

Interim Management Statement for 9M 2016

January 1, 2016 – September 30, 2016

Klöckner & Co SE substantially boosts earnings in first nine months of 2016

- Operating income (EBITDA) of €159 million more than double that for prior-year period
- Net income once again strongly positive at €50 million, compared with €85 million loss in prior-year period
- Sales via digital channels steadily boosted to 11% in third quarter
- Full-year targets confirmed; EBITDA guidance narrowed to between €180 million and €190 million

NET INCOME ONCE AGAIN STRONGLY POSITIVE

Although sales were down on the prior-year period, operating income (EBITDA) more than doubled to €159 million (9M 2015: €76 million before restructuring expenses). This was mainly driven by a surge in gross profit from €940 million to €996 million. The Company made systematic use of the more favorable price environment – with the help of digital pricing tools – to lift the gross profit margin from 18.9% to 23.0%. Moreover, the KCO WIN+ restructuring program once again made a substantial €20 million contribution to the rise in operating income.

Locational consolidation in Europe resulting largely from that program made for a 4.9% drop in shipments to 4.7 million tons. Sales decreased even more sharply, by 13.1% to €4.3 billion, as average price levels were down on the prior year overall despite intra-year price increases.

Additionally buoyed by a further cut in finance expenses, earnings before taxes (EBT) improved to €66 million in the first nine months after a loss of €91 million in the prior-year period (which was partly due to €54 million in restructuring expenses).

After a tax expense of €16 million, net income was once again positive at €50 million, compared with a loss of €85 million in the prior-year period. Earnings per share improved accordingly from €–0.84 to €0.49.

STRONG EARNINGS GROWTH IN BOTH SEGMENTS

In Europe, closures as part of the restructuring program were the main factor in the 11.1% decrease in sales to €2.7 billion. Gross profit, by contrast, went up by €13 million to €643 million. This resulted in a 3.0 percentage point increase in the gross profit margin to 23.6% in the first nine months of 2016. The €16 million positive impact of the KCO WIN+ restructuring program, €8 million from sales of assets not required for operating activities and the end of restructuring expenses (9M 2015: €53 million) caused segment EBITDA to climb by €112 million to €115 million.

Despite a steep rise in steel prices from the beginning of the year right through to the third quarter, average prices in the USA were still down on the prior year. This, compounded by weak demand, made for a 16.3% decrease in Americas segment sales to €1.6 billion. By contrast, the upward trend in prices made way for an increase in gross profit from €310 million to €353 million. The gross profit margin improved even more strongly than in the Europe segment, by 5.8 percentage points to 21.9%. As a result, EBITDA went up by 87.0% to €63 million compared with €34 million in the prior-year period.

SOLID FINANCIAL POSITION

The balance sheet remains very solid with equity of more than €1 billion and an equity ratio of 36% (December 31, 2015: 39%). Mainly as the result of an adjustment in pension provisions that was accounted for in equity, equity has decreased by €36 million since the 2015 year-end results.

Digital integration with key suppliers significantly reduced the seasonal increase in net working capital. At €1,197 million as of September 30, 2016, net working capital was consequently just €69 million higher than the prior year-end figure. Net financial debt rose by a correspondingly small amount from €385 million as of December 31, 2015 to €438 million at the end of the reporting period. Gearing rose from 36% to 42% but was still well below the 150% maximum applicable for financing purposes.

FREE CASH FLOW CLOSE TO NEUTRAL

Cash flow from operating activities was €22 million in the first nine months (9M 2015: €60 million). Deducting cash flow from investing activities (€27 million) gives an almost neutral free cash flow of €-5 million (9M 2015: €42 million).

FINANCING ARRANGEMENTS FURTHER IMPROVED

In March 2016, the two working capital facilities in the USA in the amount of USD 550 million out of an original USD 600 million were prolonged ahead of term until March 2021. In addition, better financing terms were secured and the terms were amended to provide greater flexibility.

A large part of the syndicated loan volumes were extended with the core banks as scheduled in April 2016. Of a total volume of €360 million, 85% (€305 million) was extended until May 2019; 15% of the facilities (€55 million) are still due in May 2018.

In July 2016, the European ABS program was prolonged ahead of term by two years to July 2019 while retaining the €300 million loan amount. The terms were additionally amended in Klöckner & Co's favor with effect from the end of July 2016.

A €147.8 million convertible bond issue was successfully placed with institutional investors outside the USA at the beginning of September 2016. The coupon was set at 2.00% p.a. and the conversion premium at 27.5%, corresponding to an initial conversion price of €14.82. The bond term is seven years and bondholders can call the bonds due ahead of term five years after the issue date at face value plus accrued interest (investor put option).

With these transactions, Klöckner & Co both diversified its financing portfolio and improved the maturity profile of Group finances. Furthermore, the Company was able to secure more favorable and more flexible borrowing terms. The volume-weighted remaining term of all core instruments (including the 2016 convertible bond issue) is now 3.6 years.

DIGITALIZATION GAINING SPEED

Digitalization of the supply and value chain constitutes a core component of the "Klöckner & Co 2020" strategy with the aim of building a web-based industry platform. Major progress has already been made in implementing the strategy: Further stepping up the use of digital pricing tools, for instance, was a key factor behind the visible improvement in margins. The proportion of sales generated through digital channels increased continuously over the reporting period to 11% in the third quarter. A suite of digital tools developed in a startup approach – including the new Klöckner web shop and the contract portal – have been available to customers via the Klöckner Connect one-stop service platform since as early as March this year. With the integration of the innovative Order Transparency Tool into the platform at the end of the reporting period, a further digital solution is making it even easier for customers to work together with Klöckner & Co.

Klöckner & Co is also pressing ahead with the expansion of its business with higher value-added products and services. Through subsidiary Becker Stahl-Service (BSS), the Group is building a service center to process aluminum flat products at its Bönen location in North Rhine-Westphalia, Germany. The first of two machining lines – at €35 million the biggest investment in BSS's corporate history – is to be completed as early as next year. Following the second stage of the expansion, which was decided on in September, the facility is expected to reach full capacity in 2018 with a total of 80,000 tons of aluminum a year.

Under the new “One Europe” optimization program announced this summer, the activities of the country organizations in Austria, Belgium, Germany, France, the Netherlands, Spain and the United Kingdom are to be brought even closer together. The new organizational structure is to be implemented at the beginning of 2017. “One Europe” is planned to deliver an incremental contribution to EBITDA totaling some €30 million by 2019, of which €10 million is to be achieved next year already.

POSITIVE OUTLOOK FOR THE REST OF THE YEAR

The robust price trend in Europe continues as of the beginning of the fourth quarter. This contrasts with the United States where, as expected, quoted steel prices have most recently fallen again after previously gaining stronger than elsewhere in the world with support from trade restrictions. Demand slightly improved in Europe while further deteriorating in the USA. Despite the mixed market conditions in individual markets, we expect that with the aid of internal improvements, EBITDA in the final quarter will once again be above the prior-year figure. We confirm our full-year target of a significant increase in EBITDA, narrowing the guidance to a figure between €180 million and €190 million (2015: €86 million before restructuring expenses). Accordingly, net income is expected to be comfortably back into positive figures.

Klöckner & Co SE

Financial information

for the nine-month period ending September 30, 2016

Shipments and income statement		Q3 2016	Q3 2015	Variance	Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30, 2015	Variance
Shipments	Tto	1,500	1,636	-136	4,699	4,941	-242
Sales	€ million	1,430	1,597	-167	4,333	4,988	-655
Gross profit	€ million	329	311	+18	996	940	+56
Gross profit margin	%	23.0	19.4	+3.6%p	23.0	18.9	+4.1%p
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	71	28	+43	159	22	+137
EBITDA before restructuring expenses	€ million	71	30	+41	159	76	+83
EBITDA margin	%	5.0	1.8	+3.2%p	3.7	0.4	+3.2%p
EBITDA margin before restructuring	%	5.0	1.9	+3.1%p	3.7	1.5	+2.1%p
Earnings before interest and taxes (EBIT)	€ million	48	5	+43	90	-54	+144
Earnings before taxes (EBT)	€ million	40	-7	+47	66	-91	+157
Net income	€ million	31	-9	+40	50	-85	+135
Net income attributable to shareholders of Klöckner & Co SE	€ million	31	-9	+40	49	-84	+133
Earnings per share (basic)	€	0.31	-0.09	+0.40	0.49	-0.84	+1.33
Earnings per share (diluted)	€	0.31	-0.09	+0.40	0.49	-0.84	+1.33
Cash flow statement/Cash flow		Q3 2016	Q3 2015	Variance	Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30, 2015	Variance
Cash flow from operating activities	€ million	-5	75	-80	22	60	-38
Cash flow from investing activities	€ million	0	-24	+24	-27	-18	-9
Free cash flow ^{*)}	€ million	-5	50	-55	-5	42	-47
Balance sheet		September 30, 2016	December 31, 2015	Variance	September 30, 2016	September 30, 2015	Variance
Net working capital ^{**)}	€ million	1,197	1,128	+69	1,197	1,369	-172
Net financial debt	€ million	438	385	+53	438	517	-79
Equity	€ million	1,077	1,113	-36	1,077	1,376	-299
Equity ratio	%	36.2	39.2	-3.0%p	36.2	39.3	-3.1%p
Balance sheet total	€ million	2,975	2,841	+134	2,975	3,499	-524
Employees		September 30, 2016	December 31, 2015	Variance	September 30, 2016	September 30, 2015	Variance
Employees at end of period		9,143	9,592	-449	9,143	9,560	-417

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

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

Klöckner & Co SE

Consolidated statement of income

for the nine-month period ending September 30, 2016

<i>(€ thousand)</i>	Q3 2016	Q3 2015	Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30, 2015
Sales	1,429,871	1,597,208	4,332,711	4,987,740
Other operating income	17,387	4,297	29,080	24,141
Changes in inventory	2,301	-3,758	-172	-11,538
Own work capitalized	2	-	2	21
Cost of materials	-1,102,780	-1,282,811	-3,337,035	-4,036,020
Personnel expenses	-153,510	-154,640	-480,400	-508,742
Depreciation and amortization	-22,524	-22,943	-69,491	-75,259
<i>thereof impairment losses</i>	-	-38	-188	-3,954
Other operating expenses	-122,481	-132,073	-385,167	-433,938
Operating result	48,266	5,280	89,528	-53,595
Finance income	677	-123	1,217	785
Finance expenses	-8,742	-11,962	-24,552	-37,767
Financial result	-8,065	-12,085	-23,335	-36,982
Income before taxes	40,201	-6,805	66,193	-90,577
Income taxes	-8,902	-2,195	-15,997	5,146
Net income	31,299	-9,000	50,196	-85,431
<i>thereof attributable to</i>				
– <i>shareholders of Klöckner & Co SE</i>	31,011	-8,929	49,276	-84,179
– <i>non-controlling interests</i>	288	-71	920	-1,252
Earnings per share (€/share)				
– basic	0.31	-0.09	0.49	-0.84
– diluted	0.31	-0.09	0.49	-0.84

Statement of comprehensive income

for the nine-month period ending September 30, 2016

<i>(€ thousand)</i>	Q3 2016	Q3 2015	Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30, 2015
Net income	31,299	–9,000	50,196	–85,431
Other comprehensive income not reclassifiable				
Actuarial gains and losses (IAS 19)	–21,408	–7,912	–110,396	–8,484
Related income tax	1,919	3,029	11,006	4,910
Total	–19,489	–4,883	–99,390	–3,574
Other comprehensive income reclassifiable				
Foreign currency translation	–1,172	–17,175	–4,874	58,290
Gain/loss from net investment hedges	2	146	–326	–1,596
Related income tax	0	–46	218	506
Total	–1,170	–17,075	–4,982	57,200
Other comprehensive income	–20,659	–21,958	–104,372	53,626
Total comprehensive income	10,640	–30,958	–54,176	–31,805
<i>thereof attributable to</i>				
– <i>shareholders of Klöckner & Co SE</i>	10,358	–30,892	–55,067	–30,612
– <i>non-controlling interests</i>	282	–66	891	–1,193

Consolidated statement of financial position

as of September 30, 2016

<i>(€ thousand)</i>	September 30, 2016	December 31, 2015
Non-current assets		
Intangible assets	204,021	223,624
Property, plant and equipment	678,583	680,491
Investment property	8,742	8,742
Non-current investments	5,975	2,069
Other assets	12,222	13,273
Current income tax receivable	6,388	6,388
Deferred tax assets	10,025	10,829
Total non-current assets	925,956	945,416
Current assets		
Inventories	997,977	961,171
Trade receivables	762,793	655,393
Current income tax receivable	16,900	14,262
Other assets	89,123	99,576
Cash and cash equivalents	182,151	164,853
Assets held for sale	-	627
Total current assets	2,048,944	1,895,882
Total assets	2,974,900	2,841,298

<i>(€ thousand)</i>	September 30, 2016	December 31, 2015
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,411	664,182
Retained earnings	214,128	164,852
Accumulated other comprehensive income	-77,931	26,412
Equity attributable to shareholders of Klöckner & Co SE	1,067,983	1,104,821
Non-controlling interests	9,497	8,606
Total equity	1,077,480	1,113,427
Non-current liabilities		
Provisions for pensions and similar obligations	436,111	340,112
Other provisions and accrued liabilities	21,453	21,221
Financial liabilities	548,526	337,211
Other liabilities	364	64,385
Deferred tax liabilities	34,833	43,955
Total non-current liabilities	1,041,287	806,884
Current liabilities		
Other provisions and accrued liabilities	154,368	149,906
Income tax liabilities	14,614	17,420
Financial liabilities	64,720	207,999
Trade payables	564,212	489,048
Other liabilities	58,219	56,614
Total current liabilities	856,133	920,987
Total liabilities	1,897,420	1,727,871
Total equity and liabilities	2,974,900	2,841,298

Consolidated statement of cash flows

for the nine-month period ending September 30, 2016

<i>(€ thousand)</i>	Q3 2016	Q3 2015	Jan. 1 – Sept. 30, 2016	Jan. 1 – Sept. 30, 2015
Net income	31,299	-9,000	50,196	-85,431
Income taxes	8,902	2,195	15,997	-5,146
Financial result	8,065	12,085	23,335	36,982
Depreciation and amortization	22,524	22,943	69,491	75,259
Other non-cash income/expenses	-647	443	-368	-405
Gain on disposal of non-current assets	-11,941	440	-12,807	-4,543
Change in net working capital				
Inventories	-62,740	100,690	-59,823	286,919
Trade receivables	48,346	79,929	-123,030	-48,045
Trade payables	-18,095	-113,555	88,155	-219,979
Change in other operating assets and liabilities	-13,721	-16,540	8,752	55,363
Interest paid	-5,899	-4,856	-19,902	-21,420
Interest received	202	280	598	943
Income taxes paid	-11,036	-417	-18,392	-10,948
Cash flow from operating activities	-4,741	74,637	22,202	59,549
Proceeds from the sale of non-current assets and assets held for sale	9,566	406	14,673	26,063
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	-	-213	9,420	11,955
Payments for intangible assets, property, plant and equipment	-9,845	-24,415	-51,240	-55,333
Disbursements for financial investments	-	-10	-	-1,145
Cash flow from investing activities	-279	-24,232	-27,147	-18,460
Dividend payments to shareholders of Klöckner & Co SE	-	-	-	-19,950
Proceeds from convertible bond 2016	145,398	-	145,398	-
Repayment convertible bond	-	-	-24,850	-
Drawing/repayment syndicated loan	-50,000	-	-	-100,000
Repayment promissory notes	-	-	-133,000	-51,500
Net change of other financial liabilities	24,474	-48,922	40,356	112,444
Cash flow from financing activities	119,872	-48,922	27,904	-59,006
Changes in cash and cash equivalents	114,852	1,483	22,959	-17,917
Effect of foreign exchange rates on cash and cash equivalents	-72	-1,296	-5,661	6,053
Cash and cash equivalents at the beginning of the period	67,371	304,313	164,853	316,364
Cash and cash equivalents at the end of the reporting period as per statement of financial position	182,151	304,500	182,151	304,500

Segment reporting

<i>(€ million)</i>	Europe		Americas		Headquarters/ Consolidation		Total	
	9M 2016	9M 2015	9M 2016	9M 2015	9M 2016	9M 2015	9M 2016	9M 2015
Segment sales	2,724	3,064	1,609	1,924	-	-	4,333	4,988
Gross profit	643	630	353	310	-	-	996	940
EBITDA before restructuring expenses	115	57	63	34	-19	-15	159	76
EBITDA (segment result)	115	3	63	34	-19	-15	159	22
EBIT	78	-36	33	-	-21	-18	90	-54
Net working capital as of September 30, 2016 (December 31, 2015)	779	686	416	437	2	5	1,197	1,128
Employees as of September 30, 2016 (December 31, 2015)	6,497	6,812	2,534	2,687	112	93	9,143	9,592

Financial Calendar

March 1, 2017	Annual financial statements 2016 Financial statements press conference Conference with analysts
April 26, 2017	Q1 interim management statement 2017 Conference call with journalists Conference call with analysts
May 12, 2017	Annual General Meeting 2017 Düsseldorf
July 26, 2017	Q2 interim report 2017 Conference call with journalists Conference call with analysts
October 25, 2017	Q3 interim management statement 2017 Conference call with journalists Conference call with analysts

Subject to subsequent changes.

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These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS or HGB. Non-GAAP measures are not subject to IFRS or HGB, or to other generally accepted accounting principles. Other companies may define these terms in different ways.

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

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