Management Board report on agenda item 7

Pursuant to section 221, para. 4, sentence 2, section 186, para. 3, sentence 4 and para. 4, sentence 2 of the German Stock Corporation Act, the Management Board wishes to submit the following report on agenda item 7 on the grounds for the proposed authority of the Management Board to issue option bonds and/or convertible bonds (hereinafter "bonds") with the exclusion of the shareholders' subscription rights.

The proposed authority to issue bonds with a total ancillary value of up to EUR 350,000,000 is intended to enable Klöckner & Co. SE to expand the financing of its activities and will, with the Supervisory Board's approval, provide the Management Board with fast and flexible financing that will be in the company's interest, particularly where favorable capital market conditions exist.

In principle, shareholders are entitled to a statutory subscription right to the bonds. In order to make the process easier, provision can be made for the bonds to be issued to a credit institution or a syndicate of credit institutions with the obligation to offer the bonds to the shareholders for subscription in accordance with their current participating quota (so-called "indirect subscription right"). The Management Board should also be entitled – with the Supervisory Board's approval – to exclude the statutory subscription right of shareholders in certain cases.

The envisaged exclusion of the subscription right for fractional shares enables the offered authority to be exercised for complete amounts. This exclusion of subscription rights is sensible and is usual in practice because, where fractional shares are concerned, the costs of trading in subscription rights are usually unreasonably disproportionate to the related benefits for the shareholders. Owing to the restriction to fractional shares, the dilution effect remains negligible. The bonds thereby excluded from the subscription right are thus best realized.

Excluding the subscription right in favor of the owners of any bonds to be issued in the future serves to ensure that the holders of these bonds are in the same position as they would have been, had they already made use of their rights arising from the bonds and were already shareholders. This protection against dilution prevents the option price or conversion price from ever being reduced for the issued bonds. This ensures a higher sales revenue overall. The issue amount for new shares must correspond to 80% of the share price determined at a time close to the issue of the bonds.

Finally, the Management Board should be authorized – with the approval of the Supervisory Board – to exclude the shareholders' subscription right if bonds are issued at a price that does not fall significantly below the theoretical market value of these bonds as calculated by recognized actuarial methods. This means that the company is given the opportunity to make fast and short-term use of favorable market conditions and to achieve better interest rate terms and a better option price or conversion price for the bonds by fixing conditions more in line with the market. This would not be possible if the statutory subscription rights were observed. Section 186, para. 2 of the German Stock Corporation Act permits disclosure of the subscription price (and of the conditions in the case of bonds) by the third-last day of the subscription period. However, owing to the volatility of stock markets, the market risk lasting several days would lead to reductions in security with regard to the fixing of the conditions of the bond and thus to conditions that are less in line with the market. Moreover, because of the uncertainty surrounding the exercising of statutory subscription rights, their observance endangers the successful placing of bonds with third parties or results in additional expense. Ultimately, the length of the minimum two-week subscription period to be adhered to when observing statutory subscription rights slows the reaction to favorable or unfavorable market conditions, which may result in sub-optimal capital procurement.

In this exclusion of subscription rights, the shareholders' interests are observed by the fact that the bonds may not be issued significantly under their theoretical market value, thereby reducing the calculated value of the subscription right virtually to zero. The resolution thus provides that the Management Board, before issuing the bonds, must have reached the conclusion that the intended issue amount does not lead to an appreciable dilution of the value of the shares. If the Management Board considers it appropriate to obtain expert advice in the situation at hand, it is entitled to consult experts, e.g. the syndicate banks supervising the issue, an independent investment bank or a specialist authority, to provide the Management Board with confirmation, in an appropriate form, that no appreciable dilution of the share value is to be expected. Irrespective of the examination by the Management Board, a determination of conditions in line with the market is guaranteed, as already mentioned, in the event of a bookbuilding procedure. Although according to the proposed authority, the bonds are offered at a fixed issue price; individual bond conditions are established on the basis of the purchase orders made by investors and the overall value of the bonds thereby determined close to the market. All of the above ensures that there will be no appreciable dilution of the value of the shares by the exclusion of subscription rights. Also, this type of exclusion of subscription rights is restricted to bonds with rights to shares with not more than 10% share of share capital at the time of the resolution or – if this value is lower - at the time when the authority is exercised. Within this scope, the legislator deems it reasonable to expect the shareholders to maintain their participation quota by purchases on the market. This 10% limit must make allowance for the shares in Klöckner & Co SE, with the exception of shares destined to the servicing of convertible bonds issued on the basis of the resolution adopted as agenda item 9 of the Annual General Meeting of the company of June 20, 2007, as well as options or convertible bonds issued on the basis of other authorities which are issued by direct or corresponding application of section 186, para. 3, sentence 4 of the German Stock Corporation Act during the period of the authority until the date when it is exercised, or which are sold by the company.

Duisburg, in April 2009

Klöckner & Co SE

The Management Board