner to derive the net realisable values. Therefore we validated the information used by Klöckner for the estimate of net realisable values by comparing these with externally available sources such as assessments of other market participants for a selection of risk-based material types. Furthermore we evaluated the appropriateness of the estimated values taking into account the price development in January 2018.

At the component level of the Group, we confirmed that the valuation methods used are in compliance with the group accounting policy and the provisions of IAS 2 are consistently applied. This also included an audit of whether the estimated net realisable values were properly stated as benchmark for inventory measurement.

We verified that the values determined for the inventories were also recognised in the consolidated financial statements.

OUR OBSERVATIONS

The underlying assumptions for the determination of the net realisable values are appropriate.

Recognition and measurement of deferred tax assets

For the accounting policies applied, please refer to section (5) in the notes to the consolidated financial statements of Klöckner & Co SE. Further disclosures on deferred taxes can be found in section (13) of the notes to the consolidated financial statements

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of Klöckner & Co SE, deferred tax assets in the amount of EUR 24.4 million are recognised in the consolidated statement of financial position.

For the recognition of deferred tax assets, Klöckner assesses to what extent it is probable that current deferred tax assets can be utilised in subsequent reporting periods. Utilising these deferred tax assets requires that sufficient taxable income is generated in future periods. If there is reasonable doubt about the future usability of the deferred tax assets determined, these are not recognised or if deferred tax assets have already been recognised, they are written down.

The recognition and measurement of deferred tax assets are based on corporate planning and therefore highly dependent upon the management board's judgement and subject to uncertainty. Moreover, realisation depends on the respective tax environment.

There is the risk for the consolidated financial statements that Klöckner's estimates are not appropriate and that the recognised and measured deferred tax assets are not recoverable.

OUR AUDIT APPROACH

Our tax specialists were involved in the audit of tax matters together with the audit team. With their support, we assessed the internal processes established for the recognition and calculation of deferred tax assets. We also conducted an analysis of corporate planning and verified the values calculated by the Company. For entities with significant deferred tax assets on temporary difference or loss carryforwards, we assessed the planning prepared by the management board and evaluated the appropriateness of the assumptions and parameters used.

OUR OBSERVATIONS

The assumptions made by the management board with regard to the recognition and measurement of deferred tax assets are reasonable and balanced overall.

Other information

Management is responsible for the other information. The other information comprises:

- the corporate governance statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the audited financial statements and group management report and our auditor's reports.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

– Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 12 May 2017. We were engaged by the supervisory board on 8 January 2018. We have been the group auditor of Klöckner & Co SE without interruption since the financial year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr. Markus Zeimes.

Düsseldorf, 23 February 2018

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr Zeimes	Keisers
WIRTSCHAFTSPRÜFER [GERMAN PUBLIC AUDITOR]	WIRTSCHAFTSPRÜFER [GERMAN PUBLIC AUDITOR]

Declaration of the Management Board

Statement by the Management Board on the consolidated financial statements and the Group management report

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report for Klöckner & Co SE, 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.

Duisburg, February 23, 2018

MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN
OF THE MANAGEMENT BOARD

Marcus A. Ketter
MEMBER
OF THE MANAGEMENT BOARD

Karsten Lork
MEMBER
OF THE MANAGEMENT BOARD

Jens M. Wegmann
MEMBER
OF THE MANAGEMENT BOARD

INDIVIDUAL FINANCIAL STATEMENTS

Individual financial statements
Statement of income

for the 12-month period ending December 31, 2017

(€ thousand)	2017	2016
Sales	17,837	16,079
Other operating income	147,945	30,250
Cost of purchased services	– 10,409	– 9,979
Personnel expenses	– 20,679	– 14,571
Depreciation of intangible assets and property, plant and equipment	– 168	– 217
Other operating expenses	– 16,061	– 20,946
Income from participations	16,851	5,928
Income from profit transfer agreements	71,579	73,072
Income from long-term loans	12,211	14,426
Other interest and similar income	5,446	4,713
Impairment of investments	-	– 2,000
Expenses from loss transfer agreements	-	– 648
Interest and similar expenses	– 16,853	– 15,225
Result before taxes	**207,699**	**80,882**
Income taxes	– 4,528	– 5,993
Net income	**203,171**	**74,889**
Unappropriated profits carried forward	74,889	-
Dividends	– 19,950	-
Appropriation to other revenue reserves	– 54,939	-
Unappropriated profits	**203,171**	**74,889**

Balance sheet

as of December 31, 2017

ASSETS

(€ thousand)	December 31, 2017	December 31, 2016
Intangible assets	49	91
Property, plant and equipment	3,292	804
Non-current investments	1,102,102	1,163,019
Fixed assets	**1,105,443**	**1,163,914**
Trade receivables	31	37
Receivables from affiliated companies	335,319	255,554
Other assets	6,419	3,432
Cash and cash equivalents	93,791	91,926
Current assets	**435,560**	**350,949**
Prepaid expenses	16,235	19,858
Total assets	**1,557,238**	**1,534,721**

LIABILITIES

(€ thousand)	December 31, 2017	December 31, 2016
Equity		
Subscribed capital	249,375	249,375
Capital reserves	699,459	699,459
Other revenue reserves	129,100	74,161
Unappropriated profits	203,171	74,889
Equity	**1,281,105**	**1,097,884**
Provisions for pensions and similar obligations	91,078	92,208
Provisions for taxes	11,616	10,511
Other provisions	17,378	18,691
Bonds	147,800	147,800
Liabilities to banks	231	293
Trade payables	667	540
Liabilities to affiliated companies	7,000	165,566
Other liabilities	363	1,228
Total equity and liabilities	**1,557,238**	**1,534,721**

Movements in intangible assets, property, plant and equipment and non-current investments

as of December 31, 2017 (annex to the Notes)

	Intangible assets	Property, plant and equipment			Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Prepayments	Investments in affiliated companies	Loans to affiliated companies	Investments	Total
Cost as of December 31, 2016	844	296	1,068	487	1,542,351	190,145	7	1,735,198
Accumulated amortization and depreciation	– 753	– 249	– 798	-	– 569,484	-	-	– 571,284
Book value as of Dec. 31, 2016	**91**	**47**	**270**	**487**	**972,867**	**190,145**	**7**	**1,163,914**
Additions	12	-	65	2,537	5,000	-	-	7,614
Attribution	-	-	-	-	145,147	-	-	145,147
Disposals	-	-	-	-	– 187,954	– 23,110	-	– 211,064
Current year amortization and depreciation	– 54	– 19	– 95	-	-	-	-	– 168
Book value as of Dec. 31, 2017	**49**	**28**	**240**	**3,024**	**935,060**	**167,035**	**7**	**1,105,443**
Costs as of December 31, 2017	856	296	1,087	3,024	1,141,381	167,035	7	1,313,686
Accumulated amortization and depreciation	– 807	– 268	– 847	-	– 206,321	-	-	– 208,243

Notes to the financial statements

for the 12-month period ending December 31, 2017

General information

Klöckner & Co SE is the parent company of the Klöckner & Co Group and is domiciled in Duisburg. It is entered in the commercial register of Duisburg Local Court under HRB 20486. The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

Klöckner & Co SE is in charge of operating management of the Group. It directly holds the ownership interests in most management companies heading the Group's national and international country organizations, as well as in individual country operating companies themselves.

Since the initial public offering on June 28, 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard).

The annual financial statements and the consolidated financial statements are published in the Federal Gazette.

Accounting policies

The financial statements for the fiscal year January 1 to December 31, 2017 are prepared in accordance with the stipulations applying for large corporations in the German Commercial Code (HGB) as amended by the Accounting Law Modernisation Act (BilMoG) and in accordance with the German Stock Corporations Act (AktG).

Klöckner & Co SE prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The presentation of the financial statements is in accordance with Sections 266–277 HGB.

Assets

Acquired intangible assets and property, plant and equipment are normally carried at cost less accumulated amortization and depreciation recognized in accordance with commercial law. The option of recognizing self-generated intangible assets is not used. Moveable depreciable assets are depreciated on a straight-line basis. Minor assets are expensed in the year of purchase or production. If the attributable value of a depreciable asset is diminished as of the reporting date, a writedown for impairment is recognized. Other operating and office equipment is depreciated over between three and 13 years.

Financial assets are accounted for at cost of purchase and in case of other-than-temporary impairment at their lower attributable cost. For material investments in affiliated companies, attributable value is determined using the income approach. The cash flows used in the income approach are based on budgets for each affiliate for the next three years, extrapolated using long-term growth rate assumptions. They are discounted at a discount rate derived from the yield on a risk-equivalent alternative investment. In light of increased earnings outlook, impairments were reversed in the fiscal year in the amount of €145 million.

Receivables and other assets are normally measured at cost. Specific valuation allowances are recognized to account for identifiable risks. Foreign currency receivables are translated at the midpoint spot rate at the reporting date. Section 253 (1) sentence 1 and Section 252 (1) 4 HGB are not applied if the remaining maturity is less than one year.

Liabilities

Provisions for pensions are measured using the projected unit credit method (analogous to IAS 19). In accordance with the requirements under BilMoG, the parameters for valuation were 2.5% (2016: 2.5%) for salary increases and 1.75% (2016: 1.75%) for pension increases. As in the prior year, the biometric parameters are based on the Prof. Dr. Klaus Heubeck 2005 G tables. The obligation is discounted at the average market rate based on an assumed remaining maturity of 15 years as regularly published by the German Bundesbank. Ten years are assumed for calculation of the average discount rate. At the reporting date, this is 3.68% (2016: 4.01%). Ring-fenced assets that exclusively serve the purpose of meeting pension obligations are offset against the corresponding liability.

Other provisions account for all identifiable obligations and emerging risks. They are recognized at their settlement amount estimated with the due care and diligence of a prudent businessman. Provisions with a remaining maturity of more than one year are discounted to the reporting date. The discount rate is the past seven-year average market interest rate for congruent maturities as published by the German Bundesbank.

Liabilities are normally stated at their settlement amount. Foreign currency liabilities with a remaining maturity of up to one year are normally translated at the midpoint spot rate at the reporting date. Foreign currency liabilities with longer maturities are translated at the invoice date exchange rate or, if higher, the midpoint spot rate at the reporting date.

Derivative financial instruments are accounted for at fair value, determined on the basis of banks' quoted prices or by quantitive finance methods using standard banking models. Where market prices exist, these correspond to the price a third party would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in the value of hedged items. Positive fair values are presented in other assets and negative fair values in other liabilities.

In accordance with Section 254 HGB, financial instruments that match the volume and timing of risks on a hedged item are accounted for in a unit with the hedged item. Under application of the net hedge presentation method, they are estimated according to the value on the date of issue. Changes in value in respect of the hedged risk are not recognized on the balance sheet or in the statement of income.

Statement of income

The income statement is prepared using the nature of expense method of analysis (Section 275 (2) HGB).

Expense from the unwinding of the discount on pension obligations is accounted for in net interest income.

Fixed assets

Changes in fixed assets in the reporting year are presented in the movement schedule.

Additions to intangible assets relate in their entirety to purchased software.

In light of the significantly improved earnings outlook, impairments recognized in 2015 and 2016 were reversed in the reporting year in the amount of €143 million on the carrying amount of the investment in Klöckner USA Holding Inc., Wilmington, Delaware, USA, and in the amount of €2 million on the carrying amount of the investment in Buysmetal N.V., Harelbeke, Belgium. A listing of all subsidiaries and associates is presented in the appendix.

Receivable and other assets

(€ thousand)	2017	2016
Trade receivables	31	37
Receivables from affiliated companies	335,319	255,554
Other assets	6,419	3,432
	341,769	**259,023**

Receivables from affiliated companies relate to European cash pooling, profit transfer agreements, financial services, clearing and short-term loans.

All receivables have a maturity of less than one year.

Other assets totaling €3,215 thousand (2016: €3,303 thousand) have a remaining maturity of more than one year and mainly relate to non-pledged pension liability insurance.

Prepaid expenses

In connection with the 2016 Convertible Bond, a discount of €18,434 thousand was initially recognized as prepaid expenses to be amortized to interest expense over the five-year minimum maturity period. The amount recognized as interest expense in fiscal year 2017 was €3,687 thousand (2016: €1,229 thousand). The discount was accounted for at €13,518 thousand as of December 31, 2017 (2016: €17,205 thousand).

Equity

The Company's share capital is €249,375,000, as in the prior year, and is divided into 99,750,000 shares. Each share notionally corresponds to €2.50 of the share capital.

The existing authorization for the acquisition of treasury stock of May 25, 2012 was due to expire in the reporting year. In order to enable the Company to continue to use the acquisition of treasury stock as a flexible additional financing instrument beyond that period, the Annual General Meeting on May 12, 2017 revoked the authorization of May 25, 2012 and authorized the Management Board to acquire, by or before May 11, 2022, treasury stock of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was additionally authorized to acquire treasury stock using derivatives (put options, call options or other forward contracts). The authorization can be utilized in whole or in part, on one or more occasions, by the Company, by companies of the Klöckner & Co Group or by third parties acting on the Company's account or on the account of companies of the Klöckner & Co Group. The authorization may be used for any legally permissible purpose, including for the retirement of shares. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

Following the resolution of the Annual General Meeting on May 12, 2017 €54,939 thousand was reclassified from the balance sheet profit of the previous year of €74,889 thousand to other retained earnings.

Revenue reserves are not subject to any restriction on distribution to shareholders within the meaning of Section 268 (8) HGB. The amount resulting from the change in the discount rate for retirement benefit obligations that is not allowed to be distributed to shareholders under Section 253 (6) HGB is €11,444 thousand (2016: €9,583 thousand).

Provisions for pensions and similar obligations

Pension obligations as of December 31, 2017 were €110,497 thousand (2016: €110,311 thousand).

The change applied from 2016 under which the average discount rate for pension obligations is determined on the basis of a ten-year period instead of a seven-year period as before resulted in a gain in the amount of €9,583 thousand that is not allowed to be distributed to shareholders. The amount not allowed to be distributed to shareholders as of December 31, 2017 was €11,444 thousand.

Plan assets consist of pension liability insurance whose cost and fair value are identical. They are measured at the asset value of the pension liability insurance and amount to €19,419 thousand (2016: €18,103 thousand). Within the reported amount of pension provisions, plan assets at fair value are offset against pension obligations.

Expense from the unwinding of the discount on pension obligations in the amount of €4,264 thousand (2016: €4,501 thousand) is offset against returns on plan assets in the amount of €393 thousand (2016: €326 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2017	2016
Personnel expenses	12,578	11,676
Outstanding invoices	3,913	2,415
Miscellaneous other provisions	887	4,600
	17,378	**18,691**

The decrease in miscellaneous other provisions relates to redemption of a debtor warrant in connection with the Group ABS program.

Liabilities

	December 31, 2017			December 31, 2016		
(€ thousand)	up to 1 year	1 – 5 years	Total	up to 1 year	1 – 5 years	Total
Bonds	-	147,800	147,800	-	147,800	147,800
Liabilities to banks	231	-	231	293	-	293
Trade payables	667	-	667	540	-	540
Liabilities to group companies	7,000	-	7,000	165,566	-	165,566
Miscellaneous liabilities	363	-	363	1,228	-	1,228
Liabilities	**8,261**	**147,800**	**156,061**	**167,627**	**147,800**	**315,427**

A €148 million convertible bond issue was placed with non-US institutional investors in September 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE.

The bond is split into 1,478 debentures with a total of 10,178 thousand conversion rights. The coupon on the bonds was set at 2.00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. In accordance with the bond terms, the conversion price was adjusted to €14.5219 following the dividend payout in May 2017. The bonds have a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest („investor put option“). The issuer does not have an early redemption option in the first five years. It does have such an option thereafter provided that, over certain stipulated periods, the market price of Klöckner & Co shares exceeds 130% of the conversion price.

Liabilities to banks include €221 thousand in interest payable on the syndicated loan. The liabilities under the sydicated credit facility, which was undrawn as of December 31, 2017, are uncollateralized.

Other liabilities include:

(€ thousand)	2017	2016
Tax liabilities	324	1,215
Social security contributions	13	13
Miscellaneous other liabilities	26	-
Other liabilities	**363**	**1,228**

Derivative financial instruments

The notional values and fair values of the derivative financial instruments as of December 31, 2017 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	284	2

Klöckner & Co SE manages central financing for the Klöckner & Co Group. Klöckner & Co SE is exposed to currency risk arising from the financial instruments. This arises from foreign currency loans that are granted to finance Group companies as part of central Group financing and are fully hedged. Derivative financial instruments are entered into for this purpose.

Derivative financial instruments used to hedge cash flow risks and matching hedged items can be accounted for as a unit if a clear hedging relationship is demonstrated. Such a hedging relationship exists in the form of microhedges for 16 forward exchange contracts with a maximum maturity of three months. In these cases, the hedged items are recognized at the hedged rates and the derivative financial instruments are not recognized separately.

As a fundamental rule, Klöckner & Co SE only enters into derivative financial instruments that are in a hedging relationship with a hedged item. Changes in value and cash flows fully cancel each other out due to matching terms and parameters in the hedged item and the hedge.

The following methods are used to determine fair (market) value:

Currency hedges

The fair value of forward exchange contracts is calculated on the basis of the midpoint spot rate at the reporting date, taking into account forward premiums and discounts for the respective remaining maturity of the contract relative to the contracted forward rate. Counterparty risk is taken into account in discounting.

Interest rate hedges

The fair value of interest rate swaps is measured by discounting the expected future cash flows. This is done on the basis of the market interest rates for the remaining maturity of the contracts and taking counterparty risk into account.

Commitments

Obligations fall due in the following year due to multiple-year tenancies and leases in the amount of €2,079 thousand. The total amount of these obligations is €13,237 thousand.

Sales

Sales consist of goods or services provided to subsidiaries and relate to the following:

(€ thousand)	2017	2016
Service fees ABS program	10,359	9,975
Group services rendered	4,921	3,619
Rental income	1,430	1,507
Insurance	444	601
Other income	683	377
Sales	**17,837**	**16,079**

Other operating income

Other operating income contains income attributable to prior periods of €1,179 thousand (2016: €112 thousand).

Other operating income includes €143 million in income from the reversal of the impairment loss recognized in 2015 on the carrying amount of Klöckner USA Holding Inc., Wilmington, Delaware, USA due to the considerably improved earnings outlook for our US business. The impairment loss of €2 million recognized on the carrying amount of Buysmetal N.V., Harelbeke, Belgium was also reversed during the reporting year.

Personnel expenses

(€ thousand)	2017	2016
Wages and salaries	16,209	16,092
Social securities	699	638
Retirement benefit cost	3,764	– 2,164
Welfare	7	5
	20,679	**14,571**

The statutory change in the calculation period for the average discount rate for pension provisions led in the prior year to a once-only reduction in retirement benefit cost of €9,583 thousand, resulting in a net gain of €2,164 thousand.

Average number of employees over the year:

	2017	2016
Salaried employees	66	63
Wage earners	2	2
	68	**65**

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the Management Report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated required in the remuneration report in accordance with the German Corporate Governance Code – pursuant to the stipulations of German commercial law:

(€ thousand)	Fixed components	Bonuses	Other remunerations[1)]	Total	Present value of benefit obligation[2)]	Change in benefit obligation
Gisbert Rühl (CEO)	860	1,471	41	2,372	6,557	849
	(860)	(1,424)	(41)	(2,325)	(5,708)	(– 864)
Marcus A. Ketter (CFO)	480	827	128	1,435	-	-
	(480)	(801)	(127)	(1,408)	(-)	(-)
Karsten Lork	480	827	30	1,337	563	150
	(480)	(801)	(29)	(1,310)	(413)	(– 67)
Jens M. Wegmann	(40)	(69)	(3)	112	(22)	(22)
	(-)	(-)	(-)	(-)	(-)	(-)
William A. Partalis	480	827	30	1,337	6,689	– 48
	(480)	(848)	(29)	(1,357)	(6,737)	(878)
Total	**2,340**	**4,021**	**232**	**6,593**	**13,831**	**973**
	(2,300)	**(3,874)**	**(226)**	**(6,400)**	**(12,858)**	**(– 53)**

1) Includes €100,000 for Marcus A. Ketter paid in lieu of corporate pension benefits that must be invested in a private post-retirement scheme.
2) This amount was calculated in accordance with IAS 19 for William A. Partalis.

Termination benefits for Karsten Lork whose Management Board appointment is terminated with effect of February 28, 2018 amounted to €3,600 thousand.

Statutory pension provisions for former Management Board members amount to €3,309 thousand (2016: €2,595 thousand). Pension payments to a former member of the Management Board were made in the reporting year in the amount of €118 thousand (2016: €118 thousand).

Transactions with members of the Management Board are restricted to transactions in their capacity as members of the Management Board as set out above.

If a threshold of 30% of voting rights is exceeded, members of the Management Board have the right to early termination of their service contracts. If exercised, the members of the Management Board are entitled to receive the annual target remuneration (including a target bonus) until the end of their contract term. The payment is limited to three times the total compensation received by the member of the Management Board in the last full fiscal year as of the date of termination. The personal investment requirement is waived. Any personal investment shares still vesting will be unlocked and released to the Management Board member in question. In addition, all virtual stock options not yet granted are deemed granted and may be exercised at the end of the contractual vesting period or three months from the issue date, whichever is sooner.

Other operating expenses

Remuneration for the Supervisory Board in fiscal year 2017 totaled €517 thousand (2016: €500 thousand).

Other operating expenses also include the auditing fees of the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, Germany. Detailed information on audit fees is provided in Note 37 (Fees and services of the auditor of the consolidated financial statements).

Other operating expenses of €178 thousand (2016: €17 thousand) relate to prior periods.

Income from investments

(€ thousand)	2017	2016
Income from participations	16,851	5,928
Income from profit transfer agreements	71,579	73,072
Expenses from loss transfer agreements	-	– 648
Income from investments	**88,430**	**78,352**

Income from equity investments includes dividends received from Debrunner Koenig Holding AG, St. Gallen, Switzerland.

The income from profit transfer agreements relates to agreements with Becker Besitz GmbH, Duisburg, Germany, Becker Stahl-Service GmbH, Duisburg, Germany, kloeckner.i GmbH, Berlin, Germany, Kloeckner Metals Europe GmbH, Duisburg, Germany, Klöckner Shared Services GmbH, Duisburg, Germany, and kloeckner.v GmbH, Berlin, Germany.

Financial result

(€ thousand)	2017	2016
Income from long-term loans		
– affiliated companies	12,211	14,426
Other interest and similar income		
– affiliated companies	5,440	4,521
– other interest and and similar income	6	192
Interest and similar expenses		
– affiliated companies	– 3,306	– 1,320
– interest on provisions	– 3,870	– 4,175
– other interest and similar expenses	– 9,677	– 9,730
	804	**3,914**

Interest income from affiliated companies and income from long-term loans results from the Group financing. The interest expense on provisions exclusively relates to pension provisions.

Taxes

Taxes exclusively relate to taxes on income and affect the result from ordinary activities in their full amount.

The determination of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 (1) sentence 2 HGB, the Company elected not to recognize the net deferred tax asset. The tax expense consequently does not contain any deferred taxes. The net deferred tax asset not recognized amounts to €24,274 thousand (2016: €24,452 thousand) comprising deductible temporary differences in the amount of €24,298 thousand (2016: €24,452 thousand) less taxable temporary differences in the amount of €24 thousand (2016: €0 thousand). There are additionally tax loss carryforwards for which deferred tax assets could in principle be recognized and which would increase the amount of the net deferred tax asset not recognized.

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. Deferred taxes were determined on the basis of a combined tax rate of 31.8% (2016: 31.6%) for corporate income tax, solidarity surcharge and trade tax.

Contingent liabilities

Klöckner & Co SE's contingent liabilities exclusively comprise guarantees in the amount of €15,633 thousand (2016: €14,243 thousand) relating to foreign Group company loans and to guarantees and credit support granted to secure the financing of affiliated companies.

To the best of our knowledge, all Group companies concerned are in a position to meet their obligations in their course of their activities. As such, we do not expect that the guarantees will be called in.

Subsequent events

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

Other disclosures

Information pursuant to Section 160 (1) No. 8 of the German Stock Corporations Act (AktG)
Pursuant to Article 61 of the SE Regulation in conjunction with Section 160 (1) No. 8 AktG, information must be provided on the existence of shareholdings notified to the Company pursuant to Section 33 (1) or 33 (2) of the Securities Trading Act (WpHG).

Notifications of shareholdings in Klöckner & Co SE provided to us under Sections 40, 33 WpHG (or predecessor legislation, as applicable) that still apply and have not become obsolete by later notification of a shortfall below a threshold are set out in the annex to these Notes. Any shortfall below a threshold during the course of the reporting year is shown in the table contained in the annex. The table also includes any notifications under Sections 40, 33 WpHG made beyond the reporting year up to February 23, 2018 (if any). In cases where an investor's shareholdings have multiply reached, exceeded or fallen below the aforementioned thresholds, in general only the most recent notification leading to a threshold being exceeded, fallen below or reached is stated. If notifications have been made under a prior version of WpHG, those are reflected as they have been notified with the applicable old version of the WpHG (WpHG o.v.) being mentioned accordingly. It is pointed out that the stated percentage shareholding and number of voting rights may be out of date.

The listing pursuant to Section 160 (1) 8 AktG is annexed to these Notes.

Governing bodies

A list of the members of the Management Board and the Supervisory Board is attached as an appendix.

Declaration of Conformity

The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 12, 2017 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Proposal for the appropriation of net income

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's net income available for distribution for fiscal year 2017 of an amount of €29,925 thousand to shareholders as dividend and the appropriation of the remaining €173,246 thousand to other revenue reserves. At 99,750,000 eligible no-par-value shares, the dividend distribution corresponds to an amount of €0.30 per no-par-value share.

Duisburg, February 23, 2018

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN
OF THE MANAGEMENT BOARD

Marcus A. Ketter
Member of the Management Board

Karsten Lork
Member of the Management Board

Jens M. Wegmann
Member of the Management Board

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Financial Statements and the Management Report

OPINIONS

We have audited the annual financial statements of Klöckner & Co SE, Duisburg, which comprise the balance sheet as at 31 December 2017, and the statement of income for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report (hereinafter 'management report') of Klöckner & Co SE for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements we have not audited the content of the corporate governance statement which is included in the 'Corporate Governance' section of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report' section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment of non-current investments

Please refer to the accounting policies described in the notes to the financial statements for more information on the accounting policies applied. Movements in non-current investments are presented in movements in intangible assets, property, plant and equipment and non-current investments.

THE FINANCIAL STATEMENT RISK

In the financial statements of Klöckner & Co SE as at 31 December 2017, the balance sheet item ' non-current investments ' includes investments in affiliated companies of EUR 935 million. Investments in affiliated companies amount to a 60% portion of total assets and thus have a material effect on the presentation of the Company's net assets.

Financial assets are recognised at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company determines the fair value of investments in affiliated companies using the income approach.

The cash flows used for the for the income approach are based on budgets for each affiliate for the next three years, extrapolated based on assumptions for long-term growth rates. The respective capitalisation rate is derived from the return on a risk-equivalent alternative investment.

In light of continually increasing income forecasts, Klöckner & Co SE reversed impairments on investments in affiliated companies by an amount of EUR 145 million in the financial year.

Impairment testing including the calculation of the fair value according to the capitalised earnings method is complex and, as regards the assumptions made, based largely on estimates and assessments of the Company. This applies particularly for estimates of future cash flows and the determination of the capitalisation rate.

There is a risk for the financial statements that investments in affiliated companies are impaired.

OUR AUDIT APPROACH

First, we referred to explanations of the investment controlling department and assessed documentation to obtain an understanding of the Company's process for impairment testing of non-current investments that it holds. In doing this, we intensively analysed the Company's approach to determining a need for impairment and, based on the information obtained in the course of our audit, assessed whether there were indications of a need for impairment that had not been identified by the Company.

We then carried out procedures including an evaluation of the methodical approach to conducting impairment testing and an assessment of the computational accuracy of the model. We involved our valuation experts in the process of auditing the budget assumptions, auditing the parameters used for discount rates, and to assess the appropriateness of the valuation model. To this end, we analysed the peer group used for deriving the beta coefficient and also verified the risk-free interest rate and market risk premium derived from data provided by relevant central banks on yield curves for deriving the risk-free interest rate and market risk premium.

We discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning and assessed whether the projections underlying the valuations were based on appropriate and reasonable assumptions. To do this, we obtained clarification from the Company on these assumptions and the impact of strategic and operating activities on the projections.

To the extent possible, we confirmed the quality of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations. We also reconciled this information with internally available forecasts and with the budget prepared by the management board and approved by the supervisory board.

Finally, we discussed with the management board the measurements that had been established by Klöckner & Co SE and verified the accounting entry of the measurements derived from this.

OUR OBSERVATIONS

The approach used for impairment testing of non-current investments is appropriate and in line with the accounting policies. The assumptions and parameters used by the Company are appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

– the corporate governance statement, and
– the remaining parts of the annual report, with the exception of the audited annual financial statements, the audited consolidated financial statements and the combined management report and our auditor's reports.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and the management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of an internal control relevant to the audit of the financial statements and of the arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on 12 May 2017. We were engaged by the supervisory board on 8 January 2018. We have been the auditor of Klöckner & Co SE without interruption since the financial year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the separate financial statements, we have audited the consolidated financial statements of Klöckner & Co SE and performed various audits of annual financial statements af subsidiaries. We performed an audit review of the half-year financial report as an integrated element of the audit. Furthermore, we provided tax advisory services in the form of individual consultation and ongoing advisory on tax returns, as well as advisory in other German and international tax matters. We also provided project-related advisory services.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dr Markus Zeimes.

Düsseldorf, 23 February 2018

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. Zeimes
WIRTSCHAFTSPRÜFER [GERMAN PUBLIC AUDITOR]

Keisers
WIRTSCHAFTSPRÜFER [GERMAN PUBLIC AUDITOR]

Declaration of the Management Board

To the best of our knowledge and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Klöckner & Co SE, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Duisburg, February 23, 2018

MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Marcus A. Ketter
MEMBER OF THE MANAGEMENT BOARD

Karsten Lork
MEMBER OF THE MANAGEMENT BOARD

Jens M. Wegmann
MEMBER OF THE MANAGEMENT BOARD

Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner&Co SE

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent	
1	Klöckner & Co SE, Duisburg,Germany		
I.	Consolidated affiliated companies		
2	Klöckner & Co Financial Services S.A., Luxembourg, Luxembourg	100.00	
3	Klöckner Shared Services GmbH, Duisburg, Germany	100.00	
4	kloeckner.i GmbH, Berlin, Germany	100.00	
5	kloeckner.v GmbH, Berlin, Germany	100.00	
6	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00	
7	Kloeckner Metals Europe GmbH, Duisburg, Germany	100.00	
8	XOM Metals GmbH, Berlin, Germany	100.00	
9	Klöckner & Co Deutschland GmbH, Duisburg, Germany	100.00	
10	Klöckner Stahl und Metall Ges.m.b.H., Wien, Austria	100.00	
11	Kloeckner Metals Austria GmbH & Co. KG, Wien, Austria	51.00	
12	Metall- und Service-Center Hungária Kft., Budapest, Hungary	90.00	
13	Becker Stahl-Service GmbH, Duisburg, Germany	100.00	
14	Becker Stahl GmbH, Bönen, Germany	100.00	
15	Becker Besitz GmbH, Duisburg,Germany	100.00	
16	Umformtechnik Stendal GmbH, Stendal, Germany	100.00	
17	Becker Aluminium-Service GmbH, Duisburg, Germany	100.00	
18	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00	
19	Debrunner Acifer AG, St. Gallen, Switzerland	100.00	
20	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00	
21	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00	
22	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00	
23	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00	
24	Klöckner Stahl AG, St. Gallen, Switzerland	100.00	
25	Koenig Feinstahl AG, Sennwald, Switzerland	100.00	
26	Metall Service Menziken AG, Menziken, Switzerland	100.00	
27	Debrunner Acifer Bläsi AG, Bern, Switzerland	100.00	
28	BEWETEC AG, Oberbipp, Switzerland	100.00	
29	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00	
30	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00	
31	ODS B.V., Rotterdam, The Netherlands	100.00	
32	ODS Metals N.V., Antwerpen, Belgium	99.91	
		0.09	
33	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
34	ODS Metering Systems B.V., Barendrecht, The Netherlands	100.00	
	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	99.00	
35		1.00	
36	ODS METERING SYSTEMS ASIA Pacific PTE. LTD., Singapore, Singapore	100.00	
37	ODS Middle East FZE, Dubai, UAE	100.00	
38	ODS Saudi Arabia LLC, Dammam, Saudi Arabia	90.00	

1) Profit and loss transfer agreement. Subsidiaries made use of the exemption provided in Section 264 (3) and Section b of the German Commercial Code (HGB).

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	1	EUR	3,127,492.83	164,979.45		-
	1	EUR	100,000.00	-	1)	33,390,619.90
	1	EUR	100,000.00	2,876.95	1)	7,793,245.32
	1	EUR	100,000.00	-	1)	-
	1	EUR	24,577.00	-	1)	-
	1	EUR	69,889.06	-	1)	23,243,758.58
	1	EUR	4,630,785.22	-369,214.78		-
	1	EUR	37,084,475.42	16,006,078.08	1)	942,278,384.10
	9	EUR	2,086,263.96	1,374,588.90		-
	10	EUR	12,548,269.22	2,338,665.90		104,305,690.73
	11	EUR	13,572.01	219,188.52		-
	1	EUR	81,473,763.43	-	1)	860,114,283.48
	13	EUR	597,887.48	-	1)	8,720,594.84
	1	EUR	25,000.00	-	1)	-
	13	EUR	4,467,470.64	-	1)	20,767,567.63
	13	EUR	100,000.00	-	1)	4,947,547.30
	1	EUR	186,866,233.25	22,201,351.97		-
	18	EUR	92,787,826.26	5,017,927.56		499,020,306.95
	18	EUR	7,654,234.73	-452,932.83		44,352,606.99
	18	EUR	6,878,280.06	183,296.51		28,684,132.29
	18	EUR	22,723,033.05	1,331,018.03		138,160,402.77
	18	EUR	4,574,114.69	89,163.80		-
	18	EUR	97,535.31	-692.14		-
	18	EUR	13,074,045.16	6,210,097.42		-
	18	EUR	9,698,176.61	788,522.55		86,406,087.09
	18	EUR	23,925,294.58	1,466,879.83		55,850,997.36
	18	EUR	97,001,267.49	7,260,727.57		147,658,320.96
	1	EUR	32,775,215.57	-815,793.99		-
	1	EUR	25,954.78	-23,256.16		-
	29	EUR	26,542,774.68	3,581,139.95		156,106,525.86
	31	EUR	3,980,739.60	-11,495.15		13,005,616.92
	29		0.00	-		-
	31	EUR	0.00	-		-
	31	EUR	11,609,470.45	931,319.48		20,102,386.04
	31		1,066,281.96	80,465.53		1,437,921.67
	29	EUR	0.00	-		-
	34	EUR	187,746.12	10,253.61		-
	34	EUR	2,897,461.67	51,344.00		5,925,180.63
	31	EUR	-32,468.04	-218,455.69		159,852.67

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent	
39	Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom	100.00	
40	Kloeckner Metals UK Ltd., Leeds, Großbritannien	100.00	
41	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
42	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
43	ASD Westok Limited, Leeds, United Kingdom	100.00	
44	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
45	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
46	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
47	Kloeckner Metals France S.A., Aubervilliers, France	99.31	
48	KDI S.A.S., Aubervilliers, France	100.00	
49	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
50	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
51	Prafer S.A.S., Woippy, France	100.00	
52	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
53	AT2T Acier Transforme Targe Tournier S.A.S., La Grand-Croix, France	100.00	
54	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
55	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
56	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
57	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
58	Kloeckner Metals Corporation, Wilmington, Delaware, USA	100.00	
59	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
60	Kloeckner Metals P.R. Inc., Wilmington, Delaware, USA	100.00	
61	California Steel & Tube LLC, Wilmington, Delaware, USA	100.00	
62	Kloeckner Metals de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
63	Kloeckner Metals Servicios de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
64	American Fabricators Inc., Nashville, Tennessee, USA	100.00	
65	Kloeckner Metals Relief Fund, Inc., Wilmington, Delaware, USA	100.00	
66	KLOECKNER METALS BRASIL S.A., São Paulo, Brazil	100.00	
67	Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil	99.99	
		0.01	

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	1	EUR	2,985,092.73	-6,567,435.80		-
	39	EUR	29,423,675.12	-2,678,719.32		265,209,885.13
	39	EUR	22,542.07	-		-
	39	EUR	114.96	-		-
	39	EUR	8,417,013.27	775,249.04		20,504,121.12
	39	EUR	20,964,142.00	1,178,370.00		-
	39	EUR	-	-		-
	44	EUR	-	-		-
	1	EUR	164,392,887.56	-3,423,470.30		-
	47	EUR	9,290,374.00	-9,839,533.00		476,985,388.00
	48	EUR	-3,008,114.53	-4,103,751.22		34,182,198.00
	48	EUR	72,106,846.00	4,000,843.00		11,699,143.00
	48	EUR	2,937,369.34	34,667.67		5,476,766.72
	48	EUR	4,484,479.00	173,882.00		25,963,462.00
	48	EUR	3,201,757.81	103,903.00		33,560,361.00
	47	EUR	10,788,300.00	315,713.00		38,550,326.00
	1	EUR	11,897,696.87	-330,675.98		45,366,118.59
	9		-	-		-
	1	EUR	106,119,535.40	33,943.73		-
	56	EUR	246,882,880.41	-		-
	57	EUR	15,051,177.45	18,295,690.24		2,296,410,460.26
	58	EUR	-	-		-
	58	EUR	454,709.29	93,808.10		992,004.43
	58	EUR	154,953.31	104,875.06		26,544,188.44
	58	EUR	15,084,989.76	2,774,088.05		56,663,076.02
	58	EUR	53,067.59	2,042.38		0.00
	58	EUR	30,844,491.50	2,016,754.51		25,740,719.14
	58	EUR	-	-		-
	29	EUR	10,173,021.22	-921,565.80		36,215,445.49
	66	EUR	20,304.99	-4,851.17		1,481.04
	29		-	-		-

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
II.	Non-consolidated affiliated companies	
68	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00
69	Reynolds Aluminium et Laiton, Paris, France	100.00
		-
III.	Associates	-
70	Birs-Stahl AG, Birsfelden, Switzerland*)	50.00

*) Accounted for at amortized cost.

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	16	EUR	184,529.12	17,448.31	2)	42,863.88
	47	EUR	66.00	-3,110.00		-
	-		-	0.00		-
	-		-	0.00		-
	19	EUR	825,790.68	19,495.25	2)	1,048,966.78

2) Based on financial statements dated December 31, 2016.

Listing pursuant to Section 160 (1) No. 8 of the German Stock Corporations Act (AktG)

For further information on the ownership structure of Klöckner & Co SE and all publications by Klöckner & Co SE on notifications of shareholdings in the reporting year, together with later notifications, please see the Klöckner & Co SE website (at http://www.kloeckner.com/en/shares.html and http://www.kloeckner.com/en/voting-rights.html).

Notifier	Registered office/Country	Notification threshold	Date on which threshold was crossed or reached	Total positions in % (absolute figure/total number of voting rights)	Voting rights	Instruments
Dimensional Holdings Inc.	Austin, Texas, USA	3% (Overrun of threshold)	February 2, 2012	3.06% (3,056,785/99,750,000)		
Dimensional Fund Advisors LP	Austin, Texas, USA	3% (Overrun of threshold)	February 2, 2012	3.06% (3,056,785/99,750,000)		
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	5% (Overrun of threshold)	March 14,2014	5.35% (5,335,930/99,750,000)		
Franklin Mutual Series Funds	Wilmington, Delaware, USA	3% (Overrun of threshold)	March 2, 2015	3.07% (3,062,430/99,750,000)		
SWOCTEM GmbH [1)]	Haiger, Germany	25% (Overrun of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Prof. Dr. Friedhelm Loh [2)]	Germany	25% (Overrun of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
BlackRock, Inc. [3)]	Wilmington, DE, USA	5% (Shortfall below threshold)	May 22, 2017	4.94%	2.87% (2,860,338)	2.08%
Ministry of Finance on behalf of the State of Norway [4)]	Oslo, Norway	3% (Shortfall below threshold)	May 23, 2017	3.51%	2.77% (2,764,232)	0.74% (740,780)
Federated Global Investment Management Corp.	Wilmington, DE, USA	3% (Overrun of threshold)	August 16, 2017	3.0129% (3,005,321/99,750,000)	3.0129% (3,005,321)	

1) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
2) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
3) For the full chain of controlled undertakings stated in the notification, please see our publication of May 26, 2017 pursuant to Section 26 (1) WpHG o.v..
4) For the full chain of controlled undertakings stated in the notification, please see our publication of May 24, 2017 pursuant to Section 26 (1) WpHG o.v..

Voting rights attached to shares in % or absolute figures (as notified)		Financial instruments according to Section 38 WpHG (if notified)		Attribution provision of WpHG (as in force at time of notification)	Names of sharehold-ers with 3% or more voting rights (if different from notifier)
direct	indirect	Sec. 38 (1) No 1 WpHG	Sec. 38 (1) No 2 WpHG		
	3.06% (3,056,785)			Sec 22 (1) No 6 WpHG o.v.	
	3.06% (3,056,785)			Sec 22 (1) No 6 WpHG o.v.	
	5.35% (5,335,930)			Sec 22 (1) No 6 WpHG o.v.	Franklin Templeton Investment Funds
3.07% (3,062,430)					
25.245604% (25,182,490)					
	25.245604% (25,182,490)			Sec 22 WpHG o.v. (now: Sec 34 WpHG)	SWOCTEM GmbH
	2.87% (2,860,338)	Lent Securities 0.20% (199,450)	Contract for Difference/Cash settlement 1.88% (1,872,640)	Sec 22 WpHG o.v. (now: Sec 34 WpHG)	
	2.77% (2,764,232)	Shares on Loan (right to recall) 0.74 % (740,780)		Sec 22 WpHG o.v. (now: Sec 34 WpHG)	Norges Bank
	3.0129% (3,005,321)			Sec 22 WpHG o.v. (now: Sec 34 WpHG)	

Additional information concerning the consolidated and individual financial statements

Information on additional mandates of the Members of the Management Board of Klöckner & Co SE (Section 285 no. 10 German Commercial Code (HGB – Handelsgesetzbuch)

Gisbert Rühl

CHAIRMAN OF THE MANAGEMENT BOARD

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner USA Holding Inc., Wilmington/USA, Chairman of the Board of Directors
- Klöckner Namasco Holding Corporation, Wilmington/USA, Chairman of the Board of Directors

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- RWE Power AG, Essen, Member of the Supervisory Board

Marcus A. Ketter

MEMBER OF THE MANAGEMENT BOARD, CFO

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Member of the Board of Directors (until January 27, 2017)
- Kloeckner Metals Iberica S.A., Madrid/Spain, Member of the Board of Directors (until January 27, 2017)
- Klöckner Metals France S.A., Aubervilliers/France, Member of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- ODS Metering Systems B.V., Rotterdam/Niederlande, Member of the Supervisory Board (since May 21, 2017)
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- BigRep GmbH, Berlin, Member of the Advisory Board (since April 20, 2017)

Karsten Lork

MEMBER OF THE MANAGEMENT BOARD (UNTIL FEBRUARY 28, 2018)

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board (until December 31, 2017)
- Klöckner Participaciones S.A., Madrid/Spain, Chairman of the Board of Directors (until January 27, 2017)
- Kloeckner Metals Iberica S.A., Madrid/Spain, Chairman of the Board of Directors (until January 27, 2017)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (until December 31, 2017)
- BEWETEC AG, Oberbipp/Schweiz, Chairman of the Board of Directors (until December 31, 2017)
- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (until December 31, 2017)
- ODS Metering Systems B.V., Rotterdam/ The Netherlands, Member of the Supervisory Board (May 21, 2017 until December 31, 2017)
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China, Chairman of the Supervisory Board (until November 15, 2017)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

William A. Partalis

MEMBER OF THE MANAGEMENT BOARD (UNTIL DECEMBER 31, 2017)

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Jens M. Wegmann

MEMBER OF THE MANAGEMENT BOARD (SINCE DECEMBER 1, 2017)

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board (since January 1, 2018)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (since January 3, 2018)
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board (since January 23, 2018)
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Member of the Supervisory Board (since January 23, 2018)
- Kloeckner Metals France S.A., Aubervilliers/France, Chairman of the Supervisory Board (since January 18, 2018)
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors (since January 1, 2018)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Additional mandates of the Members of the Supervisory Board of Klöckner & Co SE (Section 285 no. 10 HGB)

Prof. Dr. Dieter H. Vogel, Chairman

MANAGING PARTNER, LINDSAY GOLDBERG VOGEL GMBH, DÜSSELDORF, GERMANY

- Bertelsmann Verwaltungsgesellschaft mbH, Member of the Steering Committee[2)] (until December 31, 2017)
- denkwerk GmbH, Member of the Advisory Board[2)]
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]

Group Mandates Lindsay Goldberg Fonds:

- VDM Metals GmbH, Deputy Chairman of the Supervisory Board[1)]
- VDM Metals Holding GmbH, Deputy Chairman of the Advisory Board[2)]
- Schur Flexibles Holding GesmbH, Austria, Member of the Advisory Board [2)] (since January 25, 2017)

Ulrich Grillo, Deputy Chairman (until May 12, 2017)

CHAIRMAN OF THE MANAGEMENT BOARD, GRILLO-WERKE AG, DUISBURG, GERMANY

- Rheinmetall AG, Chairman of the Supervisory Board[1)] (since May 9, 2017)
- Innogy SE, Member of the Supervisory Board[1)]

Group Mandates Grillo-Werke AG:

- Grillo Zinkoxid GmbH, Member of the Administrative Board [2)]
- RHEINZINK GmbH & Co. KG, Member of the Administrative Board [2)]
- Zinacor S.A., Belgium, Member of the Board of Managers[2)]

Uwe Roehrhoff, Deputy Chairman (since May 12, 2017)

CEO AND PRESIDENT OF THE BOARD OF DIRECTORS PERRIGO COMPANY PLC, DUBLIN, IRELAND (SINCE JANUARY 15, 2018)

- Catalent, Inc., USA, Member of the Board of Directors[2)] (until February 5, 2018)

Group Mandates Gerresheimer AG: (until August 31, 2017)

- Gerresheimer Tettau GmbH, Chairman of the Supervisory Board [1)]
- Gerresheimer Regensburg GmbH, Chairman of the Supervisory Board [1)]
- Gerresheimer Glass Inc., USA, Chairman of the Supervisory Board[2)]
- Gerresheimer Momignies S.A., Belgium, Chairman of the Supervisory Board[2)]
- Gerresheimer Queretaro S.A., Mexico, Chairman of the Administrative Board[2)]
- Gerresheimer Shuangfeng Pharmaceutical Glass (Danyang) Co. Ltd., China, Chairman of the Supervisory Board [2)]
- Gerresheimer Shuangfeng Pharmaceutical Packaging (Zhenjiang) Co. Ltd., China, Chairman of the Supervisory Board[2)]
- Corning Pharmaceutical Packaging LLC, USA, Member of the Board of Directors[2)]
- Neutral Glass and Allied Industries Pvt. Ltd., India, Member of the Board of Directors[2)]

Prof. Dr. Karl-Ulrich Köhler

CEO, RITTAL INTERNATIONAL STIFTUNG & CO. KG AND CHAIRMAN OF THE MANAGEMENT BOARD OF RITTAL GMBH & CO. KG, HERBORN, GERMANY

– None

Prof. Dr. Tobias Kollmann

CHAIR OF E-BUSINESS AND E-ENTREPRENEURSHIP AT THE UNIVERSITY OF DUISBURG-ESSEN, GERMANY

– Mountain Partners AG, Switzerland, Member of the Board of Directors[2)]

Prof. Dr. Friedhelm Loh

ENTREPRENEUR, OWNER AND CHAIRMAN OF FRIEDHELM LOH STIFTUNG & CO. KG, HAIGER, GERMANY

– Deutsche Messe AG, Member of the Supervisory Board[1)]
– KUKA Aktiengesellschaft, Member of the Supervisory Board[1)] (until January 20, 2017)
– Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Senator[2)]

Group Mandates Friedhelm Loh Group:
– Rittal Corporation, USA, Chairman of the Board[2)]
– Rittal Electrical Equipment (Shanghai) Co. Ltd., China, Legal Representative and Chairman of the Board[2)] (until November 16, 2017)
– Rittal Electro-Mechanical Technology (Shanghai) Co. Ltd., China, Legal Representative and Chairman of the Board[2)]

Dr. Hans-Georg Vater (until May 12, 2017)

FORMER MEMBER OF THE MANAGEMENT BOARD, HOCHTIEF AKTIENGESELLSCHAFT, ESSEN,GERMANY

– None

Ute Wolf (since May 12, 2017)

CFO OF EVONIK INDUSTRIES AG, ESSEN, GERMANY

– Deutsche Asset Management Investment GmbH, Member of the Supervisory Board[1)]
– Pensionskasse Degussa VVaG, Member of the Supervisory Board[1)]

Group Mandates Evonik Industries AG:
– Evonik Nutrition & Care GmbH, Member of the Supervisory Board[1)]
– Evonik Resource Efficiency GmbH, Member of the Supervisory Board[1)]
– Evonik Performance Materials GmbH, Member of the Supervisory Board[1)]

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).

Glossary

Asset-Backed Securitization Programs (ABS Programs)

Group finance programs under which Klöckner trade receivables are converted into cash. Asset-backed securities are generally issued by a special-purpose entity, which are collateralized by an asset portfolio (i.e., Klöckner trade receivables). Within the program specified trade receivables are sold to special-purpose entities that are established for this purpose. The sole purpose of the special-purpose entities is to purchase receivables of Klöckner Group companies and to refinance such purchases by issuance of securities. As the programs do not meet criteria under the respective accounting standards, the legally transferred receivables are not derecognized from the Group's balance sheet, but the funds received are presented as loans due to the purchasers of the receivables.

Asset-Based-Lending

Loan agreement under which the credit default risk is secured by the lender's assets (generally accounts receivable, inventory or property, plant and equipment).

Cap

With a cap derivative financial instrument floating rate interest payments on bond liabilities can be limited to a defined maximum rate. If the maximum amount is exceeded, compensating payments in the amount of the difference between the maximum interest rate and the actual interest rate are made to the holder of the instrument.

Cash Flow Hedge

A hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognized asset or liability, such as all or some future interest payments on variable rate debt or a highly probable forecast transaction that could affect profit or loss. If the hedge is considered highly effective, income effects of such instruments can be directly recorded in equity bypassing the income statement.

Conduits

Conduits are special-purpose entities of banks in ABS programs that refinance themselves on the money market based on the purchase of receivables.

Contract

An agreement, normally in writing, between at least two parties. A contract generally comprises a number of clauses setting down the goods to be supplied, date and place of delivery as well as payment terms. It may also include a fixed quantity to be purchased at a fixed price in a specific period.

Counterparty risk

Counterparty risk is the risk that a professional market participant defaults, i.e., is not paying its obligation when they become due. In addition to the regular credit risk it also includes in particular default risks of derivative financial instruments.

Cross Currency Swap

Foreign exchange agreement between two parties to exchange a principal amount and the respective periodic interest payment of one currency for another and, after a specified period of time, to transfer back the original amounts swapped.

Derivative Financial Instrument

Contractual agreement based on an underlying value (e.g., reference interest rate, securities prices, foreign exchange rates) and a nominal amount. Little or no payment is necessary at the time the agreement is concluded.

Design Thinking

An approach aimed at resolving problems and developing new ideas. The goal is to find solutions that work best from a user / customer perspective. The development process is generally carried out in heterogeneous groups and includes the following phases: understanding, observation, synthesis, idea development, creating a prototype and testing.

Dilution

Describes the reduction in amount earned per share in an investment due to an increase in the total number of shares (e.g., due to convertible bonds). As the number of shares outstanding increases the proportional share embodied in each share decreases (i.e., dilutes).

Discounted Cash Flow Method (DCF)
Valuation technique used to estimate the value of individual assets or group of assets. Under the approach all future cash flows are discounted to their present value as of the valuation date. The interest rate is determined using the Capital Asset Pricing Model (CAPM), a widely known approach in the financial asset portfolio theory.

Disruption
Innovation with the potential to replace existing technologies, products or services. Example of a disruptive technology: digital photography which almost completely replaced analog cameras.

EBIT
Earnings before interest and taxes is a metric that is used to evaluate profitability.

EBITDA
Earnings before interest, taxes, depreciation and amortization (EBITDA) is a metric that is used to evaluate profitability.

E-commerce
Electronic commerce, in most cases using the Internet.

ERP System
The abbreviation for Enterprise Resource Planning. An IT system that supports company-wide resource planning (e.g. storage, logistics, human resources).

Fair Value
The price at which assets, liabilities and derivative financial instruments are transferred from a willing seller to a willing buyer, each having access to all the relevant facts and acting freely.

Foreign Currency Swap
Financial instrument that combines a spot of foreign exchange transaction and a forward foreign exchange transaction.

Free Cashflow
Sum of cash inflows/outflows from operating activities and cash inflow/outflows from investing activities. Measure to assess financial funds generated to repay financial debt or pay dividends to shareholders.

Goodwill
Goodwill represents the amount by which an acquirer of a business is willing to pay in excess of all tangible and intangible less identifiable liabilities taking into consideration further earning potential.

Impairment
Additional depreciation or amortization for non-current assets with definite useful lives or only an acceptable method to reduce (“impair”) the value of assets with indefinite useful lives in case of other than temporary decline of value. See also “Impairment Test.”

Impairment Test
Test to assess the recoverable value for long-lived assets including goodwill. IFRS requires periodic assessment as to whether there are indications for other than temporary declines in value of long-lived assets. An impairment test is to be performed if internal or external indications for impairment arise. Regardless of such indications goodwill must be tested annually. In an impairment test the carrying amount of an asset is compared with its recoverable amount. If the recoverable amount is below the asset’s carrying amount an impairment is recognized for the amount of the difference.

Inbound logistics
All aspects of supply chain management relating to transportation, stockholding and delivery of goods entering the business.

Industry 4.0
Stands for the complete digitalization and integration of the industrial value chain. The integration of information and communication technology with automation technology to form the Internet of Things and Services enables ever greater degrees of networking within and between manufacturing facilities, from suppliers through to customers.

Interest Rate Swap
An interest rate swap is a derivative in which one party exchanges a stream of interest payments (fixed or variable) for another party’s stream of cash flows.

International Financial Reporting Standards (IFRS)
Under regulations No. 1606/2002 passed by the European Parliament and the European Council as of July 19, 2002, capital-market-oriented companies in the EU such as Klöckner & Co must apply IFRS for compiling their financial statements. Those standards encompass the statements issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) and the respective interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as well as the interpretations of the former Standing Interpretations Committee (SIC).

Lean startup
Approach for establishing a successful company or the launch of new products and services with the least possible effort and expense and using streamlined processes. Key features of the method include short development cycles and early market testing, i.e. strong focus on actual customer benefit throughout the development process.

Leasing
Method of financing investments whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Minimum viable product (MVP)
A minimum viable product (MVP) is one limited to features absolutely necessary to it. Such a product is typically first used by a small group of early adopters. Attempts are then made to determine user satisfaction through usability tests and by observing customers as they use the product. The resulting data and analyses conducted are subsequently used in the product's further development.

Monte Carlo Simulation
Approach to calculate option values (e.g., virtual stock options). The price of the underlying share is calculated as statistical movement based on a large number of simulations. The individual simulations provide an expected payout to the plan participants based on the individual option agreement. The fair value of a virtual stock option is equal to the present value of the expected payout (average amount).

Multi-currency Revolving Credit Facility
Line of credit that has been issued by a number of participating banks by way of syndication with an initial term of three years allowing Klöckner & Co to draw funds in various amounts, currencies and maturities. This line of credit is primarily used for general-purpose financing.

Net Financial Debt
Net balance of cash and cash equivalents and financial liabilities.

Net investment hedge
A net investment hedge is used to hedge a net investment including long-term loans in a foreign operation.

Option
The right to buy or sell an underlying asset (e.g., securities) on a specific day or during a specified period of time at a predetermined price from or to a counterparty or seller.

Outbound logistics
All aspects of supply chain management relating to transportation, stockholding and delivery of goods leaving the business.

Physical Vapor Deposition (PVD)
Innovative process capable of improving the surface characteristics of various materials.

Processing
Machining of steel and metal products, such as sawing, plasma and flame cutting, 3D laser cutting, sandblasting, priming and bending.

Prototype
"Test model"; redesign of a product or service.

Regular-way Contracts
A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Startup
A young business with two special characteristics: It has an innovative business idea and is launched with the aim of rapid growth.

Venture Capital
Temporary capital investments in young, innovative, non-listed companies with above-average growth potential.

Working Capital
Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.

Important Addresses

Global Headquarters

Klöckner & Co SE
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Fax: +49 203 307 5000

Management Board:
- Gisbert Rühl (Chairman)
- Marcus A. Ketter
- Jens M. Wegmann

Operative Companies

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Kloeckner Metals Austria Gmbh & Co KG
Percostr. 12
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Kloeckner Metals
Keizersstraat 50
8530 Harelbeke
Belgium
Telephone: +32 56 2680 80

Brazil
Kloeckner Metals Brasil S.A.
Corporate Headquarters
Rua Dianópolis, 122 - 1o andar
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France
Kloeckner Metals France S.A.
173-179, bd Félix-Faure
93537 Aubervilliers Cedex
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Kloeckner Metals Corporation
Corporate Headquarters
500 Colonial Center Parkway, Suite 500
Roswell, GA 30076
USA
Telephone: +1 678 259 8800

Disclaimer

This report (particularly the "Forecast" section) contains forward-looking statements which reflect the current views of the management of Klöckner & Co SE with respect to future events. They generally are designated by the words "expect", "assume", "presume", "intend", "estimate", "strive for", "aim for", "plan", "will", "endeavor", "outlook" and comparable expressions and generally contain information that relates to expectations or goals for economic conditions, sales proceeds or other yardsticks for the success of the enterprise. Forward-looking statements are based on currently valid plans, estimates and expectations and are therefore only valid on the day on which they are made. You therefore should consider them with caution. Such statements are subject to numerous risks and factors of uncertainty (e.g. those described in publications) most of which are difficult to assess and which generally are outside of 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 and factors of uncertainty occur or if the assumptions on which the statements are based turn out to be incorrect, the actual results of Klöckner & Co SE can deviate significantly from those that are expressed or implied in these statements. Klöckner & Co SE cannot give any guarantee that the expectations or goals will be attained. Klöckner & Co SE – notwithstanding existing legal obligations – rejects any responsibility for updating the forward-looking statements through taking into consideration new information or future events or other things.

In addition to the key figures prepared in accordance with IFRS and German-GAAP respectively, Klöckner & Co SE is presenting non-GAAP key figures such as EBITDA, EBIT, Net Working Capital and net financial liabilities that are not a component of the accounting regulations. These key figures are to be viewed as supplementary to, but not as a substitute for data prepared in accordance with IFRS. Non-GAAP key figures are not subject to IFRS or any 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 calculated in accordance with the relevant accounting principles. Other companies may base these concepts upon other definitions. Please refer to the definitions in this annual report.

Rounding
There may be rounding differences with respect to the percentages and figures in this report.

Variances to the German version
Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this Annual 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 Annual Report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Evaluating statements
Evaluating statements are unified and are presented as follows:

+/- 0-1%	constant, stable
+/- >1-5%	moderate, slight
+/- >5-10%	measurable, noticeable, substantial
+/- >10-15%	considerable, dynamic, significant
+/- >15%	sharp, strong.

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FINANCIAL CALENDAR 2018

February 28, 2018
Annual Financial Statements 2017
Financial statement press conference
Conference Call with analysts

April 25, 2018
Q1 interim management statement 2018
Conference Call with journalists
Conference Call with analysts

May 16, 2018
Annual General Meeting 2018, Düsseldorf

July 24, 2018
Q2 interim report 2018
Conference Call with journalists
Conference Call with analysts

October 24, 2018
Q3 interim management statement 2018
Conference Call with journalists
Conference Call with analysts

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