ANNUAL REPORT 2018

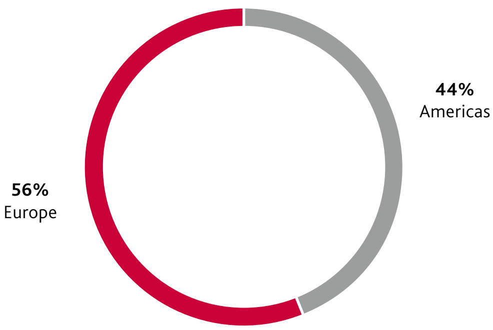
klöckner & co

Key figures
Klöckner & Co SE

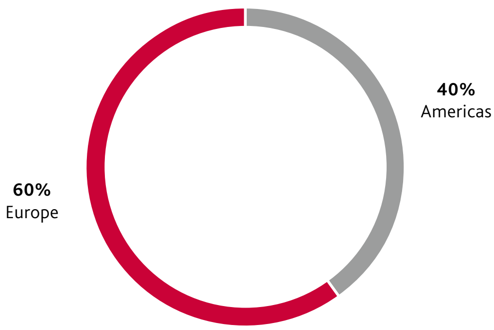
in € million		2018	2017	2016	2015	2014	Change 2018–2017
Shipments	Tto	6,107	6,135	6,149	6,476	6,598	–28
Sales		6,790	6,292	5,730	6,444	6,504	+498
EBITDA before material special effects		229	220	196	86	191	+9
EBITDA		227	220	196	24	191	+7
EBIT		141	130	85	–350	98	+11
EBT		107	97	52	–399	39	+10
Net income		69	102	38	–349	22	–33
Earnings per share (basic)	€	0.68	1.01	0.37	–3.48	0.22	–0.33
Earnings per share (diluted)	€	0.66	0.96	0.37	–3.48	0.22	–0.30
Cash flow from operating activites[1]		60	79	73	276	68	–19
Cash flow from investing activities		–59	2	–52	–85	–132	–61
Free cash flow		1	81	21	191	–64	–80
Liquid funds		141	154	134	165	316	–13
Net working capital		1,229	1,132	1,120	1,128	1,321	+97
Net financial debt		383	330	444	385	472	+53
Equity ratio	%	41.9	41.7	39.6	39.2	39.4	+0.2%p
Balance sheet total		3,061	2,886	2,897	2,841	3,629	+175
Employees as of December, 31		8,579	8,682	9,064	9,592	9,740	–103

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

SHIPMENTS BY SEGMENTS IN 2018



SALES BY SEGMENTS IN 2018



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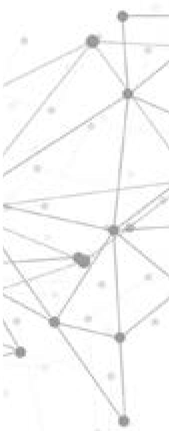


>100,000
CUSTOMERS

€ 6,790 m
SALES

€ 227 m
EBITDA

6,107 Tt
SHIPMENTS

~8,600
EMPLOYEES

€ 2.741 m
SALES AMERICAS

€ 0.30
DIVIDEND PER SHARE[1)]

€ 69 m
NET INCOME

25%
DIGITAL SALES BY Q4 2018

€ 4,049 m
SALES EUROPE

~160
LOCATIONS

~60
MAIN SUPPLIERS

[1)] Proposal to the Annual general Meeting on May 15, 2019.

Gisbert Rühl

Dear Shareholders,
Ladies and Gentlemen,

In the past fiscal year, we succeeded in increasing our operating income (EBITDA) for the third time in a row, to €227 million, following the €220 million achieved in the prior year. While net income at €69 million fell short of the prior-year figure of €102 million, which was buoyed by tax-related one-off effects, we will nevertheless propose to our shareholders at the Annual General Meeting on May 15, 2019 a dividend of €0.30 per share for the 2018 fiscal year, on a par with the prior-year dividend.

But we are not yet satisfied with this. We aim to achieve a good deal more with our "Klöckner & Co 2022" strategy, especially in terms of the digitalization of our supply and value chain. We have again made significant progress in this regard. The online shops developed by our digital unit kloeckner.i have gone live in six countries and grew during the period under review to become online marketplaces. So we are no longer selling just our own products this way; some 30 third-party suppliers have already come on board to offer their complementary products as well. This lets Klöckner customers access a significantly wider range of steel and metal products without our having to invest in additions to our product portfolio.

We went further still with the XOM Materials industry platform which, unlike the Klöckner marketplaces, is also open to our direct competitors. This is certainly an unusual step. So you are probably wondering why we have taken it. Why, in addition to our Klöckner marketplaces, are we offering a platform where our competitors can also sell their products? Because we consistently consider the customer's perspective. When customers want to buy specific products or special processing services from Klöckner, our digital Klöckner marketplaces give them the perfect way to do that. But what if customers want the most efficient way to compare prices for standard products? In that case, they are better served by XOM Materials because it gives them online access to offerings from any number of vendors. It doesn't get any better or more efficient than that.

From the outset, we were positive that our Klöckner marketplaces and XOM Materials alike would deliver major benefits for customers. They are also helping us drive digitalization forward and tap into new lines of business.

Although we are still in the early stages of this development, we have already made great strides. For instance, we increased our quota of online sales to an impressive 25% of total sales in the fourth quarter of 2018, up from 17% in the prior-year quarter, and had already transacted over €5 million worth of business through XOM Materials by the end of last year.

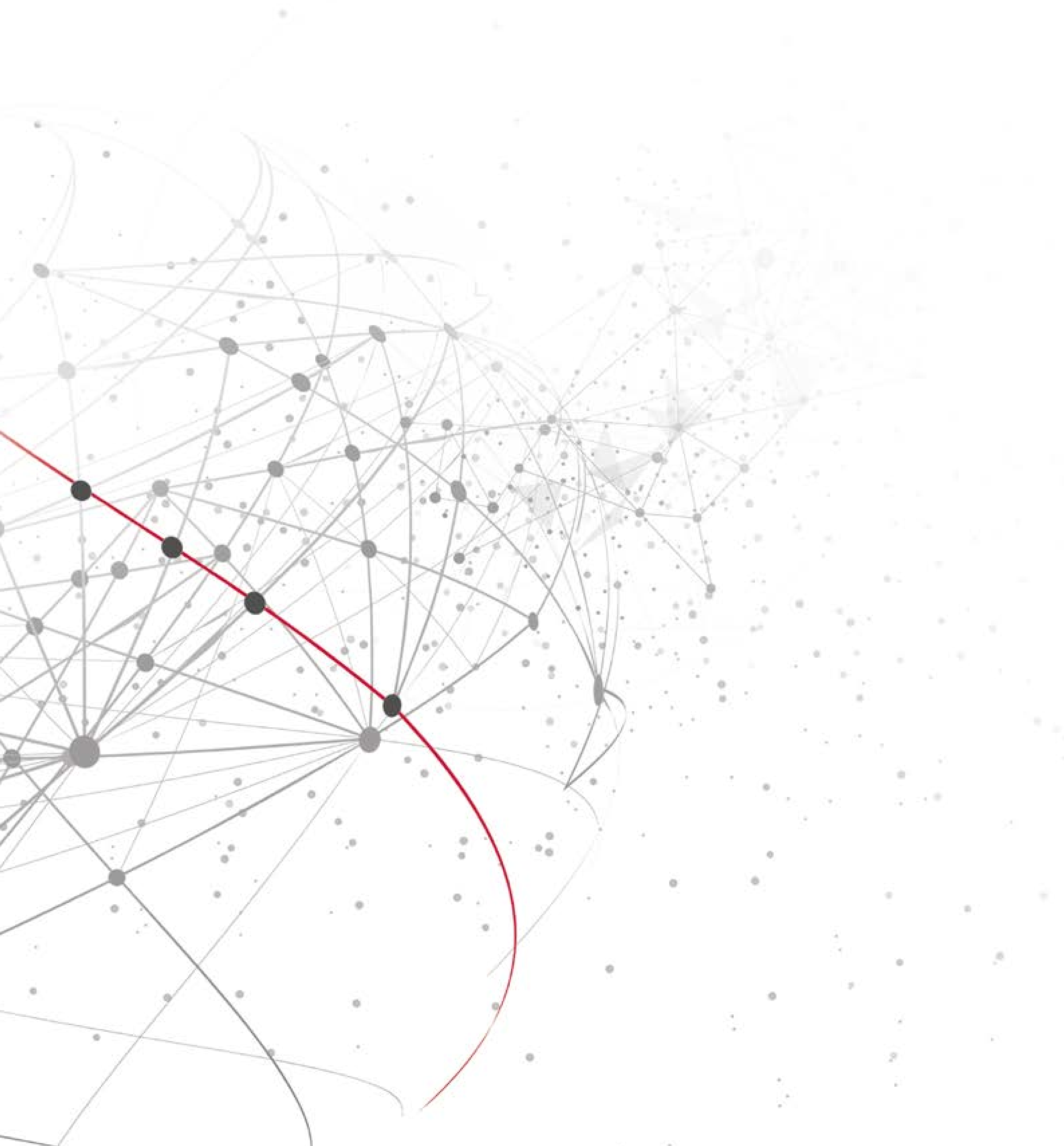
We are continuing to make good headway not only with the expansion of our digital business but also with the related cultural transformation. For instance, over 5,000 of our roughly 8,600 employees now use our internal social network Yammer to communicate hierarchy-free. On top of that, more than 1,200 people have voluntarily completed our online courses on digital topics. And the agile work methods kloeckner.i is promoting in our Company are gaining more and more traction. That is making us faster and more agile all the time, which is a key competitive edge in times of an ever more rapidly changing business environment.

Thanks to its in-depth experience with digital transformations, kloeckner.i will begin offering consulting services to external companies in 2019. This represents yet another unusual step for a traditional company to take.

But unusual steps are called for in order to make Klöckner and our share price less dependent on economic fluctuations. Increasing the proportion of sales we generate through higher value-added products and services, plus our VC^2 efficiency enhancement program, will not be sufficient to get the job done. This is strikingly clear against the backdrop of the past fiscal year. We recorded the best operating income in eight years, while our shares periodically dropped to their lowest level since 2009. By digitalizing our supply and value chain and setting up XOM Materials, we have given ourselves the opportunity to improve our situation fundamentally and free ourselves long-term from steel price fluctuations over which we have no control.

This transformation is supported by our employees, so I would like to express my gratitude to each and every one of them for their outstanding efforts. My thanks also go out to you, our shareholders, for your trust and loyalty. We will continue to forge ahead with this transformation, which should eventually also make itself felt in a lasting improvement in our share price performance.

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/Personnel & Insurances. 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 May 15, 2019. He is functionally responsible for the headquarter departments Corporate Accounting, Corporate Controlling/Risk Management/Information Security, 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 all Group Operations including North and South America, Europe, Switzerland as well as for the departments Digital Supply Chain, Procurement and Advanced Development & Innovation.

Report of the Supervisory Board

During the year under review, the Supervisory Board performed with due care the tasks required by law, the Company's Articles of Association and by Rules of Procedure. 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 or 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 regular 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, corporate strategy and the performance of the Klöckner & Co share price. Risk exposure, risk management and compliance are also covered in detail. The fall meeting focused on corporate strategy. Additionally, the corporate strategy and its implementation were addressed at every Supervisory Board meeting in the year under review. In all instances, the Supervisory Board was supplied with comprehensive 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. Written Management Board reporting again centered on the detailed monthly Board Reports in the year under review. Independently of this, the CEO, in some instances together with another member of the Management Board or the entire 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. The Supervisory Board has established two committees to carry out its duties: an Executive Committee and an Audit Committee, each with three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Ralph Heck (since May 16, 2018; 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 management and/or supervisory bodies 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. Dieter H. Vogel (Chairman), Dr. Ralph Heck and Prof. Dr. Friedhelm Loh. The Executive Committee also carries out the functions of a Personnel Committee and a Nomination Committee. The Audit Committee comprises 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 further meets the requirements of Section 5.3.2 (3) of the Code. At the plenary meetings, the committee chairpersons reported regularly and in-depth on the topics dealt with and the outcomes of the committee meetings. Where permitted by law, certain decision-making powers have been delegated to the committees.

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. The meetings of the Executive Committee were attended by the CEO, and those of the Audit Committee by the CFO.

Meeting attendance

The Supervisory Board held a total of four plenary meetings in fiscal year 2018, including one in the form of a conference call. In addition, written resolutions were adopted as follows (the date stated in each case being the date of confirmation of the resolution by the Chairman of the Supervisory Board): The amendment of Jens Wegmann's Management Board service contract (limited reimbursement of flights home) was approved on March 20, 2018, and the engagement of consultants in connection with ongoing projects and Company programs on July 19, 2018. The Executive Committee held three meetings, including one conference call, in the year under review. The Audit Committee met four times in fiscal year 2018. Three of those meetings involved discussion of the half-yearly financial report and the quarterly statements prior to their respective publication. These three meetings were held in the form of conference calls. In addition, non-audit services provided by the auditors and/or audit network firms were approved by written resolution in August.

A detailed member-by-member overview of meeting attendance during the year under review can be found on the Company's website (https://www.kloeckner.com/en/group/supervisory-board.html). Except for two plenary meetings, one of which one member was unable to attend and one of which two members were unable to attend, and one Executive Committee meeting, which one member was unable to attend, all Supervisory Board and committee members attended all meetings in fiscal year 2018 (see Section 5.4.7 of the Code). The attendance rate for all Supervisory Board meetings, including committee meetings, was thus 91.3%.

Supervisory Board meeting agenda items and resolutions

The Supervisory Board regularly dealt with the business situation, strategy implementation, strategy development and Group finances in the year under review. Multiple meetings also covered corporate governance matters (such as the Declaration of Conformity and the revised Rules of Procedure for the Supervisory Board), compliance issues and matters relating to the Management Board and the Supervisory Board, as well as reporting on current projects.

Although the business situation of the Group as a whole in the year under review was slightly improved compared with the prior year, the steel market and, in particular, the macroeconomic and geopolitical situation proved to be increasingly challenging. Steel prices did not grow at the same pace as in the prior year and were actually declining at the end of the year. The related windfall profits thus decreased accordingly over the year, while procurement costs rose year on year. In Europe, individual regions (for example, the United Kingdom and France) and industries (for example, the automotive industry) also saw demand fall during the year under review, particularly in the second half. In contrast, business in the United States benefited from the improving economic situation and the high prices brought about by the introduction of punitive tariffs by the Trump administration, although market growth there is losing momentum.

Implementation of the “Klöckner & Co 2022” strategy and the relevant support provided through the “Value Creation at the Core (VC²)” program, as well as progress in the Company’s digital transformation and the further development of the open industry platform XOM Materials were reported on at all meetings. In addition to increasingly noticeable efficiency gains resulting from digitalization, the online shop developed by kloeckner.i GmbH and rolled out in the country organizations in the prior year was further expanded in the year under review. Additionally, a large number of additional distributors with complementary products could be gained by the online shop’s marketplace function. As a result, the proportion of sales generated via digital channels went up in the year under review to 25% of total sales (Q4 2018). Further significant progress was also made after the open industry platform XOM Materials went live. Alongside gaining new dealers for the platform, this includes the expansion into plastics trading and the implementation of additional technical functions to improve customer focus (for example, the quote feature). The Management Board was confident that the industry platform can be expanded in the market, including internationally, as an independent platform with investor participation in fiscal year 2019. In addition, cultural change within the Company supporting the digital transformation was successfully driven forward as part of the “Klöckner & Co People Strategy” through special training programs and the establishment of specific guidelines (“Klöckner & Co Principles”).

The Management Board also made progress on the other pillars of the corporate strategy comprising higher value-added services and efficiency enhancements. The new service center for processing aluminum products, primarily for the automotive and manufacturing industries, which opened at the Bönen operating location last year became fully operational. Capital expenditure was also incurred to expand processing services at various locations, including for laser and surface processing technologies. Lastly, the “One Europe” and “One US” optimization programs generated the expected efficiency gains.

Additionally, the Supervisory Board closely tracked and analyzed share price performance in the year under review. It considers the sharp drop notably in the fourth quarter to be attributable to the turbulences on the global capital markets, as well as the macroeconomic and geopolitical developments that hit the steel industry – which serves as an early indicator in this regard – particularly hard.

Finally, the Supervisory Board continues to consider Group finances to be well diversified, solid and balanced. With regard to maturity profile, the syndicated loan and the European ABS financing were extended as planned.

Significant topics dealt with at the Supervisory Board meetings included:

At its meeting on February 23, 2018, the Supervisory Board approved the Company's annual and consolidated financial statements for 2017 as well as the consolidated non-financial statement. Furthermore, the Supervisory Board adopted the motions for the Company's 2018 Annual General Meeting, including nominations for election to the Supervisory Board and the proposal for election of the auditor. Various Management Board topics were also discussed and corresponding resolutions adopted, amongst others as regards the termination agreement with Karsten Lork, the establishment of the Management Board's variable annual bonus for fiscal year 2017 and of the targets for the Management Board's variable annual bonus for fiscal year 2018, as well as the revision of the Management Board's schedule of responsibilities.

The meeting of the Supervisory Board on May 16, 2018 was largely devoted to preparing for the Company's Annual General Meeting. Current market and business developments were also discussed. In addition, the Management Board reported on the status of various projects that have been presented to and (where applicable) approved by the Supervisory Board at earlier meetings. 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 electing the third member of the Executive Committee of the Supervisory Board.

Agenda items at the meeting of the Supervisory Board on September 27, 2018 included corporate governance topics (amendment of the Rules of Procedure for the Supervisory Board) and commissioning an external preliminary review of the consolidated non-financial report. The regular review of the efficiency of the Supervisory Board's activities was also carried out. As scheduled, this again took the form of an extensive review as in 2016. The Supervisory Board also dealt in detail with strategic topics, including Group finances, and approved the extension of the European ABS program.

At its meeting on December 20, 2018 (held by conference call), the Supervisory Board addressed corporate planning and the budget for fiscal year 2019 (including the two subsequent years) in detail. Furthermore, the Supervisory Board and the Management Board jointly adopted the Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act.

Reports from the committees

Executive Committee:

The Executive Committee met a total of three times in 2018. In general, these meetings in particular dealt with the agenda for the respective subsequent Supervisory Board meeting. At its meeting on February 23, 2018, the Executive Committee also addressed topics including the variable annual bonus for Management Board members in fiscal year 2017 and submitted proposals to the plenary Supervisory Board for setting variable annual bonus. The Executive Committee also drew up targets for the Management Board's variable annual bonus for fiscal year 2018. In its capacity as Personnel Committee, it also decided at its February meeting on the resolutions to be proposed to the Supervisory Board regarding Management Board topics, including the termination agreement with Karsten Lork and the amendment of the Rules of Procedure for the Management Board in relation to the allocation of responsibilities. Furthermore, in its capacity as Nomination Committee, the Executive Committee decided to propose that the plenary Supervisory Board nominates Dr. Ralph Heck for election to the Supervisory Board at the Annual General Meeting on May 16, 2018. Among the topics addressed at the Executive Committee's meeting on September 27, 2018 were corporate strategy, corporate governance (amendment of the Rules of Procedure for the Supervisory Board) as well as the annual review of the efficiency of the Supervisory Board's activities.

At its meeting on December 20, 2018, the Executive Committee addressed Management Board matters.

Audit Committee:
The Audit Committee met four times in total, including three conference calls preceding publication of the half-yearly financial report and the quarterly statements.

Discussions at the meeting in February focused on the Company's annual and consolidated financial statements for 2017 as well as the consolidated non-financial statement. At the same meeting, the Audit Committee discussed the proposal for the election of the auditor for 2018 and prepared the groundwork for the plenary Supervisory Board to engage him. The Audit Committee saw no need to recommend to the Supervisory Board additional focal points for the auditors' activities beyond the statutory mandate.

The three meetings on the draft quarterly statements and the draft half-yearly financial report focused on the performance of the Group's business and financial situation, which the committee discussed with the CFO, who was 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 half-yearly financial report and the quarterly statements. Further matters, notably risk management, internal audit, accounting and compliance topics, were also regularly addressed at the occasion of interim financial reporting.

Finally, both in its meetings and in the written resolution prepared in August, the Audit Committee dealt during the course of the year under review 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 20, 2018, 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 for the 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 2018 annual and consolidated financial statements including the consolidated non-financial report

Klöckner & Co SE's annual financial statements for fiscal year 2018 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. Klöckner & Co SE's annual financial statements 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 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. In particular, the key audit matters described in the relevant audit opinion as well as the audit procedures applied were also addressed. 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 March 7, 2019 to approve the annual financial statements, the Chairwoman of the Audit Committee reported on the Audit Committee's consultations on 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 measures required in Section 91 (2) of the German Stock Corporations Act in an appropriate manner – in particular for establishing a monitoring system – and that the monitoring system was capable of promptly identifying developments threatening 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 on March 7, 2019, 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 report contained in the Annual Report (in the separate sustainability reporting section) that was required to be prepared in accordance with Section 315b of the German Commercial Code (HGB). In particular, the Supervisory Board's plausibility checks 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 consolidated non-financial report and (iii) ascertainment of quality assurance measures. The Supervisory Board was supported in its examination by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart was requested to perform a limited assurance engagement on the consolidated non-financial report in accordance with ISAE 3000 and prepared a corresponding report which it submitted to the Supervisory Board, and reported on its activities verbally to the Supervisory Board. The Ernst & Young That report and the consolidated non-financial report 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, Stuttgart and, following its own examination, came to the conclusion that the consolidated non-financial report meets the applicable requirements and that there are no objections to be raised.

Changes on the board

The composition of the Supervisory Board of Klöckner & Co SE changed as follows in fiscal year 2018: Uwe Roehrhoff resigned from his position with effect from the end of the Annual General Meeting on May 16, 2018. This was due to his appointment as CEO of Perrigo Company plc at short notice. The Annual General Meeting on May 16, 2018, elected Dr. Ralph Heck, entrepreneur and Director Emeritus at McKinsey & Company, to the Supervisory Board instead. Dr. Ralph Heck was elected Deputy Chairman of the Supervisory Board at the constitutive meeting of the Supervisory Board on May 16, 2018. The personnel change on the Supervisory Board also impacted the composition of the Executive Committee of the Supervisory Board. Since May 16, 2018, it has comprised Chairman of the Supervisory Board Prof. Dr. Vogel, Dr. Ralph Heck and Prof. Dr. Loh. The composition of the Audit Committee remained unchanged.

The composition of the Management Board of Klöckner & Co SE changed as follows in fiscal year 2018: Karsten Lork departed 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 of Klöckner & Co SE acceded to Marcus A. Ketter's request to prematurely end his term as Chief Financial Officer with effect from May 15, 2019. In the future, his duties will be assumed by the Chairman of the Management Board.

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

Duisburg, March 7, 2019

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)

Dr. Ralph Heck
Entrepreneur and Director Emeritus
McKinsey & Company, Meggen, Switzerland
(Member since May 16, 2018)
(Deputy Chairman)

Uwe Roehrhoff
CEO of Perrigo Company plc, Dublin, Ireland
(Member until May 16, 2018)
(Deputy Chairman)

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

Ute Wolf
Chief Financial Officer of Evonik Industries AG,
Essen, Germany

Executive Committee

(also the Personnel Committee and the
Nomination Committee)

Prof. Dr. Dieter H. Vogel
Chairman

Prof. Dr. Friedhelm Loh

Dr. Ralph Heck
(Member since May 16, 2018)

Uwe Roehrhoff
(Member until May 16, 2018)

Audit Committee

Ute Wolf [1]
Chairman

Prof. Dr. Karl-Ulrich Köhler

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

€6.06

year-end closing price on December 28, 2018

KLÖCKNER & CO SHARES

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

SHARE PRICE PERFORMANCE

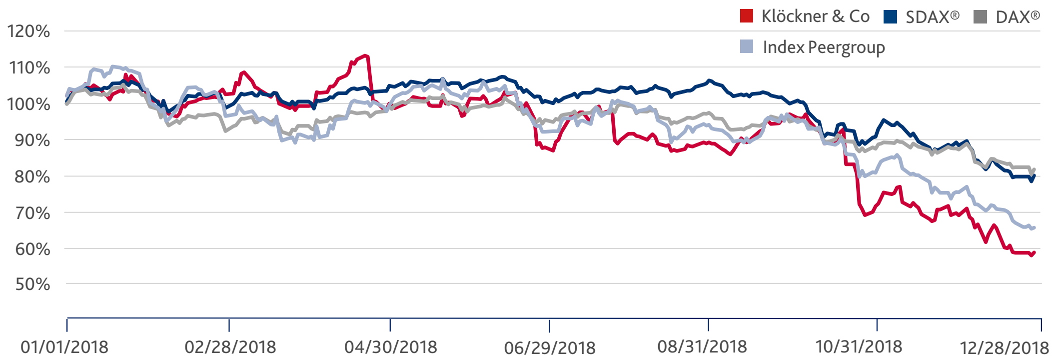
In the first half of 2018, the Klöckner & Co share price trended sideways, reaching its high for the year of €11.62 on April 23. The share price then experienced repeated setbacks. A gloomy capital market environment caused by the negative economic outlook, coupled with the more pessimistic steel price expectations, led the share price to fall sharply from October. The share price reached its lowest level for the year of €5.98 on December 27 and closed at €6.06 on December 28.

KEY DATA – KLÖCKNER & CO SHARE

		2018	2017	2016	2015	2014
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)	€	6.06	10.29	11.91	8.04	8.96
Market capitalization	€ million	604	1,026	1,188	802	894
High (Xetra®, Close)	€	11.62	12.89	12.91	10.12	12.66
Low (Xetra®, Close)	€	5.98	9.03	7.08	7.03	8.37
Earnings per share (basic)	€	0.68	1.01	0.37	– 3.48	0.22
Average daily trading volume	in shares	537,078	619,819	527,299	819,771	645,814
Dividend per share	€	0.30	0.30	0.20	-	0.20
Dividend yield based on closing stock price	%	5.0	2.9	1.7	-	2.2
Total dividend paid[1)]	€ million	29.9	29.9	20.00	-	20.00

1) In each case for the fiscal year. 2018: Proposal to the Annual general Meeting on May 15, 2019.

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

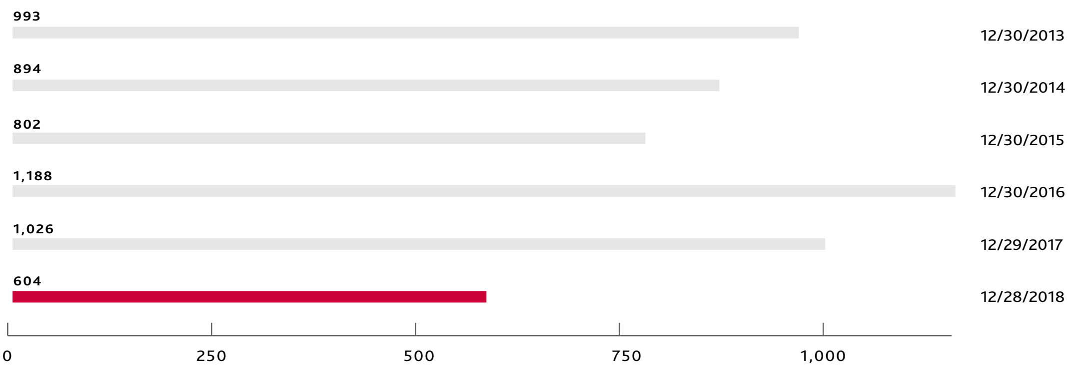


In fiscal year 2018, the Klöckner & Co share price was down 41% on the prior-year closing price. The Klöckner & Co share is benchmarked against an index made up of peer group companies ("Index Peergroup"), which shed some 34% in the reporting period. The peer group index tracks the share price performance 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 decline of 20% in 2018 while the DAX® went down by 18%. Klöckner & Co shares ranked 134th by free float market capitalization and 104th by trading volume in Deutsche Börse AG's December 2018 joint rankings of MDAX® and SDAX® stocks.

MARKET CAPITALIZATION

The Company's market capitalization was approximately €604 million at the end of the reporting period, compared with €1,026 million as of December 29, 2017.

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, 2016
Coupon p. a.	2.00%
First Conversion price	€14.82

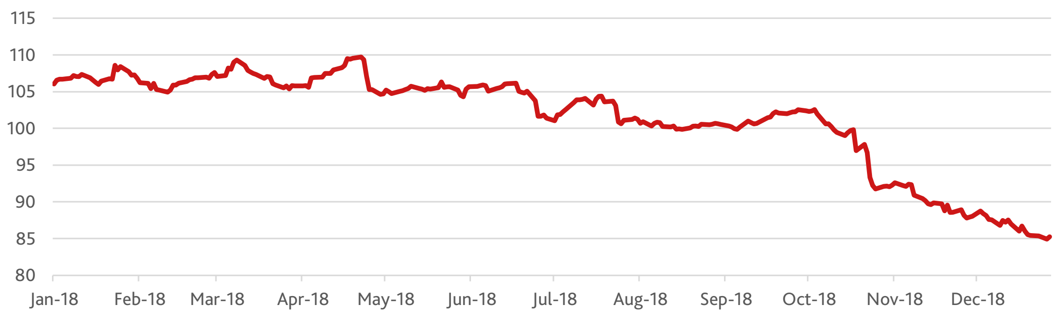
Right to early redemption via investor put

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BOND

Klöckner & Co SE 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 coupon of 2.00% p.a. They are traded on the open market at the Frankfurt Stock Exchange (ISIN DE000A185XT1). The initial conversion price was set at €14.82. The conversion price was most recently modified to €14.10 in connection with the 2018 dividend payment. Klöckner & Co uses the proceeds from the issue for general business purposes.

On December 28, 2018, the 2016 convertible bond was trading at approximately 85.26%.

CONVERTIBLE BOND 2016



2018 ANNUAL GENERAL MEETING

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

Annual General Meeting attendance more than 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 Annual General Meeting, investors were again able to visit a “Digi Booth” to gain their own impression of the progress of our transformation process. Visitors had the opportunity to take a seat in our “digital classroom” and participate in a “lesson” on our cultural transformation, as well as to find out about various newly developed digital tools and the milestones reached in our digitalization strategy. The independent industry platform XOM Materials established by us last year was also presented.

GROUP OF ANALYSTS

Klöckner & Co SE continues to attract strong interest in the financial community. Klöckner & Co’s shares were being watched and rated by 17 analysts at the end of 2018. In total, the analysts published more than 150 research reports. Five securities houses gave our shares a “buy” recommendation, ten gave a “hold” recommendation and two a “sell” recommendation. The analysts at Hauck & Aufhäuser added us to their coverage in the year under review. We provide an up-to-date overview of investment recommendations on our website under Investors/Shares/Analysts.

17
analysts cover Klöckner & Co shares

Klöckner & Co shares were analyzed by the following banks and securities houses as of the end of 2018:

Baader Bank	HSBC
Bankhaus Lampe	Independent Research
Citigroup	Jefferies International Equities
Commerzbank	Kepler Cheuvreux
Deutsche Bank	LBBW
DZ Bank	Metzler Equity Research
Exane BNP Paribas	NordLB
Goldman Sachs	UBS Equities
Hauck & Aufhäuser	

23%

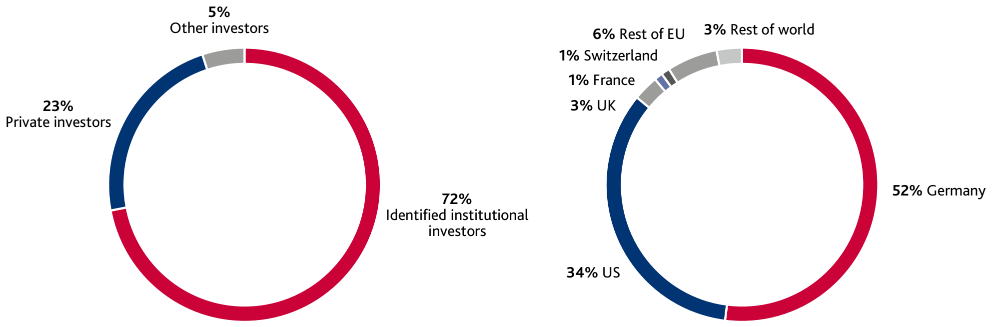
of the share capital is held by private investors

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 the reporting year. The findings are an aid in targeting investor relations activities to specific groups as well as in effective roadshow and conference planning. Around 96% of investors were able to be identified in February 2019: Identified institutional investors held 72% of the share capital and private individuals 23%.

SHAREHOLDER STRUCTURE OF KLÖCKNER & CO SE

GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



According to voting rights notifications, our largest shareholders at the end of the year 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, LSV Asset Management and Dimensional Holdings Inc./Dimensional Fund Advisors LP with holdings of between 3% and 5% each.

OPEN AND CONTINUOUS COMMUNICATIONS

In-depth communication with institutional and private investors

At Klöckner & Co, Investor Relations (IR) is all about transparent and continuous communications with private and institutional investors. Throughout 2018, 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.

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 the ownership structure.

Klöckner & Co SE continued activities targeting private investors. At events held by shareholder protection organizations, the CEO and the IR team 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 full information on Klöckner & Co shares and convertible bond presented in the Investor Relations section of our website at www.kloeckner.com/en/investors.html. Topics include financial reports, forecast developments of key performance indicators, the financial calendar, information on corporate governance as well as current data on share performance. Visitors can also use an interactive tool to analyze our stock and key financial figures. In addition, we publish full information on the Annual General Meeting and our Capital Markets Day on the website.

We started using Twitter more than a year ago 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 and capital market story. 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, email or letter mail.

CONTACT

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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. The 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 Federal Ministry of Justice and Consumer Protection 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 2018. 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.

2018 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 version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette) since the last Declaration of Conformity dated December 12, 2017 and will comply with the recommendations of the German Corporate Governance Code in the mentioned version in future without any exceptions.

Duisburg/Germany, December 20, 2018

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 from time to time – 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. The Management Board and Supervisory Board fundamentally 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.

In accordance with Section 4.2.3 (2) sentence 9 of the Code, Management Board members should not receive early disbursements of multiple-year, variable remuneration components. 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 shares 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 settlement 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 share 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 9 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 duty of care. Moreover, personal investments in company shares 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 promote the Company's interests. Maintaining a trusting, intensive and ongoing dialogue between the two bodies provides a sound basis for responsible and efficient corporate management.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE bears full responsibility for management of the Group and the Group holding company, taking into account the needs of all stakeholders. It sets the targets and the strategies for the Group and its segments 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 responsibilities. Responsibilities of the Management Board include preparing the Company's half-yearly financial report and quarterly 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). It also ensures adequate risk management and risk control.

In the past fiscal year, the Management Board of Klöckner & Co SE comprised four individuals until February 28, 2018 and three individuals thereafter 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 (who leaves the Management Board on May 15, 2019), Management Board member Jens M. Wegmann who is responsible for all Group operations (COO), and Management Board member Karsten Lork (who left the Management Board on February 28, 2018).

The work of the Management Board is governed among other things by Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure describe the responsibilities involved in each Management Board responsibilities, 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 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 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 written resolutions in the year under review, the members of the Management Board held coordinating discussions on numerous occasions and met or held conference calls with the management teams of the major segment country organizations.

SUPERVISORY BOARD

The Supervisory Board of Klöckner & Co SE regularly 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 report, 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 the Company's adherence to legal provisions, official regulations and corporate guidelines (compliance), and dealing with the internal control system. Moreover, the Supervisory Board is responsible for appointing and dismissing members of 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 Dr. Ralph Heck. As with all members of the Supervisory Board, both have extensive experience in managing and/or 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 borne by the Company. All Supervisory Board members are independent within the meaning of Section 5.4.2 of the Code.

The Management and Supervisory Boards work closely and trustfully 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 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 were conducted in German in the year under review. 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 focuses on the monthly Board Reports, which provide information on the results of operations, financial position and assets of the Group as well as those of its Europe and Americas 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 at 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's share 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 with no opposing votes 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, procedure or agendas of its meetings, or in the manner in which tasks are delegated 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 the following committees: a three-member Executive Committee and an Audit Committee, which also has three members. The Executive Committee additionally serves as Nomination Committee and Personnel Committee. 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' chairpersons 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 Dr. Ralph Heck, 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 appointing them as members of 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. 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 verification of the 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, and fee arrangements), and compliance, as well as the preparation of the Supervisory Board review of the consolidated non-financial report. The Supervisory Board has also entrusted the Audit Committee with discussing the half-yearly financial report and the quarterly statements with the Management Board ahead of publication and preparing the Supervisory Board resolution on approval of the annual and consolidated financial statements. The Chairwoman 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 Chairwoman Ute Wolf, the other members of the Audit Committee are Supervisory Board Chairman Prof. Dr. Dieter 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 usually three regular meetings each year. The Audit Committee regularly meets five times a year, but no fewer than four times. Three of those meetings are to discuss the half-yearly 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 four meetings in the year under review, the Executive Committee three and the Audit Committee four.

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

In accordance with Section 5.4.1 of the Code, the Supervisory Board is to 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.

The Supervisory Board has prepared a profile of skills and expertise to ensure this requirement is met. The profile is intended to ensure that Supervisory Board members collectively have the skills and professional expertise that are essential for the Company's activities. Such skills and expertise include, inter alia, experience with and knowledge of managing a large or medium-sized, internationally operating company, experience with and knowledge of distribution/sales, digitalization/e- commerce, accountancy and accounting, financial controlling, risk management, internal audit and compliance.

Taking into account the interests of the Company, diversity is also a consideration in the composition of the Supervisory Board. The Supervisory Board should therefore also include members: (a) who are female; (b) live or work primarily in a country (other than Germany) that is of particular relevance to the Klöckner & Co Group; (c) are under the age of 60; and/or (d) are a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act.

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 Code, taking into account the ownership structure. In assessing the independence of its members, the Supervisory Board also 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]). In addition, to avoid potential conflicts of interest, the Supervisory Board members should not be employed by customers, suppliers, lenders or other comparable third parties (particularly significant business partners or competitors of the Klöckner & Co Group) unless such parties are controlling shareholders of the Company. Furthermore, no more than two former members of the Company's Management Board should be part of the Supervisory Board and the Supervisory Board member who chairs the Audit Committee must be independent and must not be a former member of the Company's Management Board whose appointment ended less than two years earlier.

Finally, Supervisory Board members should usually not be appointed beyond the age of 75. The overall term of service as a Supervisory Board Member shall generally not exceed 15 years.

The requirements for nomination as a member of the Supervisory Board depend, among other things, on which of the above objectives and criteria require priority given 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 criteria and objectives set out above as well as the profile of skills and expertise for the entire Supervisory Board are met 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 in management positions at large or medium-sized companies operating internationally, and hold or have held a variety of responsibilities covering distribution/trading, accounting and financial reporting, controlling, risk management, internal audit and compliance. Furthermore, Prof. Dr. Tobias Kollmann is also regarded as an identified digitalization expert. The diversity criterion of internationality has also been met again: Dr. Heck is a Belgian national whose permanent residence is in Switzerland. Ute Wolf, as CFO of Evonik Industries AG, is the 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, Dr. Ralph Heck, Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh and Ute Wolf.

DIVERSITY CONCEPT FOR 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. This aspect is already stipulated either by law (in the Act on Equal Participation of Women and Men in Leadership Positions) or in the German Corporate Governance Code. Klöckner's concept on diversity in the Management Board and Supervisory Board is described in the following.

DIVERSITY CONCEPT FOR COMPOSITION OF THE MANAGEMENT BOARD

The diversity concept 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 generally not 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, with members permitted to be reappointed multiple times.

Gender:
The target for the percentage of women in the Management Board is 0% (see also the section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 33).

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 office, these notably include management experience and leadership skills. Diversity with regard to educational and professional background therefore necessarily follows from the differing responsibilities 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 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 set a figure of 0%. This related both to the size and to the composition of the Management Board. With no new appointments planned at the time, it was necessary to set the target at 0%. The Supervisory Board is aware 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 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 development 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.

IMPLEMENTATION OF THE DIVERSITY CONCEPT FOR 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 dialogue 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, alongside other requirements in terms of personality and qualifications. The interests of the Company, taking into account all circumstances in each individual case, always form the cornerstone of the decision made. In view of this and given the small size of the Management Board, the Supervisory Board does not consider specific target ratios to be constructive and does not set such targets, except where required by law.

OUTCOMES FOR THE MANAGEMENT BOARD IN FISCAL YEAR 2018

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. All members of the Management Board also have extensive international experience. Additionally, the members represent a balanced mix with regard to length of service on the Management Board. Finally, the current Management Board composition is also consistent with the current target ratio for women on the Management Board of 0%.

At present, the Supervisory Board sees no acute need for action in terms of diversity on the Management Board.

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 COMPOSITION OF THE SUPERVISORY BOARD

In accordance with the Supervisory Board's Rules of Procedure, its members must, as a general rule, possess the knowledge, skills and professional experience required for the proper execution of their duties. Taking into consideration the interests of the Company, 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 COMPOSITION OF THE SUPERVISORY BOARD

The age limit and regular term of service are intended to contribute to a balanced age structure and an appropriate rejuvenation and constant renewal of the Supervisory Board. The specific upper limits take into account the interest of the Company in finding and retaining suitable candidates with sufficient professional experience and personal aptitude for office. They further ensure the requisite continuity with a view to ongoing support for corporate development.

With regard to the participation of women in leadership positions, the Supervisory Board set a target of 16.6% in 2017 (see also the section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 33).

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 Annual General Meeting. For this purpose, the Supervisory Board makes nominations for election that are in turn prepared by the Executive Committee (acting in its capacity as Nomination Committee).

In this connection, the Supervisory Board gives consideration to the aforementioned diversity aspects – taking into account the interests of the Company and the individual circumstances, as well as the requirements of the law, the Code and the Rules of Procedure.

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 2018

Ute Wolf's membership of the Supervisory Board means that it currently meets its self-selected target of 16.6% for the percentage of women members which has to be achieved by June 30, 2022, and the Supervisory Board's composition thus meets the statutory requirements in this regard.

With respect to the age structure of the Supervisory Board, Prof. Dr. Vogel exceeds the regular age limit of 75. However, account must be given to the fact that the limit is merely intended as a guidance as well as to the many changes on the Supervisory Board in the last years. In this light, the continuity represented by Prof. Dr. Vogel is to be welcomed. His professional and personal qualifications are beyond any doubt. Moreover, the age range of 48 to 77 for the entire Supervisory Board is considered balanced and appropriate. The same applies to the length of service of the individual members (1 to 12 years).

From the point of view of the Supervisory Board, its composition meets the selected diversity targets. 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. The diversity criterion of internationality has also been met again: Dr. Heck is a Belgian national whose permanent residence is in Switzerland. The age structure and the length of service on the Supervisory Board are balanced. At present, the Supervisory Board thus 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 has been set for June 30, 2022.

The Supervisory Board set a target of 16.6% for women on the Supervisory Board and 0% for women on the Management Board in fiscal year 2017. The targets must be met by June 30, 2022 and are currently achieved.

The Management Board established the following targets for women at the upper two leadership levels below Management Board level in fiscal year 2017: 33.3% for level 1 and 20% for level 2. Both targets are also to be met by June 30, 2022. Level 1 generally comprises head of corporate department functions, while level 2 consists of department head functions. As of December 31, 2018, the percentage of women was 38% at level 1 and 20% at level 2. We are delighted that we have already achieved and – in the case of level 1 positions – exceeded our targets in the year under review. This once again demonstrates that we as a Company are sustainably supporting gender diversity.

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 16, 2018. The next will likewise be held in Düsseldorf, on May 15, 2019. The Management Board and Supervisory Board have determined 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 broadcasted live online and are made available in recorded form after the Annual General Meeting.

MANAGERS' TRANSACTIONS (PREVIOUSLY: DIRECTORS' DEALINGS)

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 https://www.kloeckner.com/en/group/corporate-governance/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 annual and consolidated financial statements. By law, the auditor of the annual 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 2018 for fiscal year 2018 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Christoph Velder (new) and Ulrich Keisers (from 2016, three signatures) are the key audit partners. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (or respectively, until 2009, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been the auditor for Klöckner & Co SE (or its legal predecessors respectively) since fiscal year 2005. Further information on the proposal made to the Annual General Meeting on the election of the auditors of the annual financial statements and consolidated financial statements for fiscal year 2019 will be published together with the invitation to the 2019 Annual General Meeting on our website at www.kloeckner.com.

The audit mandate for the annual and consolidated financial statements is prepared by the Audit Committee and then discussed and issued by the Supervisory Board.

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-yearly financial report in July and the quarterly statements published in April after the first quarter and in October after the third quarter. A financial statements press conference as well as an analysts' and investors' conference call are held on publication of the Annual Report. On publication of the quarterly statements and half-yearly report, 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 issued by or associated with the Company 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 AND 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.

The Code of Conduct inter alia published on the Company's website and revised in fiscal year 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. Moreover, all 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. We require our suppliers and service providers to adhere to the same principles and values. To this end, we approved a Supplier Code of Conduct in fiscal year 2017, which all of our major suppliers and service providers are required to acknowledge. Presentation of a code of conduct of the supplier or service provider that is comparable to Klöckner & Co SE's Code of Conduct is deemed equivalent to acknowledgement of the Supplier Code of Conduct.

To ensure compliance, a compliance management system was already installed in 2007. It was recently reviewed for suitability and effectiveness by an independent expert at the end of fiscal year 2016 and was last updated in fiscal year 2017. Focus areas still include antitrust law, anti-corruption, anti-money laundering, export controls, and prevention of involvement in human rights violations.

An organization has been established to manage and implement compliance and further its development. Compliance officers keep employees informed at regular intervals about material applicable legal provisions and internal policies. 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 fiscal year 2017.

All employees and business partners have the possibility to report to the Company any potential compliance violations and instances of non-compliance with the Code of Conduct. 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.

In addition, there are extensive measures to ensure adherence notably to antitrust, anti-corruption and anti-money 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. The top two levels of management and all board members are subject to integrity screening before engagement or appointment. The screenings are repeated at regular intervals.

Other compliance measures relate to areas such as supply chain compliance (monitoring conflict minerals, restricting the use of certain hazardous substances in electrical and electronics devices [ROHS: Restriction of Hazardous Substances], dual-use goods and anti-human trafficking), 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 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 not least the suppliers 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.

In light of this and within the context of implementing the EU’s General Data Protection Regulation (GDPR), we fully overhauled our existing data protection management system and modified organizational structures and reporting lines, while adapting them to the needs arising from ongoing digitalization of the Klöckner & Co Group. Separated out of the compliance organization, Group Data Protection now forms a standalone unit with a direct reporting line to the CEO. The staffing levels of this unit were increased in the reporting period. A rolling international training program and extensive communication on data protection issues through our internal social network ensure our employees have a high level of data protection awareness.

Klöckner & Co also systematically focuses on digitalization with regard to the organization of data protection itself. For example, data protection management software implemented at the holding company is now being rolled out internationally. In addition to presenting and accelerating internal processes and documentation requirements, the software also allows service providers to directly upload certificates and directives regarding data protection or to access a self-assessment of their data protection status based on our requirements. In this way, data protection is efficiently and practically implemented at Klöckner.

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 as in the prior year and that of the CEO is €930,000 (2017: €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 €1,380,000, subject to a maximum of €2,760,000. The maximum amounts correspond in each case 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 €2,310,000 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 year under review, as in previous years, among other things 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 year under review, these related 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 into the online shops) and (iii) 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 year under review.

Remuneration for 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 €3,690,000 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 Mr. Rühl, Mr. Wegmann and Mr. Lork (until February 28, 2018) 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 dependents. Instead of pension benefits, Management Board member Mr. 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 Mr. 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 Mr. Wegmann relocates his principal place of residence to within commuting distance of the Company. Mr. Wegmann is also reimbursed for the cost of two return flights between Nuremberg and Düsseldorf (economy class) each month for a maximum period of 18 months from January 1, 2018.

Other arrangements

Management Board contracts provide for compensation on early termination other than for cause. This compensation depends on the remaining term of the contract, but is capped at two years' annual remuneration. 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 ended prior to the termination date. 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 non-competition 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 this case, the personal investment requirement is also waived. The Company has directors and officers (D&O) insurance, including insurance 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

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 developments 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 tend to be below the average of comparative figures regarding the amount and structure of remuneration. In addition, a vertical comparison with the remuneration 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.

Remuneration for 2018

The tables below show the individual remuneration entitlements of Management Board members for 2018 as provided for in the German Corporate Governance Code:

Granted Compensation	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2017	2018	2018 (Min.)	2018 (Max.)	2017	2018	2018 (Min.)	2018 (Max.)
Fixed compensation	860	930	930	930	480	480	480	480
Ancillary benefits[1)]	41	41	41	41	128	178	178	178
Total	**901**	**971**	**971**	**971**	**608**	**658**	**658**	**658**
One year's variable compensation	1,280	1,380	-	2,760	720	720	-	1,440
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**2,181**	**2,351**	**971**	**3,731**	**1,328**	**1,378**	**658**	**2,098**
Postemployment benefits	746	717	717	717	-	-	-	-
Total compensation	**2,927**	**3,068**	**1,688**	**4,448**	**1,328**	**1,378**	**658**	**2,098**

1) Includes for Marcus A. Ketter €150,000 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	Jens M. Wegmann (COO since December 1, 2017)				Karsten Lork (until February 28, 2018)			
(€ thousand)	2017	2018	2018 (Min.)	2018 (Max.)	2017	2018	2018 (Min.)	2018 (Max.)
Fixed compensation	40	480	480	480	480	80	80	80
Ancillary benefits	3	36	36	36	30	5	5	5
Total	**43**	**516**	**516**	**516**	**510**	**85**	**85**	**85**
One year's variable compensation	60	720	-	1,440	720	120	120	120
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**103**	**1,236**	**516**	**1,956**	**1,230**	**205**	**205**	**205**
Postemployment benefits	36	348	348	348	184	30	30	30
Total compensation	**139**	**1,584**	**864**	**2,304**	**1,414**	**235**	**235**	**235**

Granted Compensation	Willam A. Partalis			
(€ thousand)	2017	2018	2018 (Min.)	2018 (Max.)
Fixed compensation	480	-	-	-
Ancillary benefits	30	-	-	-
Total	**510**	**-**	**-**	**-**
One year's variable compensation	720	-	-	-
Multi-year variable compensation[2)]				
- Virtual stock option plan	-	-	-	-
Total	**1,230**	**-**	**-**	**-**
Postemployment benefits	-	-	-	-
Total compensation	**1,230**	**-**	**-**	**-**

Proceeds (€ thousand)	Gisbert Rühl (CEO) 2017	2018			Marcus A. Ketter (CFO) 2017	2018		
Fixed compensation	860	930			480	480		
Ancillary benefits[1)]	41	41			128	178		
Total	**901**	**901**			**608**	**658**		
One year's variable compensation	1,471	1,258			827	657		
Multi-year variable compensation[2)]								
- Virtual stock option plan	534	-			84	-		
Total	**2,906**	**2,229**			**1,519**	**1,315**		
Postemployment benefit	746	717			-	-		
Total compensation	**3,652**	**2,946**			**1,519**	**1,315**		

1) Includes for Marcus A. Ketter €150,000 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 (€ thousand)	Jens Wegmann (COO since December 1, 2018) 2017	2018			Karsten Lork (until February 28, 2018) 2017	2018		
Fixed compensation	40	480			480	80		
Ancillary benefits	3	36			30	5		
Total	**43**	**516**			**510**	**85**		
One year's variable compensation	69	657			827	120		
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-			84	-		
Total	**112**	**1,173**			**1,421**	**205**		
Postemployment benefit	36	348			184	30		
Total compensation	**148**	**1,521**			**1,605**	**235**		

Proceeds (€ thousand)	William A. Partalis 2017	2018		
Fixed compensation	480	-		
Ancillary benefits	30	-		
Total	**510**	**-**		
One year's variable compensation	827	-		
Multi-year variable compensation[2)]				
- Virtual stock option plan	218	-		
Total	**1,555**	**-**		
Postemployment benefit	-	-		
Total compensation	**1,555**	**-**		

Remuneration related to the termination of Management Board activities:
Karsten Lork resigned from the Management Board and left the Company by mutual agreement on February 28, 2018. In accordance with the termination agreement, he was granted and paid the contractually agreed remuneration up to this date, including the variable annual bonus already earned for fiscal year 2018 up until his departure, with this proportion of the variable annual bonus determined as a pro rata amount of the target bonus (100% target attainment). There is no obligation to make a personal investment in shares of the Company associated with this pro rata variable annual bonus for fiscal year 2018 or with the variable annual bonus for fiscal year 2017. Due to the early termination as of February 28, 2018 by mutual agreement of Karsten Lork's service contract, which was due to run until January 31, 2021, termination benefits of €3,566 thousand were agreed with him. This primarily consists of a severance payment of €3,000 thousand for the fixed and variable remuneration components lost (paid out on March 15, 2018) as well as compensation related to pension entitlements (under recognition of corresponding provisions by the Company). For the purposes of pension provision, Mr. Lork is considered as though he were to remain a member of the Management Board until January 31, 2021. Furthermore, all of the shares in the Company acquired by Mr. Lork as a personal investment were unlocked and the non-competition agreement was waived. The virtual stock options already issued to Mr. Lork under the meanwhile discontinued VSO program continue to exist and may be exercised subject to the corresponding vesting period.

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; 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 remuneration is €40,000 per fiscal year. The Chairman of the Supervisory Board receives two-and-a-half times, his or her deputy one-and-a-half times and the Chairman of the Audit Committee one-and-a-quarter times the fixed remuneration.

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 €457,000 in 2018 (2017: €517,166). The table below shows the individual remuneration entitlements of Supervisory Board members for 2018 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 2019.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	43,000	143,000
Dr. Ralph Heck (Deputy Chairman) - since May 16, 2018	40,000	13,000	53,000
Uwe Roehrhoff (Deputy Chairman) - until May 16, 2018	25,000	8,000	33,000
Prof. Dr. Karl-Ulrich Köhler	40,000	14,000	54,000
Prof. Dr. Tobias Kollmann	40,000	6,000	46,000
Prof. Dr. Friedhelm Loh	40,000	10,000	50,000
Ute Wolf	50,000	28,000	78,000
Total	**335,000**	**122,000**	**457,000**

No 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 2018

[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:

The activities of the country organizations have been even further streamlined over recent years thanks to the "One Europe" and "One US" efficiency drives. In connection with this, the management structure of the operating business has been further optimized and brought together under the umbrella of Kloeckner Metals Operations (KMO). The country organizations are supported by the operational expertise of KMO with regard to all logistics, procurement and inventory projects as well as on the extensive digitalization of the supply chain.

In the context of this new management structure, the reporting system and thus segment reporting was revised as of January 1, 2019, so that the Europe segment will in the future be replaced by the "Kloeckner Metals Services Europe", "Kloeckner Metals Switzerland" and "Kloeckner Metals Distribution Europe" segments. The Americas segment will only include the activities of Kloeckner Metals Corporation and therefore be named "Kloeckner Metals US". Other activities – such as the Brazilian distribution business or XOM Materials – will be assigned to the holding company, which will now be referred to as the "holding company and other group companies".

As a key pillar of our "Klöckner & Co 2022" strategy, the company XOM Metals GmbH was established in 2017. It was renamed XOM Materials GmbH in the middle of the reporting year to underscore its openness to other resources and materials after the first plastics producers came on board. The vertical, open industry platform is operated independently of our online activities such as, for instance, our online shops and enables steel makers and steel distributors, some of whom are in competition with us, as well as their sales companies for other materials 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 160 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, our customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options spanning some 60 main 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, 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 USA, our global network provides customers with local access to some 160 distribution and service locations. Our high product availability levels largely eliminate the need for customers to hold inventory. Concentrated mainly in the construction industry as well as the machinery and mechanical engineering industries, our customer base comprises more than 100,000 mostly small to medium-sized steel and metal consumers. We also 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. The rising number of users of our online tools and the XOM Materials platform as well as the continuously increasing share of sales generated through digital channels prove that our newly developed tools offer innovative and previously unheard-of added value to the steel industry.

Our approximately 8,600 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.

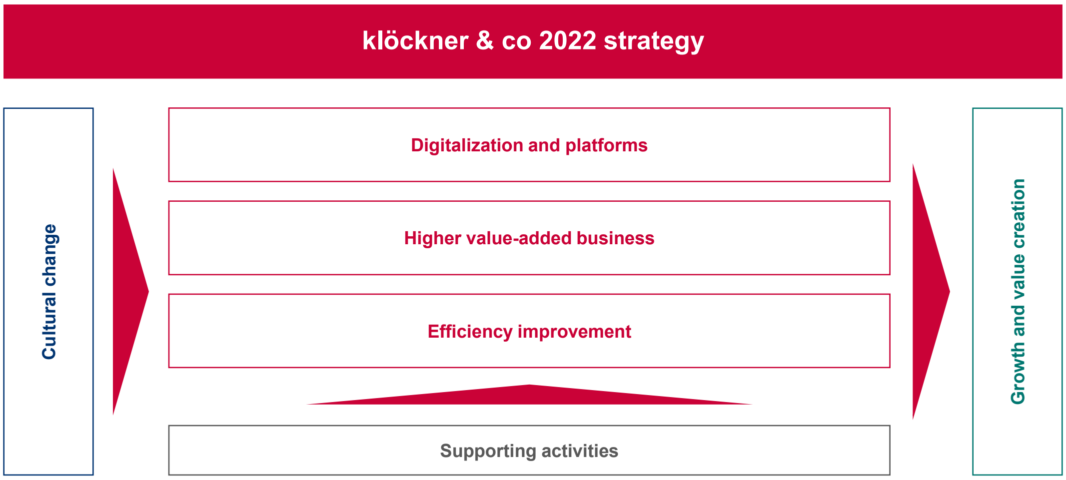
Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented and served by wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and some 1,200 in the more consolidated North American market. In Europe,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

Implementation of our "Klöckner & Co 2022" strategy

In the age of digitalization, only the agile and adaptable will hold their own in the international competitive arena. This also applies to steel distribution. Klöckner & Co is a pioneer of change. This maxim is reflected in our "Klöckner & Co 2022" strategy: Three main strategic pillars are supported by our transformation to a digital corporate culture characterized by greater openness and flexibility as well as customer centricity. We have systematically implemented this broadened strategy since we presented it in 2017.



1. Digitalization and platforms: The cornerstone of our strategy is the digital transformation of our business. We are pioneers here, blazing the trail for customers and partners. Part of our "Klöckner & Co 2022" strategy involves driving the transformation of steel and metal trading via a web-based platform.

2. Higher value-added business: Business with higher value-added products and services is a further key component of our strategy. Digitalization also opens up potential for us in this area.

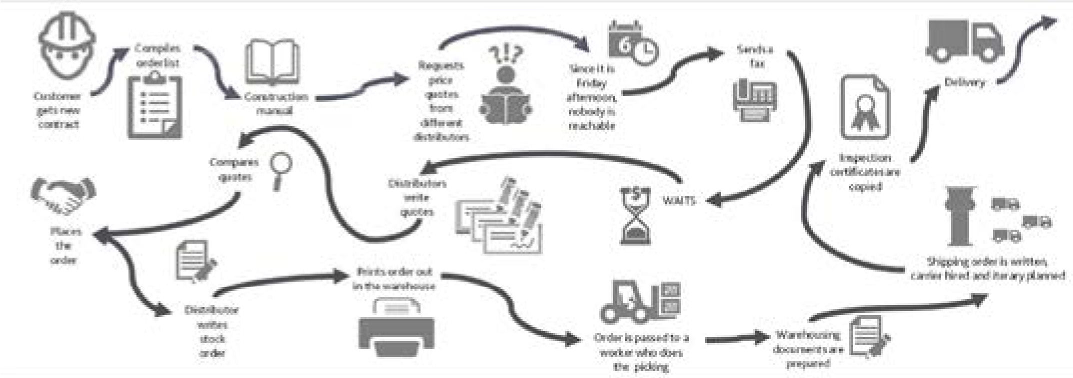
3. Efficiency improvement: To enhance efficiency on an ongoing basis, we launched our VC² program at the beginning of this reporting period. In addition to new initiatives, we have brought together the "One US" and "One Europe" efficiency drives in VC².

Our "Klöckner & Co 2022" strategy is backed up by a broad range of supporting activities as well as our cultural transformation into an agile company.

DIGITALIZATION AND PLATFORMS

Inefficiency and lack of transparency in the supply and value chain

The supply and value chain in the steel industry is inefficient and lacks transparency. There is no effective information and data interchange between market players with regard to available inventory and lead times. This results in delivery delays, incorrect shipments and surplus inventory. The quotation process is also highly time-intensive. Not least, only 30% of quotations lead to an order.



Klöckner & Co's digitalization strategy aims to eliminate supply and value chain inefficiencies in the steel and adjacent industries.

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 90 employees now work at kloeckner.i in the fields of product innovation, software development, online marketing and business analytics. kloeckner.i is far enough removed from our traditional business for it to act more independently in the rapid development of 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 comprehensive expertise in steel distribution and leverage our relationships with customers and suppliers in developing solutions.

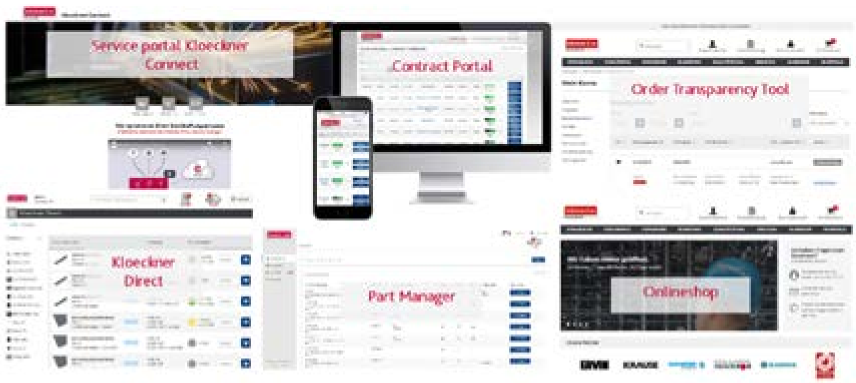
State-of-the-art methods to move the steel industry forward

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. First, we go directly to the customer's premises and evaluate on site how we can create added value. Once we have made our evaluation, we develop simple prototypes. The initial prototypes are specifically designed to cover solely the most important functions. Together with our customers, we then determine by means of a continuous testing and refinement process whether the tool meets the requirements set. This ensures from the very outset that all customer needs are met and only prototypes that have already been validated with customers are developed into solutions. Compared with the conventional approach typical of a large corporation, the new working methods have made us significantly faster. As a result, we have progressively raised the share of sales made through digital channels from 9% in the first quarter of 2016 to 25% in the fourth quarter of 2018. At the same time, we have digitally connected with wholesalers and major steel producers on the procurement side.

Based on the high level of demand generated by the successful digitalization of Klöckner & Co, kloeckner.i will also offer consulting services to other companies starting from 2019. To this end, kloeckner.i has entered into a partnership with Axel Springer hy to jointly offer customers the benefit of their experience in the successful digitalization of traditional groups.

Our digital tools and artificial intelligence

Our digital tools, including online shops, contract portals and order overview tools, have already been integrated into the "Kloeckner Connect" service portal at many of our country organizations. The portal gives both customers and partners a central access point for all tools and data, which they can use much more efficiently than before.

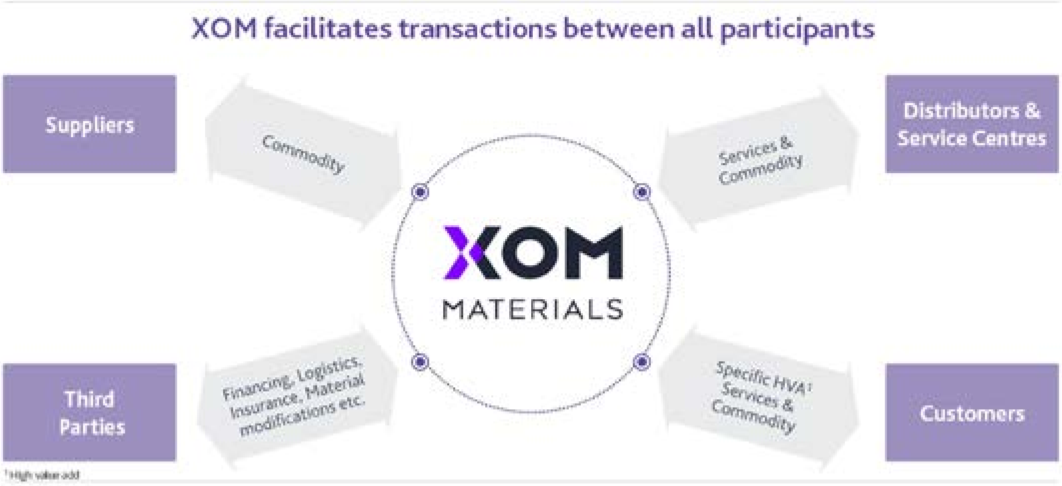


We have also expanded the range of our offering by opening up our – initially proprietary – online shop to partners offering complementary products. At the end of the year, 29 third-party vendors were already marketing their products through the Klöckner marketplace. This lets Klöckner & Co customers access a significantly wider range of steel, metal and complementary products without us having to invest in additions to our product portfolio.

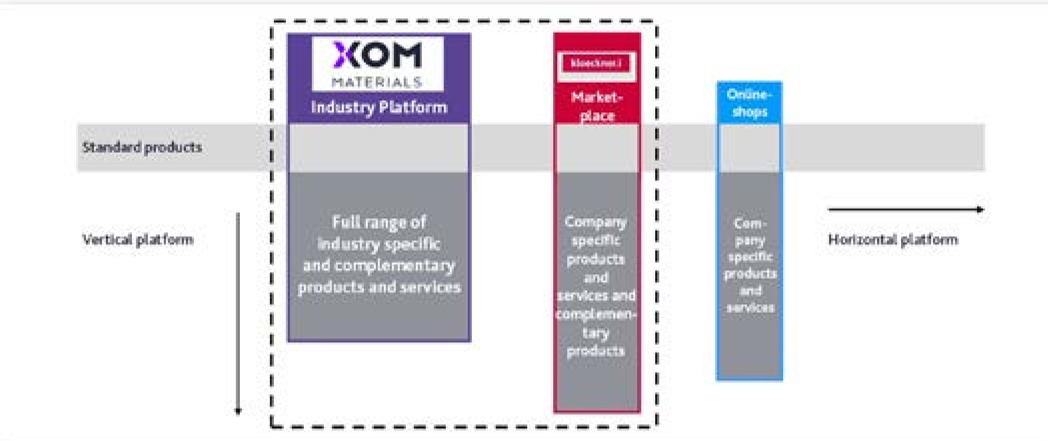
Alongside the digitalization of processes throughout the Group, intelligent use of the data generated is also gaining in importance. We have been working with Arago, one of the leading providers of artificial intelligence (AI), in this key area for a number of years. AI has already helped us to automate 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, more in-depth analysis of customer behavior will open up additional growth potential.

XOM Materials soon to expand to the USA

In February 2018, we went live with the first version of our open industry platform, XOM Materials, in Europe. By the end of the year, we had already brought on board ten dealers and 160 customers and generated orders of more than €5 million. In contrast to the Klöckner marketplaces, XOM Materials is a digital trading platform for steel, metal and other industrial products that is also open to competitors. Growth of XOM Materials is to be funded by outside investors, which will also ensure its independence from Klöckner & Co. The first financing round with external investors will be completed in 2019. At the end of the year, around 40 employees worked for XOM Materials at three locations. The US market launch of the platform is being prepared.



Platforms such as XOM Materials break up linear supply and value chains by allowing differently positioned market players to connect with each other directly. Looking ahead, steel and metal products will therefore be increasingly traded through various digital channels: online shops operated by individual distributors, marketplaces, industry-specific vertical platforms, and cross-sectoral horizontal platforms.



Online shops are only of limited use to customers due to the restricted product portfolio. Although Klöckner also started in this way some years ago, it has already moved on a step.

Marketplaces offer products and services beyond the Company's own portfolio. The Klöckner marketplaces allow our customers to purchase products from complementary third-party vendors as well as specialized products and services from our own portfolio.

Vertical platforms offer a wide range of sector-specific and complementary products and services. The focus here is on price-sensitive customers. XOM Materials aggregates the ranges of different market players and thus offers a broad product portfolio with a high level of transparency on price and availability.

Horizontal platforms offer a large number of standard products – ultimately for all sectors – but no customer-specific or add-on services. Here, the focus is on customers who tend to buy small quantities relatively infrequently.

Klöckner & Co is fundamentally well positioned to make use of all online channels, with a focus on our marketplaces and XOM Materials. We are thus poised to take on a leading position in all online sales channels for steel and metal products going forward. We have set ourselves ambitious goals for the ongoing implementation of our digitalization strategy: By 2022, we want to see 60% of all Group sales generated via digital channels.

To support our digitalization strategy, we also invest in attractive start-ups that are able to offer added value for the further development of Klöckner & Co. We connect up with external start-ups via our kloeckner.v venture capital company.

Change in corporate culture a precondition for our strategy

Our digitalization strategy also goes hand in hand with a cultural shift within our Company. We want our employees to understand our digitalization strategy and to contribute to reaching our Company's ambitious goals. At the same time, we need to become even faster and more agile given the ever more dynamic changes occurring in our sector. By increasingly applying the innovative working methods employed in the start-up scene, we are encouraging in-depth dialogue between kloeckner.i, our digitalization subsidiary, and employees from other divisions in the various country organizations.

Online training is provided by Klöckner & Co Digital Academy to get our workforce in shape for the digital age. This lends employees support in developing and implementing new ideas, which they can discuss with their colleagues across national and divisional boundaries 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 dialogue.

In the FOCUS employer awards, which are held in cooperation with kununu, Europe's biggest employer rating platform, we ranked 9th in the "Leadership Culture" category among more than 1,400 participating companies in Germany in 2018. We also achieved an outstanding ranking in the "Work Climate" category, coming in at 38th place.

HIGHER VALUE-ADDED BUSINESS

Drivers of higher value-added business

Many of our customers are highly vertically integrated and still use conventional methods to carry out tasks we can already 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 slotting at an attractive price and with significant gains in precision. In the UK, 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 three 3D lasers into operation, thus very successfully occupying a market niche.

The investment in 3D printers at kloeckner.i and our German country organization Klöckner & Co Deutschland GmbH has moved us into the growth market of additive manufacturing. We have also further expanded in the demanding shipyard business. Our German country organization, in particular, has considerable expertise in supply chain organization for the shipbuilding industry.

As set out in our strategic targets, we will also be expanding our higher-margin business with higher value-added products. At our Bönen location in North Rhine-Westphalia, Germany, for instance, a service center to process aluminum flat products for the European automotive and manufacturing industries became fully operational in the reporting period. The service center has a total processing capacity of 80,000 tons of aluminum per year.

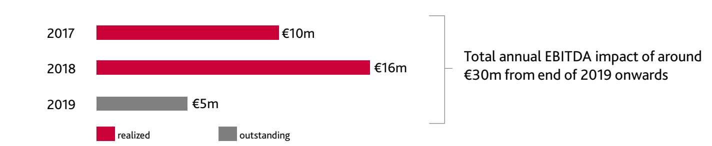
Our US country organization, Kloeckner Metals Corporation, invested in three special facilities for coating sheets and sections in the reporting period. The process used improves both the functionality as well as the surface of the products and is of particular interest for architectural and gastronomy applications. We have thus not only secured access to this technology, but also to the exclusive distribution rights for the United States and Brazil with our Chinese operation partner.

EFFICIENCY IMPROVEMENT

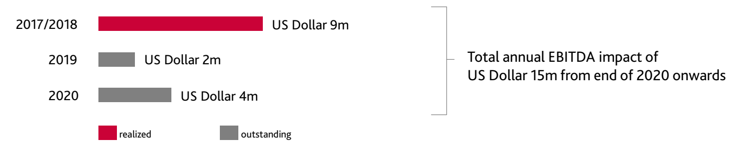
VC² continuous efficiency improvement

Our continuous efficiency improvement program VC² has been successfully launched and is accelerating implementation of our “Klöckner & Co 2022” strategy. The program brings together the existing “One Europe” and “One US” optimization programs and complements them with a series of other initiatives.

Over the last few years, we have restructured the European distribution business at the country level, downsized capacity and pooled operations. Under our “One Europe” program, we have standardized the processes of our country organizations in Austria, Belgium, France, Germany, the Netherlands and the United Kingdom. In this way, we aim to not only generate cost savings and synergies more readily – especially in purchasing, logistics and pricing – 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 the end of 2019 onward, with a total of €26 million already generated in 2017 and 2018.



Thanks to several acquisitions, our location network across the USA covers the key regions between the East and West Coast. As part of our "One US" efficiency program, the three product groups resulting from various acquisitions in the USA have been combined into one unit and the regional focus has been brought out more strongly with a new structure in order to promote cooperation and provide customers with a central point of contact. At the same time, the more efficient organization should lead to cost savings as well as even more rapid implementation of the digitalization strategy and expansion of higher value-added business. From the end of 2020, this program is slated to deliver an annual EBITDA contribution totaling USD 15 million. USD 8 million was generated in the reporting period.



The Swiss country organization Debrunner Koenig (DKG) was another key focus of VC² in the reporting period. As part of the program, DKG's activities were bundled together in three supraregional divisions. This has made the Swiss organization more centralized and streamlined its structures. VC² is complemented by a series of other initiatives around business model innovation, operational excellence and profitable growth.

OBJECTIVES OF THE "KLÖCKNER & CO 2022" STRATEGY

In total, we plan to improve our ROCE to 10% in 2022, which corresponds to an EBITDA margin of more than 4.5% on the current basis.

1.4 Control system

Financial performance indicators

Most significant key performance indicators under German Accounting Standard 20 (GAS 20)

The most significant key performance indicators (KPIs) used in the management of Klöckner & Co's business in the year under review were 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) and the EBITDA margin, and net working capital. These central KPIs were reported and monitored at the level of the Group as a whole as well as at segmental level.

As part of the further development of the "Klöckner & Co 2022" strategy, the control system also underwent a critical review at the start of fiscal year 2019. Going forward, management will be primarily based on the four following performance indicators (key performance indicators pursuant to GAS 20): shipments, sales, operating income (EBITDA – earnings before interest, taxes, and depreciation and amortization including impairments and impairment reversals on intangible assets and property, plant and equipment) and cash flow from operating activities.

Shipments are a key performance indicator used in management of the distribution business. This indicator is used to monitor growth in the core business as well as to determine capacity utilization, which is important for planning personnel and machine resources. In the medium term, our strategy of increasingly marketing higher value-added products and prefabrication services and expanding our business model further into online and platform services, including for third parties, shall take our sales to a higher level with smaller fluctuations. We are therefore constantly monitoring our sales growth. The most significant KPI for results of operations is operating income (EBITDA), or, if there are major special effects (for example, restructuring programs or significant non-operating effects), EBITDA before material special effects. This takes into account all costs subject to short-term influence.

Fixed asset intensity ratios tend to be low in steel distribution, while the funds tied up in net working capital (sum of inventories plus trade receivables less trade payables) tend to be very significant. Alongside operating income, net working capital is the primary driver of cash flow from operating activities. This cash flow forms an objective basis for measuring the performance of our business activities and is thus one of the most important performance indicators.

Other key figures

In addition to these primary key performance indicators, we also monitor other important KPIs. Gross profit is sales less cost of goods sold and is thus an 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. 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 our Company's value. For that reason, we constantly monitor gearing (net financial debt/equity), 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. We have therefore adopted coresponding initiatives, 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 for fiscal year 2019 is to reduce accident frequency to an LTIF value of less than 11.7 Group-wide.

2. Economic report

2.1 Macroeconomic conditions

Economic environment

Macroeconomic situation

Global GDP growth in 2018: 3.7%

The uncertainty caused by political and economic developments heightened further over the course of 2018. In addition to the trade disputes between the USA and various countries and confederations, economic players have been rattled by the success of populist parties in the Italian elections, Brexit negotiations and the latest wave of protests in France. Nevertheless, the global economy remained in good shape and grew by 3.7% in the reporting period.

Economic growth in the eurozone was very robust in 2018, although the negative impact of the trade measures implemented by the US administration and the related counter-measures was more significantly felt as the year progressed. In addition, the protracted Brexit negotiations and the protests in France increasingly dampened the strong growth in many regions of Europe. Overall economic growth stood at 1.8%.

The US economy recorded strong growth, largely due to tax incentives and the thus supportive private sector. However, the increasingly restrictive monetary policy in conjunction with the trade policy measures prevented even stronger growth. Economic growth amounted to 2.9%.

China's gross domestic product (GDP) growth was less significant than in the prior year and hit its lowest level for three decades. This development is primarily attributable to the trade dispute with the USA, but also to the increasing government regulation of the financial and housing markets. Growth nonetheless reached 6.6%.

Brazil continued on its positive trajectory to grow by 1.3% year on year. Political instability has initially being been counteracted by the presidential elections, but the new government's protectionist stance raises new uncertainties for the Brazilian economy's recovery.

Development of GDP (in percent)	2018 vs. 2017
Europe*)	**1.8**
Germany	1.5
United Kingdom	1.4
France	1.5
Spain	2.5
Switzerland	2.6
China	**6.6**
Americas	
USA	2.9
Brazil	1.3

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

Industry-specific situation

Global crude steel production up by 4.6%

Although the macroeconomic climate remains favorable, the steel industry continues to face challenges. Global crude steel production gained 4.6% in 2018 to reach a level of 1,809 million tons of crude steel. According to the World Steel Association, the production volume in the European Union fell by around 0.3%. In North America, volumes rose by 4.1%. China saw production increase by about 6.6%.

While there are signs of the persistent overcapacities in the Chinese and European steel industry being scaled down, those continue to cause problems, resulting in structural underutilization at prevailing demand levels. At the end of December 2018, analysts estimated that steel producers worldwide were operating at only 74% capacity. There is still significant excess capacity at the distribution level. This results in long-lasting intense competition.

Steel production

(in million tons)	2018	2017	Variance
France	15.4	15.5	– 0.7%
Germany	42.4	43.3	– 2.0%
Spain	14.3	14.4	– 1.0%
United Kingdom	7.7	7.5	2.6%
EU–28, total	**168.1**	**168.5**	**– 0.3%**
Rest of Europe	**42.4**	**42.3**	**0.2%**
C.I.S.	**101.3**	**100.9**	**0.3%**
United States	86.7	81.6	6.2%
Rest of North America	33.8	34.1	– 1.0%
North America total	**120.5**	**115.8**	**4.1%**
South America total	**44.3**	**43.7**	**1.3%**
Africa	**16.1**	**15.1**	**7.2%**
Middle East	**38.5**	**34.5**	**11.7%**
China	928.3	870.9	6.6%
Rest of Asia	342.8	332.3	3.2%
Asia total	**1,271.1**	**1,203.2**	**5.6%**
Oceania total	**6.3**	**6.0**	**5.9%**
Global	**1,808.6**	**1,729.8**	**4.6%**

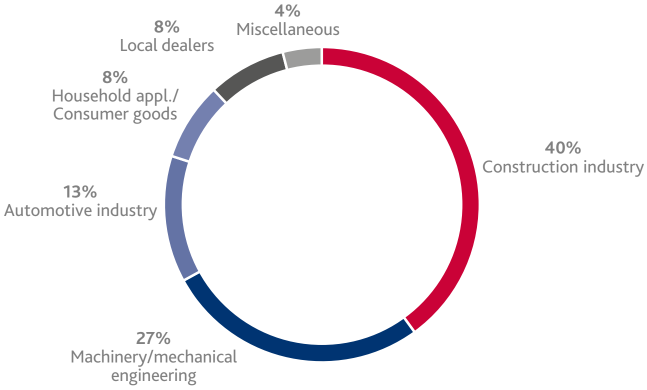
Source: World Steel Association (as of January 2019, preliminary figures for 2018).

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 (27%) and the automotive industry with a sales share of 13%.

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

The construction industry is the world's biggest steel processor and its performance is therefore a major determinant of steel demand. According to estimates by industry association EUROFER, European construction activity grew by approximately 5% in 2018. Growth in the EU was bolstered in particular by the still low financing costs, which led to a healthy order situation. The US construction industry also expanded by a strong 4% on the prior year, supported largely by private-sector residential construction and public construction projects.

Machinery and mechanical engineering

EUROFER estimates that the European machinery and mechanical engineering sector again picked up considerably relative to the prior year with growth of approximately 5%. Higher investment volumes and the relatively weak EUR/USD exchange rate contributed to this positive development. In the USA, mechanical engineering production benefited particularly from investments in equipment and increased by 4%.

Automotive industry

The past year was very mixed for the international automotive industry. According to the German Association of the Automotive Industry (VDA), global demand for passenger cars remained on a par with the previous year. In Europe, shipments only remained at the prior-year level, mainly as a result of the diesel scandal. Following the prior year's decline, the US market stabilized at a high level and actually grew by around 1%. The year was more negative for the Chinese market, which shrank by about 4% year on year and thus also fell well short of expectations. This decline is the first for decades and is attributable to the trade dispute with the USA.

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 2017 was based on the assumption of at least stable steel prices in Europe and the USA, the two regions of importance to our business. This expectation was met in Europe and significantly exceeded in the USA, where the rise was much sharper than forecast. For both regions, we also anticipated a slight increase in steel demand, with somewhat higher growth in the USA than in Europe. The expectation of a slight increase in steel demand in both regions proved correct.

The unexpectedly sharp rise in steel prices in the USA, in particular, significantly pushed up sales, with growth exceeding our forecast. At Group level, sales amounted to €6,790m, up 7.9%. Sales rose slightly in the Europe segment (2.6%) and even significantly in the Americas segment (16.9%).

For both regions, we had projected that gross profit would increase slightly. During the fiscal year, the Americas segment recorded a very significant rise and thus exceeded expectations, while the Europe segment fell short with a noticeable decline. In total, gross profit rose by 0.9%, which is within the expected range.

The gross profit margin decreased slightly in the Americas segment as a result of higher price levels and decreasing price momentum in the USA over the course of the year. In the Europe segment, the gross profit margin declined markedly, primarily due to the unforeseen weakness of the automotive industry in the second half of the year and the Brexit uncertainties in the United Kingdom. Overall, the figure decreased measurably at Group level (by -1.3 percentage points to 19.6%). We had originally expected the gross profit margin to remain stable for both segments and the Group.

Whereas in our forecast for 2018, we anticipated operating income (EBITDA) at Group level to match that of the prior year, it actually developed better and grew by 3.4% to €227m (or €229m before material special effects).

As expected, operating income in the Europe segment was not bolstered by positive price effects (windfall profits) in 2018. The weakness of the automotive industry and Brexit woes in particular held back earnings growth, resulting in a sharp decline in EBITDA. We had previously forecast just a moderate decrease. Operating income in the Americas segment saw a strong increase, while prior-year expectations only saw a marked increase. Pricing level developments in the USA were largely to thank for this especially positive outcome.

The EBITDA margin in the Europe segment went down more substantially than we had anticipated in our forecast. The main reason for the discrepancy was increasing pressure on gross profit margins as the year progressed. In the Americas segment, by contrast, the EBITDA margin grew much more strongly than expected. Overall, the Group performance indicator was at the expected level, remaining virtually unchanged.

Our net working capital increased markedly at Group level, whereas we had projected that it would merely rise moderately. This is due to the very sharp increase in net working capital in the Americas segment as a result of the strong price rises over the year. In contrast, the rise in the Europe segment was only slight, as anticipated.

In line with our forecast, net income was once again well into positive figures at €69m.

2.5 Workplace injury frequency

We measure the frequency of workplace accidents using the key performance indicator of 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 value of less than 11.7 Group-wide. In spite of the measures adopted, LTIF across the Group rose by 4 points relative to the prior year to 13.3 in 2018 (2017: 9.3).

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 2018 – as presented under “Control system” on page 55 – 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 (UNTIL DECEMBER 31, 2018)

(€ million)	2018	2017	Variance	
Sales	6,790	6,292	498	7.9%
Gross profit	1,328	1,316	12	0.9%
Gross profit margin	19.6%	20.9%		– 1.3%p
EBITDA before material special effects *)	229	220	9	4.4%
EBITDA margin	3.3%	3.5%		– 0.2%p
EBITDA	227	220	7	3.4%
Net Working Capital (NWC)	1,229	1,132	97	8.6%

*) Material special effects BPO expenses (€7m) and indemnities with regard to the Deepwater Horizon accident (€5m).

OTHER KEY PERFORMANCE INDICATORS

(€ million)	2018	2017	Variance	
Shipments (Tt)	6,107	6,135	– 28	– 0.5%
Net financial debt	383	330	53	16.0%
Gearing (Net financial debt/shareholders' equity *))	31%	28%		3%p
Leverage (Net financial debt/EBITDA)	1.7x	1.5x		0.2x

*) 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 0.5% on the comparative period.

Shipments in the Europe segment decreased on the prior year to 3.4 million tons (– 4.8%). The main reasons for this were the decline in shipments at Becker Stahl-Service GmbH due to the weakening automotive sector on the back of the diesel scandal, reduced shipments in the United Kingdom as a result of the uncertainties surrounding the upcoming Brexit, and the streamlining of the distributor network in France. In contrast, shipments in the standard distribution business in Germany recorded a positive performance. Switzerland also saw shipments increase thanks to the positive economic environment.

Shipments rose by 5.5% to 2.7 million tons in the Americas segment due to the robust market growth in the main steel-consuming industries in the USA.

SALES BY SEGMENTS

(€ million)	2018	2017	Variance Total	Currency effects	Net of currency effects	
Europe	4,049	3,947	102	– 42	144	3.7%
Americas	2,741	2,345	396	– 130	526	22.4%
Group sales	**6,790**	**6,292**	**498**	**– 172**	**670**	**10.7%**

Sales up due to higher average price levels

Group sales grew by 7.9% to €6.8 billion due to considerable improvement in price levels. Currency-adjusted sales rose by 10.7%.

Compared with the previous year, sales in the Europe segment rose slightly by 2.6% to €4.0 billion (currency-adjusted: 3.7%). With the exception of Becker Stahl-Service and the French country organization, sales were up in all European distribution entities.

Despite the deteriorating exchange rate, sales in the Americas segment rose even more sharply than in the Europe segment and were up by 16.9% (currency adjusted 22.4%), due to much stronger shipment prices and more dynamic shipment growth.

NET INCOME

(€ million)	2018	2017	Variance Total	Currency effects	Net of currency effects	
Sales	6,790	6,292	498	–172	670	10.7%
Gross profit	1,328	1,316	12	–36	48	3.7%
Gross profit margin	19.6%	20.9%	– 1.3%p			
OPEX*)	–1,101	–1,096	–5	27	–32	– 2.9%
EBITDA	227	220	7	–9	16	7.5%
EBITDA before material special effects**)	229	220	9	–9	18	8.3%
EBIT	141	130	11	–6	17	13.8%
EBT	107	97	10	–5	15	16.0%
Net income	69	102	–33	–4	–29	– 29.2%

*) OPEX = Other operating income less personnel expenses plus other operating expenses.
**) Material special effects BPO expenses (€7m) and indemnities with regard to the Deepwater Horizon accident (€5m).

Gross profit at prior-year level

At €1,328 million, gross profit was at the level of the previous year. Adjusting for currency effects, the figure increased by €48 million thanks to the positive developments in the Americas segment, where we were able to benefit from windfall profits. This was offset by the weaker automotive industry and the impact of Brexit in Europe. Due to the weakening growth in our markets during the year and the associated pressure on the gross profit margin, the latter declined from 20.9% in the prior year to 19.6%.

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

OPEX

			Variance			
(€ million)	2018	2017	Total	Currency effects	Net of currency effects	
Other operating income	31	38	– 7	1	– 8	-20.0%
Personnel expenses	– 606	– 622	16	16	-	0.1%
Other operating expenses	– 524	– 511	– 13	11	– 24	– 4.6%
Impairment losses trade receivables	– 2	– 1	– 1	-	– 1	n.a.
OPEX	**– 1,101**	**– 1,096**	**– 5**	**28**	**– 33**	**– 2.9%**

At €– 1,101 million, OPEX was at roughly the same level as in the prior year. On an exchange rate adjusted basis, there was an increase of €33 million which was primarily due to the greater volume of business. Business process outsourcing (BPO) in the Europe segment led to a €7 million adverse impact on OPEX, primarily due to redundancy program measures.

Other operating income, at €31 million, was down €7 million on the prior-year figure. This decline is largely due to the lower proceeds from the disposal pf property, plant and equipment. Other operating income in the past fiscal year includes €5 million in damages from the 2010 Deepwater Horizon accident in the USA.

Personnel expenses dropped from €622 million to €606 million. This is due in particular to exchange rate changes amounting to €16 million. Adjusted for exchange rate effects, personnel expenses remained broadly unchanged compared with the prior year. Personnel expenses include the redundancy plan expenses incurred due to implementation of the BPO.

Other operating expenses rose by €13 million to €524 million. Adjusted for currency effects, this figure increased by €24 million, primarily due to business activity.

EBITDA increased from €220 million in the prior year to €227 million as a result of the above factors.

GROSS PROFIT AND EBITDA BY SEGMENTS

	2018		2017	
(in € million)	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Europe	793	19.6%	850	21.5%
Americas	535	19.5%	466	19.8%
Klöckner & Co Group	**1,328**	**19.6%**	**1,316**	**20.9%**

	2018		2017	
(in € million)	EBITDA	EBITDA margin	EBITDA	EBITDA margin
Europe *)	98	2.4%	151	3.8%
Americas **)	150	5.5%	94	4.0%
Headquarters	–19	-	–25	-
Adjusted EBITDA of the Klöckner & Co Group	**229**	**3.4%**	**220**	**3.5%**
Net adjustments *),**)	–2	-	-	-
Klöckner & Co Group	**227**	**3.3%**	**220**	**3.5%**

*) Adjusted for material special effects BPO expenses (€7m).
**) Adjusted for indemnities with regard to the Deepwater Horizon accident (€5m).

Strong positive EBITDA performance in Americas segment, Europe segment significantly down on prior year

The gross profit of €793 million in the Europe segment was significantly below the prior-year figure of €850 million. Whereas the prior-year figure was substantially boosted by windfall effects, the same was not true in the reporting year. In addition, the weakness of the automotive industry, particularly at Becker Stahl-Service, had a negative impact. The uncertainties surrounding Brexit in the United Kingdom and the streamlining of the distributor network in France also contributed to the decline in gross profit. The gross profit margin narrowed accordingly from 21.5% to 19.6%. In line with gross profit, EBITDA before material special effects decreased from €151 million in the prior year to €98 million. Segment EBITDA includes a positive €16 million contribution to earnings from the “One Europe” project. The EBITDA margin declined from 3.8% to 2.4%. Taking into account the negative impact on earnings of the BPO project of €7 million, reported EBITDA amounted to €91 million.

Gross profit in the Americas segment rose to €535 million despite currency losses of €25 million. The considerable increase on the prior-year figure of €466 million 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 slightly due to the above-average increase in procurement prices, amounting to 19.5% compared with the prior-year figure of 19.8%. EBITDA, not including damages of €5 million from the 2010 Deepwater Horizon accident in the USA, increased in line with gross profit, rising from €94 million to €150 million. The EBITDA margin improved from 4.0% to 5.5%. The “One US” program contributed €7 million (USD 8 million). Including the other operating income from indemnities, EBITDA was €155 million.

Headquarters EBITDA was €– 19 million (2017: €– 25 million). The reduction in personnel expenses due to lower performance-related pay (particularly in relation to the virtual stock options program) and smaller severance payments contributed to this improvement.

RECONCILIATION TO NET INCOME

(€ million)	2018	2017	Variance	
EBITDA	**227**	**220**	**7**	**3.4%**
Depreciation, amortization and impairments	– 86	– 90	4	4.6%
EBIT	**141**	**130**	**11**	**9.0%**
Financial result	– 34	– 33	– 1	– 3.7%
EBT	**107**	**97**	**10**	**10.8%**
Income taxes	– 38	5	– 43	n.a.
Net income	**69**	**102**	**– 33**	**– 32.9%**

Depreciation and amortization amounted to €86 million (2017: €90 million), resulting in a positive EBIT of €141 million, up considerably from the previous year's figure of €130 million.

The financial result was slightly down on the previous year at €– 34 million. This decline is primarily attributable to the higher interest expenses due to the increased utilization of the ABS program.

Financial result down slightly on prior year

EBT was €107 million, compared with €97 million in the prior-year period. The tax expense amounted to €38 million (2017: tax income of €5 million). The income in the previous year resulted from the adjustment of deferred tax liabilities in the USA in connection with the tax reform and the recognition of other deferred tax income in Germany. There was no comparable income in 2018.

Net income of €69 million

The bottom line comprises net income of €69 million, down from €102 million in the previous year.

Basic earnings per share came to €0.68, compared with €1.01 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 in 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 syndicated loan was extended early until May 2021

A central component of Group financing is our syndicated loan (a revolving credit facility). In April 2018, this was extended ahead of term, retaining the facility amount at €300 million, until May 2021.

Under the financial covenants agreed with the banks both for the syndicated loan and for the European ABS program, net financial debt (before first-time application of IFRS 16) 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 may not fall below €600 million. Furthermore, the scope for drawing on the syndicated loan is tied to its virtual collateral, defined as the current totals for unrestricted trade 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. Most recently in September 2018, the European ABS program was extended ahead of term to September 2021 on slightly improved terms while retaining the €300 million loan amount.

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

Utilization under the two programs totaled €282 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

Convertible bond with a volume of €148 million

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

The coupon on the bonds was set at 2.00% p.a. and the conversion premium at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. The conversion price was most recently modified to €14.10 in connection with the 2018 dividend payment. The bonds have a seven-year term. Under the bond terms, holders have an investor put option under which they can demand early redemption after five years at par value plus accrued interest. 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

The bilateral credit facilities in an amount of approximately €437 million were around 24% drawn at the end of 2018. The facilities include a USD 275 million asset-based lending facility at our US country organization that expires in March 2021. In March 2018, the bilateral credit lines in Switzerland were restructured and extended with a total facility amount of CHF 130 million for another four years until March 2022.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

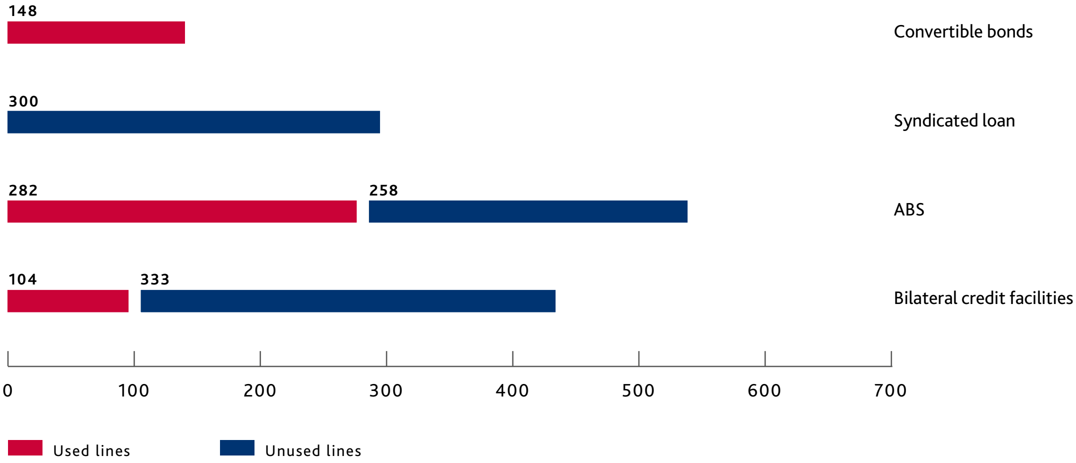
The Group uses an international cash pooling system to handle inter-company settlements and manage liquidity. Our country organizations in Switzerland and the United Kingdom as well as the Americas segment are not part of the cash pooling system as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2018.

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Financial headroom remains ample at €1.4 billion

Klöckner & Co maintains credit facilities totaling approximately €1.4 billion. As shown in the following table, drawing on these facilities totaled only around €0.5 billion as of December 31, 2018.

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, 2018	December 31, 2017	Variance Total	Currency effects	Net of currency effects	
Net financial debt	383	330	53	8	45	13.6%
Gearing (Net financial debt/shareholders' equity *))	31%	28%	3%p			
Leverage (Net financial debt/EBITDA)	1.7x	1.5x	0.2x			

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

Leverage at 1.7x

Gearing was 31% as of the fiscal year-end, well within the 150% limit under the syndicated loan and the European ABS program, while leverage deteriorated as a result of the higher debt from 1.5x to 1.7x.

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 any 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 135 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)	2018	2017	Variance	
Cash flow from operating activities	60	79	– 19	– 23.7%
Cash flow from investing activities	– 59	2	– 61	n.a.
Free cash flow	**1**	**81**	**– 80**	**– 99.3%**
Cash flow from financing activities	– 15	– 58	43	73.7%

Cash flows from operating activities amounted to €60 million and was down from €79 million in the prior year despite the higher operating income.

Free cash flow once again positive

Investing activities resulted in a net cash outflow of €59 million in fiscal year 2018 (2017: cash inflow of €2 million). In the year under review, proceeds of €6 million from the disposal of property, plant and equipment and financial assets were countered by payments of €65 million for other investments in fixed assets (2017: €82 million). Of the capital expenditure, €42 million was incurred in the Europe segment and €15 million in the Americas segment. Accordingly, free cash flow came to €1 million, compared with €81 million in the prior year.

Cash flow from financing activities was a negative €15 million (2017: negative €58 million) and includes a €30 million cash outflow for dividend payments to shareholders of Klöckner & Co SE and borrowings in the amount of €23 million. Furthermore, cash flow from financing activities also includes a negative €7 million in payments relating to extensions and settlements of currency hedges as part of the Group headquarters financing arrangements (2017: receipts of €26 million).

Consolidated balance sheet

(€ million)	December 31, 2018	December 31, 2017	Variance Total	Currency effects	Net of currency effects	
Non-current assets	832	834	– 2	23	– 25	– 3.0%
Current assets						
Inventories	1,242	1,105	137	27	110	9.9%
Trade receivables	740	680	60	16	44	6.6%
Other current assets	106	113	– 7	2	– 9	– 8.7%
Liquid funds	141	154	– 13	2	– 15	– 9.5%
Total assets	**3,061**	**2,886**	**175**	**70**	**105**	**3.6%**
Equity	1,282	1,202	80	32	48	4.0%
Non-current liabilities						
Financial liabilities	501	426	75	16	59	13.7%
Provisions for Pensions	260	282	– 22	1	– 23	– 8.2%
Other non–current liabilities	62	64	– 2	1	– 3	– 5.2%
Current liabilities						
Financial liabilities	19	53	– 34	1	– 35	– 63.8%
Trade payables	753	653	100	16	84	12.8%
Other current liabilities	184	206	– 22	3	– 25	– 12.3%
Total equity and liabilities	**3,061**	**2,886**	**175**	**70**	**105**	**3.6%**

Total assets stood at €3.1 billion as of December 31, 2018 and thus showed an increase (of 6.1%) on the prior year. It should be taken into account in the analysis that the change in balance sheet items includes currency translation effects relating to our international subsidiaries – for the most part our US activities. Adjusted for currency translation, total assets increased by 3.6%.

Total assets at €3.1 billion, 3.6% up on the prior year on an currency adjusted basis

An amount of €20 million of the exchange rate adjusted decrease in non-current assets relates to intangible assets. Additions of €7 million were countered here by €27 million in amortization. On an exchange rate adjusted basis, property, plant and equipment was broadly level with the prior year. Additions from capital expenditure amounting to €60 million were set against €58 million in depreciation.

While the optimization and restructuring measures effected are already delivering significant contributions to earnings, the carrying amounts of the cash generating units in the UK, France and 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 and property, plant and equipment”).

Equity increased mainly due to the positive net income (€69 million), positive effects from the translation of the financial statements of foreign subsidiaries (€30 million), pension effects and, in the opposite direction, dividend payments to shareholders of Klöckner & Co SE (€– 30 million) from €1,202 million to €1,282 million.

The equity ratio is a solid 42%, unchanged from the prior year.

Equity ratio unaltered at 42%

Financial liabilities increased, chiefly as a result of greater 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 €1,273 million, compared with €1,140 million in 2017.

Net working capital changed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2018	December 31, 2017	Variance			
			Total	Currency effects	Net of currency effects	
Inventories	1,242	1,105	137	27	110	9.9%
Trade receivables	740	680	60	16	44	6.6%
Trade payables	– 753	– 653	– 100	– 16	– 84	– 12.8%
Net Working Capital	**1,229**	**1,132**	**97**	**27**	**70**	**6.2%**

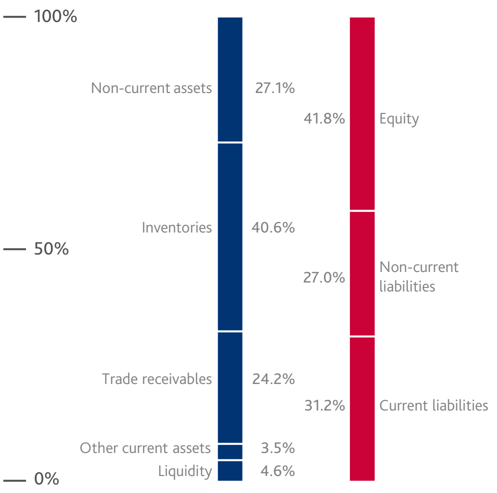
Net working capital was €1,229 million as of December 31, 2018, compared with €1,132 million a year earlier. The currency-adjusted increase on the prior year amounted to €70 million and resulted from the higher price levels prevailing in the reporting year.

Cash and cash equivalents were at €141 million at the end of the fiscal year (2017: €154 million).

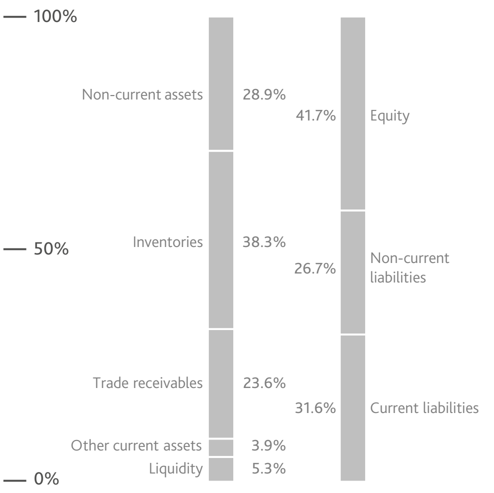
Financial liabilities, at €521 million, exceeded the prior-year figure of €479 million by €42 million and include €282 million in drawings under the ABS programs, €137 million for the debt component of the convertible bond issue and €102 million in bilateral facilities and lease liabilities. The syndicated loan was undrawn as of the year-end.

Pension provisions dropped from €282 million to €260 million in the reporting year. The decrease was the result of higher discount rates compared with the prior year.

BALANCE SHEET TOTAL 2018: 3,061
(in € million)



BALANCE SHEET TOTAL 2017: 2,886
(in € million)



2.7 Overall assessment of the business situation

Key drivers: economic developments and positive price environment in the USA

The Klöckner & Co Group's operating income (EBITDA) continued to perform well in fiscal year 2018. Key factors in the slight growth were the robust economic trend and very positive price environment in the USA. Our internal optimization measures also contributed.

Income before taxes was likewise higher than in the prior year. Whereas we benefited from positive tax effects in the prior year, there were no such effects in the year under review, with the result that consolidated net income was lower than in the prior year.

Our finances remain very stable. The increase in net working capital was noticeable despite rising prices, with the outcome that cash flow from operating activities was lower than in the prior year but still at a satisfactory level. In total, we generated a slightly positive free cash flow. Net financial debt likewise increased. Financing for the Group is based on a widely diversified portfolio of funding instruments. The equity ratio remains very solid at approximately 42% as of the 2018 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, 2018	December 31, 2017	Variance	
Intangible assets and property, plant & equipment	3	3	-	0.0%
Non-current investments	1,115	1,102	13	1.1%
Fixed assets	**1,118**	**1,105**	**13**	**1.1%**
Receivables from affiliated companies	327	335	– 8	– 2.6%
Other receivables	3	7	– 4	– 49.5%
Cash and cash equivalents	49	94	– 45	– 47.9%
Current assets	**379**	**436**	**– 57**	**– 13.0%**
Prepaid expenses	12	16	– 4	– 24.4%
Total assets	**1,509**	**1,557**	**– 48**	**– 3.1%**
Equity	**1,236**	**1,281**	**– 45**	**– 3.5%**
Provisions for pensions and similar obligations	94	91	3	3.3%
Other provisions	14	29	– 15	– 51.3%
Bonds	148	148	-	0.0%
Liabilities to affiliated companies	8	7	1	10.3%
Other current liabilities	9	1	8	n.a.
Total equity and liabilities	**1,509**	**1,557**	**– 48**	**– 3.1%**

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.

The increase in financial assets is mainly due to higher loans to affiliated companies and a €5 million contribution to capital reserves at XOM Materials GmbH, Berlin.

As in the prior year, Klöckner & Co SE's equity ratio was 82% as of December 31, 2018.

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2018	2017	Variance	
Revenues	26	18	8	46.4%
Other income	4	148	– 144	– 97.5%
Cost of purchased services	– 18	– 10	– 8	– 77.6%
Personnel expenses	– 23	– 21	– 2	– 11.0%
Other operating expenses	– 16	– 16	-	0.0%
Impairments of investments	– 13	-	– 13	-
Income from investments	22	88	– 66	– 74.9%
Interest income, net	2	1	1	n.a.
Result from ordinary activities	**– 16**	**208**	**– 224**	**n.a.**
Taxes	1	– 5	6	n.a.
Net loss (prior year: net income)	**– 15**	**203**	**– 218**	**n.a.**
Retained profit prior year	203	75	128	n.a.
Dividends	– 30	– 20	– 10	– 50.0%
Appropriation to other revenue reserves	– 173	– 55	– 118	n.a.
Withdrawals from other revenue reserves	45	-	45	-
Unappropriated profits	**30**	**203**	**– 174**	**n.a.**

Sales mainly comprise services for Group companies.

When analyzing other operating income, it must be noted that the prior-year figure included €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. Other operating income in the fiscal year under review mainly relates to reversals of provisions.

The increase in cost of purchased services is partly due to business process outsourcing (BPO) for accounting activities.

In order to strengthen the capital base of our subsidiary Kloeckner Metals UK, Leeds, United Kingdom, a capital increase was carried out in the fiscal year under review in the amount of €13 million, on which an impairment loss was recognized immediately on account of the company's weak earnings.

Investment income at Klöckner & Co SE consists of profit distributions and profit transfers from subsidiaries. Income from profit transfer agreements related to Becker Stahl-Service GmbH, Duisburg, and Becker Besitz GmbH, Duisburg, with the income from Becker Stahl-Service GmbH significantly lower. The prior-year figure included dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland. In 2018, the figure additionally included assumed losses, mainly relating to Klöckner & Co Deutschland GmbH, Duisburg.

Overall, there was consequently a net loss of €15 million in 2018 (2017: net income: €203 million).

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.

Dividend proposal of €0.30 per share

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 for distribution of reinvested profits at subsidiaries and the profit transfer agreements we have in place, we expect – after the net loss in 2018 – to be back in positive figures with net income in 2019.

The complete annual financial statements of Klöckner & Co SE, including the auditor's unqualified opinion, are published in the company register. Interested parties can request the annual financial statements from the Company's headquarters or access them 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) c (ii) OF THE EUROPEAN COMPANY REGULATION

STRUCTURE OF SHARE CAPITAL

As of December 31, 2018, 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. However, the members of the Management Board are subject to a vesting period before selling their personal investment shares.

INTERESTS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2018, 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

No shares with special control rights exist.

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's 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 capital majority is mandatorily required by law. For resolutions that require a three-quarter capital majority under the German Stock Corporations Act, a three-quarter majority of share capital represented is consequently 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 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 by up to €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 by up to €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 Group companies or by third parties acting on the Company's account or on the account of Group companies. 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) in the event of a voluntary takeover offer as defined by the Securities Acquisition and Takeover Act, the bidder holds at least 30% of the voting rights in the Company, 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 either been 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 REMUNERATION 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

In light of the healthy development of net income in the fiscal year under review, despite the loss reported in the separate financial statements of Klöckner & Co SE prepared on the basis of the German Commercial Code, the Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's unappropriated profits for fiscal year 2018 of an amount of €29,925 thousand to shareholders as dividend. At 99,750,000 eligible no-par-value shares, the dividend proposal corresponds to a dividend of €0.30 per share, which slightly exceeds our general 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 2019: 3.5%

The International Monetary Fund (IMF) estimates growth of 3.5% for the global economy in 2019. In addition to an economically favorable situation from the outset as a result of high growth rates in recent years, emerging markets in particular are expected to contribute to economic growth with a robust surge in investment activity. This contrasts with an expected contraction in global trade. Future growth could be curbed by a marked slowdown in economic activity in larger economies, acts of the US administration and – notably in that connection – a tightening of trade restrictions, the impacts of Brexit, the monetary policy of the four major central banks (USA, Europe, United Kingdom and Japan) and geopolitical conflicts.

The eurozone economy is projected to grow by 1.6% in 2019. It is expected that consumer spending and job creation, combined with accommodative monetary policy, will make for continued economic growth, although at a distinctly more moderate pace than in the preceding years. The growth slowdown is notably attributable to weaker industrial output on account of stricter vehicle emission standards in Germany and to the dealing of a number of EU member states with regard to government borrowing. Another ongoing risk for the economy relates to the impacts of Brexit.

The IMF forecasts economic growth of 2.5% for the USA in 2019. Strong domestic demand is expected to buttress the economy once again this year. Alongside this, the positive situation on the labor market is regarded as a further supporting factor for the current growth trajectory. Growth is expected to be down on the prior year, however, as the stimulus from last year's tax reform is tapering off and trade disputes could continue to negatively impact the economy.

For China, the IMF expects growth of 6.2% in 2019. It primarily attributed the fall in the growth rate to decreasing foreign demand and generally restrictive regulatory measures. Trade policy decisions by both the US administration and the Chinese government could additionally have an increasingly adverse impact on growth.

The IMF believes that the Brazilian economy will continue to recover. It expects the economy to grow by 2.5% in 2019 due to rising consumer spending.

Expected development of GDP (in percent)	2019
Europe[*)]	**1.6**
Germany	1.3
United Kingdom	1.5
France	1.5
Spain	2.2
Switzerland	1.6
China	**6.2**
Americas	
United States	2.5
Brazil	**2.5**

Source: IMF, Bloomberg.
*) Eurozone.

Expected steel sector trend

The World Steel Association predicts that global steel consumption will grow by 1.4% in 2019. The forecast indicates growth of 1.7% for the European Union, 1.0% for the North American Free Trade Agreement (NAFTA) region and 4.3% 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 around 2% in 2019, notably due to sustained low financing costs, albeit at a lower level than in the fiscal year under review. Growth of 3% is projected for the USA. This growth rate is slightly below the level a year earlier, the main factors comprising rising interest rates combined with higher material costs.

Machinery and mechanical engineering

EUROFER projects growth of approximately 2% for machinery and mechanical engineering across the eurozone in 2019. The significant decrease on the previous year is explained by, firstly, limited capacity and, secondly, increased uncertainty due to globally implemented trade policy measures, which hit this sector particularly hard. Growth of around 3% is projected for the USA.

Automotive industry

With the entire automotive industry in a period of transition and the trade conflict between the USA and China in particular exerting a dampening effect overall, the German Association of the Automotive Industry (VDA) expects the global passenger car market to grow only slightly in 2019, by around 1%. Unit sales are expected to stay stable in Europe and the US market and to grow by 2% in China, where the market contracted in 2018.

4.3 Risks and opportunities

The recent weaker trend in the automotive industry, the fall on global stock markets since October 2018 and ongoing political risks such as the simmering trade war – primarily between the USA and China, but also between the USA and Europe – have led to increasing uncertainty and even fears of recession among market players. Global growth remains solid, although our main sales markets in Europe and the USA show a weaker trend. The sustained positive economic environment in the USA and ongoing hopes that infrastructure spending will be stepped up could lead to higher steel demand. There is nonetheless substantial, primarily politically driven uncertainty. Steel prices have also been falling recently – from a very high level – in both Europe and the USA. If demand holds steady, however, both the punitive tariffs on steel and aluminum in the USA and the safeguard measures imposed on steel in Europe by the European Commission through to July 2021 should at least cushion the risk of potential price erosion.

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 – which was revised in 2018 – and comprehensive annual updating of the risk inventory at both country level and corporate department level at 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, 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 identified significant risks 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.

A voluntary review of the appropriateness and effectiveness of Klöckner & Co SE's risk management system was performed on the basis of IDW Auditing Standard 981 by an independent auditing firm at the end of 2018. The review found our system to be appropriate and effective.

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 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 such as impairment losses, interest rate risk, currency risk and tax risk that do not impact EBITDA but on the basis of prudent business judgment 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 country level and at corporate department level at 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 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. 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

Identified risks are documented in a half-yearly risk report. The Corporate Risk Management Department supplements this reporting as and when necessary with ad-hoc reporting on any material risks emerging at short notice and any material changes in risks already identified. The report addresses risk at the overall Group level as well as at the level of the individual country organizations and is intended primarily for the Management Board and the Supervisory Board.

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 aim of the ICS is to use the implemented controls 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/Risk Management. For instance, the country organizations' control units produce monthly reports, which Corporate Controlling & Development/M&A/Risk Management 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 internal audit system of Klöckner & Co SE was conducted in late 2017 on the basis of IDW Auditing Standard 983. The review concluded that the requirements for effective and efficient internal auditing are met in full.

The Supervisory Board's Audit Committee reviews the effectiveness of the internal control system once annually 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) emphasizes 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 suppliers and service providers are likewise expected to comply with our Code of Conduct or to implement and comply with an equivalent code of conduct of their own. 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 of our Code of Conduct. 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 cover in particular anti-corruption, antitrust law, anti-money laundering and anti-discrimination, as well as integrity due diligence on intermediaries we engage, system-integrated export controls and sanction list screening, and anti-money laundering business partner due diligence in high-risk countries. Our aim here is to demonstrate 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 kickbacks and other bribery or corruption offenses 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	
Financial risk	Impairment of non-current assets[1)]		
			Year-on-year decrease in discount rate for pension obligations[2)]
			Future long-term weak profitability
Legal/ Compliance risks		Antitrust violations	
			Changes in tax legislation or administrative interpretation of tax matters
IT risk		Cyber risk	
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 posed by disruptive market players, future acquisitions that are lacking in success and excessive sovereign debt in many industrialized 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 increasingly digitalizing our supply and value chain, developing our open industry platform XOM Materials in both Europe and the USA, and continuing to step up efforts to increase the percentage of sales generated by 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 – such as by the amalgamation of our Dutch and Belgian country organizations into Benelux at the beginning of 2019 – 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 supported by VC^2 makes an important contribution to improving earnings from steel distribution. This accelerates our corporate development and supports continuous improvement. In the United States, we continue to strengthen our business with the 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, the automotive supplier industry and shipbuilding, 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 (31% 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 September 2021, the €300 million syndicated holding company credit facility running to May 2021, a syndicated ABS/ABL facility in the USA totaling USD 550 million and running to March 2021, and a bilateral Swiss credit facility for CHF 130 million extending to March 2022. 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 €141 million, we also had adequate holdings of cash and cash equivalents as of the year-end 2018. 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. From January 2019, kloeckner.i also offers selected consulting services for external third parties in a strategic alliance with Axel Springer hy, a consultancy established at the beginning of 2017.

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. Another of our objectives is 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 set up XOM Metals GmbH in Berlin for that purpose. To emphasize its openness to other resources and materials as well as metals, XOM Metals GmbH was renamed XOM Materials GmbH in the middle of last year. Since September 2018, the latter has owned 100% of XOM Materials Operations Inc., Delaware, USA.

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. Nevertheless, we are unable to rule out negative developments entirely, as the business situation of acquirees is subject to the same strategic risks as our other activities.

We pursue ongoing efforts to optimize workflows and processes in our business operations in order to improve our resilience to negative influences acting on our business environment, such as a sovereign debt crisis. This is why we launched the above-mentioned "One Europe" and "One US" programs and have brought them together as the Group-wide VC^2 program in order to drive substantial further efficiency gains at the companies concerned, accelerate their development and promote sustained, continuous improvement.

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 44% 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 a long-term economic recovery. Klöckner & Co is additionally subject to significant market risk resulting above all from trends in demand and prices, and especially from the highly competitive situation, which will only intensify as digitalization advances.

Current cyclical risks 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. Political risks in particular continue to cause uncertainty in Europe. These notably include the form taken by Brexit and the resulting possibility of weaker economic growth and the risk of a “hard” Brexit with the United Kingdom leaving the EU without an agreement on the future relationship between the two. 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. Other political risks that could adversely impact economic developments are the confrontation between Italy and the EU over the size of the Italian budget deficit – a dispute that continues to simmer despite concessions by the Italian government – possible consequences of the gilets jaunes protests in France and, finally, uncertainty surrounding the European Parliament elections in May.

In the USA, the positive effects of the tax reform are gradually tapering off. Nonetheless, consumer spending combined with high employment and corporate investment continue to support positive, albeit slightly weaker economic growth. These factors are countered, however, by increased protectionism and isolationism, which by way of the resulting trade war would also 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 our shipments – there is a strong dependence on public investment spending, which is at risk if economic growth weakens. Demand from the automotive industry, which is the second most important sector for steel consumption, also weakened significantly in the second half of the year. There are currently no signs of a full recovery.

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 (negative windfall effect) on current earnings. 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, prices are frequently subject to 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 the punitive tariffs on steel and aluminum imposed by the US administration and the safeguard measures applied in response by the European Commission in order to prevent the European market from being flooded with diverted imports. In early 2019, the European Commission decided to follow up the provisional solution in the form of the temporary safeguard measures with longer-term measures lasting until July 2021.

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 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. With current prices still at a very high level, there is a risk of price erosion that may go on for some time if there is a fall in demand.

Overcapacities also exist in steel distribution, which have led to intensification of the competitive situation. Excess inventories or downward price trends, for example, may prompt individual competitors to introduce special offers, leading to additional price pressure in the market, which may have a negative impact on earnings. 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 compete with small to medium-sized enterprises even better. A major part in this comprises our “One Europe” and “One US” programs – continuous improvement measures that have been brought together under the common umbrella of VC^2. Another key factor in minimizing market risk is our increasing differentiation in relation to competitors. The core elements in this connection are digitalizing the supply and value chain coupled with continuing to develop our XOM Materials 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 competitiveness and, instead, to benefit from digitalization, 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 use a price information system to collect data on prices, which is then shared online within the Group. The coordination of procurement across national borders and product lines, which we have further enhanced via “One Europe” and “One US”, enables us to respond quickly to changing situations in the procurement market. In this way, we are able to optimize 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.

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.

In recent years, we have acquired several target companies on the basis of Klöckner & Co's growth strategy. In measuring the value of those companies, we made assumptions regarding their future business performance. There is a risk of actual developments diverging from these assumptions. As of December 31, 2018, non-current intangible assets from acquisitions in North America totaled €82 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, as under the "One US" program as part of VC^2, 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 expenditure 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 become necessary due to tighter legal requirements.

In the case of funded pension obligations, such as in the USA and the UK, 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 an intermediate risk, even though this does not impact our EBITDA performance metric, 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. Despite the positive earnings trend in recent quarters, we see an intermediate risk for Klöckner & Co with the economy weakening at the same time as steel price levels are going down. We counter this risk with our VC^2 continuous efficiency enhancement program under our "Klöckner & Co 2022" strategy in order to improve profitability on a lasting basis.

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 respect 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 measures to reduce such risk, please refer to the information on our compliance management system in the "Corporate governance" section (starting on page 24).

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. In 2018, outside experts once again carried out a cyber security review of systems and applications at selected Group companies. This confirmed that Klöckner & Co is well positioned with regard to cyber security.

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 increasingly difficult to find qualified employees in a timely manner in the countries in which we operate. The main reason for this is 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, for example, in January 2019. The “Mehrwertmacher” (value creators) employer branding campaign launched in 2017 with the goal of positioning Klöckner & Co even more strongly as an attractive employer within the Company was continued in the reporting year in order to present us to the outside world as a strong employer brand. The campaign recently gained an award, taking second place within the change management category in the national German HR Excellence Awards in Berlin.

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/Risk Management 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 together with the holding company.

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 provide the basis for leveraging opportunities at Klöckner & Co.

Strategic opportunities

The focus of our “Klöckner & Co 2022” growth strategy is 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 generated by higher value-added business and achieving additional efficiency gains, accelerated by VC^2 with the focus on a continuous improvement process. 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 digitalize 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. In the reporting year, for instance, we supplemented the specialized capabilities of our Dutch subsidiary ODS Metering by acquiring Global System Development BVBA, a leading software and system integration provider in the metering business.

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 the UK, 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. This business is also being successfully rolled out in the USA, such as at our Dallas location. Expansion of our 3D laser capacity is to continue across Europe in order to make efficient use of our network. We have also started using 3D printing technology with metals in Germany. In addition, the growth market of additive manufacturing has the potential to offer our customers a promising addition to our portfolio of products and services.

In addition to the 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 have also invested in three special facilities for coating sheet metal and sections in the United States. 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 country organization 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.

Notably accelerated by a continuous improvement process in our new VC^2 program, we are leveraging additional efficiency gains through successful pursuit of our "One Europe" and "One US" programs for sustained earnings increases in our core business. In Europe, we have brought the activities of the country organizations even closer together for this purpose – for example, by merging our Dutch and Belgian activities into Benelux under the same CEO. This enhances the integration of our business, enabling us to save costs while at the same time leveraging synergies in areas such as procurement and logistics. Additionally, this will help us to secure even faster and more efficient implementation of the "Klöckner & Co 2022" strategy. In the USA, the three product groups resulting from various acquisitions have been combined into a single unit and the regional focus is brought out more strongly with a new structure in order to promote regional cooperation and provide customers with a central point of contact. The activities of three divisions in Switzerland have been combined under uniform management and thus more strongly centralized, while the existing structures have been streamlined in order to be more agile and further extend our leading competitive position. Overall, the purpose of all these programs and measures is not only to reap synergies, but also to make our organization leaner so as to secure efficiency improvements, respond more rapidly to changes in the market environment and further accelerate implementation of our digitalization strategy and the expansion of higher value-added business.

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 clearly increase efficiency for all. The 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 solutions for online shops, especially for specialized products and services. Another key component is our vertical open industry platform, XOM Materials, featuring a broad product portfolio and providing great transparency in prices and availability across multiple suppliers. At the end of the reporting period, ten suppliers were already under contract and some 160 customers had signed up to the platform. 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. In addition, we recently began offering our expertise in digital transformation to third parties as a consulting service in conjunction with our partner Axel Springer hy. This strategic alliance allows us to tap new sales potential by offering a unique range of consulting services, by entrepreneurs for entrepreneurs. The focus is on providing leading companies with one-stop advice on digital transformation with regard to analysis, strategy, cultural change, company building, platform building, investing and venturing.

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 our organizational structures in Europe and the USA.

As an integral part of our efficiency improvement strategy, VC^2 also brings together measures and projects directed at improving workflows and processes in our operating business. Alongside further streamlining and focusing procurement and logistics, a notable emphasis in Europe 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.

The primary objective of our efficiency enhancement strategy in the USA is to improve cooperation in sales and in other operating functions so that we can offer our customers end-to-end services. For this purpose, the previous classification by product group has been replaced by a new, regional structure. This gives our customers access to our entire range of products and services from a single source, and brings 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 over many 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. In Europe, this also applies – alongside materials procurement – to procurement of non-merchandising items and services in order to combine and optimize these across the continent.

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 in order to be more agile, faster and more effective in our operations 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 country organization in the US. Customers are involved in the process at an early stage to test functionality and customer benefit step by step. We are also digitalizing our internal processes to improve our own efficiency. Add to this the transformation of kloeckner.i into a profit center and the launch of digital consulting for outside clients in 2019.

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 are furthermore progressively opening up our online shops to competitors in order to develop them into a marketplace. 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 one of the world's largest commercially available 3D printers. The investment has thus provided Klöckner & Co with access to know-how in an attractive growth market in industrial manufacturing.

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.

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 CRM system ("KliCC") 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 Operations. Introduction of a Europe-wide transport planning tool has a major impact here. This provides 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 (4) and Section 315 (4) 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 Treasury, Corporate Controlling & Development/M&A/Risk Management 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 country organizations 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 accurately 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 online 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.

As part of business process outsourcing (BPO) for certain accounting activities, existing control activities have been adjusted, risk control matrices implemented and corresponding key controls identified to ensure adequate monitoring of all risks relevant to financial reporting.

The Corporate Accounting and the Corporate Controlling & Development/M&A/Risk Management 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. 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

As regards our key markets of Europe and the USA, we mostly expect to see slight growth in real steel demand and corresponding growth in Group shipments for 2019. However, given the investments made in expansion and a higher steel price overall than in the prior year, we anticipate a considerable rise in Group sales.

With regard to operating income (EBITDA), we expect a mixed trend. At Group level and in the US segment, Kloeckner Metals US, we forecast a considerable decrease in EBITDA, as we do not expect to see very positive price effects (windfall profits) of the kind we benefited from in the USA in the fiscal year under review (approx. €50 million) in the current year. In contrast, the ongoing optimization measures are expected to lead to a considerable rise in operating income in the Kloeckner Metals Distribution Europe, the Kloeckner Metals Services Europe as well as in Kloeckner Metals Switzerland segments.

Overall, we expect Group cash flow from operating activities to be slightly higher than in the previous year, with cash flow developments in the segments following the same trend as their respective operating income. The sole exception is Kloeckner Metals Services Europe, where we anticipate a considerable decline due to the new aluminum business and the associated increase in net working capital.

	Turnover (Tt)		Sales (€ million)	
Forecast by segment (excl. IFRS 16 effects)	2018	Forecast 2019	2018	Forecast 2019
Kloeckner Metals US	2,676	slight increase	2,706	considerable increase
Kloeckner Metals Switzerland	613	constant	1,008	slight increase
Kloeckner Metals Services Europe	1,018	considerable increase	806	considerable increase
Kloeckner Metals Distribution Europe	1,747	constant	2,212	slight increase
Holding and other group companies	53		58	
Group	**6,107**	**slight increase**	**6,790**	**considerable increase**

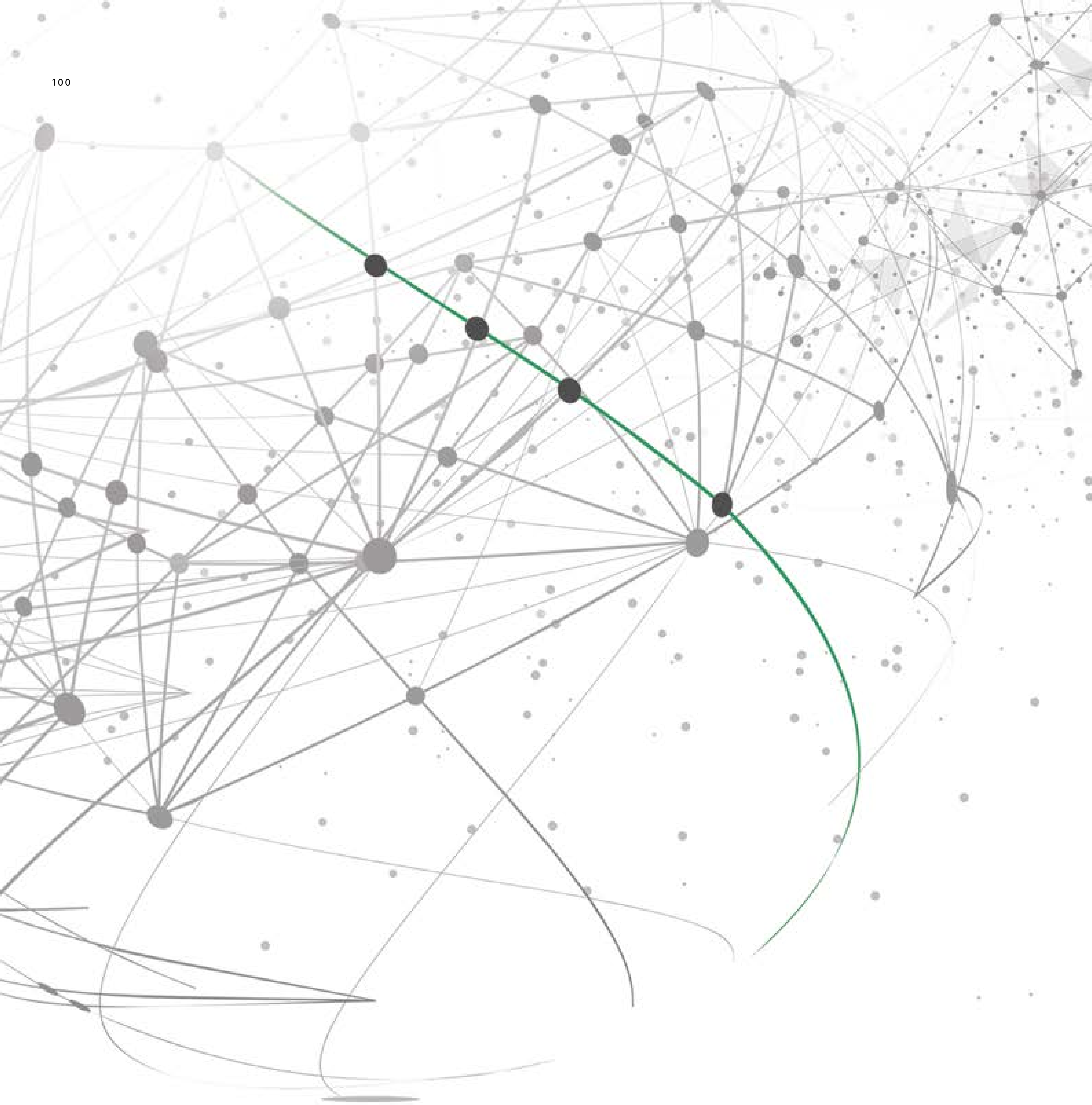
	EBITDA (€ million)		Cash flow from operating activities (€ million)	
	2018	Forecast 2019	2018	Forecast 2019
Kloeckner Metals US	155	considerable decrease	53	considerable decrease
Kloeckner Metals Switzerland	46	considerable increase	36	considerable increase
Kloeckner Metals Services Europe	42	considerable increase	52	considerable decrease
Kloeckner Metals Distribution Europe	5	considerable increase	– 36	considerable increase
Holding and other group companies	– 21		– 45	
Group	**227**	**considerable decrease**	**60**	**slight increase**

"Constant" corresponds to a change of 0–1%, "slight" >1–5% and "considerable" >5%.

Including transition effects from IFRS 16 (Leasing), we expect a slight increase in consolidated EBITDA and a considerable increase in cash flow from operating activities in 2019.

Duisburg, March 7, 2019

The Management Board



SUSTAINABILITY REPORTING

of Klöckner & Co SE

1. Klöckner & Co SE sustainability reporting 2018

[Klöckner & Co 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 around 60 key suppliers worldwide. These include the world's largest steel producers and their distribution arms. Sustainability is an issue of special importance at every link in the steel value chain. Although the steel industry's large environmental impact has already shrunk considerably in recent years, production in particular is still associated with high levels of resource use. However, we as a distributor also see it as our duty to continuously improve processes in order to minimize the adverse effects of our business activities. Our workforce of some 8,600 employees apply their skills and enthusiasm day in, day out in meeting our customers' needs and wishes. At Klöckner & Co, we provide customers with all key product-related services – consulting, procurement, stockholding, processing as well as distribution of steel and metals – with an increasing focus 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 160 locations in 13 countries, both in Europe and on the American continent, we serve more than 100,000 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. This ethos is enshrined in our Group-wide Klöckner & Co Principles, which ensure that we share a common understanding and provide specific guidance for our conduct on a day-to-day basis.

Group non-financial report in accordance with Section 315b of the German Commercial Code

The sustainability reporting for 2018 in the following includes the Group non-financial report of Klöckner & Co SE in accordance with Section 315b of the German Commercial Code (HGB). In the Group non-financial report, we report on the non-financial issues of major relevance to our business activities together with the impact of those activities on aspects comprising environmental issues, employee issues, 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 Group non-financial report is fiscal year 2018. Unless otherwise specified, the information covers all fully consolidated companies of the Klöckner & Co SE Group. No framework was used in the preparation of the Group non-financial report, as we do not require such a framework to present the relevant information in a structured and stringent manner. However, verification of the use of a framework is regularly carried out.

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, 2018 to December 31, 2018.] √

Materiality analysis

[The topics to be included in the Group non-financial report are specified and formulated within the context of our sustainability management. In order to identify the material content, we conducted a comprehensive Group-wide materiality analysis in 2017. Potential sustainability topics were initially identified in a working group comprising selected departmental and functional managers. The findings were subsequently confirmed in dialog with internal and external stakeholders. The prioritization of the issues reflects their importance in terms of business relevance (results of operations, financial position and net assets, innovation and reputation) as well as the impacts of our business activities and the upstream supply chain. In this context, only topics that are both highly relevant to our business and have a strong impact on reporting-related aspects were categorized as material. The results were coordinated with the CEO to ensure comprehensive and integrated reporting for the Group.] √

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

Our five action areas

[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 where necessary. As in the prior year, 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. Digitalization at Klöckner & Co was also categorized as a material topic in the review of topics carried out in the reporting year. In addition, we also report on other topics in our sustainability reporting for 2018 that are of relevance to Klöckner & Co in connection with sustainability.] √

Risk assessment

No reportable risks

[A risk assessment has been conducted for all material issues 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. The investigation took into account the probability of occurrence and the scale of negative impacts on each aspect. No reportable risks were identified.] √

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 Group non-financial report lies with the Investor Relations & Sustainability department. In addition, a Sustainability Committee was set up at the end of 2016, composed of managers from Investor Relations & Sustainability, Compliance, Group HR, Legal as well as Safety, Health, Environment and Quality (SHEQ) Management. The Sustainability Committee determines the main pillars of the sustainability strategy and, regarding 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 Group non-financial report. 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 talent 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 & Co's success – and for every one of us to be able to develop and realize their full potential.

This is also reflected in our Klöckner & Co Principles, which provide specific guidance for our day-to-day conduct and clearly delineate responsibilities. Rather than taking all decision-making out of our employees' hands, our executives aim to develop their teams and empower them to take decisions independently. Our employees take personal responsibility and actively put forward their own proposals. Regular dialog and feedback – including across hierarchical levels – thus generate added value for the Company and development opportunities for each individual.

Human capital

Continuing education as a key pillar

[Dedicated and qualified employees are a key factor in our success as a service provider. To this end, we offer employees a wide variety of further training and personal development opportunities. Another focus is on nurturing new talent. 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 digitalization – and promoting talent within our own ranks.

The great majority of country organizations perform these activities locally and have their own 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.

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 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 HR developers from the various countries can share ideas on new activities in the area of talent development as well as 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

To promote our employees' personal development, Klöckner & Co offers classroom training on various topics as well as an extensive range of online training courses through our "Digital Academy".

Our training courses in 2017/2018 focused on the subjects of sales, leadership and onboarding. For example, the four-day "CLEAR Sales – Selling through the eyes of your customer" training course was rolled out across Europe during the reporting period. It was very well received by participants and the country CEOs. Focused on communication as well as building and strengthening customer relationships, this sales training teaches participants how to better identify the needs of our customers and offer them tailored solutions.

Klöckner & Co 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. These annual performance appraisals are now also carried out at many country organizations, including the Netherlands, the UK and France.

Young talent development, such as the Emerging Leaders Program

In parallel, there are internal measures to foster young talent, such as the Emerging Leaders Program – a global development program for the upcoming generation of branch managers. This 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 promotion rate for the first Emerging Leaders from 2015/2016 is 46%. The second cohort completed the program at the end of 2017 and already successfully hold branch manager positions or operating leadership positions. To date, 38% of this cohort have climbed a step up the career ladder. The third cohort will start in 2019.

Following the first successful pilot program in Germany, a Country Talent Pool Program was launched in all country organizations in 2018. As part of this program, young talent is selected and provided with targeted support and training over a period of twelve months. Participants complete five modules, each in a different location. In Germany, the first cohort of eight participants have already completed the program.

For career starters and students, Klöckner & Co offers Group-wide 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 & Co is able to secure well-qualified young talent. In Germany, apprentices accounted for 5.8% of our entire workforce in the reporting year.

The fact that our further training activities are well received is demonstrated, for instance, by the consistently positive feedback regarding our Emerging Leader Program, as well as our kununu rankings (Europe’s biggest employer rating platform), where we are regularly rated a top employer. In the “FOCUS employer awards”, which are held in cooperation with kununu, we ranked 9th in the “Leadership Culture” category among all companies in Germany in 2018. We also came in at 38th place in the “Work Climate” category. In addition, we will again conduct a Group-wide employee survey in early 2019, the findings of which will form the basis for developing further measures, as was the case in 2015.] √

Occupational safety

Emphasis on a healthy and safe working environment

[Occupational safety is a key issue 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, SHEQ 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. The topic of occupational safety is also a fundamental component of our internal SHEQ policy.

In Europe, an SHEQ committee comprising experts from our European country organizations meets at least twice a year and is responsible for monitoring the overall activities and coordinating our occupational safety strategy. The SHEQ committee liaises closely with the US country organizations and reports directly to the Chief Operating Officer and to the KMO 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 regular Management and Supervisory Board meetings. The development of the LTIF and current measures also feature on the agenda of the monthly business update calls between the managing directors of the respective country organizations and the Group Management Board.

Most country organizations have already implemented occupational health and safety certification, usually under the international standard OHSAS 18001/ISO 45001. The standard was implemented at the main locations in the Netherlands in the reporting period and implementation at the remaining Belgian country organizations is planned for the coming fiscal year.

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 rollout 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, which presents key rules in an easily accessible credit card format. Furthermore, all visitors are required to wear helmets and high-visibility vests. Our operational processes are also optimized on an ongoing basis with individual improvements according to context. For example, two new training videos, which have been in use since August and November respectively, were produced in the reporting year. We also continued with the tried-and-tested poster campaign, adding new themes.

Accidents are always avoidable and preventive action enables us to avert loss or harm to employees or 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 to the holding company occupational health and safety officer via our reporting system. 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.

2019 target: “LTIF less than 11.7”

We measure the frequency of workplace accidents using the key performance indicator of LTIF. This is defined as the number of accidents/number of hours worked x 1,000,000. We take accidents into account from the first working day lost. Our target for 2019 is to reduce the average Group-wide accident frequency to an LTIF value of less than 11.7, with a medium-term LTIF target of less than 10.

Unfortunately, LTIF development in the 2018 reporting year did not follow the positive trend of previous years, which saw the LTIF figure decline continuously to reach 9.3 in 2017. At 13.3, the figure for the reporting year was considerably higher. We are nonetheless optimistic that the additional measures adopted will lead to a reduction in the LTIF in the future.

The cornerstone of these supplementary activities is the further strengthening of our Company's safety culture. To this end, a global “Safety Perception” survey was carried out with the management consultancy DuPont and the respective safety action plans of the individual countries were gathered. The aim of this analysis is to identify potential safety risks at an early stage through “predictive analytics” and to heighten safety awareness throughout the organization. Based on the evaluation of the findings, we will develop customized measures and expand the “Safety 1st” program in a targeted manner. An initial example of this is the “Safety 1st E-Learning” program, which became a fixed part of the onboarding process for all employees at the beginning of 2019.] √

Fair working conditions

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

In accordance with our Code of Conduct, we have undertaken 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 to 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 day in, day out 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.

However, diversity of nationality is not the only important consideration for Klöckner & Co. We also aim to appoint women to specialist and management positions. Our goal is to foster communication and networking among female specialists and executives with our “ladies lunch” and “ladies talk” event series that have been developed by the holding company for the purpose. These provide an opportunity to share experience across work areas as well as for constructive discussion of relevant issues.

Additionally, we participate in the “Chefsache” initiative – a network of leaders from industry, science, the public sector and the media personally committed to making gender balance a top management priority. The “Chefsache” initiative aims to lead by example, exploring new concepts and approaches to promote the requisite change of mindset throughout society.

The effectiveness of our approach for promoting women in managerial positions is demonstrated by the findings of the “Frauen-Karriere-Index” (Women’s Career Index) produced by Barbara Lutz Management GmbH in 2015, 2016 and 2017. Klöckner & Co has taken part in this annual external survey based on objective corporate data on the promotion of women in management positions since 2015. When the prizes were awarded in the first quarter of 2018, we were rated one of the top ten companies among more than 160 participants for the third consecutive year.

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 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. Among the lessons learned in the workshops, managers were taught how to recognize, avoid and eliminate disrespectful and discriminatory behavior. To do justice to its importance, the topic of respectful interaction was included in the Group-wide compliance training for all employees.

For Klöckner & Co, consideration of the differing backgrounds and wishes of our employees represents a further aspect of respect. This is notably reflected in a supportive, flexible and mobile approach to work. A pilot project has been underway in the holding company of Klöckner & Co SE since 2017 to organize work more flexibly both in terms of working hours and the space used. Similar programs are also recommended for our country organizations. In this way, we aim to make it possible for our employees to better harmonize their personal and professional lives as well as to improve quality and productivity. By giving employees greater autonomy with regard to how they arrange and carry out their work, we also intend to generate a higher level of satisfaction with the work itself and the results achieved.

RESPONSIBLE CONDUCT

The **Responsible Conduct action area** encompasses two topics material to the Group non-financial report, namely compliance and human rights in the supply chain, as well as Klöckner & Co's corporate citizenship, which is also 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 encompasses 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 as a central element

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.

We aim to avoid potentially corrupt and antitrust situations as a fundamental rule and to counteract potential violations at an early stage. Every employee is called upon to actively help implement the Klöckner & Co compliance program within their sphere of responsibility.

One of Klöckner & Co'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.

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. Klöckner & Co 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 and procedural instructions on topics such as adherence to antitrust rules, the engagement of intermediaries, anti-money laundering, export controls and anti-corruption in business dealings. We expect external business partners to comply with the ethical values and principles enshrined in our Code of Conduct, Supplier Code of Conduct or a comparable code of their own and to implement them effectively in their organization.

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

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, anti-corruption and the prevention of money laundering. 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 training on relevant statutory provisions as well as internal guidelines and procedural instructions. 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.

The compliance organization conducts regular compliance risk assessments with the country organizations. As part of risk analysis, the compliance organization evaluates individual compliance risks together with the managing directors of the various country organizations and takes precautionary action as appropriate. During the reporting year, no need for action was identified in the risk areas of antitrust law and corruption beyond the measures already taken.

In cooperation with the Corporate Internal Audit Department, compliance audits are also carried out in our country organizations as part of the scheduled ICS audit to verify adherence to the compliance tools and rules implemented.

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 & Co 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 issues such as antitrust law, corruption risks, money laundering risks and fraud. We first separate employees into different target groups which receive training tailored to their specific areas of work. Most new employees must complete Code of Conduct training when they join. This concerned some 800[1] employees in the reporting period. In addition, most target groups are enrolled in basic compliance training at the start of their employment. Around 500[1] employees participated in this training in the reporting year. We also conduct refresher e-learning sessions throughout the Group to keep our employees up to date and address specific compliance-related issues with examples from their day-to-day work. Alongside the Code of Conduct, focal points of the training included antitrust law, anti-corruption and anti-money laundering, as well as export controls.

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 Office. 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.

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 fifteen reviews of individual business locations by Internal Audit identified material antitrust risks or corruption or bribery infringements.] √

Human rights in the supply chain

[Klöckner & Co SE and its country organizations pay attention to ethically correct and compliant behavior in business dealings. This concerns both our own Company and all upstream parts of our value chain. We expect everyone in our supply chain to follow the same principles.

As stated in our Code of Conduct and moreover in our Group human rights policy, Klöckner & Co does not tolerate any violation of the principles set out in them under any circumstances. Alongside observance of laws and human rights, these principles include the prohibition of child labor and ensuring workforce health and safety, as well as compliance with the statutory minimum wage and working hours.

Introduction of a Supplier Code of Conduct

In order to clearly convey this expectation to our suppliers, we introduced a Supplier Code of Conduct in fiscal year 2018, which is available on our website and was also sent out to all key suppliers. By signing this document, suppliers commit to observing the applicable laws, sustainability and the ethical values of Klöckner & Co. If a supplier has its own equivalent company code of conduct, the Corporate Compliance Office verifies the equivalence of the requirements. If this verification uncovers major discrepancies in the areas mentioned and the supplier declines to acknowledge our Supplier Code of Conduct, further purchases from that supplier are blocked.

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 key suppliers have been supplying Klöckner & Co for more than five years and have shown themselves to be reliable business partners who apply similar sustainability principles.

[1] Data for the period October 1, 2017 to September 30, 2018.

Prudent and responsible product procurement is of special importance to Klöckner & Co. For example, a key goal in the procurement process is to ensure that minerals contained in our products are not from conflict states.

Reviewing our product portfolio for conflict minerals

A particularly important concern for us as distributor is the origin of the minerals incorporated in the products we sell. 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. Of special interest in this regard are conflict minerals such as columbite tantalite (coltan), cassiterite, gold, wolframite and their derivatives, which include tantalum, tin and tungsten. The annual review of our product portfolio in fiscal year 2018 showed that less than 1% of our products possibly contain tantalum, tin or tungsten.

Since the entry into force of the Dodd-Frank Wall Street Reform and Consumer Protection Act and notably the Conflict Minerals Rule, Klöckner & Co 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 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 that those materials are not sourced from the aforementioned states. We use the Responsible Reporting Initiative's "Conflict Minerals Reporting Template" to systematically track the provenance of conflict minerals for all relevant suppliers if our customers request corresponding proof. We expect our suppliers, together with their subcontractors, to trace conflict minerals at least to where they were smelted and to commit to standard reporting processes. Klöckner & Co reserves the right to demand supply chain verification from its suppliers and, where appropriate, to trace conflict minerals back to the mine of origin. For their part, suppliers should also formulate and implement conflict minerals policies and principles. If possible, they should require their upstream suppliers to adopt and follow corresponding policies and principles.

Our expectations of our suppliers

We expect our suppliers to retain the relevant documentary proof for five years and to submit it to Klöckner & Co on request. Should a supplier fail to provide proof of origin for conflict minerals, further purchases from that supplier are systematically blocked. The same applies if the supplier does not acknowledge the above principles regarding the source of conflict minerals. In the 2018 reporting year, no suppliers needed to be blocked for failure to provide proof.] √

Corporate citizenship

Active, local community engagement

Klöckner & Co operates in 13 countries worldwide, maintains some 160 locations and employs around 8,600 people. This gives rise to responsibility not only for our employees, but also toward the regions in which our headquarters and 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

Klöckner & Co has a clear strategy for supporting non-profit projects in Germany: Our aim is to improve educational opportunities for disadvantaged children who live in our immediate vicinity over the long term. To achieve this goal, our contribution centers on local projects to educate children and young people or cater to their basic needs in Duisburg, where our headquarters are located.

Five-pillar strategy for projects in our neighborhood

We focus on the Marxloh area of Duisburg, where a large number of residents have a migrant background. In this area, we work with schools, children's and youth services, and regional charities. Through our five-pillar strategy, we aim to support tomorrow's young professionals and thus make a significant contribution to strengthening the region.

1. BASIC NEEDS: Klöckner & Co helps organizations in Marxloh to prepare healthy meals so that children and young people are able to concentrate at school and socialize with each other by sharing a meal, irrespective of their backgrounds.

2. ESSENTIAL RENOVATION WORKS: In the past, we have already renovated a youth center and renewed the school yard canopy at an elementary school in cooperation with the City of Duisburg. Another example in the reporting year is the Henriettenstrasse elementary school, which was fitted out with five multifunctional classrooms with the support of Klöckner & Co. Due to its location in Marxloh, a very large proportion of the school's students are new arrivals in Germany. To ensure students are given the best opportunity to learn, they require differentiated support, including to learn the language. The new multifunctional classrooms represent a significantly improved environment for learning and the provision of support.

3. STRONG NETWORK: Klöckner & Co frequently makes use of its strong network to enable Marxloh organizations to participate in exclusive projects, such as Bayreuth Festival's costume competition: Katharina Wagner, the composer Richard Wagner's great-granddaughter, visited Klöckner & Co's partner schools in Duisburg. She and the students together designed costumes for the popular children's opera in Bayreuth. One of the partner schools organized a trip to Bayreuth for the premiere of the children's opera, where students got to see their costume designs on stage.

4. SCHOOL EDUCATION PROJECTS: Since 2013, Klöckner & Co has 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. In this way, we significantly contribute to removing barriers to equal opportunities among people of different social backgrounds. A partner school in Marxloh is also a beneficiary of Teach First Deutschland gemeinnützige GmbH's "Fellow" project, through which college graduates provide support to disadvantaged school students in their regular lessons and thus make everyday school life easier through their own projects.

5. MUSIC AND CREATIVE DEVELOPMENT: 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 six schools with over 600 children took part in 2018. Our musical education work has since earned supraregional recognition: After garnering the "Echo Klassik" award presented by Deutsche Phono-Akademie in the "Fostering Young Talent" category in October 2016, as well as the "Junge Ohren Preis" in November 2014, the education program was awarded the renowned "MIXED UP Preis" in the reporting year. The prize awarded by the Bundesvereinigung Kulturelle Kinder- und Jugendbildung e.V. (German Federation for Cultural Youth Education) and the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth praised the long-term cooperation across institutions and sectors in the "Long-runner" category. These and other awards are proof positive of our successful cooperation, which is to remain part of our activities going forward.

In addition to our commitments under our five-pillar strategy, Klöckner & Co also supports special children's causes. Our annual Christmas gift campaign was extended in the reporting year to include all elementary schools in Marxloh, meaning that around 850 children benefited from new school equipment.

As a further example of our engagement in the Marxloh area of Duisburg, we participated in the "reading aloud day" for the first time in 2018. We read with the "welcome class" of young people newly arrived from countries including Syria, Bulgaria and Afghanistan. The "reading aloud day", which takes place throughout Germany, aims to inspire a love of reading among children and young people and thus broaden their language skills.

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 onto the career ladder, 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 and Munich start-up scenes. We also have our own presence in Berlin with kloeckner.i, our Group Center of Competence for Digitalization. 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.

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

UNIVERSITY 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.

ENVIRONMENT

Environmental impact of logistics

[One of the greatest challenges in the **Environment action area** and of our times is climate change, and Klöckner & Co regards it as 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. Klöckner & Co's key task in the Environment action area is therefore optimizing the environmental impact of logistics processes along our value chain.

Environmental protection is an important part of our SHEQ policy – our internal safety, health, environment and quality 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 management is informed after each meeting about the outcomes and subsequently ensures that promising projects are implemented.

The Group-wide objective of our projects and measures is to maintain our current high service level with fewer trucks, thereby both cutting costs and reducing CO_2 emissions.

To this end, we endeavor to influence the environmental impact of logistics at three levels in our value chain – receipt of goods, internal transport and delivery to our customers.

Certification to ISO 14001

At the first level, we strive to optimize the management of incoming goods. The products are mainly delivered to our locations by suppliers. Through the targeted coordination of suppliers at level one coupled with enhanced inventory management, we aim to reduce the internal transport between our locations at level two. This is achieved, for example, through optimized inventory allocation. In the pilot project region in eastern Germany, the warehouse structure was improved, which has further reduced our internal transport from other regions of Germany. France is pursuing the same aim by opening a new central warehouse in Paris to replace two existing ones. In addition, all locations at our country organization Kloeckner Metals UK and our German company Becker Stahl-Service are already certified to the ISO 14001 environmental standard, which also covers logistics.

At the third level, the goods are delivered to customers from our roughly 100 warehouse locations in Europe. Here, we pay particular attention to efficient delivery route planning, where key quality aspects include adherence to delivery dates along with ongoing optimum utilization of truck capacity and optimized route planning. In 2017, we consequently launched the universal rollout of transportation planning software. It was not possible to complete implementation throughout Europe in the reporting year due to several technical system adjustments required in France. With the aid of data analysis from the transportation planning software, however, we have already begun to develop approaches for reducing truck fuel consumption. These can include tactics such as avoiding empty runs and fine-tuning delivery frequencies.

Several country organizations already deploy 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 modern fleet are provided with road training and regular feedback on their driving behavior. At Kloeckner Metals UK, too, the "Safe & Fuel Efficient Driving" program has been in place since 2017. In France, we plan to deploy two gas-powered trucks in the greater Paris area in the future. If this pilot project is a success, we will decide whether to roll out this technology further.

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 way of universally deploying the transportation planning software, we aim to meet our targets for cutting transportation costs while reducing CO_2 emissions through more efficient routes.] √

Digitalization at Klöckner & Co

[The use of digital tools has become essential for every trading company the world over. This naturally also applies to us as a steel distributor. Alongside the obvious commercial opportunities, ongoing digitalization also presents new challenges for our employees. We tackle these with the measures taken in our **Digitalization action area**.

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. To this end, Klöckner & Co founded a digital unit, kloeckner.i, in Berlin in 2014, which now has around 90 employees. Besides the systematic digitalization of internal and external processes, an essential component of this digital transformation is a profound cultural shift within the Company. Our employees therefore need to incrementally develop their digital mindset, which is crucial to our shared migration to “Industry 4.0”.

Applying start-up methods such as design thinking

In many cases, today’s tasks have increased in complexity. The measures we have developed aim to embed contemporary, digital ways of working and thinking in the Company and thus drive forward our internal cultural shift.

All members of the Klöckner & Co SE Management Board are working together to drive forward our digitalization strategy. However, the CEO has particular responsibility for strategy implementation and receives regular status and progress updates from the relevant functional managers. Operational implementation of the strategy – from sales to e-commerce – is managed by Digital Supply Chain together with kloeckner.i, Group IT and external partners. This process is supported by Digital Officers in the respective country organizations, who are responsible for rolling out the digital transformation and implementing the measures on site along with the local branch Digitalization Officers.

To ensure that everyone embraces and sees themselves as part of the changes, we have prepared a broad range of measures offering all employees the opportunity to acquire digital know-how at their own speed. We have provided employees with a “DigiBook” to present the strategic messages of our digitalization strategy in straightforward language with numerous illustrations. Based on the extremely positive feedback to this reference material, a follow-up was produced in the reporting year.

Another key driver of our cultural change is in-depth internal communication to highlight for employees the necessity of the digital transformation and to alleviate any concerns. Klöckner & Co makes use of innovative digital tools such as the “DigiDesk”, an interactive intranet based on Microsoft Communication Sites. A major component of our self-made solution is our Yammer in-house social network, which provides staff with a non-hierarchical, transnational platform for contributing and sharing their thoughts and ideas. Furthermore, the CEO invites all employees to engage in open dialog on Yammer and uses the tool – in addition to regular town hall meetings – as an information channel to communicate on the progress of our digitalization strategy. The constantly increasing number of participants and groups on Yammer since the introduction proves the positive resonance on the part of our employees.

Digital Academy

To selectively broaden their digital skills, employees have access to job-specific, in-house training and language courses via our Group-wide “Digital Academy”. This enables them to take part in online training on a voluntary basis during office hours at our premises or from a home office. The “Digital Academy” provides numerous online courses for users, mostly with the aim of enhancing digital skills. A total of more than 1,200 employees have now experienced what the “Digital Academy” has to offer – at the beginning of 2016 there were only a few hundred users. The “E-Business License” course devised by our Supervisory Board member Prof. Dr. Tobias Kollmann, which equips participants with the tools they need to successfully navigate the digital economy, particularly stands out for its high user numbers. 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. In 2018, new courses were created in the areas of digital leadership, coding and enhancing IT skills, which specifically address the needs of our employees.

Moreover, we make use of the series of events developed in-house, such as our “DigiDays”. The goal here is for employees to voluntarily familiarize themselves with start-up methods in order to come up with solutions to problems in a creative environment. Due to the large number of participants and positive feedback received, “DigiDays” were already organized for the third time in the reporting year. While the first two events focused on the design thinking method, “DigiDays 3.0” centered on the themes of healthy failure culture and agile working.

In order to also reach employees who were unable to participate in the workshops, we launched an agility campaign on Yammer in the reporting year to clearly present the different principles of agile working and thinking. A new e-learning course on the same subject is starting in 2019.

Establishing a culture of learning and failure in the Group

With regard to failure culture within the Company, we 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, were they went wrong and what they learned. 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 & Co, the goal is to establish a start-up-style learning and failure culture within our Group in order to become faster and more agile as well as less perfectionist in our work.

To support this aim, we have also implemented the “Digital Experience” exchange program within 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 through the exchange with participants who mostly work in the operating business.

This lets us meet the challenges of digital transformation and forge a link between the internal cultural shift and the operational objectives of our digitalization strategy. The growing membership of our “Digital Academy” group on Yammer is testament to our employees’ improved digital skills and new way of thinking. This is similarly reflected in the constructive suggestions and ideas put forward by employees with regard to optimizing the speed and quality of our processes.] √

CUSTOMERS

Customer satisfaction

In the **Customers action area**, both customer satisfaction and customer loyalty are key factors for us in securing 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 cost 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.

In response to requests from our customers, we improved the user-friendliness of our online marketplace by introducing various new features in the reporting year. These included making it possible to make purchases by directly uploading lists of product numbers, introducing an overview of customers' personal purchase history, and making it easier to repurchase products from a previous order. Since 2018, we have also been offering complementary products from other suppliers via our marketplace function in order to successively expand and optimize our product range for our customers. At the end of 2018, a total of 29 dealers were already selling their products through our online shop, either under their own brand using our marketplace function or as a third-party vendor.

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

To ensure the effectiveness of our working approaches and obtain a picture of how they are being received, we conduct regular customer surveys in our country organizations. In fiscal year 2017, for example, all customers of our German and Austrian country organizations were asked to give their opinions on various points. Aspects covered included 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.

Our digital unit in Berlin, kloeckner.i, similarly conducts regular customer surveys in the form of in-depth interviews to obtain information on our customers' requirements and satisfaction levels and to gear development of the product portfolio to customers' needs. Customer feedback helps to continuously improve the digital system landscape and workflows. On average, our customers were very satisfied. The survey findings were individually evaluated rather than combined in an index. In addition, customers who contact our customer service department are asked whether they are satisfied with the service provided by Klöckner & Co. This was the case for around 80% of the customers in 2018.

We use these surveys to constantly improve our systems and workflows and initiate measures to enhance customer loyalty. For Klöckner & Co, satisfied customers pave the way for sustained, long-term growth.

Independent Auditor’s Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2018 of Klöckner & Co SE group. 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 non-financial report of Klöckner & Co SE group according to § 315b HGB (“Handelsgesetzbuch”: German Commercial Code), whose disclosures are marked with the symbol „√“ in the Sustainability Report for the reporting period from 1 January 2018 to 31 December 2018 (hereafter non-financial report).

MANAGEMENT’S RESPONSIBILITY

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report 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 non-financial report 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 Company 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 non-financial report 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 non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e 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 November 2018 and March 2019, we performed amongst others the following assurance and other procedures:

- Inquiries of employees and inspection of documents regarding the selection of topics for the non-financial report, the risk assessment and the concepts of Klöckner & Co SE for the topics that have been identified as material,
- Inquiries of employees on group level responsible for data capture and consolidation as well as the preparation of the non-financial report, 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 non-financial report,
- Identification of likely risks of material misstatement in the non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the non-financial report,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

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 non-financial report of Klöckner & Co SE for the period from 1 January 2018 to 31 December 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e 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 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). 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 purposes and to supplement, verify or update it by means of their own review procedures.

Munich, Germany, 7 March 2019

Ernst & Young GmbH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Nicole Richter
WIRTSCHAFTSPRÜFERIN
(GERMAN PUBLIC AUDITOR)

Annette Johne
WIRTSCHAFTSPRÜFERIN
(GERMAN PUBLIC AUDITOR)

FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements

Consolidated statement of income

for the 12-month period ending December 31, 2018

(€ thousand)	Notes	2018	2017
Sales	7	6,790,492	6,291,560
Changes in inventory		8,724	14,052
Other operating income	8	30,806	37,797
Cost of materials	9	– 5,471,167	– 4,989,801
Personnel expenses	10	– 606,308	– 622,442
Depreciation and amortization	15	– 85,639	– 89,723
thereof impairment losses	*15*	*– 440*	*– 2,544*
Other operating expenses	11	– 523,954	– 510,945
Impairment losses trade receivables		– 1,493	– 661
Operating result		**141,461**	**129,837**
Income from investments		**-**	**– 1**
Finance income		1,614	1,456
Finance expenses		– 36,171	– 34,768
Financial result	**12**	**– 34,557**	**– 33,312**
Income before taxes		**106,904**	**96,524**
Income taxes	13	– 38,251	5,727
Net income		**68,653**	**102,251**
thereof attributable to			
– shareholders of Klöckner & Co SE		*67,776*	*101,136*
– non-controlling interests		*877*	*1,115*
Earnings per share (€/share)	14		
– basic		0.68	1.01
– diluted		0.66	0.96

Statement of comprehensive income

for the 12-month period ending December 31, 2018

(€ thousand)	2018	2017
Net income	**68,653**	**102,251**
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	7,192	59,425
Related income tax	171	– 15,195
Total	**7,363**	**44,230**
Other comprehensive income reclassifiable		
Foreign currency translation	29,800	– 68,562
Gain/loss from net investment hedges	499	-
Gain/loss from cash flow hedges	– 147	402
Reclassification to profit and loss due to sale of foreign subsidiaries	8	– 373
Total	**30,160**	**– 68,533**
Other comprehensive income	**37,523**	**– 24,303**
Total comprehensive income	**106,176**	**77,948**
thereof attributable to		
– shareholders of Klöckner & Co SE	*105,295*	*76,830*
– non-controlling interests	*881*	*1,118*

Consolidated statement of financial position

as of December 31, 2018

ASSETS

(€ thousand)	Notes	December 31, 2018	December 31, 2017
Non-current assets			
Intangible assets	15 (a)	147,945	162,749
Property, plant and equipment	15 (b)	638,914	623,816
Non-current investments		8,574	5,417
Other financial assets	18	7,961	5,812
Other non-financial assets	18	5,215	5,674
Current income tax receivable		6,156	6,612
Deferred tax assets	13	17,502	24,371
Total non-current assets		**832,267**	**834,451**
Current assets			
Inventories	16	1,242,209	1,105,131
Trade receivables (and contract assets of €23,453 thousand (2017: €28,424 thousand))	17	739,945	679,778
Current income tax receivable		6,327	14,812
Other financial assets	18	78,195	78,333
Other non-financial assets	18	21,068	20,286
Cash and cash equivalents	19	141,344	153,561
Total current assets		**2,229,088**	**2,051,901**
Total assets		**3,061,355**	**2,886,352**

EQUITY AND LIABILITIES

(€ thousand)	Notes	December 31, 2018	December 31, 2017
Equity			
Subscribed capital		249,375	249,375
Capital reserves		682,412	682,412
Retained earnings		324,638	282,873
Accumulated other comprehensive income		18,935	– 18,584
Equity attributable to shareholders of Klöckner & Co SE		**1,275,360**	**1,196,076**
Non-controlling interests		6,282	6,235
Total equity	**20**	**1,281,642**	**1,202,311**
Non-current liabilities			
Provisions for pensions and similar obligations	22	260,180	281,538
Other provisions and accrued liabilities	23	16,422	18,196
Financial liabilities	24	500,845	425,988
Other financial liabilities	26	156	7
Other non-financial liabilities	26	3	11
Deferred tax liabilities	13	45,876	45,955
Total non-current liabilities		**823,482**	**771,695**
Current liabilities			
Other provisions and accrued liabilities	23	114,444	137,958
Income tax liabilities	13	12,156	20,942
Financial liabilities	24	19,740	52,709
Trade payables	25	752,770	653,292
Other financial liabilities	26	21,118	21,445
Other non-financial liabilities	26	36,003	26,000
Total current liabilities		**956,231**	**912,346**
Total liabilities		**1,779,713**	**1,684,041**
Total equity and liabilities		**3,061,355**	**2,886,352**

Consolidated statement of cash flows 2018

(€ thousand)	2018	2017
Net income	68,653	102,251
Income taxes	38,251	- 5,727
Financial result	34,557	33,312
Depreciation and amortization	85,639	89,723
Other non–cash income/expenses	299	363
Gain on disposal of non–current assets	- 2,212	- 13,032
Change in net working capital		
Inventories	- 131,907	- 164,760
Trade receivables	- 16,676	- 65,695
Trade payables	83,626	147,796
Change in other operating assets and liabilities	- 41,243	- 14,551
Interest paid	- 27,020	- 25,214
Interest received	1,705	1,164
Income taxes paid	- 33,474	- 6,761
Cash flow from operating activities	**60,198**	**78,869**
Proceeds from the sale of non–current assets and assets held for sale	5,356	21,041
Proceeds from the sale of financial assets	1,116	8,157
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	55,090
Payments for intangible assets, property, plant and equipment (incl. financial assets)	- 64,997	- 82,374
Acquisition of subsidiaries and non-controlling interest	- 1,109	-
Cash flow from investing activities	**- 59,634**	**1,914**
Dividend payments to shareholders of Klöckner & Co SE	- 29,925	- 19,950
Dividend payments to non–controlling interests	- 1,238	- 1,342
Borrowings	313,525	464,568
Repayment of financial liabilities	- 290,656	- 527,124
Proceeds from derivates	- 6,904	26,043
Cash flow from financing activities	**- 15,198**	**- 57,805**
Changes in cash and cash equivalents	**- 14,634**	**22,978**
Effect of foreign exchange rates on cash and cash equivalents	2,417	- 3,645
Cash and cash equivalents at the beginning of the period	153,561	134,228
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**141,344**	**153,561**

Cash and cash equivalents (including short-term securities €1 million) came to €141 million at the year-end 2018 (2017: €154 million).

See Note 33 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, 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**
Balance as of January 1, 2018	**249,375**	**682,412**	**282,873**
Adjustments on initial application of IFRS 9 (net of tax)	-	-	2,131
Adjustments on initial application of IFRS 15 (net of tax)	-	-	2,130
Other comprehensive income			
Foreign currency translation	-	-	-
Gain/loss from equity instruments	-	-	-
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	-	-	67,776
Total comprehensive income	**-**	**-**	**-**
Change in scope of consolidation	-	-	– 346
Change of non–controlling interests	-	-	– 1
Dividends	-	-	– 29,925
Balance as of December 31, 2018	**249,375**	**682,412**	**324,638**

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
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**
121,907	**– 138,555**	**– 1,936**	**1,196,076**	**6,235**	**1,202,311**
-	-	-	2,131	48	2,179
-	-	-	2,130	-	2,130
29,800	-	-	29,800	-	29,800
-	-	499	499	-	499
-	-	– 147	– 147	-	– 147
-	7,186	-	7,186	6	7,192
-	173	-	173	– 2	171
8	-	-	8	-	8
-	**-**	**-**	**37,519**	**4**	**37,523**
-	-	-	67,776	877	68,653
-	**-**	**-**	**105,295**	**881**	**106,176**
-	-	-	– 346	235	– 111
-	-	-	– 1	121	120
-	-	-	– 29,925	– 1,238	– 31,163
151,715	**– 131,196**	**– 1,584**	**1,275,360**	**6,282**	**1,281,642**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2018

(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 March 7, 2019. 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, 2018 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 binding IFRS and the associated interpretations of the IFRS Interpretations Committee (IFRIC) as of December 31, 2018 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:

	2018	2017
Consolidated entities at the beginning of the financial year*)	69	76
+ business combinations	2	-
+ newly formed/consolidated companies	2	2
– mergers	– 2	– 1
– disposals and liquidations	– 2	– 8
Consolidated entities at the end of the financial year	**69**	**69**
*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 net assets, financial position and results of operations 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 exists 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 commercial paper issues or loans granted by the banks involved. The rating required for the commercial paper 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 €155 million (2017: €125 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 Kloeckner Metals Corporation, Wilmington, Delaware, USA. The special-purpose entity purchases merchandise receivables from the subsidiaries in the USA and Mexico, which transfer the receivables. The NC Receivables Corporation in turn resells them to a conduit either issuing commercial paper to investors or utilizing a liquidity fund for financing purposes.

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 2018 and 2017, with corresponding impacts on the presentation of the net assets, financial position and results of operations.

ACQUISITIONS

2018

On November 30, 2018, ODS Metering Systems B.V., Barendrecht, Netherlands, acquired 80% of the shares in the GSD Group consisting of Global Systems Development BVBA, Essen, Belgium, and its subsidiary GSD Technics BVBA, Essen, Belgium, for a purchase price of €1.1 million.

2017

There were no acquisitions in 2017.

DISPOSALS AND LIQUIDATIONS

2018

There were no disposals in 2018. Liquidation of Metall- und Service-Center Hungária Kft., Budapest, Hungary, was completed in fiscal year 2018. This resulted in a €131 thousand deconsolidation loss.

Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil was liquidated on December 27, 2018.

2017

Disposal of the Klöckner & Co Group’s Spanish activities was completed on January 27, 2017.

(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 transaction date exchange rate, approximated as the average exchange 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, 2018	December 31, 2017	Jan. 1 - Dec. 31, 2018	Jan. 1 - Dec. 31, 2017
Brazilian Real (BRL)	4.4440	3.9729	4.3085	3.6054
Pound Sterling (GBP)	0.8945	0.8872	0.8847	0.8767
Swiss Franc (CHF)	1.1269	1.1702	1.1550	1.1117
US–Dollar (USD)	1.1450	1.1993	1.1810	1.1297

Revenue recognition

Revenues from sales of goods are recognized when control has transferred to the buyer. This mostly coincides with the delivery date. Revenues from contracts with customers are only recognized otherwise than at the time of delivery if the buyer already has control before delivery or if control transfers over time. Sales are reported net of allowances such as commissions, trade discounts and rebates.

The Klöckner & Co Group mainly sells steel and metal products in sales from stockyards, back-to-back transactions and sales from processing.

Stockyard sales generally consist of selling material, with little or no processing, to customers out of a stockyard. Revenue from such transactions is recognized on delivery or collection of the goods. This also includes sales under consignment stock contracts where goods are already delivered to a customer but remain the property of a the Klöckner & Co company. Further information on the recognition of revenue from such transactions is provided in the section on the first-time application of IFRS 15.

Back-to-back transactions are sales where goods are delivered straight to a customer without going through a Klöckner & Co stockyard. In these transactions, the Klöckner & Co Group is responsible for fulfillment and has the inventory risk up to delivery to the customer. Separate prices are negotiated with the supplier and with the customer. This means the Klöckner & Co is generally the principal in back-to-back transactions and revenue is recognized on delivery to the customer.

Higher value-added products and processing services are distinguished by the fact that goods are normally processed before delivery to a customer. This involves the use of special machines such as 3D lasers. Revenue from such transactions is recognized on delivery of the processed goods to a customer.

Service center sales primarily entail the processing of coil into various sheet metal products.

The contract durations are less than 12 months. Use is therefore made of the practical expedient under IFRS 15.121 and the transaction price is not allocated to unsatisfied performance obligations.

Payment terms vary from customer to customer. Frequent payment terms are 30 days net, 60 days net and the 15th of the month following delivery. In many cases, discounts are available for faster payment.

Interest income is recognized pro rata temporis based on the outstanding principal amount and the applicable interest rate using the effective interest method. 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 differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax base (temporary differences) and from consolidation entries. No deferred taxes are recognized for goodwill on initial consolidation. 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 assets and deferred tax liabilities 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 current tax assets and tax liabilities are intended to be settled on a net basis.

Current and deferred taxes are recognized in income unless they relate to items that are recognized directly in equity or 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 intangible 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 buildings, 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 or property, plant and equipment 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 asset. Goodwill is tested for impairment in the fourth quarter of each fiscal 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 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 in profit or loss over the periods in which the related costs are recognized in 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 IFRS 9 (Financial Instruments) 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. Subsequent measurement of financial assets is carried out using the categories under IFRS 9 (Financial Instruments) according to business model and contractual cash flow characteristics. This results in measurement at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. Financial liabilities are measured at amortized cost or at fair value through profit or loss.

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. 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 to which hedge accounting is applied. 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.

Equity investments within the scope of IFRS 9 are measured at fair value through profit or loss. The Klöckner & Co Group makes use, on a case-by-case basis, of the option of measuring a portion of equity investments at fair value through other comprehensive income. Any gains or losses realized on disposal or write-off are reclassified to retained earnings. Fair value changes on investments for which the aforementioned option is not exercised are recognized in profit or loss.

All identifiable risks are accounted for by recognizing appropriate valuation allowances for expected credit losses taking into account any credit insurance. These are determined on the basis of weighted probabilities and applied to financial assets measured at amortized cost or at fair value through other comprehensive income.

The three-stage impairment model is generally applied. A risk allowance is recognized in the amount of the expected 12-month credit losses (Stage 1) or in the amount of the expected lifetime credit losses if the credit risk has increased significantly since initial recognition (Stage 2) or if financial assets are credit-impaired (Stage 3). Financial assets are considered to be credit-impaired if there is objective evidence such as substantial financial difficulty on the part of the obligor, knowledge of an insolvency filing or overdue obligations. In the event that a financial asset is categorized as bad debt, it is written off, including the amount of the impairment.

An equity or debt instrument is classified as a financial liability or as equity according to 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. Applying the with-and-without method, the remaining difference represents the equity component, which is accounted for in 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 as 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. After initial recognition, other financial liabilities are generally measured at amortized cost 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 cash flows under the new terms differs from the discounted present value of the remaining 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 29 (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
With regard to hedge accounting, Klöckner & Co makes use of the option of accounting for hedges in accordance with IAS 39 until further notice.

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 29 (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 held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Depreciation and amortization are 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.

They 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 in connection with settlement of the obligation is material, provisions are discounted at rates that reflect current market assessments of the time value of money and the risks specific to the liability.

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 expected to be realized or settled within one year 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. Changes in estimates are recognized in the period of the change if the change affects that period only. 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 entitites, where there is no majority of voting rights or capital	3
Estimates and assumptions	
- Measurement of intangible assets and property, plant and equipment acquired in a business combination 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	22
- Recognition and measurement of other provisions	23

New accounting standards and interpretations

The following standards were applied for the first time in fiscal year 2018:

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

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

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

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

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

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

Financial assets and liabilities as of January 1, 2018

(€ thousand)	Category under IAS 39	Category under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Derivative financial instruments not designated in hedge accounting (held for trading)	Fair value though profit and loss	Fair value though profit and loss	2,243	2,243
Derivative financial instruments designated in hedge accounting	n.a.	n.a.	9	9
Non-current loans	Loans and receivables	Amortized Costs	2	2
Participations	Available for sale	Fair value though profit and loss	2,414	2,414
Participations	Available for sale	Fair value through OCI	3,001	3,001
Trade receivables *)	Loans and receivables	Amortized Costs	679,778	682,265
Cash and cash equivalents	Loans and receivables	Amortized Costs	152,075	152,075
Short term secruities (<3 months)	Available for sale	Fair value through profit and loss	1,486	1,486
Other financial assets at cost	Loans and receivables	Amortized Costs	91,816	91,816
Total			**932,824**	**935,311**
Derivative financial instruments not designated in hedge accounting (held for trading)	Fair value though profit and loss	Fair value though profit and loss	78	78
Derivative financial instruments designated in hedge accounting	n.a.	n.a.	31	31
Financial liabilities	Other financial liabilities	Amortized Costs	456,935	456,935
Financial liabilities under finance lease	Other financial liabilities	Amortized Costs	21,761	21,761
Trade payables	Other financial liabilities	Amortized Costs	653,292	653,292
Other financial liabilities	Other financial liabilities	Amortized Costs	24,415	24,415
Total			**1,156,512**	**1,156,512**

*) Including contract assets of €28,424 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 requires considerable judgment about how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortized cost or at fair value through other comprehensive income – except for equity instruments held as financial assets – and to contract assets.

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

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

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

As of December 31, 2017, an impairment of trade receivables/contract assets was recognized in the amount of €19,577 thousand in accordance with IAS 39. The estimated ECLs were calculated based on actual credit loss experience over the past three years. They are determined on a country-specific basis. The calculation of future impairments – taking macroeconomic indicators into account – resulted in a reduction of impairments on trade receivables/contract assets by €2,487 thousand. After tax effects, equity increased by €2,179 thousand as of January 1, 2018. As of January 1, 2018, an impairment of trade receivables/contract assets was consequently recognized in the amount of €17,090 thousand in accordance with IFRS 9.

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

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

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

In fiscal year 2018, revenue is recognized in accordance with IFRS 15 (until 2018: according to IAS 11 and IAS 18) when a customer obtains control of delivered goods. With the exception of consignment stock contracts, the changeover to IFRS 15 did not result in any change in revenue recognition relative to the prior year.

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

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

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

(€ thousand)	December 31, 2017	Adjustments IFRS 9	Adjustments IFRS 15	January 1, 2018
Non-current assets				
Deferred tax assets	24,371	-	-	24,371
Other non-current assets	810,080	-	-	810,080
Total non-current assets	**834,451**	**-**	**-**	**834,451**
Current assets				
Inventories	1,105,131	-	-19,991	1,085,140
Trade receivables*)	679,778	2,487	22,695	704,960
Other current assets	266,992	-	-	266,992
Total current assets	**2,051,901**	**2,487**	**2,704**	**2,057,092**
Total assets	**2,886,352**	**2,487**	**2,704**	**2,891,543**
Equity	1,202,311	2,179	2,130	1,206,620
Non-current liabilities				
Deferred tax liabilities	45,955	308	574	46,837
Other non-current liabilities	725,740	-	-	725,740
Total non-current liabilities	**771,695**	**308**	**574**	**772,577**
Current liabilities	912,346			912,346
Total liabilities	**1,684,041**	**308**	**574**	**1,684,923**
Total equity and liabilities	**2,886,352**	**2,487**	**2,704**	**2,891,543**

*) Including contract assets of €28,424 thousand.

The impacts of the adjustments made for IFRS 15 on the statement of income and balance sheet for fiscal year 2018 are as follows:

Statement of income

(€ thousand)	according to IAS 11/IAS18	Adjustments	according to IFRS 15
Sales	6,796,458	– 5,966	6,790,492
Changes in inventory	8,724	-	8,724
Other operating income	30,806	-	30,806
Cost of materials	– 5,476,278	5,111	– 5,471,167
Personnel expenses	– 606,308	-	– 606,308
Depreciation and amortization	– 85,639	-	– 85,639
thereof impairment losses	*– 440*	-	*– 440*
Other operating expenses	– 523,954	-	– 523,954
Impairment losses trade receivables	– 1,493		– 1,493
Operating result	**142,316**	**– 855**	**141,461**
Finance income	1,614	-	1,614
Finance expenses	– 36,171	-	– 36,171
Financial result	**– 34,557**	**-**	**– 34,557**
Income before taxes	**107,759**	**– 855**	**106,904**
Income taxes	– 38,462	211	– 38,251
Net income	**69,297**	**– 644**	**68,653**
thereof attributable to			
– shareholders of Klöckner & Co SE	*68,420*	*– 644*	*67,776*
– non-controlling interests	*877*	-	*877*
Earnings per share (€/share)			
– basic	0.69	– 0.01	0.68
– diluted	0.67	– 0.01	0.66

Statement of financial position

(€ thousand)	according to IAS 11/IAS18	Adjustments	according to IFRS 15
Assets			
Non-current assets	832,267	-	832,267
Inventories	1,257,481	15,272	1,242,209
Trade receivables*)	722,737	– 17,208	739,945
Other non-current assets	246,934	-	246,934
Total assets	**3,059,419**	**– 1,936**	**3,061,355**
Equity and liabilities			
Shareholders equity	1,280,286	– 1,356	1,281,642
Deferred tax liabilities	45,296	– 580	45,876
Other non-current liabilities	777,606	-	777,606
Current liabilities	956,231	-	956,231
Total liabilities	**3,059,419**	**– 1,936**	**3,061,355**

*) Including contract assets of €23,453 thousand.

The adjustments according to IFRS 15 result form the early realization of sales relating to consignment contracts.

On December 8, 2016, the Annual Improvements to IFRSs 2014–2016 were issued. Publication of the Annual Improvements project results amendments and clarifications to 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 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.

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.

Except for the impacts of IFRS 9 and IFRS 15 as presented, first-time application of the new standards, interpretations and amendments did not have any material impact on the consolidated financial statements of Klöckner & Co SE.

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 16 Leases	2019
IFRIC 23 Uncertainty over Income Tax Treatments	2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	2019
EU endorsement outstanding	
Annual improvements to IFRS 2015-2017	2019
Amendments to IAS 28 Long-term interests in Associates and Joint Ventures	2019
Amendments to IAS 19 Plan Amendment, Curtailment or Settlement	2019
Amendments to References to the Conceptual Framework in IFRS Standards	2020
Amendment to IFRS 3 Business Combinations	2020
Amendments to IAS 1 and IAS 8 Definition of Material	2020
IFRS 17 Insurance Contracts	2021

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 is almost exclusively a lessee. For application of the new standard, the modified retrospective approach has been elected, with all leases in place at the time of first-time application recognized in the statement of financial position. Existing finance leases will be kept as they are, while the previously off-balance-sheet operating leases will be recognized in the balance sheet as a right of use and a financial liability. Use will be made of the exception under which low-value leases and leases with a remaining term of less than 12 months do not have to be recognized.

First-time application of the standard will increase assets and liabilities in a range from €175 million to €205 million and will reduce the equity ratio. However, the minimum equity ratio covenants attached to loan agreements can continue to be complied with. In addition, EBITDA will increase in the double-digit millions of euros and interest income (net) will deteriorate by an amount in the single-digit millions of euros.

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

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 regarding 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 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.

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).

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 February 7, 2018, the IASB published Amendments to IAS 19 (Plan Amendment, Curtailment or Settlement). These amendments relate to the event of material changes in a pension plan during a reporting period that result in remeasurement of defined benefit obligations and plan assets. From then on, the current service cost and the interest cost are measured on the basis of the new circumstances.

Amendments to References to the Conceptual Framework in IFRS Standards were published on March 29, 2018. They relate to changes in references to the IFRS Conceptual Framework in various standards and interpretations.

On October 22, 2018, the IASB published Amendments to IFRS 3 Business Combinations. These stipulate criteria that make it easier for users to determine whether there is an operation within the meaning of IFRS 3.

Amendments to IAS 1 and IAS 8 (Definition of Material) were published on October 31, 2018 and provide a more precise definition of the term 'material' for the purpose of applying IAS 1 and IAS 8.

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 of these standards is permitted but not planned. Except for the impacts of IFRS 16 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

2018

Accounting activities in the Europe segment were outsourced to a service provider in 2018 on the basis of business process outsourcing (BPO). Measures implemented in consequence resulted in a €7 million impact on earnings. Most of this expense was recognized in personnel expenses.

Damages in the amount of €5 million were awarded as a result of the 2010 Deepwater Horizon accident in the USA. The resulting income related to the Americas segment.

2017

There are no reportable special items affecting the results.

(7) Sales

The Group's sales are broken down by region (customer headquarters) as follows:

	Europe		Americas		Consolidation		Total	
(€ thousand)	2018	2017	2018	2017	2018	2017	2018	2017
Germany	1,638,769	1,579,980	-	-	-	-	1,638,769	1,579,980
EU excluding Germany	1,345,457	1,341,473	6,264	2,913	-	-	1,351,721	1,344,386
Switzerland	996,028	926,035	-	-	-	-	996,028	926,035
Rest of Europe	19,332	19,444	-	-	-	-	19,332	19,444
USA	692	756	2,644,875	2,254,532	– 147	– 184	2,645,420	2,255,104
Rest of North America	199	126	2,047	1,660	-	-	2,246	1,786
Central and South America	6,057	10,652	88,244	86,206	-	-	94,301	96,858
Asia/ Australia	16,150	18,259	151	9	-	-	16,301	18,268
Africa	26,374	49,699	-	-	-	-	26,374	49,699
Sales	**4,049,058**	**3,946,424**	**2,741,581**	**2,345,320**	**– 147**	**– 184**	**6,790,492**	**6,291,560**

The Group's sales by type of business are as as follows:

	Europe		Americas		Consolidation		Total	
(€ thousand)	2018	2017	2018	2017	2018	2017	2018	2017
Stock-holding	1,870,738	1,769,952	1,038,043	733,960	-	-	2,908,781	2,503,912
Direct business	236,253	259,346	49,012	41,245	– 147	– 184	285,118	300,407
Processing	642,068	532,362	411,939	547,020	-	-	1,054,007	1,079,382
Service Center	822,625	915,989	1,242,587	1,023,095	-	-	2,065,212	1,939,084
Other contracts	477,374	468,775	-	-	-	-	477,374	468,775
Sales	**4,049,058**	**3,946,424**	**2,741,581**	**2,345,320**	**– 147**	**– 184**	**6,790,492**	**6,291,560**

(8) Other operating income

(€ thousand)	2018	2017
Reversal of provisions	7,575	7,613
Indemnification payments received	6,195	235
Rental income	3,229	4,511
Foreign currency exchange gains	2,649	2,004
Gain on sale of land and buildings	2,017	1,330
Gain on sale of other non-current assets and assets held for sale	739	12,767
Income from written-off receivables	235	353
Other income	8,167	8,984
Other operating income	**30,806**	**37,797**

Of the gain on sale of other non-current assets and assets held for sale in the prior year, €6 million is accounted for by assets held for sale in Switzerland.

Indemnification payments relate to the 2010 Deepwater Horizon accident in the USA in the amount of €5 million.

Other income mainly relates to derecognition of statute-barred supplier payables.

(9) Cost of materials

(€ thousand)	2018	2017
Cost of materials, supplies and purchased merchandise	5,465,762	4,983,611
Cost of purchased services	5,405	6,190
Cost of materials	**5,471,167**	**4,989,801**

(10) Personnel expenses

(€ thousand)	2018	2017
Wages and salaries	478,410	499,278
Social security contributions	97,254	96,780
Retirement benefit cost	30,644	26,384
Personnel expenses	**606,308**	**622,442**

Wages and salaries relate in the amount of €6 million to redundancy measures in connection with business process outsourcing (BPO) of certain accounting activities to a service provider.

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:

	2018	2017
Salaried employees	4,519	4,618
Wage earners	3,861	3,841
Apprentices	234	246
Employees	**8,614**	**8,705**

(11) Other operating expenses

(€ thousand)	2018	2017
Forwarding cost	151,818	143,100
Third-party services	96,713	92,685
Rental and leasing expenses	65,561	65,250
Supplies	46,436	45,237
Repair and maintenance	45,583	45,035
Audit fees and consulting	22,294	15,313
Other taxes	18,906	22,394
Travel expenses	15,103	16,675
Advertising and representation expenses	7,927	7,916
Other insurance	7,794	8,256
Postal charges and telecommunication	7,200	8,467
Credit insurance	3,538	4,039
Foreign currency exchange losses	3,402	3,026
Bad debt expenses	1,790	2,286
Other expenses	29,889	31,266
Other operating expenses	**523,954**	**510,945**

The increase in consultancy and audit expenses relates to the development of measures as part of our continuous improvement program.

The other expenses mainly relate to fringe benefits, office supplies, membership fees, commissions and incidental bank charges.

(12) Financial result

(€ thousand)	2018	2017
Other interest and similar income	1,614	1,456
Interest and similar expenses	– 30,985	– 28,879
Interest cost for post–employment benefits	– 5,186	– 5,889
Financial result	**– 34,557**	**– 33,312**

The financial result includes net interest expense of €– 29,381 thousand (2017: €– 27,384 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)	2018	2017
Current income tax expense (+)/benefit (–)	**33,567**	**18,961**
thereof related to prior periods	*– 1,122*	*– 1,004*
thereof related to current period	*34,689*	*19,965*
Domestic	– 787	4,445
Foreign	34,354	14,516
Deferred tax expense (+)/benefit (–)	**4,684**	**– 24,688**
thereof related to temporary differences and loss carry forwards	*860*	*4,848*
thereof related to tax rate changes	*– 550*	*– 14,276*
thereof related to prev. unrecognized losses, tax credits or temp. differences	-	*– 15,260*
thereof related to write-downs	*4,374*	-
Domestic	6,612	– 17,799
Foreign	– 1,928	– 6,889
Income tax expense/benefit	**38,251**	**– 5,727**

The combined income tax rate is 31.8% (2017: 31.8%), 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 €33.567 thousand (2017: €18.961 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.

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. At each reporting date, the recognition of deferred taxes is assessed once again.

Expected tax income/expense is reconciled to actual tax income/expense as follows:

(€ thousand)	2018	2017
Expected tax rate	**31.8%**	**31.8%**
Income before taxes	**106,904**	**96,524**
Expected tax expense/benefit at domestic tax rate	33,996	30,695
Foreign tax rate differential	– 7,256	– 376
Tax rate changes	– 581	– 13,380
Reduced tax rate	-	254
Tax reduction due to tax free income	– 1,172	– 2,342
Tax increase due to non–deductible expenses	3,762	3,028
Current income tax levied or refunded for prior periods	– 1,122	– 1,004
Tax reduction due to first–time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	-	– 22,983
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 97	– 5,466
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	9,122	3,665
Other income taxes	2,301	1,762
Other tax effects	– 702	420
Effective income tax benefit/expense	**38,251**	**– 5,727**
Effective tax rate	**35.8%**	**-5.9%**

The actual tax rate of 35.8% in the fiscal year under review is 4.0 percentage points above the expected combined income tax rate of 31.8%. This mainly relates to higher tax due to non-recognition of deferred tax assets in France, in the United Kingdom and in the German start-up XOM as well as non-deductible expenses, primarily within the German tax group.

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 profit or loss, with the exception of taxes relating to items accounted for in other comprehensive income.

(€ thousand)	December 31, 2018	December 31, 2017
Change in deferred tax assets and liabilities (net), not affecting net income	**– 1,859**	**– 11,818**
thereof reported		
– in other comprehensive income	*– 977*	*– 11,818*

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. There were additional adjustments in equity in connection with first-time application of IFRS 9 and IFRS 15 that were not included in the statement of comprehensive income.

The deferred tax assets relating to items accounted for in equity totaled €14,710 thousand at the end of the fiscal year under review (2017: €15,419 thousand). In the fiscal year under review, these relate in the amount of €15,592 thousand to defined benefit obligations and in the amount of – €882 thousand to the adjustments in equity in connection with IFRS 9 and IFRS 15.

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, 2018		
(€ thousand)	Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 40,872*	*3,177*	*– 2,261*
Intangible assets	– 4,267	333	– 284
Property, plant and equipment	– 43,907	3,891	– 2,922
Non-current investments	3,248	664	216
Inventories	– 11,908	– 3,270	– 507
Receivables	– 271	1,540	– 18
Other current assets	1,555	902	104
Provisions for pensions and similar obligations	26,144	4,055	1,913
Other provisions and accrued liabilities	– 1,508	2,177	– 100
Financial liabilities	– 3,532	913	– 235
Other liabilities	– 6,426	– 8,029	– 428
Tax loss carryforwards/interest carryforwards	*19,288*	*– 7,862*	*1,284*
Net amount (before offsetting)	**– 21,584**	**– 4,685**	**– 977**
Offsetting	-		
Deferred tax assets/liabilities	**– 21,584**		

	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 December 31, 2018		
Recognized directly in equity	Acquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	Net balance	Deferred tax assets	Deferred tax liabilities
– 882	*– 247*	-	*– 41,085*	*63,861*	*– 104,946*
-	– 247	-	– 4,465	1,642	– 6,107
-	-	-	– 42,938	1,708	– 44,646
-	-	-	4,128	4,128	-
5,991	-	-	– 9,694	3,957	– 13,651
– 6,873	-	-	– 5,622	1,365	– 6,987
-	-	-	2,561	8,222	– 5,661
-	-	-	32,112	32,123	– 11
-	-	-	569	5,785	– 5,216
-	-	-	– 2,854	4,364	– 7,218
-	-	-	– 14,883	566	– 15,449
-	-	-	*12,710*	*12,710*	-
– 882	**– 247**	**-**	**– 28,375**	**76,571**	**– 104,946**
			-	– 59,069	59,069
			– 28,375	**17,502**	**– 45,877**

			As of December 31, 2017		
Recognized directly in equity	Acquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	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
-	-	-	– 11,908	860	– 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**

In accordance with IAS 12.39, no deferred tax liabilities were recognized for taxable temporary differences associated with investments in subsidiaries (outside basis differences) in the amount of €4.8 million (2017: €3.1 million). The amount of the related deferred tax liabilities is €1.5 million (2017: €1.0 million).

The following deferred tax assets on unused tax loss carryforwards and deductible temporary differences were not yet recognized because their realization cannot be reliably guaranteed:

(€ million)	December 31, 2018	December 31, 2017
Unrecognized tax losses		
– Corporate income tax	602	451
– Trade tax and similar taxes	209	141
Temporary differences	91	115

The majority of the unrecognized tax 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 tax loss carryforwards that are subject to a maximum carryforward period expire as follows:

(€ million)	December 31, 2018	December 31, 2017
until December 31, 2020	-	-
until December 31, 2031	26	29
after December 31, 2031	75	81

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.

		2018	2017
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	67,776	101,136
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**0.68**	**1.01**
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	67,776	101,136
Interest expense on convertible bond (net of tax)	(€ thousand)	4,726	4,597
Net income used to determine diluted earnings per share	(€ thousand)	72,502	105,733
Weighted average number of shares	(thousands of shares)	99,750	99,750
Dilutive potential shares from convertible bond	(thousands of shares)	10,367	10,101
Weighted average number of shares for dilutive earnings per share	(thousands of shares)	110,117	109,851
Diluted earnings per share	**(€/share)**	**0.66**	**0.96**

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, 2017	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
Impairments	-	– 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
Balance as of January 1, 2018	**109,758**	**24,138**	**28,853**	**162,749**
Exchange rate differences	4,418	432	898	5,748
Additions from business combinations	836	-	-	836
Additions	2,855	2,989	-	5,844
Disposals	– 76	– 2	-	– 78
Depreciation and amortization	– 17,585	– 9,569	-	– 27,154
Transfers	– 284	284	-	-
Balance as of December 31, 2018	**99,922**	**18,272**	**29,751**	**147,945**
Cost as of December 31, 2018	424,171	103,916	319,975	848,062
Accumulated amortization and impairments	– 324,249	– 85,644	– 290,224	– 700,117

Intangible assets include €7.4 million for self-developed software at kloeckner.i GmbH and XOM Materials GmbH. Research and development expenses came to €4.1 million.

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 based on the Capital Asset Pricing Model (CAPM). Its main inputs are the risk-free rate of return, the beta factor of the Klöckner & Co share, and the return on equity, which includes assumptions about leverage and the market risk premium.

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 shipments, 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	constant	constant	slight decrease	considerable increase
Becker Stahl-Service GmbH (BSS)	considerable increase	constant	slight increase	considerable increase

Impairment testing of goodwill allocated to the CGUs

The carrying amounts of goodwill totaled €30 million and relate to the Switzerland CGU (€25 million) and Becker Stahl-Service (€5 million). The impairment test confirmed that the 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 6.9% (2017: 6.5%) and for the Becker Stahl-Service CGU on the basis of a pretax WACC of 8.6% (2017: 8.8%).

Impairment testing 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 €100 million, €82 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, 2018. 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.

b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Prepayments received and construction in progress	Total property, plant and equipment
Cost as of January 1, 2017	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
Balance as of January 1, 2018	**371,888**	**139,689**	**76,951**	**35,288**	**623,816**
Exchange rate differences	10,264	4,194	1,889	777	17,124
Additions from business combinations	-	3	32	-	35
Additions	2,806	18,199	13,263	25,374	59,642
Disposals	– 541	– 556	– 727	– 1,394	– 3,218
Impaiments	-	– 440	-	-	– 440
Depreciation and amortization	– 16,588	– 24,482	– 16,975	-	– 58,045
Transfers	16,533	12,224	3,579	– 32,336	-
Balance as of December 31, 2018	**384,362**	**148,831**	**78,012**	**27,709**	**638,914**
Cost as of December 31, 2018	769,393	414,135	335,015	27,709	1,546,252
Accumulated amortization and impairments	– 385,031	– 265,304	– 257,003	-	– 907,338

Property, plant and equipment with a carrying amount of €59,564 thousand (2017: €54,628 thousand) was pledged as security in the form of liens for financial liabilities.

Impairment testing 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 2018, European steel distribution activities continued to fall short of profitability targets in the United Kingdom because of the impending Brexit and to generate losses in France due to lower demand as a result of streamlining of the dealer network. 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. The values in use measured for the remaining CGUs exceeded their respective carrying amounts. There were consequently 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, 2018:

(€ thousand)	Germany	United Kingdom	France
Other intangible assets	219	176	14
Land and buildings	19,200	14,959	24,158
Technical equipment and machinery	14,573	6,217	8,573
Other equipment, operating and office equipment	11,742	6,543	1,695
Payments on account	3,337	-	540
	49,071	**27,895**	**34,980**

Germany, United Kingdom 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 in the aggregate 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. In total, the outcome was a recoverable amount of €38,555 thousand. However, an impairment was recognized in the amount of €440 thousand on machinery in 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.

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 by classes of property, plant and equipment are as follows:

	Carrying amounts	
(€ thousand)	December 31, 2018	December 31, 2017
Real estate		
USA	12,985	13,156
Technical equipment and machines		
France	4,439	-
Other equipment, operating and office equipment		
Switzerland	7,240	7,374
Total	**24,664**	**20,530**

(16) Inventories

(€ thousand)	December 31, 2018	December 31, 2017
Raw materials and suppoies	430,640	368,585
Work in progress	5,222	5,229
Finished goods and merchandise	804,683	725,319
Prepayments	1,664	5,998
Inventories	**1,242,209**	**1,105,131**

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, 2018, €339,663 thousand (2017: €248,936 thousand) are carried at net realizable value. Write-downs to net realizable value were recognized as expense in the amount of €28,775 thousand (2017: €25,431 thousand). The change in write-downs (addition to) recognized through profit or loss was €2,859 thousand in the fiscal year (2017: €2,819 thousand reversal). 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 €523,804 thousand (2017: €365,810 thousand) are pledged as security for financial liabilities. These credit lines were undrawn as of December 31, 2018 (2017: drawings of €32 thousand).

(17) Trade receivables and contract assets

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, 2018 amounts to €570 million (2017: €521 million).

For further information on the ABS programs, see Note 24 (Financial liabilities) and Note 3 (Basis of consolidation and consolidation methods).

The following table provides information on credit risk on trade receivables:

TRADE RECEIVABLES AND CONTRACT ASSETS

(€ 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	Write–downs	Carrying amount
12/31/2018								
755,844	577,101	131,238	24,342	6,737	2,949	13,477	– 15,899	739,945
12/31/2017								
699,355	530,046	130,054	19,297	5,702	1,747	12,509	– 19,577	679,778

*) Including contract assets: €23,453 thousand (2017: €28,424 thousand).

As of December 31, 2018, trade receivables of companies not participating in the ABS programs were pledged in the amount of €5,869 thousand (2017: €6,847 thousand) as collateral for loan liabilities.

Contract assets, which relate to sales under consignment stock contracts and construction contracts, changed as follows in fiscal year 2018:

(€ thousand)	2018
As of January 1	28,424
Additions/ disposals	-5,297
Exchange rate differences	326
As of December 31	**23,453**

(18) Other financial and non-financial assets

	December 31, 2018		December 31, 2017	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial assets	**78,195**	**7,961**	**78,333**	**5,812**
Receivables from insurance companies	415	2,380	1,373	25
Commission claims	64,046	-	63,783	-
Fair value of derivative financial instruments	854	-	2,252	-
Miscellanous other non-financial assets	12,880	5,581	10,925	5,787
Other non-financial assets	**21,068**	**5,215**	**20,286**	**5,674**
Receivables from social security carriers	620	-	289	-
Reinsurance claims from pension obligations	-	3,923	-	3,273
Prepaid pension cost	-	1,250	-	2,344
Claims of other taxes	11,882	-	10,132	-
Prepaid expenses	8,566	42	9,865	57
Other assets	**99,263**	**13,176**	**98,619**	**11,486**

Commission claims mainly relate to refunds to suppliers of purchased inventory.

Miscellaneous other non-financial current assets include, among other things, debit balances in accounts payable of €2,748 thousand (2017: €2,840 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) 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

By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized 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 may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

Conditional capital

CONDITIONAL CAPITAL 2013

The conditional capital in an initial total amount of €49,875,000 established by resolution of the Annual General Meeting of May 24, 2013 (Conditional Capital 2013) was adjusted in the Annual General Meeting of May 12, 2017 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

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 and/or obligations 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 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).

b) Capital reserves

As in the prior year, capital reserves amounted to €682,412 thousand as of December 31, 2018.

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, and consolidation adjustments insofar as they affect equity.

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.

(21) 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, 679,966 (2017: 716,000) virtual stock options for 2018 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	**721,802**	**2,366,000**	**3,087,802**
Granted	-	679,666	679,666
Exercised	-93,334	– 134,000	– 227,334
Forfeited	– 60,000	0	– 60,000
Outstanding at the end of the reporting period	**568,468**	**2,911,666**	**3,480,134**
thereof exercisable at the reporting date	*280,900*	*832,000*	*1,112,900*
weighted average remaining contractual lifetime (months)	*46*	*53*	*52*
range of strike prices (€/VSO)	*7.83–9.27*	*7.44–10.83*	*7.74–10.83*
weighted average strike price (€/VSO)	*8.65*	*9.18*	*9.10*

*) Including options former Board members.

Detailed information for the members of the Management Board serving in fiscal year 2018 is provided in the following table:

(Number of virtual stock options)	Gisbert Rühl	Marcus A. Ketter	Karsten Lork*)
Outstanding at the end of the reporting period	**241,800**	**100,001**	**86,667**
thereof exercisable at the reporting date	*120,900*	*46,667*	*33,333*
weighted average remaining contractual lifetime (months)	*60*	*36*	*36*
range of strike prices (€/VSO)	*7.83-9.27*	*7.83-9.27*	*8.45-9.27*
weighted average strike price (€/VSO)	*8.62*	*8.59*	*8.70*

*) Resigned effective February 28, 2018.

227,334 virtual stock options were exercised in fiscal year 2018 (2017: 539,032) (of which Management Board program: 93,334 virtual stock options). The payments totaled €450 thousand (of which Management Board program: €195 thousand).

The provision recognized pro rata temporis for stock options granted to the Management Board and senior management amounts to €3,250 thousand as of the reporting date (2017: €7,100 thousand); the intrinsic value of virtual stock options exercisable as of the reporting date was €0 thousand (2017: €284 thousand). Income from the reversal of provisions amounted to €3,400 thousand (2017: expense of €207 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, 2018	December 31, 2017
Risk-free rate of return	– 0,7 to – 0,2	– 0,7 to 0,3
Expected volatility	41.6	32.8

The expected volatility is based on market-traded options on the shares.

(22) Provisions for pensions and similar obligations

Most employees in the Klöckner & Co Group have pension benefits, 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 benefit 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 the United Kingdom, post-2003 new entrants have a defined contribution plan with equal employer and employee contributions at a fixed percentage of basic salary. Pre-2003 entrants instead have 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. The current investment strategy has a strong focus on corporate bonds and other fixed-income investments.

Swiss Group companies and their employees fund pensions through a pension fund whit 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 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 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 the 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 €9,257 thousand (2017: €9,234 thousand). This does not include employer contributions to the statutory pension insurance scheme. These amounted to €7,704 thousand in Germany (2017: €7,278 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:

2018

in %	Germany	Switzerland	United Kingdom	France	USA
Discount rate	1.70	0.80	3.00	1.70	4.20
Salary trend	2.50	0.50	2.05	1.75	3.50
Pension trend	1.75	0.00	3.00	1.25	0.00

2017

in %	Germany	Switzerland	United Kingdom	France	USA
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

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:

	2018	2017
Germany	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2015	BVG 2015
United Kingdom	SAPS	SAPS
France	INSEE 10-12; TGH05	INSEE 10-12; TGH05
United States	Retirement Plan 2018	Retirement Plan 2017

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)	2018	2017
Reimbursement rights as of January 1	**3,273**	**3,446**
Expected return	50	50
Actuarial gains and losses	824	-
Benefits paid	– 223	– 223
Reimbursement rights as of December 31	**3,924**	**3,273**

The actual return on reimbursement rights was €875 thousand in the fiscal year (2017: €50 thousand).

The net provision changed as follows:

	Defined benefit obligation		Fair value of plan assets		Net provision/assets	
(€ thousand)	2018	2017	2018	2017	2018	2017
As of January 1	1,060,377	1,133,284	– 781,183	– 774,397	279,194	358,887
thereof fully or partly funded	850,834	914,844				
Included in statement of income						
Service cost	17,517	17,911	-	-	17,517	17,911
Interest cost for pension plans	17,094	17,674	-	-	17,094	17,674
Interest income from plan assets	-	-	– 11,858	– 11,735	– 11,858	– 11,735
Administration expenses	-	-	1,589	1,160	1,589	1,160
Settlements/amendments	1,604	– 2,418	-	-	1,604	– 2,418
	36,215	**33,167**	**– 10,269**	**– 10,575**	**25,946**	**22,592**
Included in other comprehensive income						
Actuarial losses (gains) due to change in demographic assumptions	– 3,772	– 2,689	-	-	– 3,772	– 2,689
Actuarial losses (gains) due to change in financial assumptions	– 38,833	10,488	-	-	– 38,833	10,488
Experience losses (gains)	7,163	– 1,071	-	-	7,163	– 1,071
Actuarial losses (gains) on plan assets	-	-	29,075	– 66,154	29,075	– 66,154
Foreign currency exchange rate differences	27,880	– 77,281	– 26,211	68,572	1,669	– 8,709
	– 7,562	**– 70,553**	**2,864**	**2,418**	**– 4,698**	**– 68,135**
Other						
Employee contributions	11,955	14,000	– 11,955	– 14,000	-	-
Employer contributions	-	-	– 24,818	– 23,021	– 24,818	– 23,021
Benefits paid	– 65,965	– 49,521	49,271	38,392	– 16,694	– 11,129
	– 54,010	**– 35,521**	**12,498**	**1,371**	**– 41,512**	**– 34,150**
As of December 31	**1,035,020**	**1,060,377**	**– 776,090**	**– 781,183**	**258,930**	**279,194**
thereof included in consolidated statement of other non-financial assets					1,250	2,344
Provisions for pensions and similar obligations					260,180	281,538
thereof fully or partly funded	833,541	850,834				

The table below shows the analysis of the net provision (asset) by countries:

	December 31, 2018			December 31, 2017		
(€ thousand)	Defined benefit obligation	Fair value of plan assets	Net provision/ assets	Defined benefit obligation	Fair value of plan assets	Net provision/ assets
Germany	211,615	31,381	180,234	213,184	28,212	184,972
Austria	1,401	-	1,401	1,331	-	1,331
France	26,114	278	25,836	27,141	273	26,868
United Kingdom	86,301	72,098	14,203	98,440	72,687	25,753
Switzerland	496,310	494,288	2,022	505,578	507,922	– 2,344
USA	213,279	178,045	35,234	214,703	172,089	42,614
Total	**1,035,020**	**776,090**	**258,930**	**1,060,377**	**781,183**	**279,194**

The table below shows how the defined benefit obligation would have been affected by changes in key actuarial assumptions:

(€ thousand)	2018	2017
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	964,652	986,536
discount rate would be lower by 50 basis points	1,114,649	1,144,430
the expected salary trend would be higher by 0.5%	1,040,600	1,067,903
the expected salary trend would be lower by 0.5%	1,029,332	1,053,281
pension increase would be higher by 0.5%	1,078,581	1,104,284
pension increase would be lower by 0.5%	1,021,758	1,046,596
longevity would be 1 year longer	1,068,726	1,095,439

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, 2018			December 31, 2017		
(€ 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	185,165	21,105	206,270	223,260	29,818	253,078
Bonds	138,450	149,156	287,606	135,217	135,330	270,547
Real estate	38,728	135,174	173,902	37,780	117,541	155,321
Other assets	76,067	32,245	108,312	73,276	28,961	102,237
Fair value of plan assets as of December 31	**438,410**	**337,680**	**776,090**	**469,533**	**311,650**	**781,183**

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 €14,383 thousand (2017: €24,584 thousand).

Other assets mainly include €36,774 thousand for pension fund cash holdings and €16,494 thousand for alternative investments in resources, both in Switzerland, €31,381 thousand for pledged pension liability claims in Germany and €16,564 thousand for an investment in quasi-security instruments in the United Kingdom.

The actual return on plan assets was a loss of €17,217 thousand in the fiscal year (2017: gain of €77,889 thousand).

Losses relating to experience adjustments in the present value of the defined benefit obligation in the year under review were €7,163 thousand (2017: gains of €1,071 thousand); losses relating experience adjustments to the fair value of plan assets were €29,075 thousand (2017: gains of €66,154 thousand).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2019 are expected to amount to €25,068 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2019	41,067
- due in 2020	40,858
- due in 2021	40,934
- due in 2022	43,485
- due in 2023	43,755
- due 2024-2028	220,718

(23) Other provisions and accrued liabilities

Other provisions changed as follows in the reporting year:

(€ thousand)	As of January 1, 2018	Additions	Accretion	Utilization	Reversals	Other changes *)	As of December 31, 2018
Other provisions							
Other taxes	2,729	863	-	– 2,257	– 14	33	1,354
Personnel-related obligations							
– early retirement schemes	44	10	-	– 15	– 6	-	33
– anniversary payments	10,255	806	69	– 1,238	– 11	163	10,044
– other	127	45	-	-	-	6	178
Onerous contracts	3,589	474	-	– 2,663	– 86	33	1,347
Restructuring expenses	23,325	8,041	-	– 18,738	– 335	1,511	13,804
Pending litigation	1,468	1,673	-	– 183	– 245	– 13	2,700
Warranties	1,387	616	-	– 81	– 206	-	1,716
Miscellaneous provisions	25,444	12,974	47	– 16,469	– 5,089	1,026	17,933
	68,368	**25,502**	**116**	**– 41,644**	**– 5,992**	**2,759**	**49,109**
Other accrued liabilities							
Personnel-related obligations	63,603	32,752	-	– 36,195	– 399	– 1,846	57,915
Outstanding invoices	23,247	17,164	-	– 16,484	– 1,184	– 122	22,621
Miscellaneous accrued liabilities	936	297	-	– 42	-	30	1,221
	87,786	**50,213**	**-**	**– 52,721**	**– 1,583**	**– 1,938**	**81,757**
Other provisions and accrued liabilities	**156,154**	**75,715**	**116**	**– 94,365**	**– 7,575**	**821**	**130,866**

*) Change in scope of consolidation, foreign currency adjustments, reclassification and transfers to/from third parties.

Analysis by maturities:

(€ thousand)	December 31, 2018 Non-current	Current	December 31, 2017 Non-current	Current
Other provisions				
Other taxes	57	1,297	-	2,729
Personnel-related obligations				
– early retirement schemes	18	15	31	13
– anniversary payments	10,044	-	10,255	-
– other	147	31	103	24
Onerous contracts	8	1,339	7	3,582
Restructuring expenses	-	13,804	-	23,325
Pending litigation	50	2,650	146	1,322
Warranties	-	1,716	-	1,387
Miscellaneous provisions	6,098	11,835	7,654	17,790
	16,422	**32,687**	**18,196**	**50,172**
Other accrued liabilities				
Personnel-related obligations	-	57,915	-	63,603
Outstanding invoices	-	22,621	-	23,247
Miscellaneous accrued liabilities	-	1,221	-	936
	-	**81,757**	**-**	**87,786**
Other provisions and accrued liabilities	**16,422**	**114,444**	**18,196**	**137,958**

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 €12,034 thousand (2017: €21,271 thousand) and other restructuring expenses for location closures in an amount of €1,770 thousand (2017: €2,054 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 €10,044 thousand (2017: €10,255 thousand) to anniversary payments in France and Switzerland. The determination of the provision is based on actuarial calculations.

Miscellaneous provisions relate among other things to provisions for asset retirement obligations and provisions for environmental remediations.

Accrued liabilities for employee-related obligations include bonus payments of €42,517 thousand (2017: €47,751 thousand) as well as vacation entitlements and flextime balances in the amount of €12,554 thousand (2017: €12,967 thousand).

(24) Financial liabilities

The details of financial liabilities are as follows:

	December 31, 2018				December 31, 2017			
(€ thousand)	up to 1 year	1-5 years	Over 5 years	Total	up to 1 year	1-5 years	Over 5 years	Total
Bonds	920	136,160	-	137,080	920	132,187	-	133,107
Liabilities to banks	16,325	40,652	18,674	75,651	50,245	19,366	19,346	88,957
Liabilities under ABS programs	948	280,811	-	281,759	511	234,361	-	234,872
Finance lease liabilities	1,547	8,553	15,995	26,095	1,033	5,407	15,321	21,761
	19,740	**466,176**	**34,669**	**520,585**	**52,709**	**391,321**	**34,667**	**478,697**

Financial liabilities of €29,686 thousand (2017: €30,212 thousand) are secured by liens. Inventories as set out in Note 16 (Inventories) and trade receivables as set out in Note 17 (Trade receivables and contract assets) are also pledged as collateral.

Transaction costs directly attributable to the assumption of financial liabilities in the amount of €3,749 thousand (2017: €5,028 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 and bilateral credit lines in Switzerland) is 2.5 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 €14.1028 following the dividend payouts in May 2017 and May 2018. The bond has 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 at the time of issue was €18 million after deducting transaction costs and accounting for deferred taxes. This was credited to capital reserves.

Liabilities to banks

In April 2018, the syndicated loan was extended ahead of term, retaining the facility amount at €300 million, until May 2021.

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). 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 2018, 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. In September 2018, the European ABS program was prolonged ahead of term to September 2021 on slightly improved terms while retaining the €300 million loan amount. The covenants agreed upon are also based on the statement of financial position and are equivalent to those for the syndicated loan.

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

Utilization of the programs including accumulative interest totaled €282 million as of the reporting date and breaks down as follows:

(€ million)	December 31, 2018	December 31, 2017
European program		
– utilization	110	78
– maximum volume	300	300
American program		
– utilization*)	172	157
– maximum volume*)	240	229

*) Translated at closing exchange rate.

The utilization of the programs is accounted for as borrowings as the requirements in IFRS 9 for derecognition of the transferred receivables are not met.

Finance lease liabilities

Finance lease liabilities have the following term structure:

(€ thousand)	December 31, 2018	December 31, 2017
Due within one year	2,760	2,205
Due between one and five years	12,470	10,815
Due after five years	23,386	21,155
Future minimum lease payments (nominal value)	**38,616**	**34,175**
Due within one year	1,213	1,172
Due between one and five years	3,917	5,408
Due after five years	7,391	5,834
Interest included in future minimum lease payments	**12,521**	**12,414**
Due within one year	1,547	1,033
Due between one and five years	8,553	5,407
Due after five years	15,995	15,321
Total present value of future minimum lease payments	**26,095**	**21,761**

(25) Trade payables

(€ thousand)	December 31, 2018	December 31, 2017
Advance payments received	6,469	6,989
Trade payables	746,301	646,209
Bills payable	-	94
Trade payables	**752,770**	**653,292**

(26) Other financial and non-financial liabilities

	December 31, 2018		December 31, 2017	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial liabilities	**21,118**	**156**	**21,445**	**7**
Negative fair value of derivative financial instruments	678	-	102	7
Customers with credit balances	11,563	-	15,265	-
Liabilities to employees	3,186	3	1,727	-
Miscellaneous other financial liabilities	5,691	153	4,351	-
Other non-financial liabilities	**36,003**	**3**	**26,000**	**11**
Value-added tax liabilities	19,680	-	4,285	-
Social security contributions	5,892	-	6,846	-
Other tax liabilities	7,773	-	11,807	-
Deferred income	2,658	3	3,062	11
Other liabilities	**57,121**	**159**	**47,445**	**18**

The miscellaneous other financial liabilities did not relate to any individual material item in the fiscal year under review.

Other disclosures

(27) 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.

Capital is managed on the basis of 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 24 (Financial liabilities).

Gearing is determined as follows:

(€ thousand)	December 31, 2018	December 31. 2017	Variance
Financial liabilities	520,585	478,697	41,888
Transaction costs	3,749	5,028	– 1,279
Liquid funds	– 141,344	– 153,561	12,217
Net financial debt (before deduction of transaction cost)	**382,990**	**330,164**	**52,826**
Consolidated shareholders' equity	1,281,642	1,202,311	79,331
Non-controlling interests	– 6,282	– 6,235	– 47
Goodwill from business combinations subsequent to May 23, 2013	– 20,550	– 19,790	– 760
Adjusted shareholders' equity	**1,254,810**	**1,176,286**	**78,524**
Gearing	**30.5%**	**28.1%**	**2.4%p**

(28) 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, 2018			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Position as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	854	854	-	-	-	854	-	854
Derivative financial instruments designated in hedge accounting	Current and non-current other assets	-	-	-	-	-	-	-	-
Participations	Financial assets	8,574	5,074	3,500	-	-	-	8,574	8,574
Short term deposits (< 3 months)	Cash and cash equivalents	770	770	-	-	-	770	-	770
Not measured at fair value									
Financial assets at cost	Financial assets	-	-	-	-	-	-	-	-
Trade receivables and contract assets*)	Trade receivables and contract assets	739,945	-	-	739,945	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	140,574	-	-	140,574	-	-	-	-
Other financial assets at cost	Current and non-current other assets	85,302	-	-	85,302	-	-	-	-
Total		**976,019**	**6,698**	**3,500**	**965,821**	**-**	**1,624**	**8,574**	**10,198**

*) Including contract assets of €23,453 thousand.

Financial liabilities as of December 31, 2018			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Position as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	673	673	-	-	-	673	-	673
Derivative financial instruments designated in hedge accounting	Other current and non-current liabilities	6	-	6	-	-	6	-	6
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	494,490	-	-	494,490	-	485,600	-	485,600
Liabilities held under finance lease	Current and non-current financial liabilities	26,095	-	-	26,095	-	-	24,548	24,548
Trade payables	Trade payables	752,770	-	-	752,770	-	-	-	-
Other financial liabilities at cost	Other current and non-current liabilities	20,595	-	-	20,595	-	-	137	137
Total		**1,294,629**	**673**	**6**	**1,293,950**	**-**	**486,279**	**24,685**	**510,964**

Financial assets as of December 31, 2017			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Position as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	2,243	2,243	-	-	-	2,243	-	2,243
Derivative financial instruments designated in hedge accounting	Current and non-current other assets	9	-	9	-	-	9	-	9
Participations	Financial assets	5,415	2,414	3,001	-	-	-	5,415	5,415
Short term deposits (< 3 months)	Cash and cash equivalents	1,486	1,486	-	-	-	1,486	-	1,486
Not measured at fair value									
Financial assets at cost	Financial assets	2	-	-	2	-	-	-	-
Trade receivables and contract assets *)	Trade receivables and contract assets	679,778	-	-	679,778	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	152,075	-	-	152,075	-	-	-	-
Other financial assets at cost	Current and non-current other assets	81,893	-	-	81,893	-	-	-	-
Total		**922,901**	**6,143**	**3,010**	**913,748**	**-**	**3,738**	**5,415**	**9,153**

*) Including contract assets of €28,424 thousand.

Financial liabilities as of December 31, 2017 (€ thousand)	Presented in the Statement of Financial Position as	Carrying amount	Category: Fair value recognized in profit and loss	Category: Fair value recognized in equity	Category: Amortized costs	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	-	480,316	-	480,316
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	21,343	-	-	21,343	-	-	-	-
Total		**1,153,440**	**78**	**31**	**1,153,331**	**-**	**480,425**	**20,728**	**501,153**

Measurement of the fair value of the non-current financial assets in the amount of €8,574 thousand (2017: €5,415 thousand) is classified as level 3. These are mostly unquoted financial instruments (equity investments) for which there is no active market. Fair value is measured as an approximation as cost, which is considered an appropriate estimate of fair value as no more suitable information is available. All information available on the equity investments is reviewed on a quarterly basis to establish whether cost is still representative of fair value. This would not be the case, for example, in the event of a significant change in the market in which the equity investments are active. As cost is the sole input factor for fair value, a percentage change in cost results in an equal change in fair value. The estimated fair value would increase (decrease) with any increase (decrease) in cost. A 0.5% increase (decrease) in cost would not materially affect fair value.

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 (mostly other 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, 2018. Their fair values are not reduced by transaction costs. For current financial liabilities, when there are no transaction costs to be deducted, their carrying amount is identical to fair value.

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices in active markets. Fair values determined using other directly observable market inputs are classified as Level 2.

Other Level 3 fair values exist for non-current finance lease liabilities in the amount of €24,548 thousand (2017: €20,728 thousand). Fair values for these are only determined for note disclosure purposes. They cannot be determined solely on the basis of observable market data for these liabilities due to individual collateralization and long duration. For leases and the specific leased items, an interest rate was determined by the parties at the inception of the lease. The leased item can revert to the lessor in the event of payment default on the part of the lessee and therefore serves as collateral for the lease liability. There is no indication of any change in the fair interest rates determined on initial recognition. For this reason, fair value is based on the carrying amount. Changes in hierarchy levels are taken into account at the end of the period in which the change took place. There were no transfers between hierarchy levels during the reporting year.

A further Level 3 fair value exists for non-current finance lease liabilities; this is a put liability from the acquisition of the GSD Group. The put option was entered into for a potential future transfer of non-controlling interests valued by discounting future earnings based on budget figures. These liabilities totaled €137 thousand in the fiscal year (2017: €0 thousand).

(29) Derivative financial instruments

Derivative financial instruments are accounted for at fair value in accordance with IFRS 9.

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, 2018		December 31, 2017	
(€ million)	Not designated in hedge-accounting	Designated in hedge-accounting	Not designated in hedge-accounting	Designated in hedge-accounting
Nominal values				
Forward exchange transactions	261.1	1.0	316.4	3.1
Interest rate swap	-	-	0.4	-
Fair values				
Forward exchange transactions	0.2	-	2.1	-

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 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 €262 million (2017: €320 million) have a remaining maturity of less than one year. These include a notional amount of €241 million (2017: €284 million) for the hedging of intra-Group loans.

Forward exchange contracts for a total of €1.0 million (2017: €3.1 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 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, 2018.

(30) 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, 43% (2017: 50%) of trade receivables were covered by credit insurance.

Trade receivables

Prospective customers are credit-checked against an in-house risk board before order acceptance. Additionally, there is an active receivables management system incorporating trade credit insurance. The broadly diversified receivables pool is also used for financing purposes under ABS programs in Europe and the USA.

In addition to local monitoring by each subsidiary, Klöckner & Co SE also monitors significant credit risk at Group management level in order to better control specific individual risks and any cumulative risk.

There is no risk concentration as trade receivables relate to large numbers of customers from a variety of sectors and regions. Klöckner applies the simplified approach to trade receivables and contract assets, recognizing the lifetime expected credit losses on inception. Determination of expected credit losses under the simplified approach is performed at Klöckner in risk groups using historic credit loss rates. The assignment to risk groups is made on the basis of shared credit risk characteristics. For Klöckner, these include a customer's geographical location and the past due status of contract assets. Future-oriented information is incorporated by adjusting historic credit loss rates with scaling factors. These are based on gross domestic product (GDP) growth rates in each region. Contract assets relate to work in progress that has not yet been invoiced and generally have the same risk characteristics as trade receivables for the same types of contract. Klöckner has therefore concluded that the expected credit loss rates on trade receivables not past due are a suitable approximation of loss rates for contract assets.

Individual valuation allowances are recognized under the simplified approach when one or more events have occurred that have a detrimental impact on the debtor's creditworthiness. Such events include payment delays, imminent insolvency or the granting of concessions to the debtor on account of payment difficulties. Trade receivables and contract assets are written off if recovery is no longer probable. This is the case, for example, if a debtor becomes insolvent.

(€ thousand)	2018	2017
Writedowns as at January 1 under IAS 39	19,577	20,486
Adjustments from the first-time adoption of IFRS 9	– 2,487	-
Writedowns as at January 1 under IFRS 9	**17,090**	**20,486**
Utilisation	– 2,656	– 435
Additions	1,493	660
Exchange rate differences	– 28	– 1,134
Writedowns as of December 31	**15,899**	**19,577**

The change in the valuation allowance is mainly due to the increase/decrease in the gross carrying amount of trade receivables/contract assets that are credit-impaired. The loss-weighted average loss rates have not significantly changed.

The table below contains information on credit risk and expected credit losses on trade receivables and contract assets as of December 31, 2018:

	Gross trade receivables (€ thousands)	Average default rates (in %)	Expected credit loss (€ thousand)
Germany/Austria	169,091	0.019–0.036	104
Switzerland	104,310	0.049	40
United Kingdom	61,994	0.299	184
France	89,551	0.197	242
USA	289,024	0.040	199
Netherlands	30,193	0.680	13
Other	11,681	0.019-0.068	8
Total	755,844	0.019-0.068	790

In addition to the expected credit losses valuation allowances were booked for incurred losses of €15,109 thousand for trade receivables.

Cash and cash equivalents

As part of liquidity management, Klöckner & Co SE deposits cash and cash equivalents exclusively with the Group's core banks, which hold an investment grade rating. Their credit standing is also regularly monitored against credit default swaps (CDSs).

Cash consists of bank balances and short-term deposits in the form of call and time deposits. The maximum investment period is 90 days.

On the basis of the limited investment period, the banks' credit ratings and current CDS premiums, cash and cash equivalents have low default risk. No material impairment losses were therefore recognized on cash and cash equivalents in fiscal year 2018.

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 risk 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 local borrowings, notably by the US country organization (US ABS/ABL) and by the Swiss country organization (bilateral credit lines). 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 in the amount of €148 million, local borrowings in the amount of €54 million and finance lease liabilities in the amount of €26 million, as of December 31, 2018 €228 million or some 43% (2017: €254 million or approximately 51%) of financial liabilities before transaction costs were fixed-rate.

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 effect of the shift in the yield curve relates solely to interest expense and income for the following reporting period.

On the basis of financial liabilities as of December 31, 2018, 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 €3.0 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 €1.4 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 the Corporate Treasury Department 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 €199 million (2017: €233 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 €1.0 million (2017: €3.1 million) were designated as a cash flow hedge. These hedge customer payments in international project business.

A sensitivity analysis is performed to show the effects of changes in exchange rates on foreign exchange gains and losses as well as on equity as of the reporting date. Currency risk is measured as cash flow risk (flow variable-based analysis) for the following year.

The fair value of our currency swaps was €0.2 million as of the reporting date (2017: €2.1 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 €1.4 billion (2017: €1.5 billion). Financial liabilities plus transaction costs came to €524 million (2017: €484 million). This corresponds to approximately 37% of the credit facilities (2017: 32%).

In April 2018, the syndicated loan was extended ahead of term, retaining the facility amount at €300 million, until May 2021. In September 2018, the European ABS program was prolonged ahead of term to September 2021 on slightly improved terms while retaining the €300 million loan amount. In March 2018, the bilateral credit lines in Switzerland were restructured and extended with a total facility amount of CHF 130 million for four years until March 2022. The remaining material financing instruments were most recently extended in 2016 (ABS and ABL USA) or issued (2016 Convertible Bond).

The following table shows contractual undiscounted interest and principal payments for non-derivative and derivative financial instruments as of each reporting date.

December 31, 2018		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	5,912	-	8,868
	Total	**2,956**	**153,712**	**-**	**156,668**
Bank loans	Nominal values	16,104	42,689	18,674	77,467
	Interest	4,398	8,104	1,134	13,636
	Total	**20,502**	**50,793**	**19,808**	**91,103**
ABS	Nominal values	-	281,332	-	281,332
	Interest	10,217	14,419	-	24,636
	Total	**10,217**	**295,751**	**-**	**305,968**
Finance lease liabilities	Nominal values	1,547	8,553	15,995	26,095
	Interest	1,213	3,917	7,391	12,521
	Total	**2,760**	**12,470**	**23,386**	**38,616**
Total financial liabilities		**36,435**	**512,726**	**43,194**	**592,355**
Cash outflows from derivative financial instruments designated in interest hedging relationships		-	-	-	-

December 31, 2017		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 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

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

Net gains or losses for the loans and receivables measurement category are as follows:

(€ thousand)	December 31, 2018	December 31, 2017
Exchange rate differences	– 1,055	– 1,103
Valuation allowance	– 3,407	– 2,855
Subtotal	**– 4,462**	**– 3,958**
Net income credit insurance	– 2,844	– 3,739
Net result	**– 7,306**	**– 7,697**

There was a net gain of €499 thousand in the fiscal year (2017: €0 thousand) in the category comprising equity instruments for which changes in fair value remain in other comprehensive income.

The net gain or loss in the other financial liabilities category relates to currency translation. In the fiscal year, there was a net loss of €205 thousand (2017: net loss of €34 thousand).

Financial assets measured at fair value total €854 thousand (2017: €2,252 thousand).

There are €679 thousand (2017: €109 thousand) in financial liabilities measured at fair value.

(31) 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.

Notable commitments 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, 2018	December 31, 2017
Due within one year	48,443	45,995
Due between one and five years	114,205	104,701
Due after five years	61,886	37,376
Future minimum lease payments (nominal amounts)	**224,534**	**188,072**

Rental income under subletting in fiscal year 2018 totaled €1,019 thousand (2017: €1,342 thousand). The future minimum payments from subleases amount to €3 thousand (2017: €987 thousand).

Other commitments arise from capital expenditure purchase obligations; these amounted to €1,431 thousand as of December 31, 2018 (2017: €5,115 thousand).

(32) 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 components	Bonuses	Other remunera-tions[1]	Total	Definded benefit obligation	Service cost
Gisbert Rühl (CEO)	930	1,258	41	2,229	10,763	717
	(860)	(1,471)	(41)	(2,372)	(9,509)	(746)
Marcus A. Ketter (CFO)	480	657	178	1,315	-	-
	(480)	(827)	(128)	(1,435)	(-)	(-)
Karsten Lork[2]	80	120	5	205	-	30
	(480)	(827)	(30)	(1,337)	(900)	(184)
Jens M. Wegmann	480	657	36	1,173	361	348
	(40)	(69)	(3)	(112)	(36)	(-)
William A. Partalis[3]	-	-	-	-	-	-
	(480)	(827)	(30)	(1,337)	(6,689)	(-)
Gesamt	**1,970**	**2,692**	**260**	**4,922**	**11,124**	**1,095**
	(2,340)	**(4,021)**	**(232)**	**(6,593)**	**(17,134)**	**(930)**

1) Includes for Marcus A. Ketter €150.000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) Management Board Appointment of Karsten Lork was terminated as of February 28, 2018.
3) The term of office of William A. Partalis ended as of December 31, 2017.

The following table illustrates the remuneration in accordance with IAS 24 (Related Party Disclosure) for the Management Board and the Supervisory Board:

(€ thousand)	2018	2017
Short-term benefits (IAS 24.17 a)	5,379	7,128
Termination benefits (IAS 24.17 d)	-	3,600
Change in fair values of share-based payments (IAS 24.17e)	– 596	– 579
Service cost for pension obligations (IAS 24.17e)	1,095	930
Total remunerations IFRS	**5,878**	**11,079**

The termination benefits in the prior year related to termination of the Management Board appointment of Karsten Lork as of February 28, 2018.

Pension provisions for former Management Board members, including the member of the Management Board who left in the year under review, amount to €6,498 thousand (2017: €3,309 thousand). Pension payments to former members of the Management Board amounted to €6,054 thousand – €5,840 thousand of which related to the exercising of a one-time payment option – in the fiscal year under review (2017: €118 thousand).

Transactions with members of the Management Board are restricted in the reporting period to transactions in their capacity as members of the Management Board as set out above.

A list of the members of the Management Board is provided on page 9 and a list of the 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 2018 amounted to €1,928 thousand (2017: €1,400 thousand).

(33) 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 €60 million in the fiscal year (2017: €79 million). The main drivers of cash flow from operating activities are operating income (EBITDA) and changes in net working capital. Net working capital increased, net of foreign currency exchange effects and changes in the scope of consolidation, as follows:

	Variance	
(€ thousand)	2018/2017	2017/2016
Inventories	131,907	164,760
Trade receivables	16,676	65,695
Trade payables	– 83,626	– 147,796
Net working capital	**64,957**	**82,659**

Cash flow from investing activities

Cash outflows of €65 million from capital expenditure on property, plant and equipment and intangible assets were offset by a total of €6 million in cash inflows from disposal of property, plant and equipment and financial assets. The net outcome was a cash outflow of €59 million (2017: net cash inflow of €2 million). In the prior year, cash flow from investing activities included a €55 million cash inflow from disposal of the Spanish activities.

Cash flow from financing activities

Cash flow from financing activities was a negative €15 million (2017: negative €58 million) and includes a €30 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**
Balance as of January 1, 2018	**133,107**	**88,957**	**234,872**	**21,761**	**478,697**
Changes from financing cash flows					
Borrowings	-	274,039	39,486	-	313,525
Repayment of financial liabilities	-	– 289,609	-	– 1,047	– 290,656
Changes from financing cash flows	**-**	**– 15,570**	**39,486**	**– 1,047**	**22,869**
Changes arising from obtaining or losing contol of subsidiaries or other businesses	-	198	-	-	198
The effect of changes in foreign exchange rates	-	2,111	7,401	942	10,454
Other changes liability-related					
Changes in bank overdraft	-	280	-	-	280
Neue Finanzierungs-Leasingverhältnisse	-	-	-	4,439	4,439
Interest expense	6,929	12,150	10,239	1,350	30,668
Interest paid	– 2,956	– 12,475	– 10,239	– 1,350	– 27,020
Total liabilitiy-related other changes	**3,973**	**– 45**	**-**	**4,439**	**8,367**
Balance as of December 31, 2018	**137,080**	**75,651**	**281,759**	**26,095**	**520,585**

Cash and cash equivalents

Cash and cash equivalents include bank balances of €1,381 thousand (2017: €2,874 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the European ABS program.

(34) 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 2018	Europe 2017	Americas 2018	Americas 2017
Sales	4,049,058	3,946,424	2,741,581	2,345,320
Capital expenditure for intangible assets, property, plant and equipment	41,772	47,316	14,871	24,360
Segment result (EBITDA)	90,736	151,484	155,209	93,944
Earnings before interest and taxes (EBIT)	44,127	102,172	119,347	57,616
Amortization and depreciation of intangible assets and property, plant ande equipment	46,170	47,366	35,862	36,327
Impairment losses for intangible assets and property, plant and equipment	440	1,947	-	-
Other non-cash income/expenses	– 206	– 299	-	-
Income taxes	– 7,643	– 8,680	– 24,704	1,205

(€ thousand)	Europe December 31. 2018	Europe December 31, 2017	Americas December 31. 2018	Americas December 31, 2017
Net Working Capital	759,781	741,764	459,375	390,492
Employees at year-end (headcount)	5,937	6,078	2,482	2,470

	Headquarters		Consolidation		Total	
	2018	2017	2018	2017	2018	2017
	-	-	– 147	– 184	6,790,492	6,291,560
	4,404	6,723	-	-	61,047	78,399
	– 18,846	122,753	-	– 148,622	227,100	219,559
	– 22,655	118,670	642	– 148,622	141,461	129,836
	3,809	3,486	– 642	-	85,199	87,179
	-	597	-	-	440	2,544
	– 13,450	145,082	13,357	– 145,146	– 299	– 363
	– 5,904	13,202	-	-	– 38,251	5,727

	Headquarters		Consolidation		Total	
	December 31. 2018	December 31, 2017	December 31. 2018	December 31, 2017	December 31. 2018	December 31, 2017
	10,181	– 619	7	– 20	1,229,344	1,131,617
	160	134	-	-	8,579	8,682

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

(€ thousand)	2018	2017
Earnings before inerest and taxes (EBIT)	141,461	129,836
Financial result	– 34,557	– 33,312
Income before taxes	**106,904**	**96,524**

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 payables.

Non-cash income and expenses mainly relate to changes in fair values of derivative financial instruments.

Non-current assets by region

Intangible assets and property, plant and equipment are broken down by region as follows:

(€ thousand)	2018	2017
USA	278,337	286,844
Switzerland	268,051	268,653
Germany	143,753	136,504
France	34,980	32,560
United Kingdom	27,896	31,118
The Netherlands	23,035	22,143
Other regions	10,807	8,743
Total	**786,859**	**786,565**

(35) Subsequent events

On February 12, 2019, the Supervisory Board of Klöckner & Co SE has complied with Marcus A. Ketter's request to step down from his position as Chief Financial Officer ahead of term effective May 15, 2019. His responsibilities will be assumed thenceforth by the CEO.

On February 25, 2019, Silvertown Homes Limited carried out the option to purchase our Thames Wharf, London property in the amount of GBP 33 million with a carrying amount of approx. €1.5 million. The property will be at our disposal for another 24 months.

(36) 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 Christoph Velder (from fiscal year 2018) 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)	2018	2017
Audit of financial statements	866	761
Other assurance services	10	10
Tax advisory services	12	259
Other services	261	395
	1,149	**1,425**

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 as well as to the review of the interim 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.

(37) 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 20, 2018 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, March 7, 2019

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Marcus A. Ketter
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, Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, the statement of comprehensive income, consolidated statement of cash flows and the summary of changes in consolidated equity for the fiscal year from January 1, 2018 to December 31, 2018, 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 2018. 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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, 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

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 fiscal year from January 1, 2018 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but 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 '6.3 RISKS AND OPPORTUNITIES' IN THE GROUP MANAGEMENT REPORT.

THE FINANCIAL STATEMENT RISK

Klöckner recognizes intangible assets of EUR 147.9 million in the consolidated statement of financial position as at 31 December 2018; thereof EUR 118.2 million for intangible assets (without goodwill) and EUR 638.9 million for property, plant and equipment. At 25% of total assets, this represents a significant proportion of the assets of the Company. As at 31 December 2018 impairment losses totaling EUR 0.4 million were recognized on 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 RESPONSE

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 business plan taking into account market data and publically 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 analyzed 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.

We also assessed whether the resulting impairment loss was accurately recognised in the financial statements.

Whilst auditing relevant disclosures, we focussed on the completeness of the information provided 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 required disclosures in the notes are complete and sufficiently detailed.

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 17.5 million are recognized 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 utilized in subsequent reporting periods. Utilizing 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 recognized or if deferred tax assets have already been recognized, 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, realization 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 recognized 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 have conducted an analysis of the corporate planning and verified the mathematical accuracy of 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 THE MANAGEMENT BOARD 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 skepticism 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 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 represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary 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 16 May 2018. We were engaged by the supervisory board on 28 November 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 Christoph Velder.

Düsseldorf, 7 March 2019

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder	**signed Keisers**
WIRTSCHAFTSPRÜFER	**WIRTSCHAFTSPRÜFER**

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, 7. März 2019

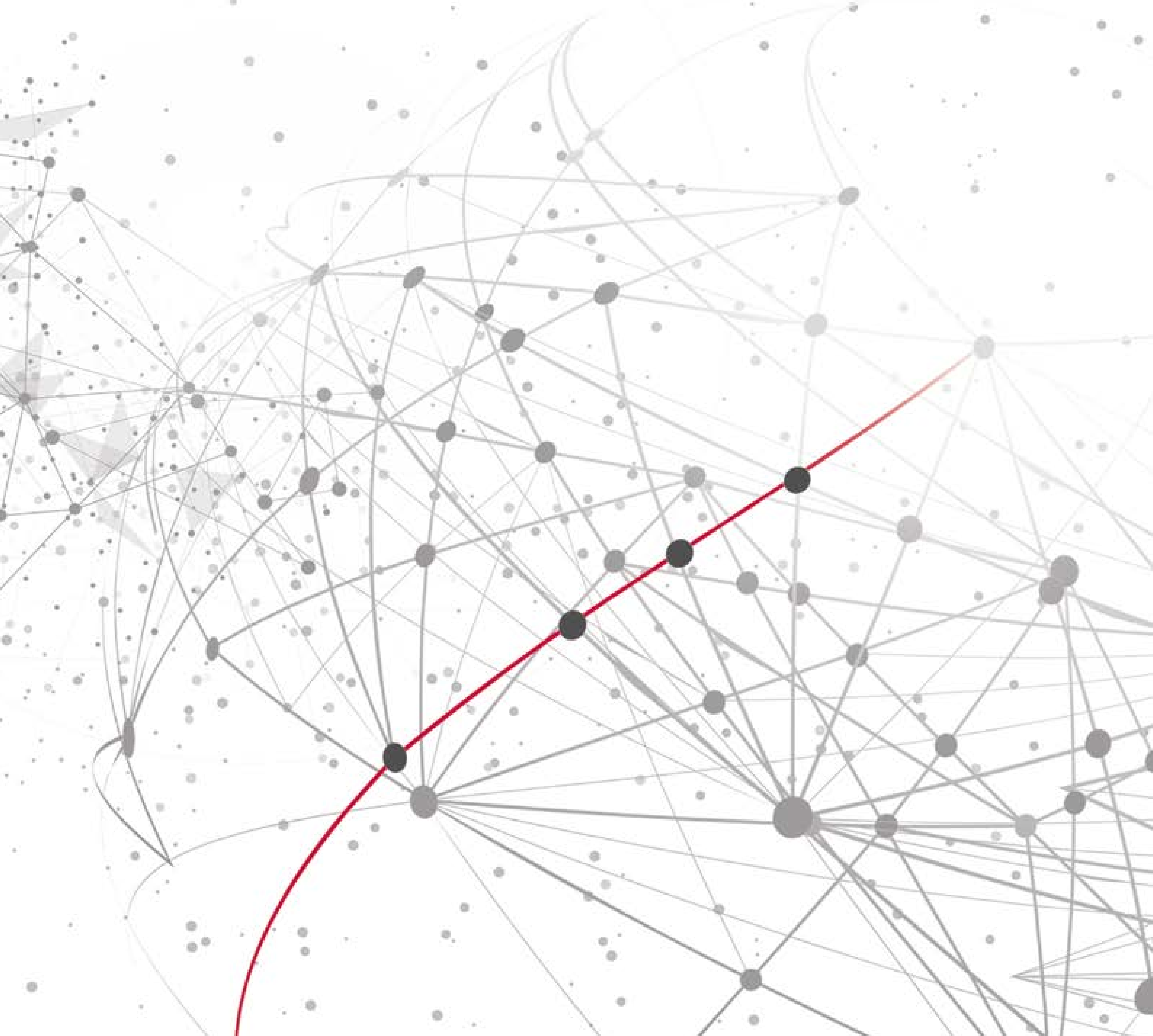
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Marcus A. Ketter
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, 2018

(€ thousand)	2018	2017
Sales	26,107	17,837
Other operating income	3,737	147,945
Cost of purchased services	– 18,487	– 10,409
Personnel expenses	– 22,951	– 20,679
Depreciation of intangible assets and property, plant and equipment	– 456	– 168
Other operating expenses	– 14,546	– 16,061
Income from participations	-	16,851
Income from profit transfer agreements	28,736	71,579
Income from long-term loans	13,026	12,211
Other interest and similar income	7,301	5,446
Impairment of investments	– 13,357	-
Expenses from loss transfer agreements	– 6,524	-
Interest and similar expenses	– 18,287	– 16,853
Result before taxes	**– 15,701**	**207,699**
Income taxes	786	– 4,528
Net loss (prior year: net income)	**– 14,915**	**203,171**
Unappropriated profits carried forward	203,171	74,889
Dividends	– 29,925	– 19,950
Appropriation to other revenue reserves	– 173,246	– 54,939
Withdrawals from other revenue reserves	44,840	-
Unappropriated profits	**29,925**	**203,171**

Balance sheet

as of December 31, 2018

ASSETS

(€ thousand)	December 31, 2018	December 31, 2017
Intangible assets	503	49
Property, plant and equipment	2,808	3,292
Non-current investments	1,114,262	1,102,102
Fixed assets	**1,117,573**	**1,105,443**
Trade receivables	6	31
Receivables from affiliated companies	326,648	335,319
Other assets	3,242	6,419
Cash and cash equivalents	48,850	93,791
Current assets	**378,746**	**435,560**
Prepaid expenses	12,267	16,235
Total assets	**1,508,586**	**1,557,238**

(€ thousand)	December 31, 2018	December 31, 2017
Equity		
Subscribed capital	249,375	249,375
Capital reserves	699,459	699,459
Other revenue reserves	257,506	129,100
Unappropriated profits	29,925	203,171
Equity	**1,236,265**	**1,281,105**
Provisions for pensions and similar obligations	94,089	91,078
Provisions for taxes	4,570	11,616
Other provisions	9,536	17,378
Bonds	147,800	147,800
Liabilities to banks	221	231
Trade payables	1,454	667
Liabilities to affiliated companies	7,721	7,000
Other liabilities	6,917	363
Deferred income	13	-
Total equity and liabilities	**1,508,586**	**1,557,238**

Movements in intangible assets, property, plant and equipment and non-current investments

as of December 31, 2018 (annex to the Notes)

	Intangible assets	Property, plant and equipment			Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Prepay-ments	Invest-ments in af-filiated companies	Loans to af-filiated companies	Invest-ments	Total
Cost as of December 31, 2017	856	296	1,087	3,024	1,141,381	167,035	7	1,313,686
Accumulated amortization and de-preciation	– 807	– 268	– 847	-	– 206,321	-	-	– 208,243
Net book value as of Dec. 31, 2017	**49**	**28**	**240**	**3,024**	**935,060**	**167,035**	**7**	**1,105,443**
Additions	503	3	1,112	181	18,357	7,160	-	27,316
Disposals	-	– 4	– 16	– 1,353	-	-	-	– 1,373
Transfers	-	1,745	99	– 1,844	-	-	-	-
Current year amortization and de-preciation	– 49	– 172	– 235	-	– 13,357	-	-	– 13,813
Net book value as of Dec. 31, 2018	**503**	**1,600**	**1,200**	**8**	**940,060**	**174,195**	**7**	**1,117,573**
Costs as of December 31, 2018	1,359	1,775	2,068	8	1,228,521	174,195	7	1,407,933
Accumulated amortization and de-preciation	– 856	– 175	– 868	-	– 288,461	-	-	– 290,360

Notes to the financial statements

for the 12-month period ending December 31, 2018

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, 2018 are prepared in accordance with the stipulations applying for large corporations in the German Commercial Code (HGB) 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.

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 the Accounting Law Modernisation Act (BilMoG), the parameters for valuation were 2.5% (2017: 2.5%) for salary increases and 1.75% (2017: 1.75%) for pension increases. The biometric parameters are based on the Prof. Dr. Klaus Heubeck 2018 G tables (2017: 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 3.21% (2017: 3.68%). 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.

To strengthen the capital base of our subsidiary Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom, a capital increase was carried out in the fiscal year under review in the amount of €13 million, on which an impairment loss was recognized immediately on account of the company's weak earnings.

In the prior year, in light of the significantly improved earnings outlook, impairments recognized in 2015 and 2016 were reversed 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 Kloecker Metals Belgium N.V., Harelbeke, Belgium.

A listing of all subsidiaries and associates is presented in the appendix.

Receivable and other assets

(€ thousand)	2018	2017
Trade receivables	6	31
Receivables from affiliated companies	326,648	335,319
Other assets	3,242	6,419
	329,896	**341,769**

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 €3,042 thousand (2017: €3,215 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 2018 was €3,687 thousand (2017: €3,687 thousand). The discount was accounted for at €9,831 thousand as of December 31, 2018 (2017: €13,518 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.

By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized 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 may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

The Annual General Meeting of May 16, 2018 resolved that after distribution of the dividend in the amount of €29,925 thousand, the remaining unappropriated profits in the amount of €173,246 thousand should be reclassified to other revenue reserves.

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 €12,469 thousand (2017: €11,444 thousand).

Provisions for pensions and similar obligations

Pension obligations as of December 31, 2018 were €116,139 thousand (2017: €110,497 thousand).

The amount not allowed to be distributed to shareholders in accordance with Section 253 HGB was €12,469 thousand as of December 31, 2018.

Plan assets consist entirely of pension liability insurance whose cost and fair values are identical. They are measured at the asset value of the pension liability insurance and amount to €22,050 thousand (2017: €19,419 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 €4,115 thousand (2017: €4,264 thousand) is offset against returns on plan assets in the amount of €364 thousand (2017: €393 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2018	2017
Personnel expenses	6,403	12,578
Outstanding invoices	2,227	3,913
Miscellaneous other provisions	906	887
	9,536	**17,378**

The decrease in personnel-related provisions mainly relates to the utilization of provisions for severance payments and lower provisions for bonus payments.

Liabilities

	December 31, 2018			December 31, 2017		
(€ 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	221	-	221	231	-	231
Trade payables	1,454	-	1,454	667	-	667
Liabilities to group companies	7,721	-	7,721	7,000	-	7,000
Miscellaneous liabilities	6,917	-	6,917	363	-	363
Liabilities	**16,313**	**147,800**	**164,113**	**8,261**	**147,800**	**156,061**

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 10,480 thousand conversion rights as of December 31, 2018. 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 €14.1028 following the dividend payouts in May 2017 and May 2018. The bond has 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.

Liabilities to banks include €221 thousand in interest payable on the syndicated loan. The liabilities under the syndicated credit facility, which was undrawn as of December 31, 2018, are uncollateralized.

Other liabilities include:

(€ thousand)	2018	2017
Tax liabilities	6,837	324
Social security contributions	13	13
Miscellaneous other liabilities	67	26
Other liabilities	**6,917**	**363**

Derivative financial instruments

The nominal values and fair values of the derivative financial instruments as of December 31, 2018 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	241	0

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 14 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 €2,019 thousand. The total amount of these obligations is €12,112 thousand.

Sales

Sales consist of goods or services provided to subsidiaries and relate to the following:

(€ thousand)	2018	2017
Group services rendered	14,546	4,921
Service fees ABS program	8,516	10,359
Rental income	1,524	1,430
Insurance	385	444
Other income	1,136	683
Sales	**26,107**	**17,837**

Other operating income

Other operating income contains income attributable to prior periods of €2,302 thousand (2017: €1,179 thousand).

Other operating income in the fiscal year under review mainly relates to reversals of provisions. When analyzing other operating income, it must be noted that the prior-year figure included €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.

Personnel expenses

(€ thousand)	2018	2017
Wages and salaries	12,948	16,209
Social securities	788	699
Retirement benefit cost	9,210	3,764
Welfare	5	7
	22,951	**20,679**

Most of the decrease in wages and salaries relates to a reduction in expenses for severance payments and lower expenses for bonus payments. Set against the lower wages and salaries is a higher retirement benefit cost, notably due to the reduction in the discount rate and application of the new Prof. Dr. Klaus Heubeck 2018 G tables.

Average number of employees over the year:

	2018	2017
Salaried employees	71	66
Wage earners	2	2
	73	**68**

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 (prior-year figures in brackets):

(€ thousand)	Fixed components	Bonuses	Other remunerations[1]	Total	Present value of benefit obligation	Change in benefit obligation
Gisbert Rühl (CEO)	930	1,258	41	2,229	8,282	1,725
	(860)	(1,471)	(41)	(2,372)	(6,557)	(849)
Marcus A. Ketter (CFO)	480	657	178	1,315	-	-
	(480)	(827)	(128)	(1,435)	(-)	(-)
Karsten Lork[2]	80	120	5	205	-	-
	(480)	(827)	(30)	(1,337)	(563)	(150)
Jens M. Wegmann	480	657	36	1,173	(254)	(232)
	(40)	(69)	(3)	(112)	(22)	(22)
William A. Partalis[3]	-	-	-	-	-	-
	(480)	(827)	(30)	(1,337)	(6,689)	(– 48)
Total	**1,970**	**2,692**	**260**	**4,922**	**8,536**	**1,957**
	(2,340)	**(4,021)**	**(232)**	**(6,593)**	**(13,831)**	**(973)**

1) Includes €150,000 for Marcus A. Ketter paid in lieu of corporate pension benefits that must be invested in a private post-retirement scheme.
2) Management Board Appointment of Karsten Lork was terminated as of February 28, 2018.
3) The term of office of William A. Partalis ended as of December 31, 2017.

German Commercial Code (HGB)-basis pension provisions for former Management Board members, including the member who left in the fiscal year under review, amount to €4,022 thousand (2017: €3,309 thousand). Pension payments to former members of the Management Board amounted to €120 thousand (2017: €118 thousand) in the fiscal year under review.

Transactions with members of the Management Board are restricted in the reporting period to transactions in their capacity as members of the Management Board as set out above.

If a control 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 before the end of the contractual vesting period, but not earlier than three months after the issue date.

Other operating expenses

Remuneration for the Supervisory Board in fiscal year 2018 totaled €457 thousand (2017: €517 thousand).

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 Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed in the fiscal year by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, and are included in other operating expenses:

(€ thousand)	2018	2017
Audit of financial statements	668	557
Other assurance services	10	10
Tax advisory services	12	259
Other services	10	246
	700	**1,072**

Other operating expenses of €44 thousand (2017: €178 thousand) relate to prior periods.

Income from investments

(€ thousand)	2018	2017
Income from participations	-	16,851
Income from profit transfer agreements	28,736	71,579
Expenses from loss transfer agreements	– 6,524	-
Income from investments	**22,212**	**88,430**

Income from participations in the prior year included 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 and Klöckner Shared Services GmbH, Duisburg, Germany.

In the reporting year, the figure additionally included assumed losses from kloeckner.i GmbH, Berlin, Germany, kloeckner.v GmbH, Berlin, Germany, Kloeckner Metals Operations GmbH, Duisburg, Germany, Klöckner & Co Deutschland GmbH, Duisburg, Germany, and Klöckner & Co USA Beteiligungs GmbH, Duisburg, Germany.

Financial result

(€ thousand)	2018	2017
Income from long-term loans		
– affiliated companies	13,026	12,211
Other interest and similar income		
– affiliated companies	7,186	5,440
– other interest and and similar income	115	6
Interest and similar expenses		
– affiliated companies	– 3,299	– 3,306
– interest on provisions	– 3,702	– 3,870
– other interest and similar expenses	– 11,286	– 9,677
	2,040	**804**

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 €27,062 thousand (2017: €24,274 thousand) comprising deductible temporary differences in the amount of €27,082 thousand (2017: €24,298 thousand) less taxable temporary differences in the amount of €20 thousand (2017: €24 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 relate to provisions for pensions, warranties and onerous contracts. Deferred taxes were determined on the basis of a combined tax rate of 31.8% (2017: 31.8%) for corporate income tax, solidarity surcharge and trade tax.

Contingent liabilities

The contingent liabilities of Klöckner & Co SE exclusively comprise guarantees in the amount of €24,220 thousand (2017: €15,633 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

On February 12, 2019, the Supervisory Board of Klöckner & Co SE has complied with Marcus A. Ketter's request to step down from his position as Chief Financial Officer ahead of term effective May 15, 2019. His responsibilities will be assumed thenceforth by the CEO.

Other disclosures

Information pursuant to Section 160 (1) No. 8 of the German Stock Corporations Act (AktG)
Under Article 61 of the SE Regulation read in conjunction with Section 160 (1) 8 AktG, information must be provided on shareholdings notified to the Company under Section 33 (1) or 33 (2) of the Securities Trading Act (WpHG).

Shareholdings in Klöckner & Co SE notified to us under Sections 40 and 33 WpHG (or predecessor legislation, as applicable) that still apply and have not since been eliminated by notification of a decrease below threshold are set out in the annex to these Notes. Any decrease below threshold during the course of the reporting year is shown in the table contained in the annex. The table also includes any notifications under Section 40 or 33 WpHG made beyond the reporting year up to February 23, 2019. In cases where an investor's shareholdings have attained, exceeded or passed below the aforementioned thresholds on multiple occasions, only the most recent notification leading to the threshold being exceeded, passed below or attained is normally stated. Notifications made under a prior version of WpHG are listed stating the previous version of WpHG. Please note 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 20, 2018 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 that Klöckner & Co SE's unappropriated profits for 2018 should be paid out in full to shareholders as a dividend distribution in the amount of €29,925 thousand. 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, March 7, 2019

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Marcus A. Ketter
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 2018, and the statement of income for the financial year from 1 January to 31 December 2018, 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 2018. 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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, 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 2018. 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 2018, the balance sheet item 'non-current investments' includes investments in affiliated companies of EUR 940.1 million. Investments in affiliated companies amount to a 62% portion of total assets and thus have a material effect on the presentation of the Company's net assets.

Financial assets are recognized 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 capitalization rate is derived from the return on a risk-equivalent alternative investment.

In light of continually decreasing income forecasts, Klöckner & Co SE recognized impairments on investments in affiliated companies by an amount of EUR 13.4 million in the financial year.

Impairment testing including the calculation of the fair value according to the capitalized 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 capitalization 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 analyzed 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 analyzed 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 analyzing 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 skepticism 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 16 May 2018. We were engaged by the supervisory board on 28 November 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).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, 7 March 2019

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder
WIRTSCHAFTSPRÜFER

signed Keisers
WIRTSCHAFTSPRÜFER

Declaration of the Management Board

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, 7. März 2019

MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Marcus A. Ketter
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	Becker Besitz GmbH, Duisburg/Germany	100.00
3	Becker Stahl-Service GmbH, Duisburg/Germany	100.00
4	Becker Aluminium-Service GmbH, Duisburg/Germany	100.00
5	Becker Stahl GmbH, Bönen/Germany	100.00
6	Umformtechnik Stendal GmbH, Stendal/Germany	100.00
7	Debrunner Koenig Holding AG, St. Gallen/Switzerland	100.00
8	BEWETEC AG, Oberbipp/Switzerland	100.00
9	Debrunner Acifer AG, St. Gallen/Switzerland	100.00
10	Debrunner Acifer SA Giubiasco, Giubiasco/Switzerland	100.00
11	Debrunner Acifer SA Romandie, Crissier/Switzerland	100.00
12	Debrunner Acifer AG Wallis, Visp/Switzerland	100.00
13	Debrunner Acifer Bläsi AG, Bern/Switzerland	100.00
14	Debrunner Koenig Management AG, St. Gallen/Switzerland	100.00
15	Debrunner Acifer Bewehrungen AG, St. Gallen/Switzerland	100.00
16	Metall Service Menziken AG, Menziken/Switzerland	100.00
17	Klöckner & Co Deutschland GmbH, Duisburg/Germany	100.00
18	Klöckner Stahl und Metall Ges.m.b.H., Wien/Austria	100.00
19	Kloeckner Metals Austria GmbH & Co KG, Wien/Austria	51.00
20	Klöckner & Co Financial Services S.A., Luxembourg/Luxembourg	100.00
21	Kloeckner & Co USA Beteiligungs GmbH, Duisburg/Germany	100.00
22	kloeckner.i GmbH, Berlin/Germany	100.00
23	kloeckner.v GmbH, Berlin/Germany	100.00
24	Kloeckner Metals Belgium N.V., Harelbeke/Belgium	99.99
		0.01
25	Kloeckner Metals France S.A.S., Aubervilliers/France	99.31
26	KDI S.A.S., Aubervilliers/France	100.00
27	AT2T Acier Transforme Targe Tournier S.A.S., La Grand-Croix/France	100.00
28	KDI Davum S.A.S., Le Port, La Réunion/France	100.00
29	KDI Export S.A.S., Cergy-Pontoise/France	100.00
30	KDI Immobilier S.A.S., Aubervilliers/France	100.00
31	Prafer S.A.S., Woippy/France	100.00
32	Reynolds European S.A.S., Rueil Malmaison/France	100.00
33	Kloeckner Metals Operations GmbH, Duisburg/Germany	100.00
34	Kloeckner Metals UK Holdings Limited, Leeds/United Kingdom	100.00
35	ASD Interpipe Ltd., Leeds/United Kingdom	100.00
36	ASD Limited, Leeds/United Kingdom	100.00
37	Armstrong Steel Ltd., Leeds/United Kingdom	100.00
38	ASD Multitubes Ltd., Leeds/United Kingdom	100.00
39	ASD Westok Limited, Leeds/United Kingdom	100.00

1) Profit and loss transfer agreement. Subsidiaries mad 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	25,000.00	-	1)	-
1	EUR	81,472,763.43	-	1)	775,737,638.51
3	EUR	100,000.00	-	1)	25,684,184.54
3	EUR	597,887.48	-	1)	-
3	EUR	4,467,470.64	-	1)	23,793,394.31
1	EUR	222,606,037.45	27,865,794.01		-
7	EUR	45,517,009.05	12,836,124.09		171,101,096.32
7	EUR	93,798,097.82	3,314,967.57		522,659,583.90
7	EUR	7,765,336.70	607,635.42		31,869,403.10
7	EUR	24,377,309.98	1,628,019.46		143,713,999.65
7	EUR	8,062,384.84	111,273.12		49,499,361.58
7	EUR	18,547,132.73	1,588,620.72		60,675,309.78
7	EUR	4,854,984.49	102,560.27		-
7	EUR	100,725.48	-543.98		-
7	EUR	12,825,178.33	1,562,512.59		93,436,468.56
1	EUR	31,511,809.24	-	1)	1,045,097,780.17
17	EUR	2,046,948.41	1,274,921.03		0.00
18	EUR	12,170,226.95	2,149,342.73		111,208,875.67
1	EUR	3,291,239.86	163,747.03		-
1	EUR	25,000.00	-	1)	-
1	EUR	556,123.20	-	1)	12,733,752.00
1	EUR	100,000.00	-	1)	-
1	EUR	11,290,495.11	-605,049.08		56,670,094.54
17		-	-		-
1	EUR	163,056,309.00	2,305,354.00		-
25	EUR	6,222,416.29	-15,546,459.63		455,100,659.26
26	EUR	1,996,699.04	83,207.00		37,445,177.00
26	EUR	4,346,623.03	-137,855.88		23,547,405.71
26	EUR	5,930,112.30	984,208.44		3,522,201.66
26	EUR	75,527,573.65	7,307,056.21		11,964,738.14
26	EUR	2,835,879.19	148,509.85		9,483,704.85
25	EUR	10,998,194.00	261,901.00		41,124,152.00
1	EUR	69,889.06	-	1)	27,260,136.22
1	EUR	-3,475,579.49	-14,189,102.49		-
34		-	-		-
34	EUR	40,045,998.61	-12,378,276.50		276,328,647.81
36	EUR	-	-		-
34	EUR	-	-		-
34	EUR	7,987,353.01	-1,614,847.40		17,746,495.46

No.	Entity	Interest in percent
40	Richardsons Westgarth Ltd., Leeds/United Kingdom	100.00
41	Organically Coated Steels Ltd., Leeds/United Kingdom	100.00
42	Klöckner Netherlands Holding B.V., Barendrecht/The Netherlands	100.00
43	Klöckner & Co Financial Services B.V., Rotterdam/The Netherlands	100.00
44	KLOECKNER METALS BRASIL Ltda., São Paolo/Brazil	100.00
45	ODS B.V., Rotterdam/The Netherlands	100.00
46	O-D-S Transport B.V., Barendrecht/The Netherlands	100.00
47	ODS Metering Systems B.V., Barendrecht/The Netherlands	100.00
48	Global System Development BVBA, Essen/Belgium	80.00
49	GSD Technics BVBA, Wuustwezel/Belgium	100.00
50	ODS do Brasil Sistemas de Medicao LTDA Campinas, São Paolo/Brazil	99.00
		1.00
51	ODS Metering Systems Asia Pacific Pte. Ltd., Singapore/Singapore	100.00
52	ODS Middle East FZE, Dubai/UAE	100.00
53	ODS Saudi Co. LLC, Dammam/Saudi Arabia	90.00
54	Klöckner Shared Services GmbH, Duisburg/Germany	100.00
55	Klöckner USA Holding Inc., Wilmington, Delaware/USA	100.00
56	Klöckner Namasco Holding Corporation, Wilmington, Delaware/USA	100.00
57	Kloeckner Metals Corporation, Wilmington, Delaware/USA	100.00
58	American Fabricators Inc., Nashville, Tennessee/USA	100.00
59	California Steel & Tube LLC, Wilmington, Delaware/USA	100.00
60	Kloeckner Metals de Mexico S.A. de C.V., Apodaca/Mexico	100.00
61	Kloeckner Metals P.R. Inc., Wilmington, Delaware/USA	100.00
62	Kloeckner Metals Relief Fund, Inc., Wilmington, Delaware/USA	100.00
63	Kloeckner Metals Servicios de Mexico S.A. de C.V., Apodaca/Mexico	100.00
64	NC Receivables Corporation, Wilmington, Delaware/USA	100.00
65	XOM Materials GmbH, Berlin/Germany	100.00
66	XOM Materials Operation Inc., Wilmington, Delaware/USA	100.00
67	XOM Metals Inc., Wilmington, Delaware/USA	100.00

1) Profit and loss transfer agreement. Subsidiaries mad 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
34	EUR	21,947,903.09	-97,201.43		-
40	EUR	2,235,810.98	-		-
1	EUR	31,941,301.58	-562,889.69		-
42	EUR	25,954.78	-		-
42	EUR	6,341,578.28	317,734.17		35,353,456.44
42	EUR	33,199,191.09	3,590,773.31		169,632,434.71
45	EUR	-	-		-
45	EUR	14,446,235.05	1,731,996.37		18,367,915.42
47	EUR	228,110.29	69,776.67		1,127,306.13
48	EUR	116,566.57	67,717.23		714,561.31
47	EUR	542,524.89	-206,465.41		229,247.35
42		-	-		-
47	EUR	203,086.88	9,913.52		-
47	EUR	-711,466.45	-165,174.29		4,336,083.17
45	EUR	67,393.36	74,258.23		871,530.32
1	EUR	100,000.00	-	1)	35,827,405.18
1	EUR	111,082,163.40	38,435.42		-
55	EUR	258,590,950.63	-		-
56	EUR	15,764,958.18	67,785,473.94		2,694,118,933.90
57	EUR	32,307,247.74	3,234,341.42		22,679,847.95
57	EUR	162,301.75	1,092,829.23		31,041,387.39
57	EUR	969,968.35	163,898.98		3,885,914.52
57	EUR	476,273.23	190,568.13		1,398,424.62
57	EUR	2,534.63	2,457.47		-
57	EUR	4,911.75	1,689.48		-
57	EUR	2,039,608.75	4,925.26		-
1	EUR	4,845,449.18	-4,785,336.04		49,166.67
65	EUR	-39,390.00	-38,191.00		-
1	EUR	-30.65	-29.71		-

No.	Entity	Interest in percent
II.	**Non-consolidated affiliated companies**	
68	Reynolds Aluminium et Laiton, Paris/France	100.00
69	Umformtechnik Stendal UTS s.r.o., Skalica/Slovakia	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
	25	EUR	22,708.00	-519.00	2)	-
	6	EUR	209,962.00	19,052.55		42,863.88
	9	EUR	869,159.66	11,356.04	2)	1,044,314.48

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% (Exceeding of threshold)	February 2, 2012	3.06% (3,056,785/99,750,000)		
Dimensional Fund Advisors LP	Austin, Texas, USA	3% (Exceeding of threshold)	February 2, 2012	3.06% (3,056,785/99,750,000)		
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	5% (Exceeding of threshold)	March 14,2014	5.35% (5,335,930/99,750,000)		
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3% (Exceeding of threshold)	March 2, 2015	3.07% (3,062,430/99,750,000)		
SWOCTEM GmbH [1)]	Haiger, Germany	25% (Exceeding 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% (Exceeding of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Federated Global Investment Management Corp.	Wilmington, DE, USA	3% (Shortfall threshold)	September 6, 2018	2.9131% (2,905,780/99,750,000)	2.9131% (2,905,780)	
LSV ASSET MANAGEMENT [3)]	Wilmington, DE, USA	3% (Exceeding of threshold)	November 8, 2018	3.12% (3,108,995/99,750,000)	3.12% (3,108,995)	

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) of the German Securities Trading Act (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..

Individual financial statements
Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner & Co SE

	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 shareholders 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
		2.9131% (2,905,780)			Sec 34 WpHG	
		3.12% (3,108,995)			Sec 34 WpHG	

Additional information concerning the consolidated and individual financial statements

Attachment to the additional information

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 Metals France S.A.S., Aubervilliers/France, Member of the Supervisory Board (until April 26, 2018)
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- 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

Jens M. Wegmann

MEMBER OF THE MANAGEMENT BOARD

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

– Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board
– 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.S., Aubervilliers/France, Chairman of the Supervisory Board (January 18, 2018 until April 26, 2018)
– 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

– None

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

– None

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

- 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)]
- PACCOR Deutschland GmbH, Member oft he Advisory Board [2)] (since December 12,.2018)

Dr. Ralph Heck, Deputy Chairman (since May 16, 2018)

ENTREPRENEUR AND DIRECTOR EMERITUS MCKINSEY & COMPANY, MEGGEN, SWITZERLAND

- Schaltbau Holding AG, Chairman of the Supervisory Board[1)] (until June 6, .2018)
- Bilfinger SE, Member of the Supervisory Board[1)]
- Adolf Würth GmbH & Co. KG, Member of the Advisory Board[2)]
- Formel D GmbH, Chairman of the Advisory Board [2)]

Uwe Roehrhoff, Deputy Chairman (until May 16, 2018)

CEO AND PRESIDENT OF THE BOARD OF DIRECTORS PERRIGO COMPANY PLC, DUBLIN, IRELAND (UNTIL OCTOBER 8,2018)

- Catalent, Inc., USA, Member of the Board of Directors[2)] (until February 5, 2018)

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] (until June 29, 2018)

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]
– Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Senator[2]

Group Mandates Friedhelm Loh Group:
– Rittal Electro-Mechanical Technology (Shanghai) Co. Ltd., China, Legal Representative and Chairman of the Board[2] (until May 22, 2018)

Ute Wolf

CFO OF EVONIK INDUSTRIES AG, ESSEN, GERMANY

– DWS Group GmbH & Co. KGaA, Member of the Supervisory Board[1] (since March 22, 2018)
– Deutsche Asset Management Investment GmbH, Member of the Supervisory Board[1] (until March 21, 2018)
– 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

Agile product development
Agile product development targets the rapid development of customer-centric products. The focus on customer needs is achieved with short feedback loops, early prototyping as well as agile tools and methods. As a result, product development times and costs can be significantly reduced.

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).

Business process outsourcing (BPO)
Klöckner & Co has contracted out certain accounting activities under a business process outsourcing arrangement in order to leverage synergies in the Europe segment. The activities are divided between the external outsourcing partner and Klöckner's organization.

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.

Cash pooling system
The Group uses an international cash pooling system to facilitate inter-company settlements and manage liquidity. Our country organizations in Switzerland and the United Kingdom as well as the Americas segment are not part of the system as they have their own credit facilities.

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.

Customer journey
In order to meet customers' needs when developing products, tools and services, customer feedback is documented and visualized from first contact with the product through to permanent use.

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).

DigiDays
Developed by Klöckner, this event series allows employees to voluntarily familiarize themselves with start-up methods in order to devise solutions to problems in a creative environment.

DigiDesk
This name was coined to describe a digital workstation. It is an interactive intranet based on interactive SharePoint communication sites/Office 365.

Digital Academy
The Group-wide personal development academy offers employees in-house, job-specific training and language courses. This enables them to take part in online training on a voluntary basis during office hours at our premises or from a home office. To enhance IT skills, for instance, online courses on topics such as digital leadership and coding have been developed.

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.

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.

Gearing
Defined as net financial debt divided by equity, this key financial indicator expresses a company’s debt levels.

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.

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).

kloeckner.i
Based in Berlin, the Klöckner & Co Group Center of Competence for Digitalization now employs a workforce of around 90 in the fields of product innovation, software development, online marketing and business analytics. All projects and initiatives relating to digitalization and digital integration are being driven forward by kloeckner.i. The company additionally furnishes a platform for in-house knowledge transfer. As of 2019, kloeckner.i is also offering consulting services to external companies.

kloeckner.v
Klöckner & Co connects up with external start-ups via its kloeckner.v venture capital company. It invests both through selected venture capital funds and directly in start-ups that support the Klöckner digitalization strategy with disruptive approaches.

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.

Leverage
This key financial indicator is defined as net financial debt divided by EBITDA.

Lost time injury frequency (LTIF)
The number of workplace accidents, which result in lost work time (of one day or more) per million hours worked.

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).

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.

OPEX
An abbreviation for "operational expenditure," which is defined as other operating income less personnel expenses, less other operating expenses. EBITDA – one of the key performance indicators for Klöckner & Co – is calculated by deducting OPEX from gross profit.

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.

Processing
Machining of steel and metal products, such as sawing, plasma and flame cutting, 3D laser cutting, sandblasting, priming and bending.

Prototype
A prototype is a version of a new product or service that is capable of performing its intended function, although often in a simplified form reserved for testing purposes. It may reflect the end product only in its outer form or also in its technical details.

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.

VC²
The "Value Creation at the Core" (VC²) program aims to drive continual improvements in efficiency at Klöckner & Co. It supports the "Klöckner & Co 2022" strategy through its focus on three pillars: Business Model Development, Profitable Growth and Operational Excellence.

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.

XOM Materials
The XOM Materials independent industry platform is a digital marketplace for steel, metal and industrial materials, which is open to direct competitors of Klöckner & Co. Growth of XOM Materials is to be funded by outside investors in order to further secure its independence from Klöckner.

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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
+/- >1-5%	slight
+/- >5%	considerable

Contact/Imprint

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Annual Financial Statements 2018
Financial statement press conference
Conference Call with analysts

April 30, 2019

Q1 quarterly statement 2019
Conference Call with journalists
Conference Call with analysts

May 15, 2019

Annual General Meeting 2019, Düsseldorf, Germany

July 31, 2019

Half-yearly financial report 2019
Conference Call with journalists
Conference Call with analysts

October 30, 2019

Q3 quarterly statement 2019
Conference Call with journalists
Conference Call with analysts

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