

SUSTAINABILITY REPORTING

of Klöckner & Co SE

Sustainability reporting 2017 of Klöckner & Co SE

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1. Klöckner & Co SE sustainability reporting 2017

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

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

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

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

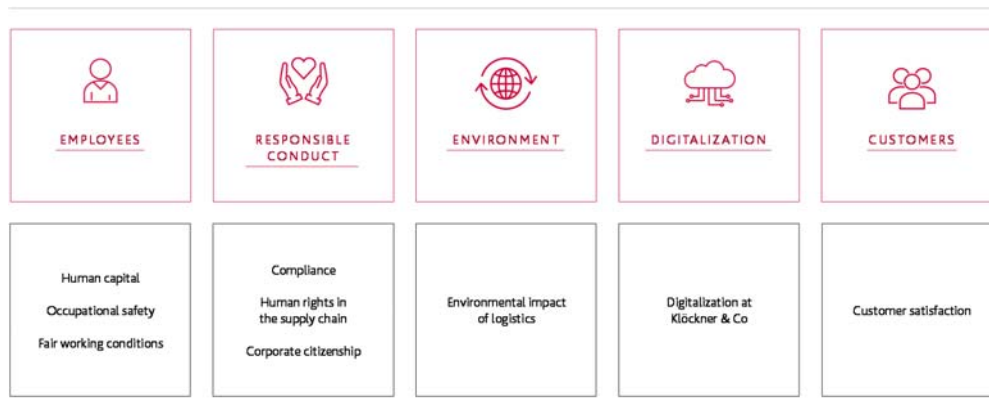
The reporting period for the non-financial statement is fiscal year 2017. The information covers all fully consolidated companies of the Klöckner & Co SE Group. No framework was used in preparation of the non-financial statement as we have not previously carried out sustainability reporting on the basis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

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

Materiality analysis

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

Our five action areas



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

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

Risk assessment

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

No reportable risks

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

Sustainability management

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

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



EMPLOYEES

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

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

Added value at Klöckner & Co

Human capital

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

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

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

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

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

In-house training on offer

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

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

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

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

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

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

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

Occupational safety

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

Emphasis on a healthy and safe working environment

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

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

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

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

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

Numerous occupational safety initiatives

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

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

LTIF target of less than 10 already met

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

Fair working conditions

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

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

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

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

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

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

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



RESPONSIBLE CONDUCT

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

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

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

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.

Code of Conduct is of central importance

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

Compliance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Human rights in the supply chain

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

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

*Reviewing our product portfolio
for conflict minerals*

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

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

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

Our expectations of our suppliers

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

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

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

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

Corporate Citizenship*Actively committed to our immediate surroundings*

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

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

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

REGIONAL AID PROJECTS

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

REFUGEE INTEGRATION

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

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

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

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

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

EDUCATION

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

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

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



ENVIRONMENT

Environmental impact of logistics

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

A significant part of our business model involves shipping products to customers by truck. In inbound logistics, goods are mainly delivered to our stockyard locations by suppliers. This places our main focus on optimizing outbound logistics by reducing the environmental impact in the form of CO₂ emissions from our delivery fleet. In supplying customers with goods from around 110 branches in Europe, we pay particular attention to efficient delivery route planning.

Goal: reducing our delivery fleet's CO₂ emissions

Our Group-wide goal is to maintain our current high service level with fewer trucks, thereby both cutting costs and reducing CO₂ emissions.

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

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

Certified to ISO 14001

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

Our Dutch country organization Kloeckner Metals ODS Nederland already deploys state-of-the-art on-board computers that provide continuous feedback on driving behavior, vehicle speed and engine speed, thus helping to reduce truck fuel consumption and hence CO₂ emissions. In Germany, the drivers operating our fleet – currently around 30 trucks, most with Euro-6 engines – are provided with road training and regular feedback on their driving behavior. At Kloeckner Metals UK, too, a fuel-efficiency program was launched during 2017, which also encompassed a course in "safe, fuel-efficient driving" for all drivers.

With these measures and above all the improved delivery route planning, we meet the ever increasing challenges – including smaller consignment sizes – faced in transportation logistics. By universal deployment of the transportation planning software, we will be able to meet our targets for cutting transportation cost while reducing CO₂ emissions through more efficient routes.] √



DIGITALIZATION

Digitalization at Klöckner & Co

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

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

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

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

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

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

Applying start-up methods such as design thinking

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

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

Establishing a culture of learning and failure in the Group

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

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

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

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

Digitalization action area

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

*18% of sales generated online by
the end of 2017*



CUSTOMERS

Customer satisfaction

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

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

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

Focusing on customers when developing products and tools

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

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

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

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

Independent Auditor's Limited Assurance Report

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

To Klöckner & Co SE, Duisburg

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

MANAGEMENT'S RESPONSIBILITY

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

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

AUDITOR'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY CONTROL

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

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

ASSURANCE CONCLUSION

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

INTENDED USE OF THE ASSURANCE REPORT

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

ENGAGEMENT TERMS AND LIABILITY

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

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

Munich, February 23, 2018

Ernst & Young GmbH**WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT****Nicole Richter****WIRTSCHAFTSPRÜFERIN
(GERMAN PUBLIC AUDITOR)****Jan Kaiser****WIRTSCHAFTSPRÜFER
(GERMAN PUBLIC AUDITOR)**

**Independent Auditor's
Limited Assurance Report**