



# READY TO GROW

ANNUAL  
REPORT  
2009

**klöckner & co**  
multi metal distribution

# HIGHLIGHTS 2009

- SALES VOLUME, SALES AND EARNINGS SIGNIFICANTLY LOWER IN 2009 THAN IN PREVIOUS YEAR, BUT POSITIVE OPERATING INCOME IN THE LAST TWO QUARTERS OF THE FISCAL YEAR
- FINANCING ENSURED THROUGH SYSTEMATIC REACTION TO CRISIS, COSTS REDUCED SIGNIFICANTLY AND NET DEBT COMPLETELY ELIMINATED
- CAPITAL BASIS FURTHER REINFORCED THROUGH SUCCESSFUL CONVERTIBLE BOND AND RIGHTS ISSUE
- ORGANIC AND EXTERNAL GROWTH RESUMED AFTER COMPLETING THE IMMEDIATE CRISIS PROGRAM
- RESUMPTION OF THE ACQUISITION STRATEGY WITH SO FAR LARGEST ACQUISITION SINCE INITIAL PUBLIC OFFERING

**WE WANT** TO ESTABLISH OURSELVES AS THE BY FAR LARGEST AND MOST EFFICIENT INDEPENDENT MULTI METAL DISTRIBUTOR IN EUROPE AND NORTH AMERICA PUSHING AHEAD THE CONSOLIDATION SIGNIFICANTLY.

WITH 19 ACQUISITIONS SINCE IPO IN 2006 AND ONGOING EFFICIENCY IMPROVEMENTS WE ARE A LOT CLOSER TO THAT GOAL, ALTHOUGH WE ARE CERTAINLY NOT THERE YET. WE WANT TO GROW FURTHER AND OPTIMIZE OURSELVES FOR THE BENEFIT OF ALL STAKEHOLDERS.

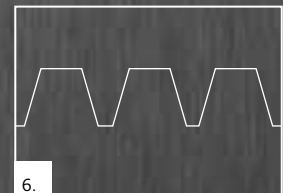
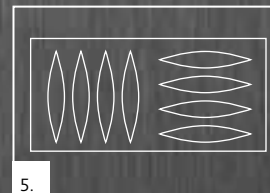
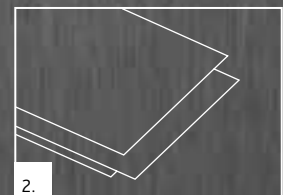
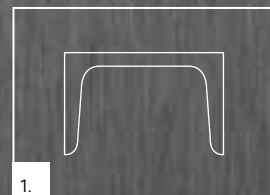
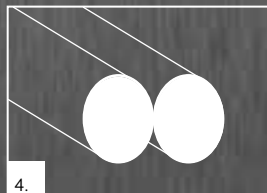


# KEY FIGURES

(in € million)	2009	2008
Sales	3,860	6,750
Earnings before interest, taxes, depreciation and amortization (EBITDA)	- 68	601
Earnings before interest and taxes (EBIT)	- 178	533
Earnings before taxes (EBT)	- 240	463
Earnings after taxes (EAT)	- 186	384
Earnings per share (basic)	- 3.61	8.56
Earnings per share (diluted)	- 3.61	8.11
Cash flow from operating activities	565	187
Cash flow from investing activities	- 8	72
Net working capital	637	1,407
Net financial debt	- 150	571
Equity	1,123	1,081
Balance sheet total	2,713	3,084
Sales volume (to '000)	4,119	5,974
Employees as of December, 31	9,032	10,282

## DISTRIBUTOR OF MULTI METAL PRODUCTS

1. Long products
2. Flat products
3. Tubes and hollow sections
4. Stainless and quality steel
5. Aluminum
6. Special products



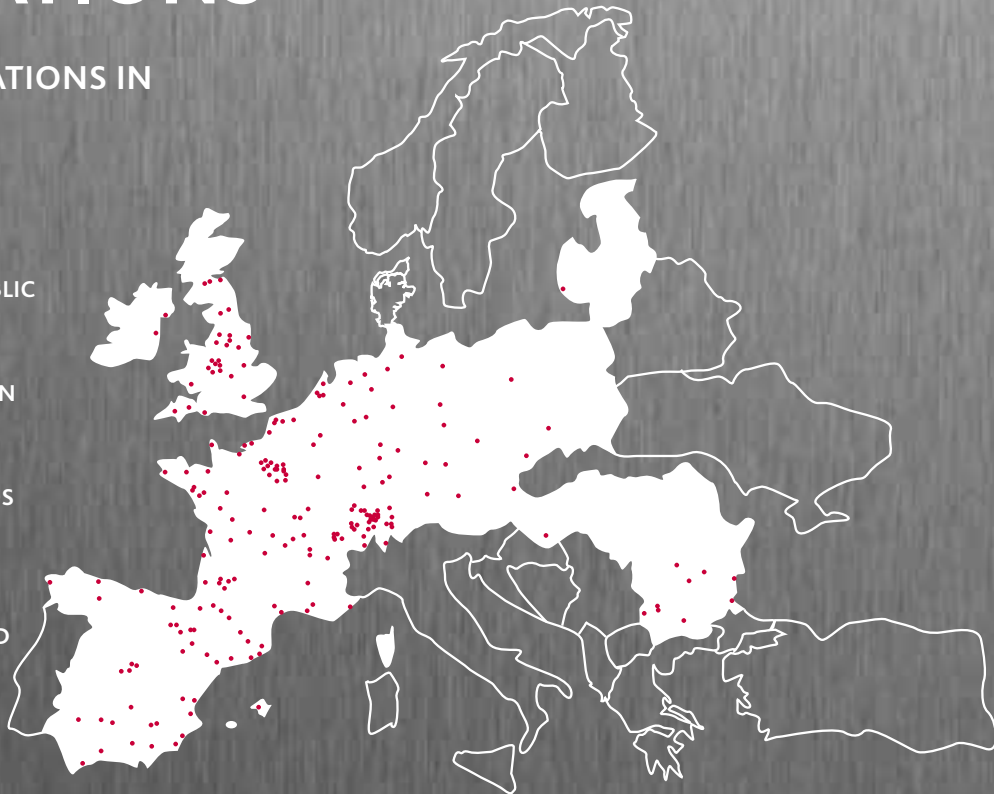
# AT A GLANCE

As a mill-independent international multi metal distributor, the Klöckner & Co-Group represents a key link in the value chain that extends from multi metal production to small- and mid-sized customers. Business performance is largely determined by management of the product portfolio, inventories and the distribution network.

## LOCATIONS

### 220 LOCATIONS IN EUROPE

- AUSTRIA
- BELGIUM
- BULGARIA
- CZECH REPUBLIC
- FRANCE
- GERMANY
- GREAT BRITAIN
- HUNGARY
- LITHUANIA
- NETHERLANDS
- POLAND
- ROMANIA
- SPAIN
- SWITZERLAND



### 30 LOCATIONS IN NORTH AMERICA



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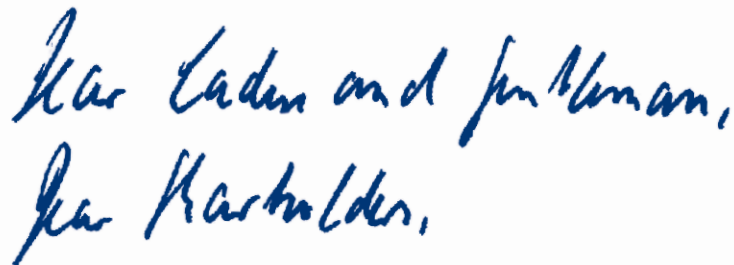
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## Letter to shareholders



Gisbert Rühl  
Chairman of the Management Board





Klar Laden und für Sie,  
Ihr Vorstand.

Having completed a challenging fiscal year with high volatility, we now face additional challenges but also huge opportunities. As predicted in last year's letter to shareholders, the upheavals unleashed by the global financial and economic crisis have sharply impacted sales volumes, sales and earnings. As announced previously, however, we have also considerably strengthened Klöckner & Co. We have completely eliminated our net debt, converting it into a net cash position, secured financing, and significantly reduced our costs. We have also resumed our acquisition strategy, as we had indicated we would after having successfully implemented the crisis program.

Although the sales volume and earnings trends over the past fiscal year were more than disappointing, we are convinced that we took the right steps to tackle the crisis. We used our own resources to deal with the crisis and brought the Company back on the path towards growth. Before discussing the specific direction we plan to take, I would like to share with you some of the measures we implemented to reach our current position.

First, we had to act quickly and consistently in response to the escalating financial crisis following the collapse of Lehman Brothers. We had a two-phase response with the first Wave in the fall of 2008, followed by a second, expanded Wave in March 2009. The first priority was to secure financing. Although there was no immediate risk of violating the loan covenants, the collapse in earnings meant that, in the worst case, this would occur in the second half of 2009. But we did not want to let that happen. Therefore, we worked with the banks at an early stage to restructure the main instruments for financing working capital. The renegotiated covenants, which previously were linked to performance indicators, are now tied to balance-sheet ratios and give us more than adequate flexibility.

Moreover, in the fall of 2008, we began to systematically pay down our debt, which at its peak at the end of the second quarter of 2008 totaled over €1 billion. Contributing significantly to this was our diligence in reducing inventories, and thereby generating strong cash flows. Following the successful rights issue in September 2009, we had a net cash position of approximately €150 million.

The third part of our crisis program has focused on reducing capacity and expenses. As our fixed costs mainly consist of personnel expenses, we were forced to make substantial job cuts. In doing so, we had to take into account that, even when the economy recovers, it will be a long time before sales volumes return to levels before the global financial and economic crisis. Therefore, we made only limited use of short-time work, preferring instead to immediately implement the steps necessary to ensure a long-term reduction in costs. This was a painful, but necessary, step that resulted in a 15% reduction in our workforce.

We believe that we had to act quickly and consistently in order to overcome the crisis, to restore a sense of security to our employees and to move the Company forward. A Company cannot be successful if it hesitates or takes too long to make the necessary adjustments or if it is unclear when the crisis measures will come to an end. At the same time, the troops should not be mobilized until the battle plans have been finalized. We reached such a point last summer, after reducing our debts and expenses and securing financing. Then, following the crisis measures we implemented during the first two Waves, we initiated a third, growth-oriented Wave. After further strengthening our financial position through the successful rights issue, we focused on improving our market position organically as well as expanding and pushing ahead with our efficiency-enhancement programs. Our explicit goal here is to take advantage of our competitors' weakness who have not yet reached, or perhaps never will reach, this stage. The same applies to our acquisition strategy, which we had initially suspended when the crisis began to escalate.

Now, I would like to redirect the discussion toward the future even if, despite these positive developments for us, we must constantly remember that the global financial and economic crisis is far from being over. Nevertheless, rather than obsessing about it, we want to exploit the opportunities the crisis is offering us. We intend to master this balancing act of fighting against the negative effects of the crisis and taking advantage of the opportunities it offers.

The first big opportunity we used was acquiring the Becker Stahl-Service Group in Bönen, Germany. The purchase of this Company, which specializes in the production of flat steel products and is the most modern service center of its kind in Europe and probably in the world, represented a significant step forward for us strategically. It was our biggest acquisition since the initial public offering. This step has taken us to a new level in the European flat steel segment. In addition, Becker Stahl-Service's profitability exceeds our target margin and will therefore increase our earnings over the long term. Then, at the beginning of 2010, we also finalized the acquisition of Bläsi AG in Switzerland, which considerably increased our competitive position in the greater Berne area.

In our core markets in Europe and North America, we are continuing to search for attractive targets with a good fit and which satisfy our demanding acquisition criteria. Since growth rates for steel consumption will be marginal at best in such mature markets over the next few years, our strategy is to grow through consolidation. Growth in steel consumption will be considerably higher in emerging economies, especially in China. At present, it is premature to enter the markets in these areas, since overall conditions make it difficult to transfer our business model, which is based on economies of scale and efficient processes. The structures are still too small-scale and the margins are still too low. However, the emerging markets are changing quickly and we are closely following developments so that we will be ready to enter one of these markets with an appropriate strategy at the right time. Furthermore, the other so-called BRIC countries may also be attractive to us. We are also following developments in those countries and working on corresponding strategies.

In particular, we are accelerating and expanding our efficiency-enhancement measures in procurement, logistics and are standardizing processes throughout the Group. While retaining local competence and flexibility, these functions, which previously were exclusively at the discretion of the international subsidiaries, will increasingly be coordinated and managed in a cross-border fashion at the Corporate level in Europe, enabling us to take advantage of efficiency and economies of scale. This process is changing Klöckner & Co more profoundly than all the other previous measures. The Holding Company is becoming more involved in operations as we coordinate and standardize processes, while at the same time ensuring that the sales force is focused on satisfying customer needs in each individual region in a decentralized manner.

Dear shareholders, although the results for 2009 are disappointing, we are convinced that we are back on track towards growth and profitability. However, it is also obvious that we will face challenges along the way. We do not expect any marked increase in real demand for the current year, since the prospects for our core customer industries – construction, machinery and mechanical engineering, and the automotive industry – are mixed. Consequently, we will achieve growth primarily by restocking of the customers' inventories and through acquisitions. Even though we expect the growth from such actions to be in the double digits, we do not yet foresee a return to the sales volume levels seen in the years before the crisis. This will also be reflected in our earnings trend. While we currently expect to post a distinctly positive operating income (EBITDA) in 2010, we will not yet achieve our target operating margin of at least 6%.

Although these numbers will not fully satisfy your or our expectations for the current fiscal year, we are convinced that we are on the right track. And for you, as shareholders, this should also pay off in the form of an increase in the value of the Company and, as earnings increase accordingly, in the resumption of appropriate dividends. At this point, I want to expressly thank you for your understanding that we propose not to pay a dividend for the second year in a row. Through your understanding in this matter you are making a valuable contribution toward strengthening your Company. At the same time, for us this serves as an additional impetus to ensure that in the future you are able to once again share in the growth and profits of the Company.

Finally, I would like to thank our employees for their support and the understanding they have shown for our efforts and cost-cutting measures during this difficult period. And above all, I would like to thank my predecessor, Dr. Thomas Ludwig, who, after many successful years as CEO, handed over the helm to me on November 1.

Best regards,



Gisbert Rühl  
Chairman of the Management Board

## Management Board

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### **GISBERT RÜHL**

Chairman of the Management Board since November 1, 2009 (CEO/CFO)

Born in 1959. CEO and CFO since November 1, 2009, CFO since July 2005, appointed until December 31, 2012. He is responsible for the coordination of the Management Board as well as Corporate affairs and functionally responsible for Corporate Controlling & Development / M&A, Corporate Taxes, Finance & Accounting, Human Resources / Legal & Compliance, Internal Audit, Investor Relations & Corporate Communications, Management & Personnel Development.



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### **ULRICH BECKER**

Member of the Management Board (COO)

Born in 1961, member of the Management Board since April 1, 2008, appointed until March 31, 2013. His operating responsibilities include the Group's European and North American activities and the Headquarters functions of International Product Management & Global Sourcing and Process Management & IT.



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### **DR. THOMAS LUDWIG**

Chairman of the Management Board (CEO) until October 31, 2009, born in 1948.

## Supervisory Board

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### Supervisory Board

**PROF. DR. DIETER H. VOGEL**

Chairman, Lindsay Goldberg Vogel GmbH,  
Düsseldorf,  
Chairman

**DR. MICHAEL ROGOWSKI**

Chairman of the Supervisory Board,  
Voith AG, Heidenheim,  
Deputy Chairman

**ROBERT J. KOEHLER**

Chairman of the Management Board,  
of SGL CARBON SE,  
Wiesbaden

**FRANK H. LAKERVELD**

Member of the Board of Management,  
Sonepar S.A., Paris

**DR. JOCHEN MELCHIOR**

Former Chairman of the Board of Management  
of the former STEAG AG, Essen

**DR. HANS-GEORG VATER**

Former Member of the Board of Management,  
HOCHTIEF Aktiengesellschaft, Essen

### Executive Committee

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

**PROF. DR. DIETER H. VOGEL**

Chairman

**DR. MICHAEL ROGOWSKI**

**DR. HANS-GEORG VATER**

### Audit Committee

**DR. HANS-GEORG VATER**<sup>1</sup>

Chairman

**DR. MICHAEL ROGOWSKI**

**PROF. DR. DIETER H. VOGEL**

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<sup>1</sup> independent financial expert within the meaning of Section 100 (5) German Stock Corporation Act

## Report of the Supervisory Board

In fiscal year 2009, the Supervisory Board once again diligently performed the obligations imposed on it by law, the Articles of Association and the internal rules of procedure. It was involved in all important developments at the Company and its subsidiaries from an early stage. The Supervisory Board advised the Management Board on the management of the Company and supervised the Company's corporate governance. The Management Board provided timely and comprehensive written and verbal reports to the Supervisory Board on a regular basis. In 2009, written reports primarily included the detailed monthly reports on the sales, earnings and financial position of the Group and its main operating segments and units as well as trends in the capital markets, at comparable companies and in the share price.

Supervisory Board sessions regularly discussed the overall economic situation, circumstances in the industry, the business performance of the Klöckner & Co Group and the Group segments and the trend in the Klöckner & Co share price. Further, the Chairman of the Supervisory Board held regular monthly face-to-face meetings with the Management Board where they discussed Group performance and strategic issues. In addition, the Management Board and the Chairman of the Supervisory Board remained in close contact through numerous telephone calls and meetings to discuss specific items.

### **ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD, CORPORATE GOVERNANCE**

The Supervisory Board's plenary work is supplemented by the work of the Executive Committee and the Audit Committee. In line with the Supervisory Board's internal rules of procedure, the Executive Committee also acts as the Supervisory Board's Personnel Committee, the Committee for Urgent Matters and the Nomination Committee for the preparation of proposals for appointments to the Supervisory Board. The Supervisory Board consists of six members, all of whom are shareholder representatives. All of the Committees consist of three members and – with the exception of the Audit Committee – are headed by the Chairman of the Supervisory Board. The Management Board is closely involved in the work of the Supervisory Board. The members of the Management Board normally participate in the meetings and conference calls of the Supervisory Board and its committees.

The Supervisory Board held a total of six plenary sessions during fiscal year 2009. There were four regular face-to-face meetings, plus two extraordinary meetings held as teleconferences on specific topics. The Audit Committee also held six meetings in 2009, including three face-to-face meetings and three teleconferences to discuss the quarterly reports with the Management Board the day before their publication. The Executive Committee held three face-to-face meetings in 2009 and played another major role in its capacity as the Personnel Committee, coordinating one-on-one telephone calls and correspondence between the Chairman of the Supervisory Board and the other members. The Executive Committee also passed several urgent resolutions outside the regularly scheduled meetings in its capacity as the Committee for Urgent Matters. The Supervisory Board as a whole adopted other urgent resolutions in writing outside the regular meetings.

Without exception, all of the members of the Supervisory Board and the Committees participated in all the resolutions of their respective bodies, i. e., resolutions were passed with 100% of the members voting, as in previous years. Attendance at the meetings – including tele-conferences – was only slightly lower, at 97%. The Supervisory Board Committees prepared important plenary decisions and in certain cases made decisions in place of Supervisory Board plenary sessions. At plenary meetings, the committee chairmen provided regular, comprehensive reports on the agendas and the committee meetings' results. To the extent necessary, the Management Board provided pertinent documentation for all sessions of the Supervisory Board and its committees.

On December 7, 2009, the Management and Supervisory Boards discussed and passed the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG = Aktiengesetz) after updating it in line with Klöckner & Co's normal schedule to include disclosure of reasons for any deviations from the Code's recommendations, as required by recent amendments to the law. With a few justified exceptions, the work of the Supervisory Board complied with the recommendations of the German Corporate Governance Code (DCGK) as amended. Cooperation between the Management Board and the Supervisory Board is governed by the internal rules of procedure for the Management Board, which include a comprehensive catalog of important or extraordinary Group transactions or measures requiring the approval of the Supervisory Board, as well as a schedule of responsibilities for the Management Board. At its meeting on September 22, 2009, the Supervisory Board adjusted the schedule of responsibilities to reflect the changes in the composition of the Management Board. At the same meeting, the revised internal rules of procedure for the Supervisory Board were adopted; these had been updated to reflect the new recommendations of the German Corporate Governance Code and the amendments to the law that had been passed in the interim.

Also in September 2009, the Supervisory Board agreed to continue reviewing the efficiency of its work on an annual basis, but to carry out a detailed review only every other year, assuming no major changes are made. The 2009 review did not reveal the need to make any changes in the number of committees, meetings or Supervisory Board members. The Supervisory Board reaffirmed its belief that the relatively small number and high caliber of the Supervisory Board members makes the body particularly efficient. Likewise, no major changes are required in the way meetings are prepared for and run or in their agendas, according to the Supervisory Board. Members' attendance and participation in adopting resolutions were exemplary; all members and executive bodies were always available, even for short-term decisions. Further, the Supervisory Board believes that the division of its activities into work on strategic planning, consulting and supervisory activities continues to be well-balanced.

#### **WORK OF THE SUPERVISORY BOARD IN 2009 IN LIGHT OF THE CONTINUING ECONOMIC DIFFICULTIES**

The Supervisory Board meeting on March 30, 2009 focused on the 2008 Annual Report and the preparations for the Annual General Meeting on May 26, 2009. In addition, Mr. Rühl's appointment as a member of the Management Board was extended to December 31, 2012 and Mr. Rühl was named as successor to Dr. Ludwig as Chairman of the Management Board, who resigned of his own free will.

The Supervisory Board meeting at the end of March 2009 focused on discussing the Group's tough sales and earnings situation in the first quarter of 2009. The Supervisory Board confirmed that the Management Board had not only taken steps early on to plan, but also to introduce far-reaching restructuring efforts, which had already been implemented to a large extent. In order to respond to lower capacity utilization, both reduced working hours and a significant workforce reduction were unavoidable. In addition to cost-cutting measures, the meeting focused on the long-term liquidity stabilization through the systematic reduction of net working capital and restructuring finances to reduce bank loans while largely avoiding performance-related loan covenants. The Management Board and the Supervisory Board also discussed how to further refine the Compliance Organization, including specific cases.

On May 19, 2009 the Executive Committee of the Supervisory Board approved Mr. Rühl's contract of service. Planning ahead, the agreement contained an adjustment clause in response to the German Act on the Appropriateness of Management Board Compensation (VorstAG – Gesetz zur Angemessenheit der Vorstandsvergütung) that was working its way through the legislature.

The main focus of the Supervisory Board meeting held on May 26, 2009 was to make preparations for the upcoming Annual General Meeting. The Board also approved a capital increase by the Company's French subsidiary. At the beginning of June 2009, the Supervisory Board and the Executive Committee by virtue of a delegated procedure approved the issue of a convertible bond to further optimize the Group's financing structure and to prepare for the resumption of its acquisition strategy. The same decision-making structure and objectives were behind the approval at the end of August / beginning of September 2009 of the rights issue, which was successfully completed in September 2009, as was the convertible bond issue in June.

The Supervisory Board meeting held on September 22, 2009 adopted the aforementioned amendments to the internal rules of procedure and, following verification and recommendation by the Audit Committee, commissioned the auditor for fiscal year 2009. The board also discussed whether to engage the auditor to review special issues but decided that such a review was not necessary for 2009. Further, as at previous meetings, the Management Board provided information about the acquisition target, Becker Stahl-Service (BSS), of Bönen, Germany.

At the beginning of October 2009, the Supervisory Board approved the earlier-than-planned retirement of Dr. Ludwig and the succession of Mr. Rühl as the Chairman of the Management Board on October 31, 2009, rather than on December 31, 2009, as previously planned. Again, the decision was based entirely on Dr. Ludwig's wishes. Mr. Rühl's new service contract, which was set to come into effect on January 1, 2010, was not altered to begin earlier. In a special Supervisory Board teleconference on November 6, 2009, the Supervisory Board and the Management Board held an in-depth discussion on the acquisition of the Becker Stahl-Service Group in the Westphalian town of Bönen, the Company's largest acquisition (as measured by sales revenue) since its initial public offering, and approved the signing of a preliminary agreement. After presentation of the results of the due-diligence review, the Supervisory Board gave its final approval for the BSS acquisition on February 24, 2010.

At the Supervisory Board meeting held on December 7, 2009, the full Supervisory Board (Plenum), as now required by the VorstAG, approved – based on the recommendation of the Executive Committee – the new compensation arrangement for Mr. Rühl which complies with the VorstAG, along with the revised joint Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG – Aktiengesetz), as noted above. In addition, it approved the Group 2010 budget and an acquisition in Switzerland. Furthermore, the Group's Chief Compliance Officer reported on the status of the Compliance Organization. At an Audit Committee meeting held on the same date, the Head of Internal Audit gave a presentation to the Committee regarding the internal control mechanisms at Klöckner & Co and the audit of these mechanisms. The Supervisory Board made sure that the immediate action measures aimed at lowering costs and securing liquidity (Wave 1 and 2) had been completed and that the current market-oriented and customer-oriented future growth strategy adopted to address the economic crisis (Wave 3) was plausible.

## **2009 ANNUAL FINANCIAL STATEMENTS**

The 2009 financial statements for Klöckner & Co SE, the consolidated financial statements and the Combined Management Report have been audited by the auditor appointed by the Annual General Meeting and commissioned by the Supervisory Board, KPMG Hartkopf + Rentrop Treuhand KG Wirtschaftsprüfungsgesellschaft, and have each received an unqualified audit opinion. The audit reports and all other accounting documents on which the financial statements are based were made available to every member of the Supervisory Board. The documents were discussed in detail both by the Audit Committee and in the plenary session of the Supervisory Board.

In the meeting convened on March 8, 2010 to discuss the financial statements, the Chairman of the Audit Committee gave a report to the Supervisory Board concerning the Audit Committee's review of the financial statements and the consolidated financial statements. The auditor took part both in the Audit Committee's deliberations and in the Supervisory Board meeting, reported on the key findings of the audit, and answered questions. The Supervisory Board acknowledged and approved the auditor's findings and the Audit Committee chairman's explanations.



Using the Board's own final review of the Company's financial statements, the consolidated financial statements, and the Combined Management Report – and in line with the Audit Committee recommendation – the Supervisory Board concluded that there were no objections to be raised. At its meeting on March 8, 2010, the Supervisory Board approved the financial statements and the consolidated financial statements prepared by the Management Board. The financial statements are thereby adopted. The Supervisory Board deems appropriate the Management Board's proposal to the Annual General Meeting that the unappropriated profits should be transferred to other retained earnings; it therefore endorses the Management Board's proposal.

With respect to the risk detection system, the auditor stated that the Management Board had taken the measures required in accordance with Section 91, para. 2 of the AktG, particularly those for establishing a monitoring system in an appropriate manner and that the monitoring system is capable of detecting, at an early stage, developments that could jeopardize the Company's existence.

#### **PERSONNEL CHANGES**

The composition of the Klöckner & Co Supervisory Board did not change in 2009, nor has it done so to date in 2010. However, there were both changes and continuity in the composition of the Management Board.

As noted, in resolutions passed on March 30 and October 8, 2009, the Supervisory Board accepted Dr. Ludwig's resignation from his duties as a member of the Management Board effective October 31, 2009. At his own request, Dr. Ludwig resigned from the Management Board and left the Company at the end of October 2009. No severance pay was given. The Supervisory Board thanks Dr. Ludwig for his committed, far-sighted and extremely successful work as Chairman of the Company's Management Board since November 2003, which guided the Company back onto the path of strategic growth and enabled the Company to post several all-time high earnings after a period of uncertainty. Dr. Ludwig's tenure also included the Company's successful initial public offering in 2006 and it was under his leadership in the year of 2008/2009 that the Company took early, targeted steps to limit the financial market's impact on the Company and later that of the economic crisis.

Concurrent with Dr. Ludwig's departure, the Supervisory Board extended the appointment of Mr. Rühl, who had previously served as the Company's Chief Financial Officer, as a member of the Management Board until December 31, 2012 and simultaneously named him Chairman of the Management Board. Mr. Rühl has had a significant impact on the Company's development since he joined in the summer of 2005 and carries out the functions of both CEO and CFO since November 1, 2009. The Supervisory Board is certain that the Management Board, which now consists of two members, can continue to efficiently lead the Company. Any increase in the number of Management Board members should depend on the Company's strategic development.

In the view of the Supervisory Board, the Management Board and the employees of Klöckner & Co SE did an outstanding job in the face of the very difficult conditions in the steel and metal distribution industry in 2009. In addition, the Group's workforce had to accept heavy staff and funding cuts. The Supervisory Board would like to express its gratitude and appreciation to the Management Board and all the employees of the Company and its subsidiaries for their dedication in 2009.

Duisburg, March 8, 2010



Prof. Dr. Dieter H. Vogel  
Chairman of the Supervisory Board

# KLÖCKNER & CO SHARE

## Key data on the Klöckner & Co share

ISIN DE000KC01000 – German Securities Code (WKN) KC0100  
 Stock exchange symbol: KCO  
 Bloomberg: KCO GR  
 Reuters XETRA: KCOGn.DE  
 MDAX® listing: since January 29, 2007

- Share price ends the year at €17.85, up 45.2%
- Klöckner & Co share outperforms MDAX® and DAX®
- Subscribed capital increased through rights issue
- Second convertible bond successfully issued
- Analyst coverage steadily increasing

### FIRST HALF IMPACTED BY FINANCIAL AND ECONOMIC CRISIS; INDEXES OUTPERFORMED IN SECOND-HALF

During the first quarter of 2009, the financial and economic crisis that started in the fall of 2008 continued unabated. Steel stocks, in particular, were unable to escape the downward pull exerted by the economic slowdown.

The Klöckner & Co share also came under pressure as a result of the persistent economic dislocation. As an early-cyclical, high-beta stock, the share reacted extremely sharp to the overall downward trend and the industry's uncertain future prospects. On March 19, 2009, our share dropped to an all-time low of €4.87<sup>2)</sup>. As the first quarter drew to a close, investors' expectations about the economy improved somewhat, prompting a recovery among steel-sector stocks. During the course of the second quarter, the Klöckner & Co share made up for the previous quarter's downward trend. In addition, the capital markets appeared on an ongoing basis to reward our early implemen-

### KEY DATA – KLÖCKNER & CO SHARE

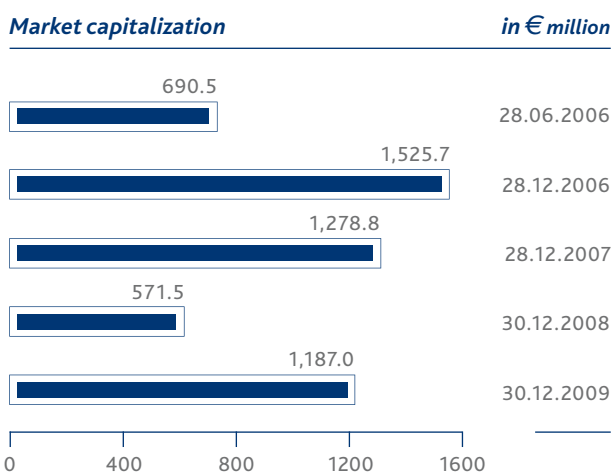
		2009	2008	2007	2006 <sup>1)</sup>
Subscribed capital	€	<b>166,250,000<sup>2)</sup></b>	116,250,000	116,250,000	116,250,000
Shares	number	<b>66,500,000<sup>2)</sup></b>	46,500,000	46,500,000	46,500,000
Closing price (XETRA, close)	€	<b>17.85</b>	12.29	27.50	32.81
Market capitalization	€ million	<b>1,187</b>	571	1,279	1,526
High (XETRA, close)	€	<b>18.93</b>	40.50	63.20	32.81
Low (XETRA, close)	€	<b>4.87<sup>2)</sup></b>	7.65	25.88	14.00
EPS (undiluted)		<b>-3.61</b>	8.56	2.87	4.44
Average daily trading volume	shares	<b>761,087</b>	901,919	759,379	326,047
Dividend per share	€	–	–	0.80	0.80
Dividend yield in terms of closing price	%	–	–	2.9	2.4
Distribution amount	€ million	–	–	37.2	37.2

<sup>1)</sup> 06/28. – 12/31. <sup>2)</sup> Adjusted in connection with the capital increase as per September 18, 2009

tation of capacity- and cost-cutting efforts, our refinancing measures and our preparations for resuming our acquisition strategy. In the third quarter, our share rose further, outperforming the MDAX® and the DAX®. In October 2009, the share reached its high of €18.93 for the year. In the following weeks, the share price fluctuated due to renewed uncertainty about the economic developments on the steel market. In December, the share enjoyed a year-end rally. This was driven both by the positive impact of the steel-price trend in Asia and the United States, and by investor confidence that the worst part of the economic crisis is behind us. At the end of the fourth quarter, the share price was €17.85, representing an increase of about 45.2% over the closing price at the end of 2008. Since the end of that year, the MDAX® rose around 34% and the DAX® about 24%.

### MARKET CAPITALIZATION

Compared to the previous year, market capitalization more than doubled. At the end of the fiscal year, market capitalization totaled €1,187 million.



### PERFORMANCE KLÖCKNER & CO SHARE IN COMPARISON TO DAX® AND MDAX® (Values indexed, month-end figures)

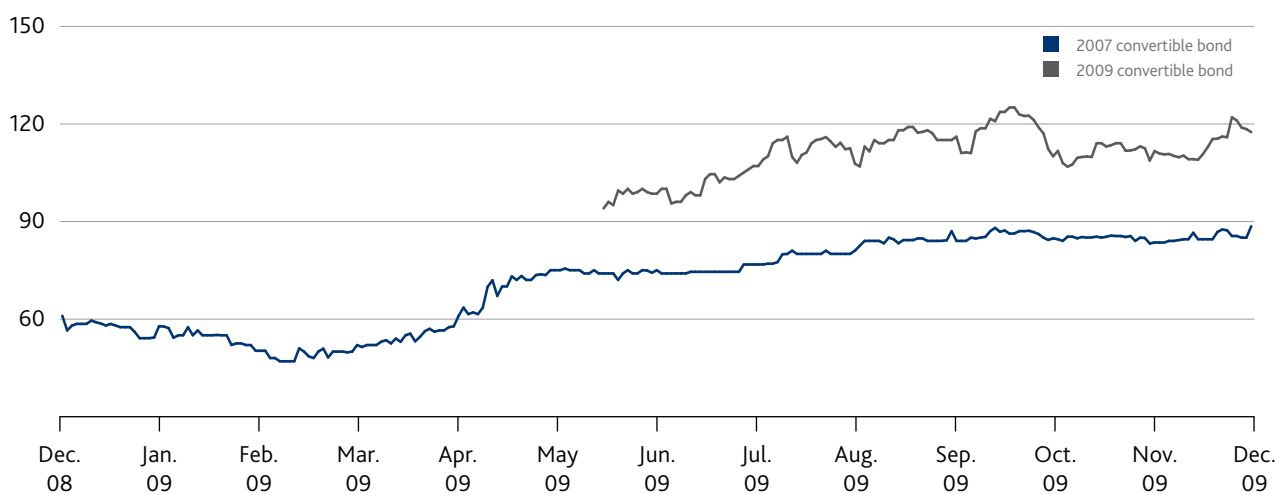


## KEY DATA ON KLÖCKNER &amp; CO CONVERTIBLE BONDS

	2007 convertible bond	2009 convertible bond
German securities code	A0N0J0	A1AHTR
ISIN	DE000A0N0J03	DE000A1AHTR5
Volume	€325 million	€97.9 million
Issue date	July 27, 2007	June 9, 2009
Maturity date	July 27, 2012	June 9, 2014
Annual interest rate	1.5%	6.0%
Conversion price	€70.44	€18.37
Standard & Poor's Rating	B+ (long-term rating)	B+ (long-term rating)

## PERFORMANCE OF KLÖCKNER &amp; CO CONVERTIBLE BONDS

(Month-end figures)



## PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BONDS

The two convertible bonds issued by Klöckner & Co have performed much like the Company's share. During the first half of the year, the 2007 convertible bond was affected by the general downward trend on the stock markets, as well as the overall uncertainty about the liquidity of listed companies. On June 9, 2009, we issued a second convertible bond. During the second half, both bonds enjoyed a positive trend, in line with the Klöckner & Co share.

## EQUITY POSITION STRENGTHENED BY THE ISSUANCE OF ANOTHER CONVERTIBLE BOND AND A RIGHTS ISSUE

During the past fiscal year, we further strengthened our equity position, primarily so that we could continue to pursue our external growth strategy.

In June 2009, Klöckner & Co SE successfully placed a second convertible bond for a total of €97.9 million, with a five-year maturity and a denomination of €50,000 per bond. As intended, the subscribers were almost exclusively institutional investors. The bond has a coupon of 6.0% p.a. and is traded on the Open Market of the Frankfurt Stock Exchange (ISIN DE000A1AHTR5). The conversion price was fixed at €21.06 and subsequently lowered to €18.37 due to the rights issue.

In September 2009, Klöckner & Co SE successfully placed a rights issue of 20,000,000 new, registered, non-par-value shares. These shares have a nominal value of €2.50. This resulted in an increase in capital stock of €50,000,000, to €166,250,000. The subscription price of the new shares was €10. We offered the new shares to our shareholders for subscription at a 7 : 3 ratio. This gave shareholders the right to acquire three new shares per seven old shares, at a price of €10 per share. Existing shareholders exercised 99.6% of their subscription rights. The underwriting banks had guaranteed 100%, so we placed 0.4% of the subscription rights on the open market. The new shares have been included in the existing listing (German Securities Number (WKN) KC0100) since September 22, 2009 and have been carrying dividend rights since January 1, 2009.

Klöckner & Co SE will use the more than €600 million in proceeds from the convertible bonds and the rights issue primarily to resume its acquisition strategy, which had been suspended as a result of the crisis, and for general corporate purposes.

## ANALYST COVERAGE STEADILY INCREASING

The interest of the financial community in Klöckner & Co continues undiminished and expanded during the past fiscal year to include an additional five international banks and investment firms, bringing the analyst pool at the end of 2009 to 22 banks and investment firms. These institutions published a total of 167 research reports in the fiscal year under review. At the end of 2009, 18 investment firms gave our share a "buy" recommendation. Two institutions gave a "hold" recommendation and two gave a "sell" recommendation. We provide an up-to-date review of analysts' recommendations on our website under "Investors / Share / Analysts".

The Klöckner & Co share is analyzed by the following banks and investment firms:

Bankhaus Lampe  
BHF Bank (new)  
CA Cheuvreux (new)  
Cazenove & Co. Limited  
Commerzbank  
Credit Suisse  
Deutsche Bank  
DZ Bank  
HSBC Trinkaus  
JP Morgan Securities  
Kepler Equities  
Landesbank Baden-Württemberg  
MainFirst Bank AG (new)  
Merck Finck & Co. Privatbankiers (new)  
Merrill Lynch  
Metzler Equity Research  
Morgan Stanley (new)  
SRH AlsterResearch  
Steubing  
UBS Equity  
UniCredit MIB  
WestLB AG

## ANNUAL GENERAL MEETING 2009

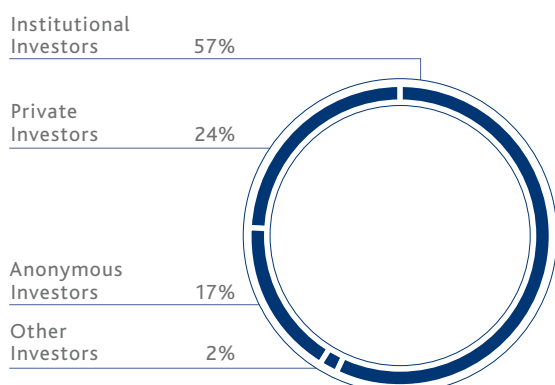
More than 300 shareholders and shareholders' representatives attended our third regular Annual General Meeting at the Dueseldorf Convention Center (Messe) on May 26, 2009. Around 33% of the voting shares were represented. The shareholders approved all of the resolutions proposed by the Supervisory Board and the Management Board by substantial majorities of 97.57% to 99.81%. Detailed information and the presentation and speech by the Chairman of the Management Board are available on the Internet at [www.kloeckner.de](http://www.kloeckner.de). In future, we will make it possible for even more shareholders to follow the Annual General Meeting by broadcasting the speech by the Chairman of the Management Board live on the Internet.

## SHAREHOLDER STRUCTURE DOMINATED BY INVESTORS FROM GREAT BRITAIN

During the past fiscal year, Klöckner & Co SE again commissioned regular studies to identify shareholders. The most recent analysis, carried out in December 2009, identified 83% of the shareholders. This study showed that identified institutional investors hold 57% of the subscribed capital, while 24% are held by private investors.

According to the mandatory notification dated November 2008, the investment firm Franklin Mutual Advisers was our largest shareholder, with 9.89%, as of the reporting date. According to the announcement dated December 2009, the second-biggest shareholder was BlackRock Inc., with 5.61%.

### Shareholder structure of Klöckner & Co SE



Under the definition provided by Deutsche Börse AG, Klöckner & Co SE's free float was 100% at the end of 2009.

Geographically, our Company's identified institutional investors are located primarily in Anglo-Saxon countries: 31% of the institutional investors are headquartered in United Kingdom, followed by 22% in the United States. Germany is in third place, with 19%.

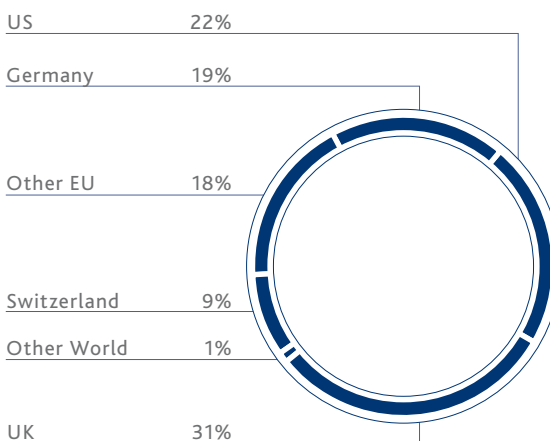
## TRANSPARENT AND CONTINUOUS COMMUNICATION

Communicating with private and institutional investors has been a high priority for us since our initial public offering in 2006. During the year under review, we intensified the continuous and transparent exchange of information with international investors.

Members of the Management Board and the IR Team provided interested investors with information about the results and the potential of Klöckner & Co Group at a total of 15 road shows and 13 conferences in all the major financial centers in Europe and North America and in more than 50 additional individual meetings.

A particular focus of the discussions with analysts and investors was the implementation of the immediate action programs that were instituted as a result of the crisis. Another focus was the restructuring of the Company's financing and questions about recent market developments. The rights issue in September 2009 had the effect of pushing the above topics somewhat

### Geographic breakdown of investors of the Klöckner & Co SE



into the background. At this point, the discussions concentrated mainly on our acquisition strategy and opportunities for consolidation that appear during periods of crisis, in particular. In addition, the parties with whom we held discussions were especially interested in the long-term profitability of our business model in steel distribution.

In October 2009, the second Capital Markets Day for institutional investors was held at Corporate Headquarters in Duisburg. Members of the Management Board and the management team made presentations to 40 interested investors, analysts and bankers. Participants in the financial conference gained insights into our Group's operating activities. The presentations focused primarily on the immediate action programs and development opportunities in the European market. The Klöckner & Co speakers also addressed centralizing procurement and optimizing logistics. A tour of a steel warehouse at our subsidiary, Klöckner Stahl- und Metallhandel, in Frechen (near Cologne) added the finishing touch to the visit. For those who are interested, additional information and the presentations made during the investors event are available on our website.

Compared with other stock corporations (Aktiengesellschaften), private shareholders, with about 24% of holdings, hold an above-average share of Klöckner & Co's stock. During the year under review, we further expanded our contacts with this important group of shareholders. In order to ensure that close contact with private investors was not restricted to just once a year – at the Annual General Meeting – the Chairman of the Board participated at a Private Investor Forum during which around 450 interested private investors participated in a question-and-answer session and gained more than just a cursory glimpse of business at the Klöckner & Co Group.

When the Company carried out the rights issue, the Chairman of the Board addressed shareholders in a video message, reporting on how the funds would be used and explaining the technicalities of the rights issue. The video message was so well received that we plan to use this communication tool more widely in future IR work. In addition, the IR team will be happy to answer any questions interested shareholders may have by telephone, e-mail or letter.

In addition to direct contact with the investors, our website [www.kloeckner.de](http://www.kloeckner.de) is an integral part of our financial communication efforts. In order to provide shareholders with an even faster, more concise service, we completely revised our Internet platform effective November 1, 2009, giving it a new, contemporary design. Along with the aforementioned finan-

cial and press information, the new website provides more in-depth views of our business activities and uses modern features to facilitate the user-friendly, interactive dissemination of information.

Interested parties can find all the relevant information about the Klöckner & Co share and the convertible bonds on the Investor Relations website [www.kloeckner.de/en/investoren.html](http://www.kloeckner.de/en/investoren.html). This information includes our financial reports, the financial calendar, reports on corporate governance and up-to-date data on the prices of our share and the convertible bonds. All information about the Annual General Meeting of Klöckner & Co SE scheduled for May 26, 2010 in Düsseldorf will appear on the website.

Our quarterly shareholder letter and our newsletter keep our shareholders and further interested parties informed about current developments in the Klöckner & Co Group. You are welcome to subscribe to the newsletter at [ir@kloeckner.de](mailto:ir@kloeckner.de).

The Investor Relations team looks forward to receiving your questions and suggestions.



# HOW TO G

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## STRATEGY TO GROW

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Klöckner & Co has not only grown organically throughout its 100-year history but has also made an important contribution to the consolidation of the steel and metal distribution industry. The strategy has helped turn Klöckner & Co into one of the largest steel and metal distributors. The potential economies of scale resulting from consolidation were insufficiently exploited in the past. This was in part due to the decentralized nature of steel distribution and the steel industry. Increasing consolidation and globalization of the steel industry has significantly altered conditions over the past years. Our strategy which we developed in 2005 based on these conditions set the clear goal of actively shaping this change process by using access to



# ROWW

capital markets. We went public in 2006 with the following resolutions: We wanted to continue growing, while simultaneously improving efficiency as part of the STAR program initiated at the time to differentiate ourselves from our smaller and mid-sized competitors in particular.

From the date of IPO up to the escalation of the global financial and economic crisis, we acquired 18 companies. At the end of 2008, we temporarily suspended our acquisition strategy in response to the ever-worsening crisis. Further essential measures at that point in time included securing financing, the complete reduction of our net-debt position and cost reductions equalling approx. €130 million. We were mostly able to

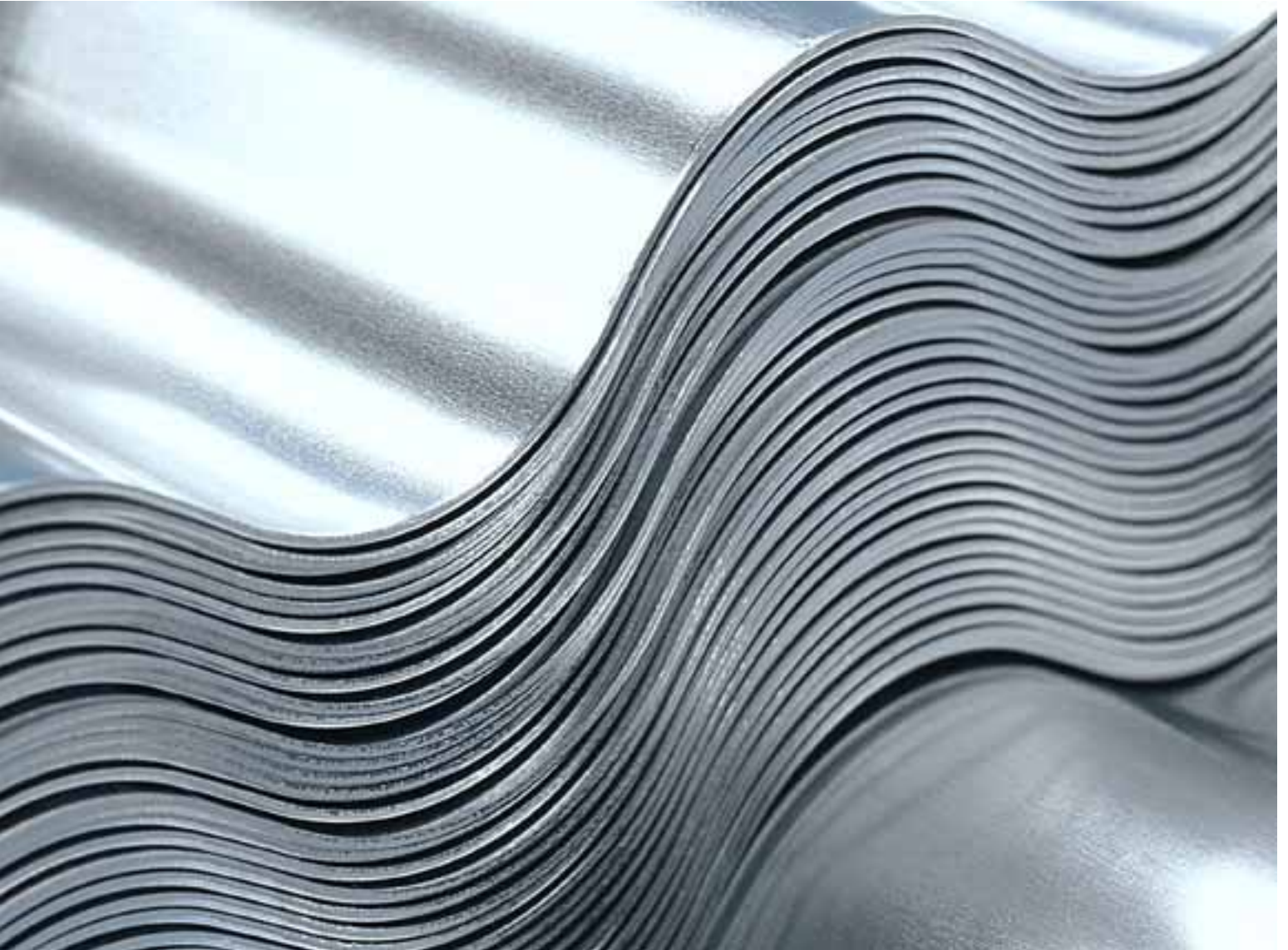
conclude the liquidity and cost-oriented emergency measures by the middle of 2009. In November 2009, we then signed a preliminary agreement for the acquisition of Becker Stahl-Service Group, thus re-implementing our growth strategy. In January 2010, we acquired Bläsi AG in Switzerland. We have also introduced a series of measures to push organic growth.



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# ORGANIC GROWTH

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Our Wave 1 and Wave 2 immediate action programs were not only intended to fight the impact of the crisis, but also to profit from the opportunities that the crisis offered, which is why we initiated our organic-growth oriented Wave 3 program after working through the emergency measures. Based on our current market share, we are expanding our product portfolio and processing services region by region to systematically draw new customers or entirely new customer segments. We are thus expanding our service packages for all customer segments while simultaneously optimizing inventories. Our continuously improving logistics and location concept ensures that each requested product, from our over 200,000 different products, is available in the appropriate quality and quantity at the right time.

Even if the financial and economic crises have opened up additional opportunities, growth potential for steel consumption in developed countries is limited, so we are now very closely examining opportunities for entering emerging markets. We are preparing for the time when the markets reach a certain level of maturity and then to penetrate into the new markets with our specific business model for distribution. However, markets like China do not have enough leeway for establishing a sustained distribution network between manufacturers and consumers. If the structuring of the sales channels and consumer behavior continues, such a development can change quickly as soon as the infrastructure develops further and customer needs regarding services and supply continuity grow.



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## EXTERNAL GROWTH

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Consolidation in the distribution sector is still far behind that of steel production which is further up the value-added chain. Markets are still heavily fragmented. Europe still has about 3,000 mainly small distribution companies, while North America has about 1,200. As the largest independent multi-metal distributor in the European and North American market combined, we want to push forward with the consolidation of these markets and expand our economies of scale.

We have a market share of 6% in Europe, making us the largest independent steel and metal distributor. We are number three in Europe when producer-dependent distributors are counted. We are number ten in North America with a market share of about 1%, whereby the largest distributor here has a market share of about 5%. It all shows that despite moderate growth in steel consumption in these regions, we still have a lot of potential growth through acquisitions in the still very fragmented multi-metal



distribution industry. Basically, we want to become in the medium term one of the top three companies in our industry in all the countries where we are represented, a position we already have in almost all of the European countries where we now do business.

Our acquisition strategy is basically set up so that we can use our group strategy transnationally for larger acquisitions which will improve our strength on the European level for example. We are also looking at smaller and mid-sized companies that we can use to strengthen our portfolio on a national level.

All acquisitions need to improve our profitability, which means that they need to have profitability above the group average and when possible help to reduce the volatility of the earnings trend. In addition, we are also looking for high synergy levels, especially in procurement and distribution networks, which is usually the case when we strengthen a product category or region where

we are already present. Should we move into new regions or product groups, we want to be a leader from the very beginning. Expanding into an inferior market position does not offer sufficient synergy potential, for example in using economies of scale in procurement and cost structures.

Our acquisitions have to improve the group's profitability within the first year. We also have strict criteria for the acquisition price: we will not pay more than four to six times the operating earnings for an average year depending on the Company and its regional positioning (Enterprise Value / EBITDA). After all, integration risks need to be limited.

A further goal is the widest customer segment diversification possible. Even if our customer distribution is almost identical to the general steel consumption by customer industry, we will continue in the trend to reduce our dependence on the construction industry.



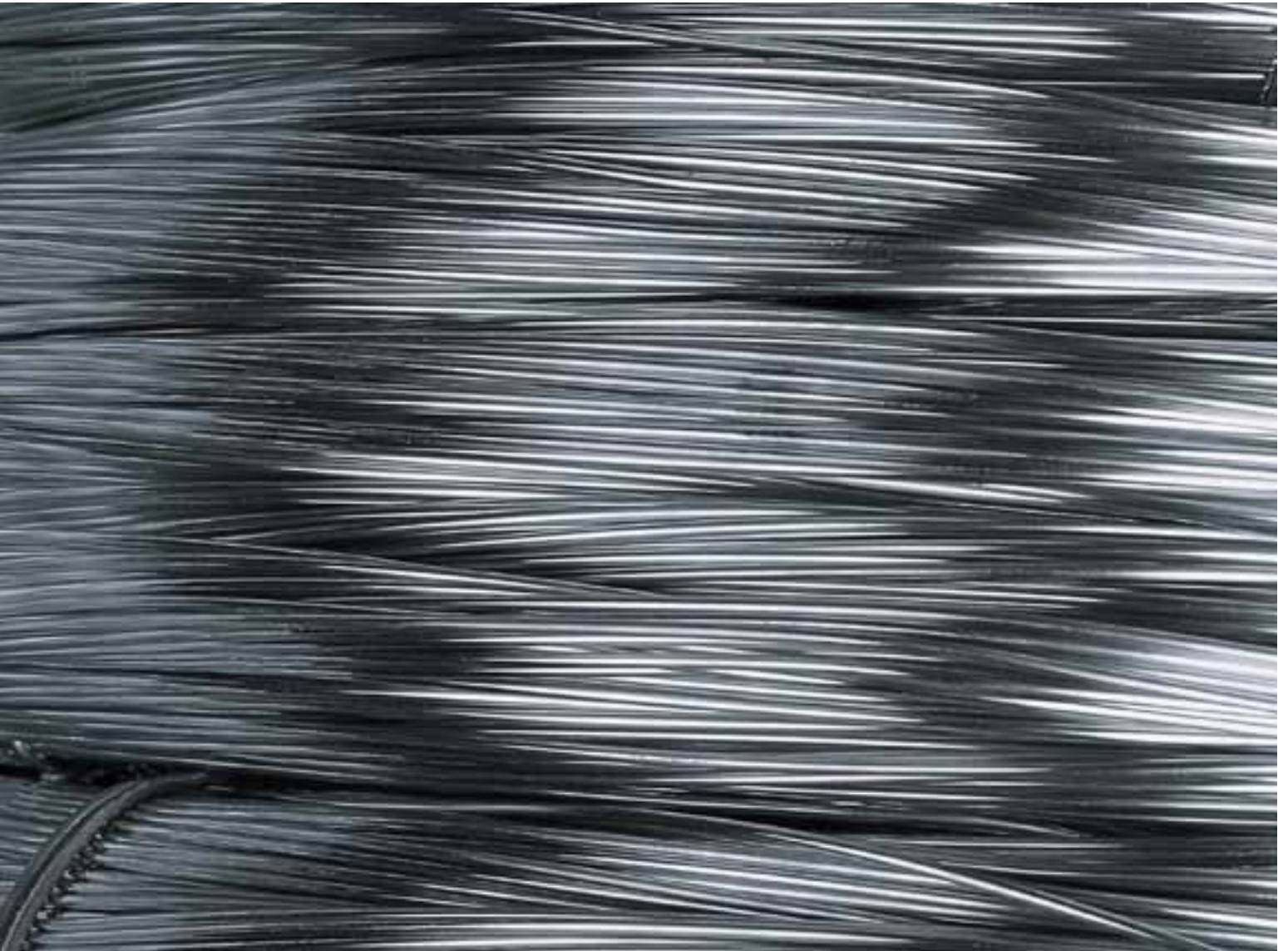
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## OPTIMIZATION

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We created STAR as an efficiency program shortly before our IPO, which is oriented to the Company's long-term growth by standardizing and optimizing processes. After working through the Wave 1 and 2 emergency measures, we further accelerated the measures and expanded the appropriate organizational units to strengthen central coordination and controls at the holding Company-level.

The first step in this direction was the expansion of an international procurement organization prior to being listed on the stock exchange, which was used to organize sourcing from developing countries such as China. We have now established European procurement coordination at the holding-company level. It allows us to use economies of scale that result in better conditions and a reliable supply while also improving warehousing. In 2008 simply sourcing was expanded to include central product management to develop cross-border product strategies; this approach was further accelerated in 2009. Product managers are internationally responsible for their products, from ordering, to warehousing up to preparation of expansion of their respective product. They analyze the entire supply chain for products on a market and set target inventory levels.



At the beginning of 2010 we further reinforced the holding Company's operative character by means of the "Operations Europe" corporate division. The division is responsible for the continuing optimization of our distribution network in Europe and our logistics. New location-based concepts ensure precise supply capability along with optimal inventory levels for each product. In the future we will have more locations with specialized product portfolios, which will then serve as the primary storage location for the respective product internationally. Special products with limited demand will only be kept at a few central locations. In addition, an international benchmark and key performance indicator-system (KPI) will be used to continually analyze supply reliability and location efficiency to ensure sustained competitiveness.

A further focus for the new central functions is process optimization. The process chain is broken down into its individual links and the current best practices for process and structural organization will be transmitted from the respective countries as a standard for all of the other countries. The resulting benchmarks not only help improve efficiency in each country but also improve international cooperation and the ability to profit from others' experiences. To do so, we use control parameters, which are critical in process and logistics optimization. Standardized processes allow us to react more quickly to market conditions as well as integrate acquisitions more easily. Our goals are better procurement conditions, reliable supply structures, and optimized inventory levels while simultaneously offering our customers an expanded product range to precisely meet their needs and that is delivered just in time. We are already getting closer to reaching this goal but there is still a lot of room for improvement. All of our measures are intended to exploit this potential for the benefit of our customers and to increase our Company's value.

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# GROUP MANAGEMENT REPORT

## Klöckner & Co SE Combined Management Report for Fiscal Year 2009

### 1. OVERVIEW

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- 2009 sales volume, sales and earnings significantly lower than in previous year, but positive operating income in the last two quarters
  - Financing ensured through systematic reaction to crisis, costs reduced significantly and net debt completely eliminated
  - Capital basis further reinforced through successful issue of a convertible bond and rights issue
  - Organic and external growth resumed after completing the immediate crisis program
  - Resumption of the acquisition strategy with so far largest acquisition since initial public offering
- 

For Klöckner & Co, fiscal year 2009 was characterized by two widely differing developments. On the one hand, the global recession put extreme pressure on sales volumes, sales and earnings with sales volumes dropping – 31.0%, sales plunging – 42.8% and EBITDA falling to €– 68 million and the consolidated net income to €– 186 million. On the other hand acting quickly and consistently allowed us to secure financing at an early stage, lowering costs by approximately €130 million - thereby exceeding the targeted amount of €100 million - and completely eliminating net debt. In addition, thanks to a successful rights issue in the second half of the year, we substantially strengthened our balance-sheet ratios and had a net cash position of €150 million at the end of 2009.

We took advantage of this additional flexibility to sign a preliminary agreement to acquire the Becker Stahl-Service Group, our so far largest acquisition since the initial public offering. The intended integration of Becker Stahl-Service will signifi-

cantly expand our competitive position in flat steel processing and distribution in Europe, supplying a high percentage of our own needs and diversifying our customer portfolio beyond the construction industry. The company, which posted sales of around €600 million in the last fiscal year, is highly profitable thanks to its higher preprocessing levels and its outstanding market position.

However, growth-oriented measures are not only focused on acquisitions but also on organic growth. We intend to take advantage of our competitors' weak liquidity positions to expand our market share in specific areas.

We do not expect any significant changes in the economic situation in 2010; rather, we are looking at a gradual recovery in the important European and North American markets. We now therefore believe that the real increase in demand will remain within the low single-digit range. A much stronger factor will be the restocking of inventories of our customers. Based on the above, we expect 2010 operating income (EBITDA) to be distinctly positive. It will, however, not meet our goal of achieving an EBITDA margin on sales of at least 6%.

### 2. BUSINESS AND ECONOMIC CONDITIONS

#### 2.1 GROUP STRUCTURE

Klöckner & Co SE is the parent company and the parent holding company of the Klöckner & Co Group. Klöckner & Co SE controls the European and North American segments through the management companies of the Group's local country operating organizations. The Group's legal and operational structure basically remained unchanged in 2009. Klöckner & Co SE is primarily subject to regulations governing SEs, its Articles of Association and the German law implementing the SE regulations. To the extent that no overarching European regulations are pertinent, the provisions of the German Stock Corporations Act apply.

In the third quarter we have increased the subscribed capital by €50 million to €166.25 million. It is divided into 66.5 million registered, non-par-value shares carrying full voting rights. Klöckner & Co SE shares have been listed on the Frankfurt Stock Exchange's Regulated Market since their initial public offering at the end of June 2006, and on the Deutsche Börse's MDAX® since January 2007. Since April 2007, 100% of the shares have been in free float.

### Business activities/business model

Klöckner & Co is the largest independent, stockholding steel and metal distributor in the combined European and North American market. Within the value chain, we act as a link between producers and manufacturing customers. Our key competitive factors are economies of scale in global procurement and customer access provided by a comprehensive logistics and distribution network. Klöckner & Co SE's International Product Management & Global Sourcing department coordinates procurement, which involves around 70 main suppliers. The distribution network consists of about 250 warehousing and preprocessing sites in 15 countries. In addition to our warehouse-based distribution system, which we operate ourselves, steel and metal products are also distributed to our customers through steel service centers or via direct shipment from manufacturers. Our customer base comprises more than 178,000 generally small and mid-sized steel and metal consumers who, in contrast to larger-volume buyers, cannot order directly from the mills and mill-affiliated steel service centers. We also supply customers who require delivery at short notice or additional processing.

Both in Europe and North America, the market for warehouse-based distribution is highly fragmented. It is multi-layered, with major, regional and local dealers. Europe has around 3,000 generally small to mid-sized steel distributors. In North America, the distribution market is more consolidated, with 1,200 providers. In Europe, our market share is approximately 6% of the distribution market. In the US, it is just slightly more than 1%, because both our product range and geographic coverage are significantly smaller there. However, our market share of product categories offered - primarily long products and heavy plates - is markedly higher.

You can find an overview of Klöckner & Co SE's regional locations on the cover page.

## 2.2 CORPORATE GOVERNANCE STATEMENT

Klöckner & Co SE's management and supervisory bodies are guided by the principles of responsible and good corporate governance. For the first time, beginning in fiscal year 2009, the Management Board discussed this issue in the form of a Corporate Governance Statement that complies with the restructured and expanded disclosure requirements which German legislators specified in Section 289a of the German Commercial Code (HGB - Handelsgesetzbuch). The Corporate

Governance Statement includes the previous Corporate Governance report, by the German Corporate Governance Code (DCGK - Deutscher Corporate Governance Kodex). By focusing primarily on the recommendations and suggestions in the German Corporate Governance Code, we support its goal for listed companies of promoting the confidence of domestic and international investors, customers, employees and the public in the management and supervision of German listed companies.

The current Declaration of Compliance pursuant to Section 161 of the German Stock Corporations Act (AktG - Aktiengesetz) was adopted by the Management Board and the Supervisory Board on December 7, 2009.

### Guiding principles of corporate governance

Klöckner & Co SE is set up as a corporation (Kapitalgesellschaft) under European law; the Articles of Association adopted by the shareholders prescribe a management system pursuant to the dual system stipulated in the German Stock Corporations Act (AktG), with the Management Board as the managing body and the Supervisory Board as the supervisory and advisory body.

### Management Board

The Management Board of Klöckner & Co SE consists of one or more members who are appointed and dismissed by the Supervisory Board, in accordance with SE regulations. The Management Board is solely responsible for conducting the company's business. It currently consists of two members: Chairman of the Management Board, Gisbert Rühl, who also acts as Chief Financial Officer, and Ulrich Becker, Chief Operating Officer. The Supervisory Board's Report to the Annual General Meeting of Shareholders provides a detailed overview at changes in Management Board composition in 2009 (see Annual Report 2009, page 14). Any expansion of the Management Board is dependent on the strategic development of the Group.

Management Board activities are governed by detailed Rules of Procedure adopted by the Supervisory Board that contain numerous provisions requiring approval; the Rules of Procedure are adjusted, as needed. The Articles of Association also contain some provisions requiring consent. In particular, the Management Board needs Supervisory Board approval for significant, highly risky or unusual transactions and for major decisions. The internal assignment of Management Board responsibilities is based on a plan drawn up by the Supervisory Board that was amended to reflect the downsizing of the Management Board in 2009.

The Rules of Procedure call for the Management Board to meet at least once a month; the Management Board normally holds a session every two weeks. At such sessions, the Management Board coordinates its activities and makes joint decisions. In addition to the 21 Management Board meetings; numerous

coordination-related discussions among Management Board members and meetings with managers of country organizations were held during the year under review.

As a result of the critical economic situation and its effects on the Group's business, the Management Board continued its intense supervision of, and consultation with international subsidiaries throughout 2009. Among other things, it involved weekly teleconferences with managers of the international subsidiaries, which we shall continue to use intensely in 2010. In addition, regular monthly discussions were held with the individual international subsidiaries. The Management Board controls the Group primarily through managers of the international subsidiaries and by support of various corporate holding company departments in Duisburg, which to some extent are also responsible for cross-border coordination of the Group's business activities.

#### Supervisory Board, Committees

The Klöckner Co SE Supervisory Board advises the Management Board and oversees its management of the Company. It consists of six members, all of whom are shareholder representatives and elected at the Annual General Meeting. The Supervisory Board Chairman is Prof. Dr. Dieter H. Vogel and his deputy is Dr. Michael Rogowski. Both of them - and all of the other Supervisory Board members as well - have extensive experience in managing and supervising international corporations and possess the appropriate professional qualifications required to carry out their duties. Further, all Supervisory Board members are independent, as defined by Section 100, para. 5 of the German Stock Corporations Act (AktG).

The Management Board regularly provides timely and comprehensive written and verbal reports to the Supervisory Board. The detailed monthly Board Report is the core of the written reports. It provides information about the results of operations, financial position and net assets as well as the main operating segments and units. The capital market trend and the economic indicators that are of most importance to Klöckner & Co, as well as an analysis showing industry comparisons and steel-price trends, are integral parts of the report. Supervisory Board sessions are devoted to discussing the overall economic situation, the industry, business trends at Klöckner & Co and the Group segments, and an industry comparison illustrating the trend of the Klöckner & Co share price. According to the Rules of Procedure, a simple majority vote is sufficient, unless stipulated otherwise by law or the Articles of Association. All resolutions in recent years were adopted unanimously, whereby all members have participated in all resolutions.

The Supervisory Board's plenary work is supplemented by the work of a three-member Executive Committee and a three-member Audit Committee. Under the Rules of Procedure, the Executive Committee also acts as a Personnel Committee to

make preparations for personnel decisions at the Management Board level. In addition, the Executive Committee acts as a Committee for Urgent Matters, with the power to make decisions. The Executive Committee also acts as a so-called "Nomination Committee" whose task is to search for new Supervisory Board members, which shall then be elected by the Annual General Meeting. In addition to the necessary qualifications for potential members, such as management experience and industry expertise, such suggested nominees shall also take into consideration the diversity of the Supervisory Board as a whole. Prof. Dr. Dieter H. Vogel is also the Chairman of the Executive Committee. The Supervisory Board holds at least four regular sessions a year and the Executive Committee meets at least three times a year. When needed, the two bodies also hold joint meetings. At plenary meetings, the Committee Chairmen provide regular, comprehensive reports on the agendas and results of Committee Meetings. The Management Board provides pertinent documentation for all sessions of the Supervisory Board and its committees to the extent necessary.

The Audit Committee primarily audits the Financial Statements and prepares it for approval, as well as supervising accounting, risk management, internal audits, financial statement audits and deals with compliance issues. Further, it has been charged by the Supervisory Board with discussing the half-year and quarterly financial reports with the Management Board prior to issuance. The Chairman of the Audit Committee, Dr. Hans-Georg Vater, is an independent financial expert, as defined in Section 100 para. 5 of the German Stock Corporations Act (AktG) and Section 5.3.2 of the German Corporate Governance Code who, based on his long service period as the Chief Financial Officer of a major international construction group, has particular expertise and experience in applying accounting principles and internal control procedures. The Audit Committee meets at least six times a year, including three teleconferences held to discuss the interim reports. Besides Dr. Vater, Chairman of the Audit Committee, the Chairman of the Supervisory Board, Prof. Dr. Vogel, and his deputy, Dr. Rogowski, are members of the Audit Committee.

The Supervisory Board reviews its performance annually. To date, because of the relatively small number of Supervisory Board members and the high level of efficiency of the plenary work, it has not been necessary to set up additional committees. According to the Supervisory Board, no major changes are currently required in the way meetings are prepared for and run, or in their agendas. Further, it believes that the Supervisory Board's separation of responsibilities into work on strategic planning, consulting and supervisory activities is well-balanced. In its report to the Annual General Meeting (see Annual Report 2009, page 14 ), the Supervisory Board reports in detail on its work and the main focus of its activities throughout the fiscal year, as well as any personnel changes to the Management Board and Supervisory Board.

### Annual General Meeting

Klöckner & Co SE shareholders can exercise their rights, including their voting rights, at the Annual General Meeting (AGM). The third AGM since the initial public offering was held on May 26, 2009 in Düsseldorf. The next AGM will also be held in Düsseldorf, on May 26, 2010. The Management Board and Supervisory Board have determined that the shareholders are receiving the support and information stipulated or recommended by law, the Articles of Association and the German Corporate Governance Code. We publish the invitation to the Annual General Meeting and all required reports and documents as required by the German Stock Corporations Act and place them on our Web site in German and English.

### Remuneration report

The detailed remuneration report for the compensation system and the remuneration of the Management Board and the Supervisory Board in 2009 is summarized in Section 7 of this Combined Management Report (see Annual Report 2009, page 56).

### Directors' dealings

Under Section 15a of the German Securities Trading Act (WpHG - Wertpapierhandelsgesetz), members of the Management Board and Supervisory Board as well as persons closely related to these members are legally required to disclose any significant acquisitions or disposals of stock, in or options and derivatives of Klöckner & Co SE. There were 16 such transactions for the period from January 1, 2009 to February 26, 2010. These were published on the company's Web site and involved both the Klöckner & Co share and the convertible bonds.

### Accounting, audit of the Financial Statements

The Klöckner & Co Group's accounting follows the International Financial Reporting Standards (IFRS). Klöckner & Co SE's Financial Statements are prepared in accordance with the German Commercial Code (HGB). For simplification and clarity, the 2009 Management Report will be presented in the form of a combined management report for the individual and consolidated financial statements.

Date	Name	Function	Financial Instrument	Purchase/Sale	Quantity	Price per Unit	Total Value
01/14/2009	Dr. Michael Rogowski	Supervisory Board	2007 Conv. Bond	Purchase	1	€29,995.00	€29,995.00
03/05/2009	Gisbert Rühl	Management Board	Share	Purchase	5,000	€7.20	€36,000.00
03/09/2009	Gisbert Rühl	Management Board	2007 Conv. Bond	Purchase	1	€24,000.00	€24,000.00
03/10/2009	Gisbert Rühl	Management Board	Share	Purchase	5,000	€5.72	€28,600.00
03/10/2009	Gisbert Rühl	Management Board	2007 Conv. Bond	Purchase	1	€24,000.00	€24,000.00
08/14/2009	Dr. Thomas Ludwig	Management Board	Share	Sales	33,696	€18.99	€639,887.04
08/19/2009	Dr. Thomas Ludwig	Management Board	Share	Sales	36,304	€19.04	€691,228.16
09/09/2009	Dr. Jochen Melchior	Supervisory Board	Share	Purchase	858	€10.00	€8,580.00
09/10/2009	Gisbert Rühl	Management Board	Share	Purchase	23,574	€10.00	€235,740.00
09/10/2009	Ulrich Becker	Management Board	Share	Purchase	1,437	€10.00	€14,370.00
09/17/2009	Dr. Hans-Georg Vater	Supervisory Board	Share	Purchase	858	€10.00	€8,580.00
09/24/2009	Gisbert Rühl	Management Board	Share	Purchase	2,195	€16.00	€35,120.00
09/25/2009	Gisbert Rühl	Management Board	Share	Purchase	2,805	€15.90	€44,599.50
11/19/2009	Gisbert Rühl	Management Board	Share	Purchase	5,000	€16.26	€81,300.00
01/12/2010	Dr. Michael Rogowski	Supervisory Board	2007 Conv. Bond	Purchase	1	€44,600.00	€44,600.00
02/05/2010	Gisbert Rühl	Management Board	Share	Purchase	5,000	€17.00	€84,997.50

The auditor of the individual and consolidated financial statements is selected by the Annual General Meeting, as provided by the applicable law. The auditor of the individual and consolidated financial statements' mandate is prepared by the Audit Committee and is then discussed and issued by the Supervisory Board. The corresponding decision by the Supervisory Board for fiscal year 2010 is scheduled to take place after the Annual General Meeting. The Management Board provides a detailed report on the Klöckner & Co Group's risk management in Section 8 of this Combined Management Report (see Annual Report 2009, page 58).

#### Transparency

Information about the state of, and special developments within, the Group is provided in the semi-annual financial report issued in August as well as the interim financial reports issued each year in May, after the first quarter, and in November, after the third quarter. Another reporting component is the Annual Report, which contains the annual financial statements, the Management Report and further legally required and voluntary disclosures. In particular, the Financial Statements Press Conference and teleconferences with analysts and investors are held in conjunction with the publication of the interim reports and the Annual Report. We also organize events and numerous discussions with financial analysts, investors and journalists in Germany and abroad.

We primarily use the Internet to provide the same timely, comprehensive information to shareholders and the public. Presentations made at conferences and during discussions with financial analysts and investors (road shows) are available to the general public on our Web site. We also publish press releases, as needed.

Regularly scheduled Klöckner & Co events are published in a financial calendar on our home page. Furthermore, certain information that may have a significant effect on Klöckner & Co's share price is made public in ad-hoc disclosures, in accordance with the German Securities Trading Act (WpHG). Such actions are governed by a Group guideline and an internal committee of experts.

#### Code of Conduct, compliance organization

Integrity and lawful behavior must govern the actions of all employees at every level of the Klöckner & Co Group. We therefore are committed to following clearly defined, value-oriented, ethical and law-abiding management principles. These form the framework for our corporate and social activities. Klöckner & Co's commitment to compliance is based on comprehensive Compliance Guidelines. During the year under review, we expanded the guidelines to include a broader, general Code of Conduct and additional guidelines covering particular aspects.

In addition to the Code of Conduct, we adopted Group guidelines at the beginning of 2010 for combating corruption in business transactions, on giving and accepting gifts, on invitations and discounts, and compliance with antitrust regulations.

The Code of Conduct stipulates fundamental rules of conduct for management forming the framework for corporate and social activities. It requires us to comply with the law and to respect personal rights, privacy and human dignity in general. Any type of discrimination is prohibited; integrity and honesty must apply to all interactions with business partners and employees. Our managers have a special duty to act as role models when implementing every aspect of the Code. Violations of antitrust regulations, i.e., price-fixing, shall be avoided. We will tolerate no form of corruption, whether active or passive. Conflicts of interest must be disclosed and the confidentiality of internal and external communications must be observed at all times. Other Code of Conduct provisions include sustainability imperatives, occupational safety and a strict prohibition against child labor.

Parallel to the continued development of the conceptual foundation through these guidelines, we also continued during the year under review, to refine the compliance organization based on previous experience and as part of more rigorous requirements. We implemented a central Corporate Compliance Office, taking into account the results of external studies. It is staffed with an experienced full-time manager. Moreover, we have already implemented or initiated other organizational measures. Among other things, we are implementing a worldwide whistleblower system enabling all Group employees to anonymously report compliance violations. In addition, in the future, e-Learning programs will be instituted that will allow employees to recap on rules of conduct learned in classroom training. As previously, the Chairman of the Management Board has been assigned responsibility for compliance issues.

### Declaration of Compliance dated December 7, 2009

The 2009 Declaration of Compliance is included below and is also available on Klöckner & Co's Web site. Previous Declarations of Compliance are also available on the Web site. The number and type of German Corporate Governance Code recommendations that Klöckner & Co did not or does not follow were higher than those reported in the previous year's declaration; this was, however, due to changes in the German Corporate Governance Code, and not to changes in company practice. The 2009 Declaration of Compliance also states the reasons for deviations from the German Corporate Governance Code recommendations, in accordance with the change to Section 161 of the German Stock Corporations Act (AktG) implemented as part of the Act to Modernize Accounting, Reporting and Auditing (BilMoG - Bilanzrechtsmodernisierungsgesetz).

**2009 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporations Act on the German Corporate Governance Code**  
The recommendations of the German Corporate Governance code, as amended, have been complied with and are being complied with apart from the following exceptions:

#### Section 3.8 of the Code (Directors' and Officers' [D&O] liability insurance/Deductible for Management Board and Supervisory Board members)

The D&O policy taken out by the company for its Management Board and Supervisory Board members has not provided for a deductible for the Board members in the past. There will be continued to be no deductible for the Supervisory Board, as the Management Board and the Supervisory Board do not expect a deductible to affect the quality of the Supervisory Board's work.

#### Section 4.2.3, Clause 7 of the Code (stock options and similar arrangements)

The virtual stock option program (phantom stocks) for the Management Board does not make reference to comparison parameters because in Europe there are no suitable comparable companies in the steel distribution sector from which such comparison parameters might be derived.

#### Section 4.2.3, Clause 12 of the Code (payments promised in the event of premature termination of Management Board contracts due to a change of control)

The payments promised in the event of premature termination of Management Board contracts due to a change of control have not been, and are not formally limited to 150% of the severance payment cap for all Management Board members. If the Board member in question should cease his or her Management Board activity due to a change of control, the remaining outstanding (maximum of three) annual tranches of the virtual stock option program will be allocated to him or her. With regard to the contract, which was concluded after the inclusion of this recommendation in the 2008 version of the German Corporate

Governance Code, the Company assumes as a precautionary measure, in view of the existing uncertainties regarding the treatment and valuation of (virtual) stock options, that the application of this recommendation may cause the value of 150% of the severance payment cap to be breached by this compensation component.

#### Section 5.4.5 of the Code (number of supervisory board mandates in non-group listed companies)

One member of the company's Supervisory Board, who is a member of the Management Board of a listed company, was an elected member of four supervisory boards of non-group listed companies at the time the German Corporate Governance Code was amended in the summer of 2009. The new recommended number of three such mandates thus has been and is exceeded. The Supervisory Board intends to give due consideration to this new recommendation when nominating Supervisory Board members in the future.

#### Section 5.4.6, Clause 7 of the Code (individual reporting of Supervisory Board compensation)

The Company has in the past deemed it sufficient, from the viewpoint of transparency, to report only the total compensation of the Supervisory Board. It intends to comply with the recommendation for the first time in the annual report 2009.

Duisburg, Germany, December 7, 2009

The Supervisory Board

The Management Board

#### Specifications of the German Corporate Governance Code

In general, the Code's specifications are treated not differently than Management Board and Supervisory Board recommendations. As a result, the specifications contained in the German Corporate Governance Code largely have been and are followed. In a departure from the specifications, the Articles of Association of Klöckner & Co SE have no provision for the Supervisory Board to receive any compensation dependent on long-term company performance, beyond performance-related compensation based on consolidated net income (Section 5.4.6, Clause 6 of the German Corporate Governance Code). The company plans to broadcast the speeches of the Chairman of the Supervisory Board and the Chairman of the Management Board at the next AGM on May 26, 2010, but not the entire meeting (Section 2.3.4 of the German Corporate Governance Code).

## 2.3 BUSINESS STRATEGY AND MEASURES

Our business strategy has two main thrusts: Expansion through external and organic growth and optimization of business processes. Our immediate reaction to the escalating financial and economic crisis in October 2008 was to initiate an immediate action program, which involved adjusting company strategy to handle the drastically worsening economic circumstances. The purpose of this program was to cut costs significantly while securing financing. To support this goal, we temporarily suspended our external growth strategy. Within nine months the measures had been completely implemented, and even exceeded in many areas. With savings of approximately €130 million we significantly exceeded our cost-cutting goal of €100 million for the full year 2009, primarily by eliminating 1,500 jobs including temporary workforce; we also completely eliminated our net debt and quickly secured financing. Then, at the beginning of the third quarter, we initiated a third wave of measures. The objective of this program was to take advantage of opportunities created by the crisis, which meant focusing on growth-oriented measures that enabled us also to take advantage of financing difficulties experienced by competitors. In addition, as we announced at the time of the rights issue, we have also resumed our external growth strategy. In November 2009, we signed a preliminary agreement to acquire the Becker Stahl-Service Group – our largest acquisition since the initial public offering in 2006.

### **Expansion: Resumption of external and organic growth strategy**

Since our initial public offering in 2006, we have acquired and integrated 19 companies. The basic thrust of the external growth strategy formulated at the time of our initial public offering in 2006 has not changed. As before, the goal is to strengthen and/or enhance our product line, our customer base and our geographic presence – initially in existing and adjacent markets. Also unchanged are our primary objectives of extending our business beyond the construction industry, which tends to be cyclical, and of placing more emphasis on products with potential for cross-border synergies. Furthermore, we will make acquisitions only if the expected yield exceeds the Group average and where it is possible to achieve a leading market position in the relevant market in question. Based on the above, we will continue to pursue our external growth strategy while simultaneously maintaining our conservative financing structure.

We plan to finalize our takeover of the Becker Stahl-Service Group in Bönen, Germany in the first quarter of 2010. The company, which specializes in the processing of flat steel products, has a maximum processing capacity over one million tons per year, and in the last fiscal year posted sales of approximately €600 million. Its principal customers are the automotive industry (interior and structural elements), the furniture industry, other steel distributors and a number of other industries such

as household-appliance manufacturers. This will diversify our customer portfolio beyond the construction industry, giving us a leading position in the processing and distribution of flat steel in Europe. This acquisition will also ideally accomplish some of our other demanding M&A objectives. Becker Stahl-Service consistently generates a high EBITDA margin that exceeds our Group average. We expect strong synergy effects in the area of procurement and from supplying our German and European sites internally.

In January 2010, we took over Bläsi AG, in Switzerland, thereby completing another acquisition that was initiated in 2009.

### **Organic growth measures**

Once we have completed our crisis program, we intend to use the measures initiated in the third immediate action program to increase market share by expanding our product and service portfolio and our customer base. The focus is on expanding businesses with higher-margin products and services and businesses in selected target segments where we currently have disproportionately low market shares. In certain areas we will also selectively tackle new target segments. We also plan to take advantage of the relative weakness of our competitors. Moreover, we have intensified existing programs aimed at reaching optimized price stabilization.

### **Continuing optimization of business processes: Systematic implementation of existing programs aimed at strengthening the distribution network**

As part of the liquidity and cost-oriented immediate action programs, we have intensified our ongoing improvement of business processes throughout the entire value chain – the second pillar in Klöckner & Co SE's Group strategy. The focus of these efficiency-enhancement programs continues to be on improving procurement and our distribution network. Other activities cover sales, product portfolio and comprehensive processes and IT systems.

During the year under review, lower prices for steel products and the continued downward trend in sales volumes forced us to focus our efforts on improving logistics and optimized warehousing. As before, the overarching objective is to keep inventories as lean as possible, while guaranteeing the constant product availability to our customers.

Our policy of bundling essential procurement functions and coordinating these at the corporate level has paid off, enabling us to benefit increasingly from economies of scale. In addition to coordinating essential procurement activities at the corporate level, we have created a centralized product management function to develop Group-wide products and to optimize capital allocation to inventories. The Product Management department will also ensure that the range and depth of our product portfolio is optimized at all locations. We made further progress towards creating the conditions for a successful Product Management department by standardizing processes and IT systems with the Group-wide implementation of a new SAP version.

Thanks to the immediate action programs implemented and the ongoing optimization of the operating systems and processes, we have been able not only to maintain, but also to benefit from Klöckner & Co's flexibility despite the massive drop in sales volumes and earnings. We will systematically continue to pursue long-term, profitable growth, the improvement of systems and processes and the retention of strong accounting and financing structures.

## 2.4 MACROECONOMIC CONDITIONS

Following the escalation of the financial crisis at the end of 2008, the global economy fell into the worst recession in post-war history. Due to the worldwide ties between economies in the age of globalization, economies collapsed simultaneously worldwide, leading to significant stress on high-growth emerging economies as well. Having survived the worst of the crisis, the global economy has been showing signs of recovery since the spring of 2009, but a sustainable upturn is not yet in sight, particularly for the Western, industrialized economies. Here, again, the growth of the last two quarters of 2009 was not enough to compensate for the previous production losses. Among the major economies, only China and, to a certain degree, India, were able to stave off the crisis and achieve significant growth even in 2009 by adopting aggressive monetary and fiscal policies.

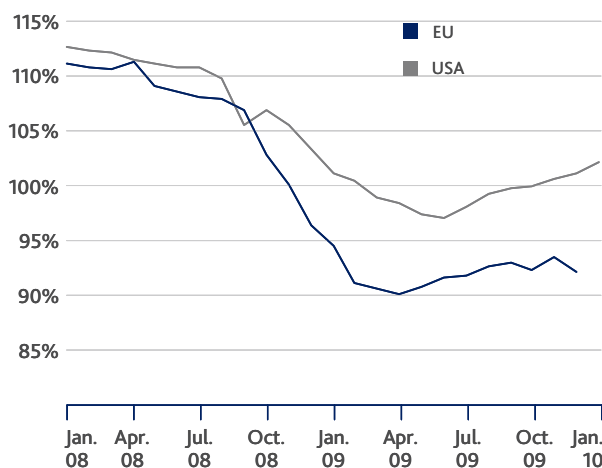
While similar measures taken by Western governments were able to prevent the collapse of the global financial system, these had only moderate success in softening the economic downturn. Over the course of the year, government support measures and guarantee funds restored confidence in the viability of the banks. These economic measures included interest-rate cuts by central banks and direct and indirect subsidies and tax relief to stimulate the economy.

According to estimates by the International Monetary Fund (IMF), worldwide gross domestic product (GDP) declined by -0.8% in 2009, after growing 3.0% in the previous year. In the euro zone, GDP fell -3.9%, following 0.6% growth in the previous year. The trend in the USA was also downwards of -2.5% compared to the previous year, after having posted growth of 0.4%.

Among the biggest economies, only China and India reported significant growth in GDP during the reporting period of 8.7% and 5.6%, respectively, according to IMF estimates. All other emerging economies, by contrast, reported very moderate growth or declines in economic output, even if such declines were smaller than those in the industrialized nations.

Many countries also had to take severe cuts in industrial production as a result of the overall economic performance. Because of the sudden drop in orders, companies curtailed production and temporarily idled capacity. In the euro zone, production dropped by -14.9%, while it fell by -9.7% in the USA. The only country that saw an increase in industrial production was China, where it grew by 11%.

**Development of industry production** in %





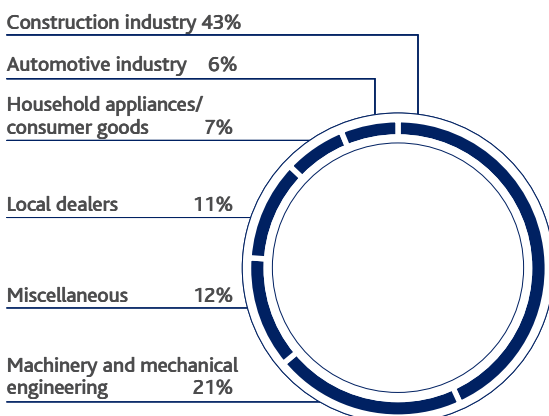
## 2.5 SECTOR ENVIRONMENT

Klöckner&Co's customer structure changed only slightly compared with the previous year. The construction industry and machinery and mechanical engineering continued to have the biggest share by far among customer industries, with a total of 64%. Klöckner&Co generally supplies small and mid-sized steel and metal consumers.

### Growth down sharply in construction industry

Klöckner&Co's most important customer industry, the construction industry, has suffered greatly from the worldwide recession. Despite a trend towards stabilization near the end of the year, Euroconstruct estimates that the European construction industry fell by a total of -8.4%. Except for Switzerland (+3.3%) and Poland (+5.3%), all European countries reported lower construction volumes. In the markets we cover, the countries hit hardest by the downturn were the two that are structurally most dependent on the construction industry, Spain and the UK with each posting especially sharp drops (-21.5% and -12.6%, respectively). These countries were especially affected by the substantial decline in private construction activity which dropped in virtually every country. In Spain, the market for new housing has come to a virtual standstill, plunging -55%. Switzerland was the only country in this industry that still reported slight growth, thanks to low vacancy rates, favorable financing conditions and a consumer confidence index that is still relatively positive. In general, the government support and stimulus programs initiated and the low interest rates offered in almost all European countries only slightly buffered the decline in private residential construction. Overall, increasing unemployment, significant decreases in property values, declining consumer confidence and increasing restrictions on lending led to a strong drop in demand.

### Customer sectors of Klöckner & Co SE



The commercial and industrial construction activities which are particularly significant to us saw a -12.7% decline. While long-term projects in these industries acted as a cushion in the previous year, new business collapsed during the year under review. This clearly illustrated the widespread reluctance of the private sector to invest.

In the European market, only the civil engineering segment still reported a positive trend, primarily due to extensive government economic stimulus programs. However, this was not enough to offset negative developments in the other two segments.

Official statistics show that the -9.9% drop in the U.S. construction industry was even more dramatic than the one in Europe. As in Europe, the sharp fall in private residential construction activities and weaker commercial and industrial construction had a significant negative impact as well. A slight increase in government-funded construction in the USA likewise was not sufficient to offset the drop in private sector demand. Nevertheless, over the course of the year under review, the trend also began to shift to stabilization in the USA.

### Dramatic collapse in machinery and mechanical engineering industry

The crisis in the real economy - and the sharp drop in capital expenditures in particular - led to a historic collapse in the machinery and mechanical engineering industry in 2009. The negative business trend forecast and difficulties in obtaining financing had a debilitating impact for most of the year. According to estimates by the German Mechanical Engineering Association (Verband Deutscher Maschinen- und Anlagenbauer = VDMA), worldwide sales dropped by -18% in 2009, compared to 3% growth the year before. Experts predict only the Chinese market will still post growth (of 10%), thanks to widespread government investment programs. Without this effect, the global decline would have been even stronger. Toward the end of the third quarter, the early-bird indicator for new orders showed some signs of stabilization. For the full year the order volume of the German machinery and mechanical engineering industry was lower by -38% as compared to 2008. In December, however, order volumes were above the prior year's month for the first time.

### Distributors' lower sales volumes complicate inventory management

The weak economic environment also affected steel and metal distributors. The dramatic collapse in orders at the end of 2008 continued through much of the year under review although to a lesser degree than steel producers. Distribution levels also suffered from the overall weakness in the market and in addition from the active reduction in inventories throughout the entire value chain. According to DISMET (Study Group of Distributors, Steel and Metals) data, this resulted in a drop in sales volumes of around -27% in Europe and around -37% in the US according to MSCI (Metals Service Center Institute); because of inventory effects, this decrease turned out to be greater than the trend in the major core customer industries. In the US, business recovered to some extent in the third quarter, leading to a slight increase in daily sales volumes. Companies have gradually reduced the substantial excess inventory that had built up since the beginning of the year due to the sharp slump in sales volumes. Companies in the US have done this better and faster than those in Europe. By mid-year companies in the US had once again reached normal, and subsequently even historically low, inventory ranges while inventories were simultaneously at multi-year lows. The widespread additional drawdown in inventory accelerated by depressed prices led to severe price pressures.

### Production figures

The worldwide crude steel production dropped by a total of -8.3% in 2009. Producers reacted to the negative economic situation by significantly curtailing production in virtually every country. As a result, capacity utilization was at 75% in Europe and 65% in North America at year-end after interim lows of 50% and 40% respectively.

China was the only notable exception to this trend among large economies. By far the world's biggest steel producer, China further expanded its position with growth of 13.1% compared to the previous year. With its plants running at virtually full capacity, China's production volume totaled 568 million tons in 2009, representing almost half of global steel production.

### Steel production

in million tons	2009	2008	Change
France	12.8	17.9	-28.5%
Germany	32.7	45.8	-28.6%
Spain	14.3	19.0	-24.7%
Great Britain	10.1	13.5	-25.2%
Other EU	69.3	102.3	-32.3%
Total EU (27)	139.1	198.6	-30.0%
Total C.I.S.	97.4	114.0	-14.6%
USA	58.1	91.5	-36.5%
Other North America	24.1	33.9	-28.9%
Total North America	82.3	125.4	-34.4%
Total South America	37.8	47.6	-20.6%
Africa	14.8	17.0	-12.9%
Middle East	16.6	16.0	3.8%
China	567.8	502.0	13.1%
Other Asia	208.5	247.5	-15.8%
Total Asia	776.3	749.5	3.6%
Total Oceania	6.0	8.4	-28.6%
Other world	49.4	53.2	-7.1 %
<b>Total</b>	<b>1,219.7</b>	<b>1,329.7</b>	<b>-8.3%</b>

Source: World Steel Association

**Price trends in steel markets**

In Europe and North America, prices have halved since historic highs in the third quarter of 2008. For some steel grades, the drop in price was even higher, but the trend was basically the same for all steel grades.

However, absolute price declines were no longer as steep in 2009 as those in the fourth quarter of 2008. Despite substantial cutbacks in production in the first quarter, prices once again came under severe pressure due to the dramatic collapse in demand. Several producers announced price increases in the second quarter, while maintaining capacity levels. This, in conjunction with customers' drawdowns in inventories, created a general bottom for prices. During the second quarter, prices therefore stabilized and have been firmer since the lows reached in April and May. However, steel prices again came under pressure temporarily at the end of the third quarter. In part, this was because of steel mill announcements that they would reactivate idled capacity when demand was still insufficient. After the economic environment gradually relaxed during the last few months of 2009, there was another upward trend in steel prices.

During the second quarter, prices for flat steel products dropped by more than half from the highs reached in mid-2008. Hot-rolled coil, a critical pricing indicator, which peaked at more than €800 per ton in the summer of 2008, traded at around €350 per ton in April 2009. However, over the rest of the year, prices again stabilized, closing slightly under their level at the beginning of the year. The trend in North America was similar, but even more pronounced. Here, flat steel prices fell from more than US\$1,000 per ton to a low of less than US\$400 per ton. At the end of 2009, prices were just slightly

above the level at the beginning of the year.

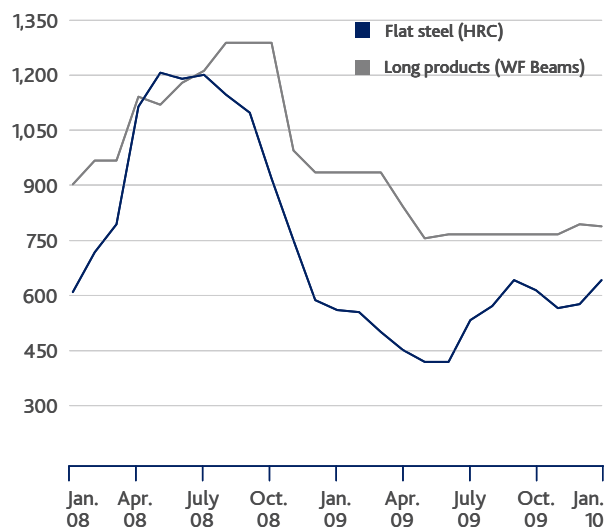
Chinese export prices for flat steel followed a similar trend, with prices dropping by partly more than 50% during the first few months compared to the levels prior to the crisis in 2008. Over the rest of the year, however, prices once again stabilized, closing slightly above the level at the beginning of the year.

Prices for long products took a similar course. From the beginning of the year to the low in March, prices for beams continued to drop by more than 50% from the high in 2008. Over the following months, prices were flat, and at the end of the year were below January levels.

The same is true for long products in the North American market. A drop of 40% from August 2008 to the low in May 2009 was followed by flat prices with a slight upward trend. In December 2009, prices were largely below levels at the beginning of the year.

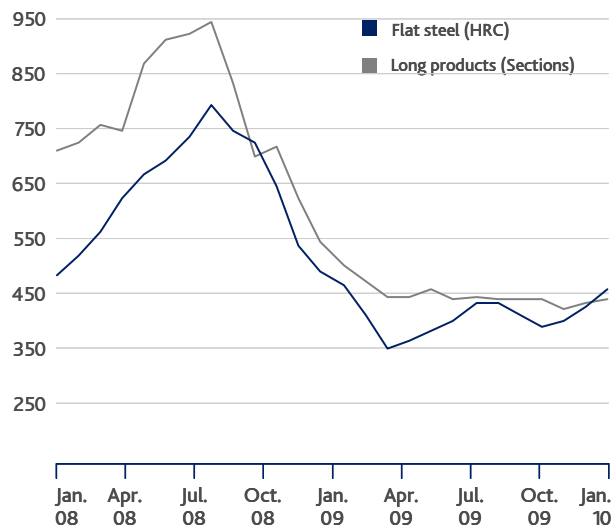
During the year under review, the price for quality and special steel, which depends strongly on nickel prices, also came to its low in March 2009 and recovered from the losses of the first months until year-end. Aluminum products hit a low in January 2009; then, in line with the price quotations on the London Metals Exchange, they increased significantly by the end of the year by 71%.

**Steel prices in North America** *in US-Dollar/t*



Source: Steel Business Briefing

**Steel prices in Europe** *in €/t*



Source: Steel Business Briefing

### 3. RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The main key performance indicators for the results of operations, financial position and net assets for 2009 were as follows:

(€ million)	2009	2008 <sup>*)</sup>
EBITDA	- 68	601
Cash flow from operating activities	565	187
Net working capital	637	1,407
Net financial debt	- 150	571

\*) Comparative amounts restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

#### 3.1 RESULTS OF OPERATIONS

##### Sales volume and sales

In fiscal year 2009, the Group's sales volume of 4.1 million tons was significantly lower than the figure for the prior year, equaling a - 31.0% decline. It was due to both the continued overall weak economic environment and the disposal of our Canadian subsidiary Namasco Ltd. in July 2008. Adjusted for this effect, the decrease in sales volume would have been - 27.2%. Our sales volume dropped - 26.9% in Europe and - 41.9% in North America. Excluding the effect of the Namasco Ltd. disposal, our sales volume in North America was - 28.1% lower than in the previous year. The volume decline hit all country organizations, whereby the declines in France and especially Switzerland were lower than in other countries. For Switzerland this was primarily due to the development of the construction industry, which was less impacted by the crisis than in other countries.

In 2009, Klöckner & Co generated sales of approximately €3.9 billion. This represents a - 42.8% decline from the previous year's sales. The European segment accounted for €3.2 billion of sales and the North American segment for €0.7 billion. The collapse in sales was caused both by the sharp drop in sales volumes and by the lower average selling price, especially during the first three quarters of the fiscal year.

##### Earnings

Gross profit of €645 million was - 52.8% lower than the prior-year figure of €1,366 million. In general, all product groups were affected, whereby the decline was less for special and quality steels and aluminum products. The gross profit margin dropped from 20.2% for fiscal year 2008 to 16.7% for the year under review. However, we managed to steadily increase the gross profit margin from 7.1% in the first quarter to 22.6% in the fourth quarter.

EBITDA, the key performance indicator for operating income, developed as follows:

(€ million)	2009	2008 <sup>*)</sup>
<b>EBITDA</b>	<b>- 68</b>	<b>601</b>
Depreciation, amortization and impairments	- 110	- 67
Financial result	- 62	- 70
Income taxes	54	- 80
<b>Net income</b>	<b>- 186</b>	<b>384</b>

\*) Comparative amounts restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

Despite income of €79 million from the reduction of the KDI antitrust fine, which was largely reported in EBITDA, the EBITDA for 2009 was with €- 68 million significantly negative. However, after posting EBITDA of €- 163 million in the first half year, the trend improved significantly in the second half of the year, even if it was far from being satisfactory. Not counting the effects from reducing the antitrust fine, the Group posted slightly positive operating income of €11 million in the third quarter and €6 million in the fourth quarter. This improvement was in addition to cost-cutting measures, primarily due to higher selling prices and lower write-downs to the net realizable value of inventories as of the reporting date.

The table below shows a breakdown of EBITDA by segment:

(€ million)	2009	2008 <sup>*)</sup>
Europe	57	377
North America	- 44	149
Headquarters	- 81	75
<b>Klöckner &amp; Co Group</b>	<b>- 68</b>	<b>601</b>

\*) Comparative amounts restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

Including the effects of the adjustment for the KDI antitrust provision totaling €137 million (excluding the reimbursement claim shown under Headquarters), the European segment reported positive EBITDA of €57 million. Not counting the adjustment amounts for antitrust provision in the fourth quarter, even the European segment would have had a negative EBITDA of €- 80 million for the full year. The North American segment ended the year under review with EBITDA of €- 44 million. The segment Headquarters contains the effect from adjusting the reimbursement claim against former shareholders from the KDI antitrust fine, which resulted in a charge of €61 million.

EBIT and earnings before taxes (EBT) totaled €– 178 million and €– 240 million, respectively. Both of these key performance indicators thus followed the EBITDA trend.

In addition, EBT was negatively affected by impairment charges totaling €42 million. Of this amount, €8 million related to goodwill and €34 million to other property, plant and equipment and other assets. The impairments for property, plant and equipment and other assets are related to the Spanish subgroup. This is primarily due to the high dependency from the construction industry. Impairment losses attributable to the initial purchase price allocation of the Group in 2005 of €19 million are reported in the Headquarters segment.

Finance expenses (net) for fiscal year 2009 totaled €– 62 million, compared with €– 70 million for the prior-year period. This includes nonrecurring charges of approximately €8 million relating to the restructuring of the Group's financing. We managed to reduce our gross debt only to a limited extent. At the same time, the reductions in net financial debt have not yet produced a noticeable impact on finance expenses, net.

Taking into account the effects of tax benefits, the Group posted a net loss for 2009 of €– 186 million (2008: net profit of €384 million). This only includes the tax benefits for tax-loss carryforwards to the extent we believe these are likely to be realized.

Basic earnings per share stood at €– 3.61, compared with €+ 8.56 in the previous year.

### 3.2 FINANCIAL POSITION, FINANCING, LIQUIDITY

#### Financing and financial management

We manage the Group's financing basically through Klöckner & Co Verwaltung GmbH, which is headquartered in Duisburg. Liquidity for the Group companies is provided primarily by corporate and bilateral credit facilities. Here, we use an international cash-pooling system. Centralized financing strengthens our negotiating position with banks and other lenders. It enables us to borrow funds at favorable rates.

We have a diversified portfolio providing flexible financing for the Group. It consists of convertible bonds, a syndicated loan, ABS programs and bilateral credit agreements.

#### Convertible bonds

The convertible bonds issue represents a significant component of long-term Group financing.

We issued the €325 million convertible bond through a Luxembourg subsidiary in July 2007. The bond, which is guaranteed by Klöckner & Co SE, has a five-year term and a nominal interest rate (coupon) of 1.5% p.a. The original conversion price of €80.75, which was adjusted to €70.44 to reflect the rights issue in 2009, was equal to a 35% premium over the reference price of €59.81 per share at the issue time.

In June, 2009, we issued an additional convertible bond with a volume of €98 million, a maturity of five years and a coupon of 6% to institutional investors. The convertible bond, which can also be converted into Klöckner & Co SE shares, was issued by Klöckner & Co Financial Services S.A., a wholly owned Luxembourg subsidiary of Klöckner & Co SE. The conversion price was €21.06 when the convertible bond was issued (35% above the reference price of €15.60); it was also adjusted, to reflect the rights issue, to €18.37.

#### Rights issue

In the third quarter, we increased Klöckner & Co SE's subscribed capital by €50 million, to €166.25 million. The additional capital was raised by issuing 20 million non-par-value shares with an accounting par value of €2.50 each and dividend rights from January 1, 2009. The new shares were offered to shareholders for subscription at a ratio of 7:3. With a subscription price of €10.00 per share, this resulted in gross proceeds of around €200 million. The net proceeds, after deducting transaction costs, totaled approximately €193 million. We will utilize the proceeds from the issue primarily to finance acquisitions and for general business purposes.

#### Syndicated loan

In May 2007, we placed a syndicated loan (Multi-Currency Revolving Credit Facility) with a consortium of German and international banks. The syndicated loan will mature in May 2011.

As part of the measures we implemented to optimize our financing structure, we restructured the conditions on our syndicated loan in May 2009 and reduced the loan volume to €300 million. At the end of the year, utilization stood at €225 million. The covenants of the credit facilities, which previously were linked to performance indicators, are now tied to balance-sheet figures. These are a better fit for the way our company operates and are significantly more robust in economic downturns.

Under the new covenants, net financial debt may not exceed equity attributable to shareholders of Klöckner & Co SE by more than a factor of 1.5. In addition, shareholders' equity must total at least €500 million. Moreover, under the syndicated loan, the financial leeway is now contractually linked to the current portfolio of unrestricted receivables and inventories as virtual collateral.

All covenants were complied with during the year under review, including performance-related ratios before restructuring.

#### Asset-backed securitization programs

Our Group's working capital is also financed through a centrally controlled European asset-backed securitization program (ABS program) set up in 2005. It has a total volume of €420 million and runs until May 2010. The European program is in addition to an American ABS program with a volume of 125 million US dollars, which runs until mid 2012. As of the end of the reporting period, we had made only very limited use of the programs, with utilization totaling €21 million.

The previous earnings-related covenants for the European ABS programs were also switched to balance-sheet-based covenants. All of these covenants were likewise satisfied during the year under review.

#### Bilateral credit facilities

Of the approximately €430 million of bilateral credit facilities, around 14.4% were utilized as of the end of 2009.

#### Liquidity management and financial compensation

The Group's cash pooling and liquidity management uses an international cash-pooling system. To date, our subsidiaries in Switzerland and the USA are not included, as they have their own credit facilities. Financing of our Group companies, including working capital financing, was ensured at all times throughout the year 2009.

#### Impact of the financial crisis

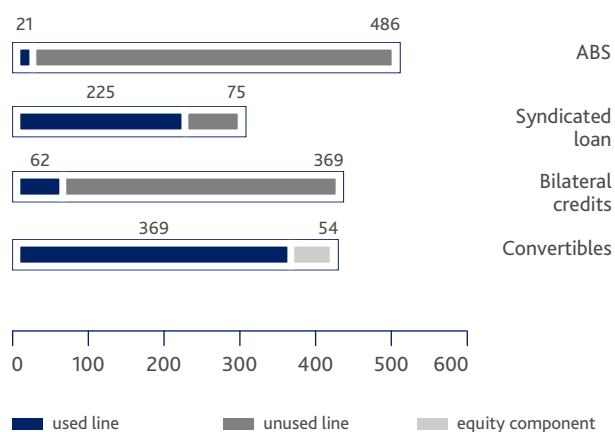
The global financial crisis had only a limited impact on Group financing in 2009. While the loan margins increased moderately due to the restructuring of the syndicated loan and the European ABS program, the key financing instruments proved to be robust and stable, even in the difficult financial and economic environment.

As a consequence of the financial crisis, we realigned the Group's financing strategy changing the financing mix by reducing classic bank financing and increasing the weight of capital-market financing. Further, we significantly increased our reserves of cash and cash equivalents.

#### Net financial debt

We have a total of around €1.7 billion of credit facilities that are largely free of performance-based covenants. As the table below demonstrates, only 40.8%, or €677 million, of these instruments were utilized as of December 31, 2009.

#### Financial volume in € million



After taking into account transaction costs and cash and cash equivalents, the net cash position totaled €150 million as of December 31, 2009.

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

#### Net financial debt

(€ million)	December 31, 2009	December 31, 2008 <sup>*)</sup>
Net financial debt	- 150	571
Gearing (Net financial debt/-shareholders' equity <sup>**</sup> )	- 14%	53%

<sup>\*)</sup> Comparative amounts restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).  
<sup>\*\*</sup>) Equity attributable to shareholders of Klöckner & Co SE.

Thanks to the net cash position reported for December 31, 2009, gearing is negative and therefore meets the internal, year-end target value of less than 75%. Klöckner & Co's operating business entails interest-rate, currency and credit risks. The instruments used to hedge and manage these risks, including their possible effects on earnings, are described in detail in the Notes to the Consolidated Financial Statements under explanations on IFRS 7.

### Consolidated statement of cash flows

(€ million)	2009	2008 <sup>*)</sup>
Operating cash flow	- 158	386
Cash flow from operating activities	565	187
Cash flow from investing activities	- 8	72
Cash flow from financing activities	- 24	- 123
Changes in cash and cash equivalents	533	136
Cash and cash equivalents at the beginning of the period	294	154
<b>Cash and cash equivalents at the end of the period</b>	<b>827</b>	<b>294</b>

\*) Comparative amounts restated due to the initial application of IFRIC 14. See Note 4 to the consolidated financial statements.

We safeguarded liquidity both through stringent inventory and receivables management and through internally defined indicators. Among other things, they are aimed at a minimum equity ratio and a maximum leverage. Our Group-wide financial guidelines govern how financial risks are to be handled. We use derivative financial instruments to hedge interest-rate and currency risks. These are used exclusively to hedge risks related to underlying transactions and do not serve any speculative purposes. Subsidiaries identify their foreign currency exposure and regularly hedge against currency risks either on corporate level or, where applicable, via individual forex trading lines with banks. We also centrally monitor and hedge against interest-rate risks.

#### Cash flow analysis

The consolidated statement of cash flows shows the sources and uses of cash flow during the fiscal year. A detailed description of the consolidated statement of cash flows is shown on page 73 of the consolidated financial statements. Cash and cash equivalents included in the consolidated statement of cash flows generally correspond to cash and cash equivalents in the consolidated statement of financial position.

During the year under review, we increased cash flow from operating activities from €187 million in the previous year to €565 million, primarily by freeing up resources by reducing net working capital. We managed to do so despite a loss before taxes of €-240 million.

We limited the amount of cash flow used in investing activities by temporarily suspending the external growth strategy and by sharply curtailing our capital expenditures. Cash outflows for expenditures for property, plant and equipment and intangible assets totaled €25 million, coming in below the prior-year's figure of €48 million. Cash outflows for investments were partially offset by cash inflows from the disposal of property, plant and equipment totaling €15 million and refunds of restricted cash used as collateral for derivative financial instrument transactions of €3 million. Overall, cash flow used in investing activities totaled €-8 million.

Cash flow from financing activities of €- 24 million (2008: €- 123 million) includes cash inflows from the rights issue (€193 million) and the net proceeds from the issue of the convertible bond (€96 million). We used these funds primarily to further increase our reserves of cash and to reduce our net financial debt.

At the end of 2009, the Group had total liquid funds of €827 million (December 31, 2008: €297 million).

## 3.3 NET ASSETS, BALANCE-SHEET STRUCTURE

*Consolidated statement of financial position*

(€ million)	December 31, 2009	December 31, 2008
Non-current assets	712	811
Current assets		
Inventories	571	1,001
Trade receivables	464	799
Other current assets	139	176
Liquid funds	827	297
<b>Total assets</b>	<b>2,713</b>	<b>3,084</b>
Equity	1,123	1,081
Non-current liabilities and provisions		
Financial liabilities	619	813
Other non-current liabilities and provisions	308	364
Current liabilities		
Financial liabilities	52	48
Trade payables	398	392
Other current liabilities and provisions	213	386
<b>Total equity and liabilities</b>	<b>2,713</b>	<b>3,084</b>

\*) Comparative amounts restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

At the end of 2009, total assets stood at €2,713 million. This was –12.0% lower than the prior year's figure of €3,084 million.

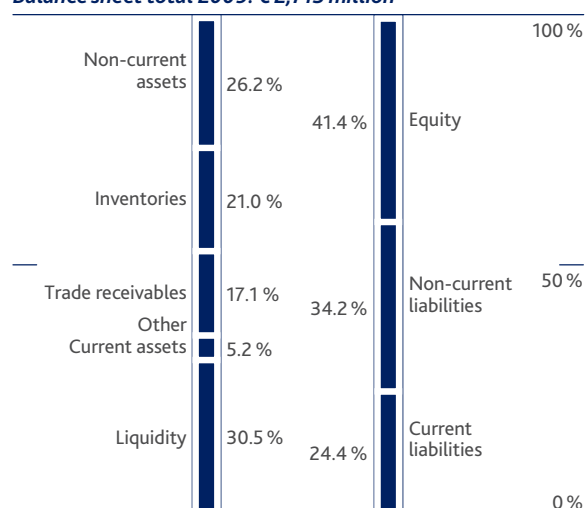
On the asset side, non-current assets fell from €811 million to €712 million. This was primarily attributable to impairments of goodwill and of property, plant and equipment totaling €42 million. Of this amount, around €33 million were for property, plant and equipment of the Spanish subsidiary.

The adjustment to the reimbursement claim of approximately €67 million against former shareholders arising from the anti-trust fine is a result of the reduction in the fine which also contributed to the reduction in total assets.

The equity-to-fixed-assets ratio stood at approximately 177.5% as of December 31, 2009, compared with 148.4% for a year earlier.

When long-term debt financing is included, the excess of long-term capital over non-current assets amounted to €1,338 million, compared to €1,447 million in 2008.

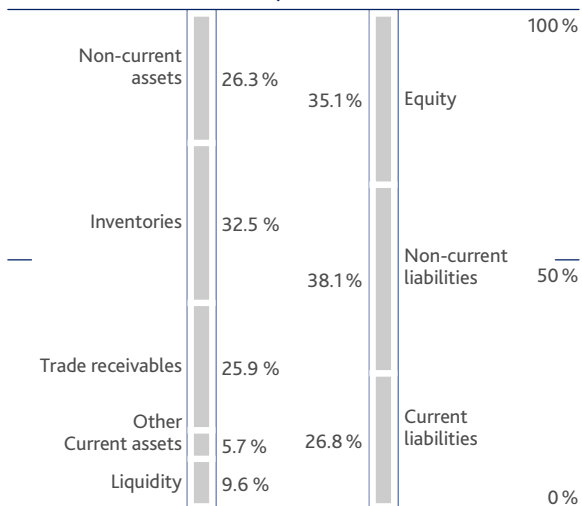
The asset and capital structure for 2009 can be summarized as follows:

**Balance sheet total 2009: €2,713 million**



In 2008, the balance sheet was as follows:

**Balance sheet total 2008: €3,084 million.**



Net working capital developed as follows:

**Net working capital**

(€ million)	December 31, 2009	December 31, 2008
Net working capital	637	1,407

In response to the collapse in demand, we significantly reduced the amount of funds tied up in net working capital. For example, inventories dropped from €1,001 million in the previous year to €571 million. The declining sales volume was also reflected in fewer trade receivables, which declined from €799 million to €464 million year on year. Trade payables of €398 million remained virtually unchanged (December 31, 2008: €392 million). Overall, this freed up funds totaling €770 million (2008: tied-up capital of €84 million). This is equivalent to a – 54.7% reduction in net working capital.

As explained above – especially in light of the current state of the capital markets – we are continuing to maintain our liquidity reserves at high levels, in the form of cash and cash equivalents totaling €827 million (December 31, 2008: €297 million). Despite the net loss for the year of €– 186 million, shareholders' equity increased slightly from €1,081 million to €1,123 million. This increase is primarily attributable to the rights issue and to the equity component of the convertible bond. Even including the losses for fiscal year 2009, the equity ratio remained at around 41% by the end of the year under review, compared with 35% for the previous year. If cash and cash equivalents could be used to completely eliminate financial debt, the equity ratio would be 55%.

Despite the high liquidity reserves shown the consolidated statement of financial position, we managed to reduce financial liabilities from €861 million in 2008 to €671 million in 2009.

Provisions for pension obligations totaling €175 million (December 31, 2008: €180 million) were largely unchanged, due to the so-called "corridor method" of recognition. The Funded status (i.e., the amount of which pension obligations exceed plan assets) also improved slightly from the previous year, from €167 million to €165 million.

The main reason for the reduction in other current liabilities is the adjustment of the antitrust fine imposed on KDI S.A.S. which was reduced to €23.5 million, of which €10 million had already been paid as of the end of the year. The previous year's financial statements included a provision of €169.3 million.

**3.4 OVERALL STATEMENT ON THE CURRENT BUSINESS SITUATION OF THE GROUP**

Based on the information available at the time of the Combined management report's compilation at the end of February 2010, the Group's business situation has improved from the previous year. Our immediate reaction to the dramatic collapse in sales volumes, which included implementing immediate action programs and adjusting our capacity and costs to reflect these lower levels, have strengthened our balance sheet. As of the date of the issuance of the report, there was still no sign of any significant increase in demand due to the protracted winter weather, which has a major influence on the construction business, our most important customer segment. However, we do expect demand to recover, due to the low level of inventories throughout the value chain. Economic research institutes and leading banks have raised their forecasts slightly in their most recent economic analyses. However, we believe that total 2010 demand for steel and metal products in Europe and North America will not lead to sufficiently high capacity utilization by steel producers. As a result, steel and metal prices will continue to fluctuate. Overall, we believe that, based on the cost-cutting measures already implemented, we are well positioned to weather the current and expected economic situation and will post a distinctly positive operating income (EBITDA). It will, however, not meet our goal of achieving an EBITDA margin on sales of at least 6%.

**Balance sheet of Klöckner & Co SE (condensed)**

(€ thousand)	December 31, 2009	December 31, 2008*
Intangible assets and property, plant & equipment	844	608
Investments in affiliated companies	258,303	258,303
<b>Fixed assets</b>	<b>259,147</b>	<b>258,911</b>
Receivables from affiliated companies	807,839	481,511
Other receivables	50,000	14,668
Liquid funds	89	174
<b>Current Assets</b>	<b>857,928</b>	<b>496,353</b>
Prepaid expenses	56,224	45,504
<b>Total assets</b>	<b>1,173,299</b>	<b>800,768</b>
Equity	679,752	421,038
Provisions for pensions and similar obligations	10,186	6,679
Other provisions	9,705	8,671
Bonds	422,900	325,000
Liabilities to affiliated companies	49,857	33,093
Other liabilities	899	6,287
<b>Total equity and liabilities</b>	<b>1,173,299</b>	<b>800,768</b>

## 4. INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

### 4.1 NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

Klöckner & Co SE is the management holding company in charge of our Group's operations in which the corporate management functions are bundled. Klöckner & Co SE's financial position is determined primarily by the Group's business and economic trends.

Klöckner & Co SE's annual financial statements are prepared in accordance with the regulations of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG). Net income for fiscal year 2009 amounted to €31.2 million, compared to €17.7 million in the prior year. The net income for the current period was appropriated to other revenue reserves in full. We propose to the AGM also to allocate the retained profit of the preceding year to other revenue reserves.

Klöckner & Co SE assets reflect the holding character of the Company. Fixed assets consist almost entirely of financial assets, primarily the stake held in the intermediate holding company Multi Metal Beteiligungs GmbH. In addition, the convertible bonds have a major impact on the presentation of the balance sheet.

The proceeds from the capital market transactions were transferred to the Group's central financial holding company, Klöckner & Co Verwaltung GmbH. As a result, they were reflected in receivables from affiliated companies.

The equity ratio improved from 52.6% in 2008 to 57.9% as of December 31, 2009.

### **Income statement of Klöckner & Co SE (condensed)**

(€ thousand)	2009	2008
Income from investments	57,980	38,441
Interest income, net	5,208	7,520
Other income and expenses, net	- 31,907	- 28,065
<b>Result from ordinary activities</b>	<b>31,281</b>	<b>17,896</b>
Taxes	- 36	- 196
<b>Net income</b>	<b>31,245</b>	<b>17,700</b>
Unappropriated profits carried forward	17,700	-
Appropriation to other revenue reserves	- 31,245	-
<b>Unappropriated profits</b>	<b>17,700</b>	<b>17,700</b>

The income from investments of Klöckner & Co SE resulted from dividends and profit transfers from subsidiaries passed through intermediate holding companies. In the reporting year, Klöckner & Co SE received income totaling €58.0 million (2008: €38.4 million) as a result of a profit-and-loss transfer agreement with Multi Metal Beteiligungs GmbH.

Other income and expenses, net increased from €- 28.1 million in the previous year to €- 31.9 million. The increase in expenses is primarily the result of bank fees incurred as part of capital market transactions, auditing and consulting expenses as well as due to the accounting change for pension provisions.

Given the dividend potential of the retained earnings in subsidiaries, 2010 should at least once again produce an even result.

The Klöckner & Co SE annual financial statements received the auditor's unqualified opinion, which will be published in the companies register. Interested parties can obtain the annual financial statements at the Company's headquarters and on the Internet at [www.kloeckner.de](http://www.kloeckner.de).

#### 4.2 LEGAL INFORMATION RELATING TO TAKEOVERS

##### **Report pursuant to Sections 289 para. 4 and 315 para. 4 of the German Commercial Code in conjunction with Section 120 para. 3 sentence 2 of the German Stock Corporations Act and Article 52 of the European SE Regulation**

###### Composition of share capital

On December 31, 2009, Klöckner & Co SE subscribed share capital was €166,250,000, which was divided into 66,500,000 non-par-value registered shares with full voting rights. All shares have the same rights and obligations. Each share grants one vote.

###### Restrictions related to voting rights and transfer of shares

The Management Board is not aware of any restrictions that would affect voting rights or the transfer of shares – including agreements among shareholders.

###### Interests in share capital exceeding 10% of voting rights

Direct or indirect interests in share capital of Klöckner & Co SE that exceeded 10% of voting rights as of December 31, 2009, have not been reported to the Company.

###### Shares with special rights that confer powers of control

There are no shares with special rights conveying power to control.

###### Exercise of voting rights in case of employee participations in the share capital

Shares held by Klöckner & Co Group employees are not subject to voting rights control regulations.

###### 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 consists of one or more members who are appointed and dismissed by the Supervisory Board (Article 9, para. 1, Article 39 para. 2 and Article 46 of the European SE Regulation; Sections 84, 85 of the German Stock Corporations Act; Section 6 of the Articles of Association).

As a rule, amendments to the Articles of Association require a two-thirds majority of votes cast. Pursuant to Section 19 para. 2 clause 2 of the Klöckner & Co SE Articles of Association, amendments can be implemented with a simple majority of votes cast if at least half of share capital is represented. This, however, does not apply to changes in the Company's mission, relocation of registered head office to another member state and to instances for

which a larger capital majority is required by mandatory law. For resolutions that require a three-fourths capital majority under the German Stock Corporation Act, a three-fourths majority of votes cast is necessary at Klöckner & Co SE. Under Section 21 of the Articles of Association, the Supervisory Board is authorized to alter certain formal wordings of the Articles of Association when necessary.

#### Authority of the Management Board to issue and repurchase shares

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

Until June 20, 2013, it is further authorized to issue bearer option and/or convertible bonds on one or more occasions and to grant holders option or conversion rights on up to 4,650,000 non-par-value registered shares of the Company with a pro rata sum in the share capital of up to €11,625,000. Further details are covered by Section 4 para. 3 of the Articles of Association.

In addition, two additional conditional rights issues of €11,625,000 each are also possible. These rights issues may be carried out only if conversion rights from bonds issued by the Company or its subsidiaries on the basis of the authorization granted by the Annual General Meeting on June 20, 2007 or on the basis of the authorization granted by the Annual General Meeting on 26 May 2009 are exercised. Further details are covered by Section 4 para. 2 and Section 4 para. 4 of the Articles of Association.

Pursuant to Section 71 para. 1 No. 8 of the German Stock Corporation Act and in accordance with the resolution of the Annual General Meeting on May 26, 2009, the Company is also authorized to acquire the Company's own shares up to 10% of the share capital of €116,250,000 existing at the time of the resolution of the Annual General Meeting. This authorization is valid until November 25, 2010.

#### Material agreements of the Company that are subject to a change of control provision as a result of a takeover bid

The terms and conditions of the convertible bonds issued in July 2007 and June 2009 totaling €325 million and €98 million allow for early redemption by the holder in the event of a change of control at a redemption amount based on the nominal value plus accrued interest. Alternatively, the holders are granted a conversion right at an adjusted conversion price. Under the terms and conditions of each bond issue, change of control is deemed to have occurred if, among other things, a person or persons acting in concert directly or indirectly obtain legal or commercial ownership to more than 50% of the voting rights in the Company.

Under virtually the same conditions, individual lenders under the €300 million multi-currency revolving credit facility issued in May

2007 and restructured in May 2009 may request repayment of respective outstanding amounts.

Other major credit arrangements and the Group's ABS programs contain customary change-of-control clauses. In addition, virtual stock options allocated to Group managers include a provision under which voting rights may be exercised immediately if a threshold of 30% of voting rights is exceeded.

#### Company compensation agreements for members of the Management Board or employees affected by a takeover bid

If a threshold of 30% of voting rights is exceeded, the Chairman of the Management Board Gisbert Rühl has the right to terminate his employment contract outside the guidelines set down in his employment contract. If this right is exercised, the Chairman of the Management Board will be entitled to the payment of his targeted annual salary (including the targeted bonus) until the end of the contract term (December 31, 2012). The payment is capped at three times the total payment Mr. Rühl received in the last completed financial year before the termination of his employment contract. Furthermore, all virtual stock options not yet allocated by this time will be considered allocated. The options may be exercised pursuant to the applicable waiting periods.

### 4.3 DIVIDEND PLANNING

Klöckner & Co SE generally follows the dividend policy of distributing 30% of the consolidated net income after deducting special items. Because of the negative Group net income for 2009, no dividends will be paid for financial year 2009. In each of the two years after its initial public offering, the company paid a dividend of €0.80 per share. The dividend policy mentioned above will be re-implemented when the earnings situation improves.

## 5. SUBSEQUENT EVENTS

### Reduction of KDI antitrust fine

On January 19, 2010 the French appellate court (Cour d'Appel de Paris) decided to significantly reduce the fine imposed on KDI S.A.S. by the French antitrust authorities.

The €169.3 million fine imposed on KDI S.A.S. in 2008 was reduced to €23.5 million, of which €17.5 million had already been paid as of the date the consolidated financial statements were authorized for issue.

The fine reduction improves Group net income in 2009 by €79 million. The limited effect is due to a compensation claim totaling €70 million that we have against the former owners of the Klöckner & Co Group from the acquisition of the Group in 2005 which is now only used to a small extent.

**Acquisition of Bläsi**

On January 22, 2010, we acquired the distributor Bläsi AG in Berne through our Swiss regional company, Debrunner Koenig Holding AG. With the takeover of Bläsi AG, the Swiss subsidiary of Klöckner & Co is strengthening its market position in the water supply and building services engineering in the greater Berne area. The main customers of Bläsi AG are construction companies. In 2008, the company generated sales of about €32 million from its two locations in the greater Berne area.

**6. RESPONSIBILITY**

Out of the contact with employees, suppliers and customers arises a strong sense of corporate responsibility for us. We see Corporate Social Responsibility (CSR) as a voluntary obligation to act responsibly towards society as a whole.

CSR means that we treat people, society and the environment responsibly both throughout the supply chain and also in our own markets and operations.

We have defined four focal points for our responsibility: Employees, environment, value chain and social commitment.

**Our employees – the foundation of our sustainable success**

As a service provider for multi-metal warehousing and distribution, the Company's approximately 9,000 employees are the foundation of its sustained success. About 14% of the Company's workforce is in North America and 86% is in Europe. We have operations at approximately 250 locations in 15 countries, with 178,000 active customers. In order to successfully and satisfactorily meet customer needs, our team must reflect the diversity of our customer base. As an internationally established Group with a broad customer base of small and medium-sized enterprises, diversity is particularly important to us. We use our broad international position to apply and exchange expertise cross-border.

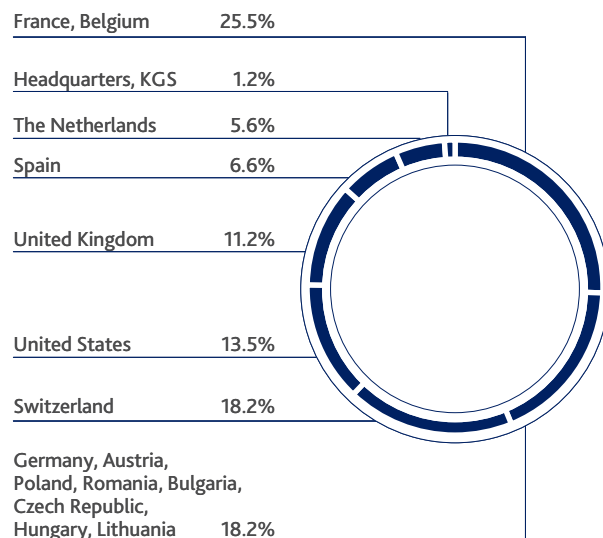
Last year, the number of employees fell from 10,282 to 9,032, due especially to the immediate action programs implemented in reaction to weaker demand for steel products and, to a lesser extent, the sale of the IT service provider Klöckner Information Services GmbH.

Our interests are clearly defined: In the countries where we are represented, we want to continuously offer all employees optimal opportunities for further development and ideal entry-level conditions for new employees. All of which includes strict adherence to existing legal and local regulations.

Training and professional development are particularly high priorities in the Group. In countries with dual training systems, we consistently provide opportunities for young men and women. Beginning in 2010, we will be introducing a dual-training system in Germany. Switzerland already has such a system. In countries that do not have dual-training systems, we use the Company's own training centers to continuously offer all employees optimal opportunities for education and for advancing their careers. In addition to standard career-specific professional development initiatives, we will offer language courses and support our employees at their own professional development initiatives in the future. On the whole, we intend to increase the amount we invest in professional development programs up to 2% of total salaries paid. One objective is to continue filling management positions with employees from the Company's own ranks.

In addition, we enjoy providing internships to interested secondary school and college students, providing them with an insight into the Group's day-to-day business and easing their transition to the professional world. As part of the series of discussions with secondary school students called "Youth Dialogue" by the so-called "Initiativ-Kreis Ruhr", the Chairman of the Klöckner & Co Group Management Board regularly answers questions from young people. Klöckner & Co contributes thus

**Employees international – overview based on subgroups**



in a vital platform for discussion between students and corporate leaders.

Even though steel distribution has traditionally been the domain of men, we are determined to increase the percentage of women at all levels and offer attractive career opportunities. Our French subsidiary is particularly successful, with women making up 33% of the workforce.

Due to our sense of responsibility, and to show our employees how valued they are, we feel the need to offer our employees a safe and healthy workplace. In the workplace, employees should have the opportunity to unfold their full potential based on their motivation. We have thus also initiated new health and safety projects this year and expanded existing projects. For example, we have a close and constructive relationship with external consultants to continually improve internal company health care. As part of the cooperation with external experts, we have analyzed and sustainably improved working conditions in our French, Polish and Bulgarian operations. Certified work-safety systems and a health management program have been established at our Swiss subsidiary. In the United States and The Netherlands, our quit-smoking programs and weight-reduction seminars are standard.

In addition, we review and analyze workplace accidents at our companies on an ongoing basis. Also, at least once per year and monthly in The Netherlands, we offer our employees a voluntary medical consultation. This system is rounded off with annual flu shots. The success of these measures, which we intend to keep expanding, is reflected in comparatively low sickness rates. In the United States, Germany and France, Klöckner&Co offers financial support for employees in need due to reasons beyond their control. As an international Group, we are determined to preserve and protect our employees' interests. Since a broad array of cultures is represented in the Klöckner & Co Group, we expressly affirm our commitment to diversity. We also explicitly acknowledge the moral, ethical and religious principles of each individual culture. The employment of minors is expressly prohibited at every Klöckner & Co Group subsidiary, with the exception of apprenticeship and internship programs.

#### **Environment – efficient use of resources**

We are always looking for new opportunities to utilize existing resources more effectively and reduce environmental pollution. Our actions are guided by environmental principles.

We have consistently incorporated ecological ideas into our internal directives. For example, when our employees are on business trips, in addition to economic aspects, they should also take pollution into consideration when selecting their means of transportation. In the future, we will offer a software program that calculates the CO<sub>2</sub> impact of the respective means of transportation. As an internationally active Group, it is especially important to promote the personal and efficient international interaction of employees. In order to make a contribution to limiting climate change, as well as for economical reasons and due to environmental considerations, we are making increased use of modern IT and telecommunication systems, such as video and teleconferencing.

In addition, we have implemented Group internal quality control management, which individually and transparently brings together requirements for quality, the environment, worker protection, health and legal issues beyond legal standards. Our quality standards provide a structured overview of our processes and responsibilities. The standards help support our managers and employees meet customer demands for high quality as well as our company's demand for the same. Our subsidiaries are consistently equipped with global standardized quality management tools pursuant to ISO 9001. We determine whether the standards and resources used meet our quality objectives and key performance indicators through regular audits. The focus is on ensuring customer satisfaction over the long term by providing consistent service and product quality.

Even though environmental risks are substantially lower in steel distribution than in production, the theme of environmental protection is also important to us when optimizing logistics. We actively manage transport pollution. In 2009, we switched most of our German transport fleet to the Euro 5 emissions standard. We train our own logistics fleet drivers to drive in a fuel-efficient manner. The driver training and monitoring process has already led to savings of about 20% of fuel use at our German subsidiary. In the area of logistics processes, we are optimizing cross location stock management.

In 2009, we took part in the "Carbon Disclosure Project" for the first time. It is a global network of investors and companies that encourage transparent documentation of CO<sub>2</sub> emissions, preparation of reduction measures, and finally emissions. In the future, we will seek to maximize transparency as part of the project, for example by making information available on CO<sub>2</sub> emissions, climate risks and reduction objectives.

### **Value-based action across the value chain**

As an internationally active steel and metal distributor, we have a comprehensive network of supplier and service relationships. The relationships are primarily with steel and metal producers, but also with logistics companies, as well as with our customers, of course.

To emphasize Klöckner & Co's guiding principles as a fair trading company, we have created a comprehensive compliance organization in the holding company and in the regional companies. Due to our numerous supply and service relationships, we think it is important to always act in adherence to applicable law and to provide no opportunities for violations. All employees are subject to clear guidelines to adhere to antitrust laws. All corruption, involving both suppliers and customers, is forbidden. Our position is clear: Zero tolerance for violations of compliance rules. Violations will be penalized. Our Code of Conduct defines clear guidelines for behavior and is binding for all employees. We have provided Group-wide training for all employees, and we keep them up to date on any new information. We established the Corporate Compliance Office to support our employees in acting in accordance with the Code of Conduct.

Klöckner & Co's Code of Conduct does not simply apply to management and employees. We also expect our suppliers to follow the Code of Conduct and to adhere to it. It primarily includes ethics and respecting the law, a clear commitment to fighting corruption and the prohibition of child labor, as well as observing workplace safety and environmental protection directives. By regrouping our compliance organization and with our binding Code of Conduct we have made significant progress to our goal of applying our guiding principles also throughout our value chain.

### **Social commitment with regional focus**

We see social commitment as investing in the future. This is why we focus our commitment on promoting young people, especially in projects that support children's basic needs and education. However, we also actively support the sciences, sports, arts and culture, as well as social and humanitarian projects.

We have clear directives for the selection and awarding of donations and sponsorship agreements. We provide money and gifts in kind on the basis of our directives and in the framework of our financial possibilities. Donation transparency is especially important here. The identity of the recipient and the planned use of the donations must be unambiguous. The donations committee ensures that there are no conflicts of interest in connection with any donations and sponsorship agreements. We do not make donations to political parties, individuals, for-profit organizations or organizations whose objectives contradict our corporate management principles.

As there is always a growing communal need for local commitment, in the course of Corporate Citizenship we make regional responsibility a priority at our Corporate Office, located in Duisburg. In 2009, we prepared various support measures in cooperation with the City of Duisburg. In 2010, Klöckner & Co will assume the costs for providing lunch at two Duisburg elementary schools, donate money for therapy at the Duisburg Children's Village and provide financial support for a citizens' initiative for maintaining a playground. We also support cultural activities in the Rhine-Ruhr region. One example is the Ruhr Piano Festival. Our foreign subsidiaries have also launched sponsoring and donation programs, and participated actively to design social responsibility. Our Swiss subsidiary actively promotes the next generation of professionals, and is a general sponsor of the "SwissSkills" program. The objective of this project is to strengthen the value of career training – particularly the dual system – with the general public.

We are in constant contact with political institutions, the media and various cultural and economic interest and industry groups. We participate actively in steering public opinion and are involved as consultants for important ideas affecting the economy. We bring competence and commitment when representing our industry's international interests.

We support Transparency International Deutschland and their work in the fight against corruption.

## 7. REMUNERATION REPORT

The remuneration report of the combined management report is also a section of the corporate governance report, which pursuant to 3.10 German Corporate Governance Code (DCGK) has been moved to the Corporate Governance Statement (Annual Report 2009, page 34).

### Management Board

Remuneration of the Management Board has to date consisted of three components: a fixed annual salary, a variable annual bonus linked to the accomplishment of quantitative and qualitative objectives set jointly with the Supervisory Board at the beginning of the financial year, and a mid- to long-term program of virtual stock options (VSOs).

The German Act on Appropriateness of Management Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG*), which entered into force in August 2009, prescribes, among other things, that variable remuneration components of new contracts are predominantly long-term oriented. With regard to VorstAG, which was working its way through the legislature at the time, an adjustment clause was added to the follow-up agreement (start date January 1, 2010 and with term until the end of 2012) entered into in May 2009 with the new Chairman of the Management Board. Under the terms of the adjustment clause, the agreement will be adjusted to account for any mandatory provisions under VorstAG.

Correspondingly, the contract for the new Chairman of the Management Board was amended to comply with current legislation and now fully adheres to the applicable laws. To this end, basically the exercise periods for the virtual stock options were extended from three to five years and a three-year valuation basis was introduced for one half of the bonus.

The adjustments to VorstAG and the treatment of the DCGK were difficult, as the structure of the law allows for substantial variations in interpretation. Also for the first time the DCGK recommendation regarding a severance payment cap due to early termination of Management Board contracts due to a change of control were applicable in the follow-up agreement. However, given the substantial uncertainty of interpretation with regard to the treatment and valuation of VSOs a notice of exception was issued as a precautionary measure. Current contracts are not subject to change.

In addition to the above mentioned remuneration components, members of the Management Board are entitled to defined benefit or defined contribution pension plans under the regulations of the Essener Verband as well as to other benefits, including company cars with driver, accident insurance, etc., to the customary extent.

The virtual stock option program for members of the Management Board had two types until 2009: Type I (virtual stock option I) from 2006, consisted of five annual tranches, each of 186,000 phantom stock options. The strike price for the first allotment in 2006 was the price for the initial public offering of €16 per share in June 2006. This price increases for each subsequent tranche by 5% of the previous year's strike price, rising to €19.45 per stock option by the fifth tranche, adjusted, however, for any dividend distributions and dilutive rights issue. The virtual stock options in each tranche can be exercised annually. But this could not be done before a period of 30 stock-trading days after the Annual General Meeting following tranche allotment. After the end of the waiting period, the options for the allotted tranches could be exercised in full or in part at any time. Klöckner & Co SE cash-payment obligations corresponded to the difference between the average price of the last 30 trading days (Xetra trading, Deutsche Börse AG, Frankfurt a. M.) prior to the exercise of the option and the underlying strike price. Because Dr. Ludwig left his position, and because of the adjustment above to Mr. Rühl's contract under VSO I, options were issued in their original form for the last time in 2009.

Type II of the virtual stock option program (VSO II) provided for in the remuneration agreement with the Member of the Management Board appointed in 2008 has five tranches of 60,000 stock options each, which are allocated each year beginning January 1, 2009. In addition, it also provides for a tighter cap on the maximum cash payment per option than VSO I. Furthermore, the calculation for the underlying strike price for VSO II is based on the average price of the Klöckner & Co share over the last 30 trading days of the year before the allocation of each tranche.

Current remuneration for the Chairman of the Management Board contains two different virtual stock option agreements, of which the first basically amends VSO I to comply with recent legislation. The amendment to VSO I was carried out by introducing waiting periods for the exercising of options equal to three, four and five years, for one-third of each tranche. The second virtual stock option agreement reflects the increase in the number of virtual stock options in connection with the appointment to Chairman of the Management Board. Regarding the underlying strike price and the tighter price cap, the agreement corresponds to the conditions in VSO II. This amendment to VSO II stipulates, among other things, the introduction of longer waiting periods for exercising options, in parallel with amendments to VSO I.

To establish the amount of the fixed and variable components in the new compensation of the Management Board member, a horizontal remuneration comparison was carried out, which, among other things, contained an external study of the Management Board remuneration at other German MDAX® companies. Due to the lack of comparable German companies in



the steel distribution industry, other wholesalers and comparable international companies were analyzed as well. The standard bonus for 2010 was used to estimate total compensation for the Chairman of the Management Board. Values were assumed on the basis of different price scenarios for the tranches allocated each year for the virtual stock options. Payment dates were not taken into consideration.

The external horizontal remuneration comparison was supplemented by an internal cross comparison. The estimate of total remuneration for the second Management Board member as a basis was also undertaken on the above basis. The calculated difference compared to the income of the second Management Board member corresponds approximately to the difference between total remuneration for the Chairman of the Management Board and the other members of the Management Board at MDAX® companies as calculated in an external remuneration study.

The results of the horizontal remuneration comparison of the Chairman with the Chairmen of other companies showed that Klöckner & Co is operating within the normal levels, it must, however, be taken into consideration that total expenses for the Management Board, which currently only has two members, are significantly lower than the average total expenses at comparable companies.

The Supervisory Board examined the total remuneration of the CEOs of the major country organizations for a vertical comparison within the Klöckner & Co Group. The results of this comparison also produced no major discrepancies. Overall, the Supervisory Board determined that the remuneration analysis showed that the structure and amount of the total remuneration for the new Chairman of the Management Board is adequate in relation to his duties and performance as well as to the situation of the company and that the compensation is oriented towards sustainable corporate performance, and does not exceed normal remuneration.

The total Management Board remuneration in the Klöckner & Co SE individual and consolidated financial statements pursuant to Sections 285, sentence 1, No. 9, 314 para. 1 No. 6 of the German Commercial Code totaled €3,553 thousand in 2009 (2008: €4,489 thousand), of which €1,366 thousand (2008: €2,072 thousand) is related to the fair value of the virtual stock options granted in the reporting year. Payments for exercised VSOs amounted to €920 thousand (2008: €2,773 thousand). The total amount of employer contributions to pensions or pension funds for members of the Management Board in 2009 was €667 thousand (2008: €828 thousand). No remuneration was paid to former members of the Management Board or their surviving dependents. No settlements were paid or are payable to the member of the Management Board departing in the reporting period. His payments ended the day his services ended on October 31, 2009.

## Supervisory Board

The amount and structure of remuneration for the Supervisory Board is set forth in Section 14 of the Articles of Association and are available on the Company's Web site. The remuneration consists of fixed and variable components, which are pro rata temporis in the event of personnel changes during the financial year. Furthermore, reasonable expenses and value added tax are reimbursed. Basic meeting compensation totals €2,000 per meeting.

The fixed basic remuneration for a financial year is €17,000. A variable compensation component of €150 is paid for each full €1 million by which the consolidated net profit exceeds €50 million. The Chairman of the Supervisory Board receives three times and his or her deputy twice the amount of both remuneration components and compensation for meetings. The variable remuneration paid to each member of the Supervisory Board may not exceed total fixed remuneration by more than 100%. This cap was applied in the previous year due to the high consolidated net profit. No variable remuneration is due for 2009 because of the negative Group results.

Committee work, including holding the position of chairman or deputy chairman affects remuneration only when it comes to compensation for meetings, which is the same as for plenary meetings. There continues to be no virtual stock options for the Supervisory Board. Total Supervisory Board remuneration pursuant to Section 314 para. 1 No. 6 of the German Commercial Code (consolidated financial statements) and Section 285 sentence 1, No. 9 of the German Commercial Code (individual financial statements) totaled €339 thousand in 2009 (2008: €708 thousand) taking into account compensating effects of reversals of prior-year provisions.

The following overview gives a breakdown of claims due in 2009 for compensating individual members of the Supervisory Board pursuant to no. 5.4.6 sentence 7 DCGK. All payments are due after the end of the regular Annual General Meeting in 2010.

Compensation or advantages for personally rendered services, in particular consulting and intermediary services were not granted.

- € -	Fixed compensation	Variable compensation	Meeting compensation	Total
Prof. Dr. Dieter H. Vogel (Chairman)	51,000	0	72,000	123,000
Dr. Michael Rogowski (Deputy Chairman)	34,000	0	44,000	78,000
Robert J. Koehler	17,000	0	10,000	27,000
Frank H. Lakerveld	17,000	0	10,000	27,000
Dr. Jochen Melchior	17,000	0	12,000	29,000
Dr. Hans-Georg Vater	17,000	0	56,000	73,000
<b>Total</b>	<b>153,000</b>	<b>0</b>	<b>204,000</b>	<b>357,000</b>

## 8. OPPORTUNITIES AND RISKS

Against the backdrop of the current market situation and the uncertainties on the capital market, our risk management proved to be extremely efficient. By identifying individual risks in a timely manner, we are in a position to appropriately manage our risks. All risks are currently limited and manageable, and the company's continued existence as a going concern is assured.

Entering into risks is frequently unavoidable as a precondition for taking advantage of market opportunities as part of our business activities. However, we only make business decisions after completing risk analyses.

### 8.1 RISK POLICY

Our centralized authority to issue directives gives us a Group-wide uniform understanding of risk. Our risk management system is flexible and continuously adapted. It corresponds to company-specific requirements of an internationally active steel and metal group.

The Risk Management System (RMS) and the Internal Control Structures (ICS) set up and implemented are based on recognized standards. This also includes the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for Group-wide risk management.

However, it should be noted that even having an appropriate and functional system in place cannot provide an absolute guarantee that risks will be completely identified and managed.

### 8.2 RISK MANAGEMENT AND INTERNAL CONTROL STRUCTURES

The RMS pursues a top-priority objective. It is designed to identify and evaluate both risks and opportunities, and to exclude the possibility of risks that could threaten the going concern of the company. We use our risk management to monitor identified risks on a continuous basis, so we can prevent or limit any possible negative impact. Quantifiable individual risks with potential damage of more than €1 million are transferred, if it is possible to hedge the risk. Legal disputes for amounts of €100,000 or more must also be reported to the Corporate Headquarter and are subject to the continuous, central intragroup monitoring processes. We are thus assuring the long-term existence of our Group and we are in a position to systematically and continuously increase the value of the company.

The decision as to what is considered a threat to the existence of the company or a substantial risk is to be made by the management of the decentralized regional companies in close approval and coordination with the Corporate Headquarter and, when it affects the entire Group, the Management Board in conjunction with the respective Corporate Headquarter department. When evaluating risks, we also consider the type and scope of existing business activities.

The objective of the ICS is to obtain sufficient safety using the controls implemented to monitor and manage identified risks. Main characteristics of the ICS are to define guiding principles and to apply the cross-check approach (four-eyes-principle). In accordance with this principle, Klöckner&Co does not execute any major transaction in the Group without monitoring. In addition, the ICS promotes the functional separation of duties between execution, recording and administrative activities, e. g. between purchasing, accounting and logistics.

An additional objective of our RMS and ICS is the management of compliance risks, concentrating on competition and corruption.

Out of the significant risks areas for international metal distribution, the Management Board and/or regional companies' management are responsible to manage strategic risks and direct operational risks. In addition, there are significant risk areas within the coordinating competences of the respective Corporate Headquarter departments. In addition to Group financing and Group accounting, these departments also support indirectly the operating responsibilities of the country organizations. We centrally manage these multiple-country risk areas in order to preserve the overall interests of the Group.

In terms of processes, both RMS and ICS are oriented towards the Group as a whole, and thus centrally focused. Group directives for opportunity and risk reporting and risk monitoring, as well as performance specifications of other Group directives play a central role.

The core tool for risk management is the opportunities/risk report which rolls forward identified opportunities and risks on a quarterly basis. It is supplemented as needed with an ad hoc report for substantial risks or short-term risks that threaten the company as a going concern. The report addresses risks and opportunities in the economy, price trends, inventories, receivables and procurement, as well as opportunities and risks of the individual company. Klöckner&Co also documents integration levels for acquisitions and provides information about material legal cases. Furthermore, in addition to tax risks, it examines issues pertaining to financing including covenants and information on pension obligations as well. Insurance issues and IT security risks are subjected to constant monitoring.

The communication and explanation of the formal documents are performed on a quarterly and a case-by-case basis, depending on urgency. In Audit Committee meetings of the Supervisory Board, the Klöckner&Co Management Board regularly reports on opportunities and risks. As part of the monthly discussions, the Chairman of the Supervisory Board receives a detailed overview of the company's financial and earnings situation and related opportunities and risks for Klöckner&Co.

The interaction of control mechanisms in actual operations and results-oriented controls are both particularly important for understanding internal control processes. These controls are performed by the controlling department of the regional organizations as well as by the Corporate Controlling department. Process-oriented reviews are performed by the Corporate Internal Audit department.

The controlling units of the regional companies produce monthly reports. Corporate Controlling aggregates these re-

ports in the Group Board report. In regular discussions with regional companies' management and the Board of Management, the participants consult on all important and quantifiable factors that influence country earnings.

The Corporate Internal Audit department reviews of organization structures and processes supplement the system of applied controls. The primary purpose of these reviews is to ensure the functionality of internal controls.

### 8.3 BUSINESS RISKS OF INTERNATIONAL METAL DISTRIBUTION

#### Strategic risks, acquisitions

In order to take advantage of the noted economic recovery, we have resumed our acquisition strategy after having suspended it during the crisis. In the framework of our M&A strategy, we select acquisition targets based on clearly defined selection criteria. M&A activity processes are regulated by a comprehensive, centrally monitored M&A directive. All acquisitions undergo a detailed review (due diligence). No later than three years after acquisition, the Corporate Internal Audit department performs an investment review.

#### Market and environmental risks

As a stockholding multi-metal distributor, our market risk primarily consists of demand and price developments, as well as the competition.

Our sales volume is substantially driven by business developments in our customers' industries. We are thus subject to the specific demand cycles in each of the respective industries. During the financial crisis, nearly all of our customers' industries had negative performances. The resulting reduction in sales volume had a negative effect on our business and earnings situation.

We cannot actively influence the economic performance of our market environment. However, in order to be able to react as early as possible, e.g., through inventory management, we monitor specific trends and leading indicators, as well as any available forecasts. An important element of our quarterly opportunity and risk reporting is to quantify market and economical risks. From this we also derive guidelines for the day-to-day local inventory management.

The competitive landscape has a particularly strong effect on our market risk. For example, excess inventories may lead individual competitors to have special sales offers. This results in price pressure on the market, which could have a negative impact on earnings. We carefully monitor our competition for this very reason. We assume that as a result of the financial crisis, the current consolidation of steel and metal distribution will further accelerate. It should, in the end, have a positive effect on our market risk.

### Price and inventory risks

Price and demand developments are also a substantial market risk, because we sell most of our products at spot prices set by the market. The time span between when prices are set during purchasing and the invoices for our sales equaling several months, subjects us to a substantial inventory risk. During the current financial crisis, the existing price risk was further stressed by the short-term collapse in demand and resulting excess inventories. Overstated inventory cost can have a substantial adverse effect on the earnings leading to so-called negative windfall effects. While preparing the financial statements, it may also be necessary to adjust overstated inventory costs, which also negatively impact earnings.

To manage price and inventory risk, we have developed a comprehensive set of instruments. The starting point is the ongoing monitoring of price developments in the regional, national and international market environments. We record price information with the help of a price information system and exchange that information online within the Group. The centralization of purchasing coordination in the International Product Management & Global Sourcing department enables us to react quickly to new situations on the market. This allows us to exploit price, economies of scale and advantageous terms by managing our supplier portfolio. The essential condition for central purchasing coordination is central inventory and order monitoring in the Group. This department also regularly publishes price trends that Klöckner & Co uses to determine possible allowance risks for individual products. An inventory and product range policy oriented towards demand, as well as the introduction of focus and central warehousing, also helps reduce price risks. We assume that prices will continue to remain very volatile over the medium term. The above applies, in particular, as long as a structural imbalance between steel manufacturers' production and actual end customer demand remains in place. The management of price and inventory risk is particularly important in our Group.

Inventory management and inventory valuation are a central component of monthly reporting, which we use to quickly recognize major deviations and immediately implement countermeasures. In addition, we regularly use audits by Corporate Internal Audit to review our inventories, both at the level of country operations and in accordance with risk considerations of selected branches.

### Financial risks

We continue to centrally manage Group financing. Klöckner & Co ensures the Group's liquidity primarily via central and bilateral credit facilities. The handling of financial risks is governed by a Group-wide financial directive. These directives establish the scope of action, responsibilities and control systems required. In 2009, we continued to optimize Group financing, especially limiting financial risk.

#### Credit risk/default risk

A deterioration of our customers' solvency could lead to higher bad debt losses for us as well as a shortfall in demand. Safeguarding delivery transactions through credit insurers is common in the industry and could also become more difficult, which could negatively affect sales volume and performance.

We operate decentralized credit risk identification and monitoring in the receivables management departments in the regional companies. By doing so, we continuously control receivables and default risks. The credit limits we have set further reduce risk. In most of the regional companies, we use commercial credit insurance. The Corporate Finance & Accounting department is integrated in the monitoring process of decentrally organized receivables and creditor management. In doing so, especially the major customers' solvency is monitored closely.

#### Liquidity risk

Each year, as part of Group planning, we produce a three-year financial plan. Pursuant to our business model, we also update weekly rolling liquidity planning with a time horizon of five weeks. All Group companies to be financed are included in the liquidity planning process. Group financing is handled flexibly by using a diversified credit portfolio consisting of capital market instruments, ABS programs and a syndicated credit facility as well as bilateral credit facilities. In addition, we have also built up substantial liquidity reserves because of the financial crisis. We have made short-term investments at the Group's core banks with first-class ratings, and can transfer the liquidity as needed to the operating companies. The Group's internal financial balancing and liquidity management is based on a cross-border cash-pooling system.

In the past fiscal year, we optimized the financial structure for the syndicated revolving credit facility and the European ABS facility. Performance covenants were replaced with balance-sheet-related covenants. All of which makes loan conditions more closely attuned to the business model at the Klöckner & Co Group and is considerably more robust in periods of economic downturn. Continuous monitoring of contractual obligations and key figures limits financial risk.

In addition to central liquidity management, financial management of the headquarter and the regional companies is coordinated in monthly teleconferences. In addition to liquidity management and net working capital management, the coordination process includes decentralized accounts receivable and accounts payable management.

#### Currency risk

At the Klöckner & Co Group, currency risks result from financing, internal dividend payments, acquisitions and operating activities. The hedging policy is aimed at the risks that have a direct impact on Group cash flows. We do not hedge balance-sheet risks arising from conversion of assets and liabilities.

The Group has a central foreign currency management. The domestic and foreign companies are obligated to identify foreign currency risks, which then must be hedged through the Corporate Finance & Accounting department or within defined thresholds individually with banks. We use financial instruments to hedge currency risks.

#### Interest-rate risk

Interest-rate risk for the Klöckner & Co Group results primarily from financial liabilities with variable interest rates. Our Group is primarily subject to interest-rate fluctuations in the euro zone and the US. The Corporate Finance & Accounting department operates a central interest-rate management based on the financial directive. In this framework, the department monitors and manages interest-rate risk by using interest-rate derivatives.

Liquidity, currency and interest-rate risks are subject to regular audits of our Corporate Internal Audit department.

#### Financial instrument risks

We hedge the financial risks described above from foreign currency cash flows and interest-rate risks with OTC derivative financial instruments. These are primarily fixed-price transactions, such as forwards and swaps. In the process, only standardized instruments with adequate market liquidity are used. Hedging transactions for currency risks cover both incurred and pending transactions resulting from supply contracts. Options are used to limit expense and payment risk arising from virtual stock options.

Derivative financial instruments are concluded and settled in accordance with the financial directive. Pursuant to that directive, the use of derivative financial instruments is an essential task of the Corporate Finance & Accounting department, which manages and coordinates their use. We only enter into transactions with top-rated counterparties. By using such instruments, we only hedge the risks associated with the underlying transactions.

Under no circumstances may derivative financial instruments be used for speculation.

#### Pension obligation risks

The Group establishes pension provisions to provide for current and future benefits to current and former employees so entitled. Depending on the legal, economic and tax conditions in a given country, different systems for retirement benefits such as defined benefit plans and defined contribution plans are in place.

The risk of defined benefit pension plans is the final level of payment of the promised benefits, which is calculated using actuarial assumptions. Such calculations require management to make estimates. In addition, costs for pension benefits may increase or – in the case of funded plans – additional future contributions to plan assets may arise due to higher funding requirements resulting from changes in the respective legislation.

For funded plans, such as those in the US, the UK and in The Netherlands, plan assets set aside in funds are exposed to capital market risks. As part of our risk assessment, we regularly obtain asset-liability studies from independent experts; we then adjust our investment policy as needed.

Decisions on contributions to pension funds are made centrally by the Klöckner Global Retirement Benefits Committee and must be approved by the Group's Management Board.

## 8.4 ADDITIONAL BUSINESS RISKS

#### Personnel risks

The greatest personnel risk is the loss of employees in key positions, because Klöckner & Co SE, as a service company, is highly dependent on the qualifications and experience of its employees.

The objectives of our remuneration system and our personnel development programs and measures are designed to motivate employees and to strengthen their ties to the company.

The competition for highly qualified specialist and management personnel is keen. We are meeting this challenge by restructuring the Group's human resources activities. As part of the restructuring, we have separated the development of management personnel from administrative personnel services in 2010, and have established a new Corporate Management & Personnel Development department. We expect this to significantly improve the promotion of the next generation of managers and to increase our attractiveness as an employer for top performers. When integrating newly acquired companies, our efforts are also aimed at strengthening ties with employees in key positions.

Monitoring potential personnel risks is part of our regular opportunity and risk reporting.

#### **Legal and compliance risks**

We intend to respond early to possible risks from the numerous civil, tax, environmental, antitrust and other regulations and laws. For this reason, we ensure strict adherence to the law and regulations and we use comprehensive legal consulting both by our own experts as well as by selected external specialists.

The antitrust fine imposed by the French antitrust authorities in December 2008 was reduced by a French court of appeal decision from €169.3 million to €23.5 million. In addition, the French and Spanish competition authorities are investigating allegations of anti-competitive behavior by regional companies or industry groups. If these investigations should discover violations of the applicable antitrust laws, it could then result in fines that would negatively impact our net asset, financial and earnings positions. Based on the nature of the charges under investigation, the Management Board currently only expects a minor financial risk which does not require separate recognition in the financial statements.

Significant legal disputes of our decentralized regional companies and of Klöckner & Co SE itself are subject to continuous monitoring as part of quarterly risk reporting. Current legal disputes above a defined threshold must be reported within the Group. We intensively follow legal matters and their significance to the Group.

We restructured the Group-wide compliance program over the past fiscal year. The main rationale behind this program is that, as part of value-based corporate management, compliance forms the basis for ethical and legally compliant behavior in business operations. The program, which was evaluated by independent auditors, is based on the following principles: Prevention, detection and response.

The elements are tailored to ensure that we continually analyze compliance risks, uncover any infringement and have an adequate response to them. We have the clearly defined objective of ensuring that behavior towards employees, customers and suppliers is responsible and respectful. In addition, a whistle-blowing hotline is currently being implemented to enable both employees and third parties to report instances of possible non-compliance to the Corporate Compliance Office. The effectiveness of the compliance program is continually reviewed through annual compliance audits and adjusted when necessary.

#### **Environmental protection risks**

Our Group may have environmental risks especially at locations where we operate emitting equipment, such as sandblasting and painting installations. In addition, there may also be corresponding risks at cutting and sawing machines.

Our equipment meets the necessary technical requirements. It is audited by outside experts at the mandatory inspection intervals in order to prevent any environmental risks.

There are no other significant environmental protection risks. Klöckner & Co has established appropriate provisions for the claims by former employees resulting from possible harm at construction sites in the UK.

#### **Tax risks**

Tax risks arise in connection with acquisitions, restructuring and financing. Tax authorities in the various countries may apply diversity in practice of the respective laws and regulations, and the tax system may change owing to changes in legislation. Based on existing directives and instructions, the Klöckner & Co SE tax department is involved in the legal assessment of such tax issues. In addition, the Corporate Tax department is also involved when tax authorities carry out tax audits in the individual countries. This allows us to quickly identify any risks arising from these audits, to implement appropriate counter measures needed to minimize such risks and to establish appropriate provisions. Tax risks also exist in connection with loss carryforwards. On the one hand country-specific tax-rate changes or other legal changes can influence the recoverability of recognized deferred tax assets. On the other hand changes in ownership structures could result in the partial or complete loss of tax loss carryforwards.

### Risk transfer

We insure transferable risks as part of our risk management. In addition to insuring significant default risks, including those threatening the Company as a going concern, risk transfer also includes credit insurance for outstanding receivables of country organizations. Furthermore, Group-wide insurance of cross-border risks from asset losses and business interruptions (based on annually calculated maximum potential damage), as well as industrial liability are also included in transferable risks. There is also Group-wide D&O protection as well as insurance of potential damage claims from employee liability.

A Group insurance directive outlines under which aspects further risks in the decentralized management are to be hedged. In addition, Klöckner & Co has been maintaining a central database that allows it to follow-up the management of all claims since 2005.

### Information security risks

The business processes at the Klöckner & Co Group are heavily dependent on installed IT systems. It includes not just our accounting system, but also order management and disposition, the entire inventory management system and internal reporting. We have for the most part, already successfully completed the integration of all significant applications into SAP R/3, and in some areas into SAP ERP 6.0. The objective is to harmonize business processes throughout the Group. We will continue to drive the rollout of appropriate IT systems in the other countries as well.

The cooperation with what is now an external IT services provider, KIS Information Services GmbH, is continuously coordinated by the Corporate Process Management & IT department. We are systematically developing IT systems in our Group in close cooperation with IT service providers and internal IT experts.

The required IT security is regulated by the Group-wide IT Security Manual, and supplemented by up-to-date business impact analyses. Klöckner & Co has implemented a security concept that will rapidly restore system availability in a catastrophic computer failure.

## 8.5 OPPORTUNITIES AND OPPORTUNITY MANAGEMENT

We reacted with our action program early and forcefully to the financial and economic crisis. Following successful implementation of the measures and with the market beginning to stabilize, we now see major opportunities for the Group. We have significantly improved our competitive position on the strength of a secure financial structure, steadily increasing efficiency and effective purchasing and inventory management. Against this background, we have resumed our growth strategy, which was temporarily suspended, with its two thrusts of organic and external growth. The Corporate Controlling & Development/M&A department is primarily responsible for coordinating and monitoring opportunity management within the holding company. The financing and implementation of the strategic directives issued by the Management Board for capital expenditure, business combinations and other measures, are supported by the corporate departments and the local management. The projects are also managed and monitored together with holding company management at the country level.

### Strategic opportunities in market consolidation

As part of our growth and M&A strategy, we seek to grow through targeted acquisitions. The acquisition of Becker Stahl-Service Group gave us the opportunity to further boost growth and to sustainably improve our earnings. Additional options may arise as the financial and economic crisis continues; for example, companies may be available at lower prices than before. The existing trend towards market consolidation is expected to accelerate because of the financial and economic crisis.

The second thrust of our growth strategy is organic growth. After completing restructuring measures aimed at lowering costs and securing liquidity (Waves 1 and 2), we are now resuming our growth strategy (Wave 3). The measures initiated in the third immediate action program focus on gaining market share by broadening our product and service portfolio and customer base. We also assume that we will be able to take advantage of our competitors' relative weakness. In addition, we have intensified existing measures to improve pricing by focusing on actual procurement and replacement costs.

A two-tiered system is used to provide continuous monitoring of market opportunities: a top-down approach is taken in the holding company and its corporate departments, particularly by the Corporate Controlling & Development/M&A departments, while the regional companies pursue a bottom-up approach. Monthly teleconferences allow the management of the international subsidiaries and the holding company to exchange views on the identification and evaluation of opportunities.

### Operational opportunities

We have been operating a comprehensive program to improve efficiency (STAR) in place since 2005. This program creates opportunities through the continuous, successful optimization of our business processes, particularly in the areas of procurement, warehousing/distribution and sales. We seek to increase the profitability of our activities by increasing efficiency.

Our focus is on the coordination and management of purchasing at the European level through centralized procurement and product management in order to optimize procurement conditions and product structures. In warehousing and distribution, the potential for improvement lies primarily in an overall plan for warehouse network optimization, the concentrating of our inventories at individual locations and optimizing logistics. Optimizing warehousing lowers working capital and reduces vulnerability to inventory valuation effects.

Additional opportunities lie in the optimization of the product portfolio and of the services we provide. Further efficiency gains result from improvement of support processes, in particular of IT systems in order to reach a better standardization of processes.

## 8.6 KEY FEATURES OF THE INTERNAL ACCOUNTING CONTROL AND RISK MANAGEMENT SYSTEM UNDER SECTION 289 PARA. 5 AND SECTION 315 PARA. 2 NO. 5 OF THE GERMAN COMMERCIAL CODE (HGB).

### Elements of the accounting related internal control and risk management system

The responsibility for the internal control system falls primarily to the corporate functions responsible for finance and accounting, controlling and internal audit of Klöckner & Co SE, as well as to the legal and tax department. The Group Supervisory Board, in particular the Audit Committee, also forms an integral part of our control system.

Within the Klöckner & Co Group, there are both process-integrated and ad-hoc control activities. In addition to the system-based controls (IT-based controls), we also make use of manual controls such as the principle of checks and balances. We also follow the principle of separating the functions of administration, execution, settlement and approval. This further reduces the possibility of fraud.

### IT systems in accounting

The accounting of the subsidiaries included in the consolidated financial statements is carried out primarily through the standardized use of SAP software. We use a Microsoft Access interface for reporting data to Corporate Headquarter. The interface is fed with local accounting data along with additional reporting data. The records created in the Access interface that are verified by the auditor are sent via e-mail to Corporate Headquarter and the data are entered in the SAP consolidation program by the Corporate Finance & Accounting department. The consolidation software indicates all eliminations as part of the consolidation process. They include capital consolidation and elimination of intercompany accounts, the elimination of income and expenses as well as the elimination of inter-company results. The corresponding postings are properly documented.

There are access restrictions and defined user profiles for both the original financial accounting and for the consolidation software. It prevents inappropriate reading or writing access to the systems.

### Accounting risks

In particular, complex matters and/or nonrecurring accounting issues represent specific accounting-related risks. This includes, for example, the treatment of changes to the scope of consolidation (business combinations and disposals) or new Group financing measures. Furthermore the inherent use of estimates in preparing the financial statements, for example, during the annual impairment tests, contains increased potential for errors. Risks that may result from derivative financial instruments are presented in detail in the notes to the consolidated financial statements.

### Control activities ensuring the compliance of accounting

Efficient control activities aimed at correctness and reliability ensure that we present transactions fully, reliably and in a timely manner. This is done in accordance with legal regulations within the Group's accounting systems. The measures also ensure that we accurately and completely maintain the books of the companies included in the scope of consolidation in accordance with generally accepted accounting principles. Klöckner & Co ensures the accuracy of inventory and property, plant and equipment by physical stock take. We accurately record other assets and liabilities in our financial statements, present them correctly and value them appropriately. To ensure that within the Group, finance transactions and exchanges of goods and services are properly documented in each of the involved Group companies' accounts quarterly balance confirmations are performed using a standardized process.



The purpose of the controls is to reduce the probability of errors in work procedures and/or to discover any errors that have occurred. We do it through the analyses of selected items and by using analytical methods, such as analyzing key figures. The orderly transition of IT systems is subject to a timely review, either by the Corporate Internal Audit department or by our external auditor. The same applies to restructuring events, changes in business activities and in the economic or legal environment. Klöckner & Co SE's consolidated financial statements comply with International Financial Reporting Standards (IFRS). We ensure uniform application of IFRS in the Group with accounting directives, adjusted on an ongoing basis to changing pronouncements. The application of the accounting guidelines prepared and updated by the Corporate Finance & Accounting department is mandatory for all domestic and foreign subsidiaries included in the consolidated financial statements. The accounting guidelines are supplemented by a standardized Group chart of accounts. It is maintained and adjusted exclusively by the Corporate Finance & Accounting department at Klöckner & Co SE. By using a standardized Group accounting package for all subsidiaries, we ensure that we completely and uniformly gather all the additional necessary information for preparing the notes to the consolidated financial statements. We use IFRS checklists to ensure completeness of the disclosures in the consolidated financial statements.

When incorporating Group reporting packages into the Group accounting software, formal data consistency is ensured by plausibility checks (validations) incorporated into the SAP software. Quality assurance for the contents is also carried out by the Corporate Finance & Accounting department. That also posts corrections to the extent necessary. In doing so, the audit reports of the local auditors are also considered.

The Corporate Controlling and Finance & Accounting departments are in charge of the annual impairment tests in accordance with IAS 36. This also ensures that we perform a standardized valuation for all cash-generating units and exercise judgement uniformly. Valuation of all share-based compensation is also carried out centrally, with the involvement of an outside expert. We determine pension obligations in a decentralized manner, using actuarial experts. The calculation parameters used are approved by the Corporate Finance & Accounting department. In addition, we use a coordinating expert for superordinate central quality assurance for the overall process of determining pension obligations.

Accounting-related controls are limited by the use of estimates, erroneous controls or fraudulent activities. For this reason, there can be no absolute assurance with regard to complete and accurate recording of all contents in the consolidated financial statements.

## 8.7 OVERALL STATEMENT ON THE RISK SITUATION OF THE GROUP

Overall, the Management Board assumes that all accounting risks identified during the compilation of the financial statements have been provided for with sufficient provisions on the level of the individual Group companies and the holding Company, or by third-party guarantees. We also expect that massive compliance violations will be proactively prevented as a result of the Group-wide compliance-monitoring organization established in 2007 and 2008. This will serve to prevent damage from reaching a threatening level. Despite the comprehensive set of measures, we can, however, not rule out that isolated violations may arise or historic violations may exist. Any suspicious facts that arise will be followed by the compliance management without any reservation and necessary consequences will be taken. Even though there should be no grave violations, fines may be imposed that could harm the Group's financial position. In 2009 communications with our employees about avoiding all forms of violation, as well as investigations and inquiries conducted with the assistance of external experts have also been intensified.

In assessing the activities to limit the market risks described here, the Management Board believes the Group is sufficiently protected as a result of the measures implemented or planned as well as the business system described here. From the perspective as at the end of February 2010 and projected one year to two years into the future, the short- and mid-term market risks associated with the world economic crisis are significantly larger, less manageable and more difficult to counteract than in past years. However, no specific risks that could threaten the Company as a going concern have been noted, due to measures that have been implemented and prepared – particularly through liquidity protection.

## 9. FORECAST

The demand for steel and metal in 2009 was around one third below its level in the previous year. As a result, prices for steel products came under massive pressure, which also had a negative impact on our profitability. Starting from this unsatisfactory level, the Management Board assumes – in the budget adopted for 2010, which was developed in cooperation with its international subsidiaries – that sales volumes, sales and earnings will improve in the current fiscal year.

The global economy is expected to expand again in 2010. In its January forecast, the International Monetary Fund assumes that global economic growth will be 3.9%. A positive trend is generally assumed for all economies, though significantly higher growth rates are expected in emerging markets. Based on these assumptions, we expect demand for steel and metal products to improve only gradually in our markets. Demand is now being driven primarily by what are still comparatively low inventory levels along the entire value chain, which will have to be restocked with even a slight increase in economic activity. However, expectations for the individual customer industries vary. We expect the demand for steel in the construction industry to remain stable at current levels, supported by government economic stimulus packages. The packages focus primarily on infrastructure, which should also increase the demand for steel.

In the machinery and mechanical engineering industry, which is one of our key customer industries, we expect a moderate impulse in the demand for steel from the low level in 2009. Recent bank and industry association forecasts support these assumptions about future sales developments.

According to a forecast by the industry association Eurofer, the automotive industry, which is of increased importance due to the acquisition of Becker Stahl-Service, will also experience slight growth in Europe in 2010.

Following the dynamics in steel prices in 2009, prices are now, on average, at a significantly lower level than a year ago. Prices cannot fluctuate as greatly in 2010 starting from such a base. Given overall reductions in inventory, stock valuation effects will no longer influence earnings as much as they did last year.

We generally assume that demand in the European and North American segments will largely follow a parallel course. Due to relatively greater decline in demand and lower inventories last year, we expect the U.S. to experience a stronger recovery than Europe. International Monetary Fund forecasts put U.S. gross domestic product growth at 2.7% for 2010, compared to 1.0% in the euro zone. The economic forecasts mentioned above predict a more rapid recovery in the U.S. economy, which may also have a positive impact on our North American segment.

In light of measures implemented to improve efficiency, and assuming volume growth rates reaching double-digit levels along with continued – though reduced – volatility in prices, the Management Board expects to achieve a significantly positive operating profit (EBITDA). It will, however, not meet our goal of achieving an EBITDA margin on sales of at least 6%. Acquisitions will also contribute to an improvement in sales and earnings. For 2011, the economic environment is expected to recover further, which again should result in a slight volume increase and, hence, positively impact earnings.

From today's perspective and based on the industry associations' estimates regarding the revival of activity, it is not possible to quantify expected earnings.

With the measures introduced in response to the financial crisis at an early stage, we have gained a good starting position in the last fiscal year. By ensuring adequate liquidity and financing, sustainably reduced fixed costs and raising capital for growth, we are ideally positioned to continue to drive the consolidation process in our industry – as well as to bring organic growth back on track.

Duisburg, February 26, 2010

The Management Board

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# KLÖCKNER & CO SE

## Consolidated statement of income for the 12-month period ending December 31, 2009

(€ thousand)	Notes	2009	2008 <sup>*)</sup>
Sales	(7)	3,860,493	6,749,595
Other operating income	(8)	127,359	371,182
Change in inventory		-8,661	10,832
Own work capitalized		10	73
Cost of materials	(9)	-3,206,830	-5,394,417
Personnel expenses	(10)	-441,184	-546,017
Depreciation, amortization and impairments		-109,638	-67,372
<i>thereof impairment losses</i>		-41,782	-
Other operating expenses	(11)	-399,684	-590,612
<b>Operating result</b>		<b>-178,135</b>	<b>533,264</b>
Income from investments		2	-
Finance income		9,006	6,981
Finance expenses		-70,705	-76,763
<b>Financial result</b>	(12)	<b>-61,699</b>	<b>-69,782</b>
<b>Income before taxes</b>		<b>-239,832</b>	<b>463,482</b>
Income taxes	(13)	54,168	-79,308
<b>Net income</b>		<b>-185,664</b>	<b>384,174</b>
<i>thereof attributable to</i>			
<i>- shareholders of Klöckner &amp; Co SE</i>		<i>-188,484</i>	<i>398,335</i>
<i>- non-controlling interests</i>		<i>2,820</i>	<i>-14,161</i>
<b>Earnings per share</b>	(14)		
<b>- basic</b>		<b>-3.61</b>	<b>8.56</b>
<b>- diluted</b>		<b>-3.61</b>	<b>8.11</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

# KLÖCKNER & CO SE

## Statement of comprehensive income for the 12-month period ending December 31, 2009

(€ thousand)	2009	2008 <sup>*)</sup>
<b>Net income</b>	<b>- 185,664</b>	<b>384,174</b>
Income/expenses directly recognized in equity		
Foreign currency translation	<b>- 6,788</b>	47,272
Gain/loss from cash flow hedges	<b>19,900</b>	- 43,807
Related income tax	<b>- 3,602</b>	8,113
<b>Other comprehensive income</b>	<b>9,510</b>	<b>11,578</b>
<b>Total comprehensive income</b>	<b>- 176,154</b>	<b>395,752</b>
<i>thereof attributable to</i>		
<i>- shareholders of Klöckner &amp; Co SE</i>	<b>- 178,989</b>	411,003
<i>- non-controlling interests</i>	<b>2,835</b>	- 15,251

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

# KLÖCKNER & CO SE

## Consolidated statement of financial position as of December 31, 2009

### Assets

(€ thousand)	Notes	December 31, 2009	December 31, 2008 <sup>1)</sup>	January 1, 2008 <sup>1)</sup>
<b>Non-current assets</b>				
Intangible assets	(15a)	<b>194,985</b>	235,931	197,581
Property, plant and equipment	(15b)	<b>426,151</b>	479,421	482,138
Investment property	(15c)	<b>11,675</b>	13,188	-
Financial assets		<b>2,376</b>	2,364	2,661
Other assets	(18)	<b>26,736</b>	34,332	27,377
Income tax receivable	(13)	<b>11,638</b>	-	-
Deferred tax assets	(13)	<b>38,355</b>	46,491	33,336
<b>Total non-current assets</b>		<b>711,916</b>	<b>811,727</b>	<b>743,093</b>
<b>Current assets</b>				
Inventories	(16)	<b>570,918</b>	1,000,612	955,644
Trade receivables	(17)	<b>464,266</b>	798,618	929,964
Income tax receivable	(13)	<b>72,224</b>	29,388	6,572
Other assets	(18)	<b>65,840</b>	141,845	86,367
Liquid funds	(19)	<b>826,517</b>	296,636	153,558
<i>thereof cash and cash equivalents</i>		<b>826,517</b>	293,531	153,558
<i>thereof restricted cash</i>		-	3,105	-
Assets held for sale	(20)	<b>1,081</b>	4,942	98,596
<b>Total current assets</b>		<b>2,000,846</b>	<b>2,272,041</b>	<b>2,230,701</b>
<b>Total assets</b>		<b>2,712,762</b>	<b>3,083,768</b>	<b>2,973,794</b>

## Equity and liabilities

(€ thousand)	Notes	December 31, 2009	December 31, 2008 <sup>*)</sup>	January 1, 2008 <sup>*)</sup>
<b>Equity</b>				
Subscribed capital		<b>166,250</b>	116,250	116,250
Capital reserves		<b>429,493</b>	260,496	260,496
Retained earnings		<b>518,621</b>	708,272	418,263
Accumulated other comprehensive income		<b>-6,169</b>	-15,664	-28,332
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>		<b>1,108,195</b>	<b>1,069,354</b>	<b>766,677</b>
Non-controlling interests		<b>15,068</b>	11,998	84,283
<b>Total equity</b>	(21)	<b>1,123,263</b>	<b>1,081,352</b>	<b>850,960</b>
<b>Non-current liabilities and provisions</b>				
Provisions for pensions and similar obligations	(23)	<b>174,598</b>	180,095	188,457
Other provisions	(24)	<b>31,287</b>	36,924	59,151
Income tax liabilities	(13)	<b>20</b>	50	92
Financial liabilities	(25)	<b>618,744</b>	813,000	813,076
Other liabilities	(27)	<b>31,080</b>	59,634	8,962
Deferred tax liabilities	(13)	<b>71,029</b>	86,873	83,969
<b>Total non-current liabilities</b>		<b>926,758</b>	<b>1,176,576</b>	<b>1,153,707</b>
<b>Current liabilities</b>				
Other provisions	(24)	<b>109,868</b>	284,766	144,355
Income tax liabilities	(13)	<b>50,667</b>	19,139	18,223
Financial liabilities	(25)	<b>52,169</b>	48,112	72,644
Trade payables	(26)	<b>398,387</b>	392,183	609,863
Other liabilities	(27)	<b>51,650</b>	81,640	91,748
Liabilities associated with assets held for sale	(20)	<b>-</b>	-	32,294
<b>Total current liabilities</b>		<b>662,741</b>	<b>825,840</b>	<b>969,127</b>
<b>Total liabilities</b>		<b>1,589,499</b>	<b>2,002,416</b>	<b>2,122,834</b>
<b>Total equity and liabilities</b>		<b>2,712,762</b>	<b>3,083,768</b>	<b>2,973,794</b>

<sup>\*)</sup> Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).





# KLÖCKNER & CO SE

## Consolidated statement of cash flows for the 12-month period ending December 31, 2009

(€ thousand)	2009	2008 <sup>*)</sup>
Income before taxes	-239,832	463,482
Financial result	61,699	69,782
Depreciation, amortization and impairments	109,638	67,372
Other non-cash income and expenses	-80,128	63,187
Gain on disposal of subsidiaries and other non-current assets	-9,066	-277,414
<b>Operating cash flow</b>	<b>-157,689</b>	<b>386,409</b>
Changes in provisions	-54,441	-722
Changes in other assets and liabilities		
Inventories	431,161	-6,444
Trade receivables	337,589	143,449
Other receivables	24,321	-43,326
Trade payables	581	-223,699
Other liabilities	-30,139	24,681
Income taxes paid	13,279	-93,464
<b>Cash flow from operating activities</b>	<b>564,662</b>	<b>186,884</b>
Proceeds from the sale of non-current assets and assets held for sale	14,665	11,565
Proceeds from / disbursements for the sale of consolidated subsidiaries	-779	376,101
Payments for intangible assets, property, plant and equipment	-25,023	-48,111
Acquisition of subsidiaries	-	-264,360
Margin deposits for derivative transactions	3,105	-3,105
<b>Cash flow from investing activities</b>	<b>-8,032</b>	<b>72,090</b>
Issue proceeds of convertible bond (incl. equity component)	95,681	-
Capital increase by issuance of new shares	193,134	-
Dividends paid to		
- shareholders of Klöckner & Co SE	-	-37,200
- non-controlling interests	-980	-2,478
Borrowings	71,972	425,187
Repayment of financial liabilities	-355,497	-471,186
Interest paid	-34,635	-45,398
Interest received	6,477	7,636
<b>Cash flow from financing activities</b>	<b>-23,848</b>	<b>-123,439</b>
<b>Changes in cash and cash equivalents</b>	<b>532,782</b>	<b>135,535</b>
Effect of foreign exchange rates on cash and cash equivalents	204	4,438
Cash and cash equivalents at the beginning of the period	293,531	153,558
<b>Cash and cash equivalents at the end of the period</b>	<b>826,517</b>	<b>293,531</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4 to the consolidated financial statements).

# KLÖCKNER & CO SE

## Summary of changes in equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings
<b>Balance as of January 1, 2008 as previously reported</b>	<b>116,250</b>	<b>260,496</b>	<b>412,227</b>
Initial application of IFRIC 14 <sup>*)</sup>			6,036
<b>Balance as of January 1, 2008 as restated for effects of IFRIC 14</b>	<b>116,250</b>	<b>260,496</b>	<b>418,263</b>
Income/expenses directly recognized in equity			
Foreign currency translation			
Gain/loss from cash flow hedges			
Related income tax			
Reclassification to profit and loss due to sale of foreign subsidiaries			
Net income			398,335
<b>Total comprehensive income</b>			
Acquisition of non-controlling interests			-71,126
Dividends			-37,200
<b>Balance as of December 31, 2008 as restated for effects of IFRIC 14</b>	<b>116,250</b>	<b>260,496</b>	<b>708,272</b>
<b>Balance as of January 1, 2009</b>	<b>116,250</b>	<b>260,496</b>	<b>708,272</b>
Income/expenses directly recognized in equity			
Foreign currency translation			
Gain/loss from cash flow hedges			
Related income tax			
Net income			-188,484
<b>Total comprehensive income</b>			
Acquisition of non-controlling interests			-1,167
Change in scope of consolidation			
Equity component of convertible bond		25,863	
Capital increase by issuance of new shares	50,000	143,134	
Dividends			
<b>Balance as of December 31, 2009</b>	<b>166,250</b>	<b>429,493</b>	<b>518,621</b>

\*) See Note 4 to the consolidated financial statements.

Accumulated other comprehensive income

	Currency translation adjustment	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	Total
	-27,737	-595	760,641	84,283	844,924
			6,036		6,036
	-27,737	-595	766,677	84,283	850,960
	47,272		47,272		47,272
		-43,807	-43,807		-43,807
	-5,336	13,449	8,113		8,113
	1,090		1,090		1,090
			398,335	-14,161	384,174
			<b>411,003</b>		
			-71,126	-55,646	-126,772
			-37,200	-2,478	-39,678
	15,289	-30,953	1,069,354	11,998	1,081,352
	15,289	-30,953	1,069,354	11,998	1,081,352
	-6,803		-6,803	15	-6,788
		19,900	19,900		19,900
	2,508	-6,110	-3,602		-3,602
			-188,484	2,820	-185,664
			<b>-178,989</b>		
			-1,167	1,165	-2
				50	50
			25,863		25,863
			193,134		193,134
				-980	-980
	10,994	-17,163	1,108,195	15,068	1,123,263

# KLÖCKNER & CO SE

## Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg, as of December 31, 2009

### (1) COMPANY INFORMATION

Klöckner & Co SE ("Klöckner & Co" or "the Company") is a listed corporation domiciled in Duisburg, Am Silberpalais 1. Klöckner & Co SE is entered in the commercial register of the Duisburg Local Court under HRB 20486. The consolidated financial statements of Klöckner & Co SE and its subsidiaries ("Klöckner & Co Group" or "Group") were authorized for issuance to the Supervisory Board by way of resolution of the Management Board on February 26, 2010. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it will approve the consolidated financial statements.

The Klöckner & Co Group is the largest mill-independent multi metal distributor in Europe and North America. Alongside trading of steel, aluminum and various industrial products, it also provides a range of associated services.

The shares of Klöckner & Co SE were listed in the MDAX® on January 29, 2007.

### (2) ACCOUNTING POLICIES

The consolidated financial statements as of December 31, 2009 were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, and the additional requirements of the German Commercial Code ("HGB" – Handelsgesetzbuch) pursuant to Section 315a para. 1 HGB. All binding IFRS and the associated interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") as of December 31, 2009 were applied.

The financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2009, 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). Deviations from the unrounded amounts may arise.

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

### (3) SCOPE AND PRINCIPLES OF CONSOLIDATION

#### **Scope of consolidation**

The consolidated financial statements incorporate the financial statements of Klöckner & Co SE and the companies controlled by Klöckner & Co SE ("subsidiaries"). Control is achieved when Klöckner & Co holds the majority of the voting rights or by other means is able to govern the financial and operating policy of an entity in order to obtain the economic benefit from its activities.

Under the Group's European asset-backed securitization program ("ABS program") a total of 13 special-purpose entities were formed. In 2009 the Group acquired all interests in nine of these special-purpose entities, all of which are currently dormant. As these entities already formed part of the scope of consolidation in previous years the acquisitions did not result in a change in the scope of consolidation. None of the Group companies holds an equity interest in the remaining four special-purpose entities. However, they were established for the sole purpose of purchasing and collecting receivables of Klöckner & Co subsidiaries. As such the economic substance of the relationship between

Klöckner & Co and these special-purpose entities indicates that these companies are also controlled by Klöckner & Co and are therefore to be included in the consolidated financial statements. A further special-purpose entity which is responsible for the acquisition of trade receivables under the American ABS program is consolidated under the general consolidation rules.

The financial statements of subsidiaries acquired or disposed of in the course of the financial year are included in the consolidated financial statements from the time control is achieved to the time it is surrendered.

Intragroup receivables, liabilities and intercompany results are eliminated in consolidation. Consolidation entries are subject to deferred taxes. Deferred tax assets and liabilities are offset against each other if the term and levying taxation authority are identical.

The scope of consolidated companies changed as follows:

	2009	2008
Consolidated entities at the beginning of the financial year <sup>*)</sup>	116	167
+ business combinations	-	4
+ newly formed/consolidated companies	2	2
- mergers	-3	-15
- disposals and liquidations	-6	-42
<b>Consolidated entities at the end of the financial year</b>	<b>109</b>	<b>116</b>
<i>thereof domestic entities including Klöckner &amp; Co SE<sup>*)</sup></i>	<b>10</b>	11

\*) Including consolidated special-purpose entities.

5 (2008: 6) subsidiaries which do not have a significant impact on the Group's net assets, financial results and results of operations are not consolidated. Net income of these entities represents only -0.01% (2008: 0.01%) of consolidated net income. The impact on the Group's equity amounts to -1.24% (2008: -1.21%). Such subsidiaries are accounted for as financial assets at cost as their fair values cannot be determined reliably.

ODS do Brasil Sistemas de Medição LTDA Campinas, São Paulo, Brazil, established in 2008, which was not consolidated in 2008 based on materiality aspects, has been included in the scope of consolidation from January 1, 2009.

### Joint ventures

A joint venture is a contractual agreement under which Klöckner & Co and other parties undertake an activity that is subject to joint control. Joint venture agreements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

As jointly controlled entity the 50% interest in Debrunner Koenig Informatik AG, Dietikon, Switzerland, is accounted for under the equity method. The company was sold on January 21, 2010.

Under the equity method investments in associated companies are carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee. Proportionate losses exceeding the carrying amount of the associated company are not recognized unless an obligation to compensate such losses exists. Any goodwill recognized upon acquisition is included in the carrying amount of the investee. Unrealized intercompany profits from transactions with associated companies carried at equity are eliminated.

A list of affiliated companies included in the consolidated financial statements is attached as annex.

#### (4) SIGNIFICANT ACCOUNTING POLICIES

##### **Business combinations**

Business combinations are accounted for under the purchase method whereby the cost of the investment is offset against the investee's net assets which is remeasured to fair value. The net assets are based on the fair values of the assets and liabilities, including identifiable intangible assets and contingent liabilities to be recognized as liabilities, as of the date of acquisition.

If published exchange or market prices cannot be obtained for allocating the purchase price, the fair values are calculated on the basis of suitable valuation techniques. Generally, the discounted cash flow method is used in such cases. Under this method, the expected future cash flows that can be generated by the asset are discounted to the date of the initial consolidation using a discount rate reflecting the inherent risk associated to the asset.

Any remaining excess of the cost of the acquired company over its proportional share of net assets is recognized separately as goodwill; any negative difference is upon reassessment of the acquired assets and liabilities directly recognized in the income statement. Audit and consulting fees incurred in business combinations are expensed as incurred.

Subsequent changes in interests in consolidated subsidiaries that do not result in a loss of control are treated as equity capital transactions.

##### **Foreign currency translation**

Transactions denominated in foreign currency are translated using the exchange rate at the time of the transaction. Monetary items are translated using the current exchange rate at the balance sheet date. Irrespective of any currency hedges, gains or losses from the remeasurement of monetary assets and liabilities are recognized in the income statement as other operating income or expenses.

Applying the functional currency concept, the annual financial statements of the foreign subsidiaries prepared in foreign currency are translated into euros. The functional currency is determined by the primary economic environment in which the entity operates. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency for those entities is the local currency. Assets and liabilities of subsidiaries are translated at the middle rate on the reporting date while income and expenses are translated at the average exchange rate of the reporting period. Differences arising from such translations applied to the assets, liabilities and components of net income are reported as a separate component of equity and accordingly do not have an impact on net income.

The exchange rate changes for the main currencies of the Group developed as follows:

1 € =	Closing rate		Average rate	
	December 31, 2009	December 31, 2008	2009	2008
US Dollar (USD)	<b>1.4405</b>	1.3918	<b>1.3949</b>	1.4708
Pound Sterling (GBP)	<b>0.8881</b>	0.9525	<b>0.8909</b>	0.7963
Swiss Franc (CHF)	<b>1.4836</b>	1.4850	<b>1.5100</b>	1.5874

### Revenue recognition

Revenues from sales of goods are recognized when the material risks and rewards associated with ownership have been transferred to the buyer and the amount of revenues can be reliably measured. This is generally the time of delivery. Prior to delivery, revenues are only recognized when goods have not been delivered at the request of the buyer but ownership has been transferred and the buyer has accepted billing. Sales are reported net of allowances such as commissions, trade discounts and rebates.

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

### Share-based payment

The Group's share-based compensation plans are virtual stock option plans with cash settlement ("VSO"). As of the respective reporting date, a provision is recognized pro rata temporis in the amount of the fair value of the payment obligation; any subsequent change in the fair value is recognized in profit or loss. After the expansion of the program the fair value of the virtual share options is calculated on the basis of an option pricing model based on a Monte Carlo simulation using the following parameters:

%	December 31, 2009	December 31, 2008
Risk-free rate or return	<b>0.8-3.2</b>	2.1-2.4
Expected volatility	<b>51.0</b>	85.0

### Earnings per share

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. The dilutive, potential shares of the outstanding convertible bonds are included in the calculation of diluted earnings to the extent that such shares are not anti-dilutive.

### Income taxes

Income tax expense represents the total of current and deferred tax expenses.

Current tax expenses are calculated on the basis of the taxable income for the financial year. The taxable income differs from the income before taxes for the year reported in the income statement as it does not include income or expenses that will not be taxable or tax deductible until later financial years, if at all. 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 or substantively enacted at the balance sheet date.

Deferred taxes are calculated in line with the concept of the balance sheet liability method. Deferred tax assets result from temporary differences in the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits and from consolidation entries. Such deferred tax assets or liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable profits nor the accounting profits.

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

Deferred tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which Klöckner & Co expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to set off current tax assets against current tax liabilities exists and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority and a net settlement is intended.

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

### **Intangible assets**

Intangible assets with finite useful lives are carried at cost less accumulated amortization if the use of the asset entails an economic benefit and the costs of the asset can be reliably determined. Intangible assets are amortized on a straight-line basis in line with their estimated useful life over a period generally between two and 15 years. The useful life is reviewed annually and future expectations are adjusted if necessary. Intangible assets with an indefinite useful life that are not being amortized are reviewed for impairment annually or more frequently if indications for impairment arise.

### **Property, plant and equipment**

Property, plant and equipment is carried at acquisition or manufacturing cost less accumulated depreciation. The manufacturing costs comprise all direct costs as well as attributable overheads, with the exception of financing costs. Administrative costs are capitalized to the extent they relate to production.

Maintenance and repair costs are expensed as incurred.

Property, plant and equipment subject to depreciation are amortized on a straight-line basis. On disposal or retirement, the cost and the corresponding accumulated depreciation are derecognized, any gain or loss is recognized in income.



Depreciation is based on the following useful lives:

	Useful life in years
Office building, factory and warehouse buildings	20–50
Plant facilities similar to buildings	10–33
Warehouse and crane equipment and other technical equipment	4–20
Operating and office equipment	3–15

### Leases

Assets held under finance leases are initially recognized at fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as financial liability. Assets held under finance leases are depreciated over their expected useful lives, or where shorter, the term of the underlying lease.

### Investment property

Land and buildings held to earn rentals or for capital appreciation rather than for use in the delivery of goods or for providing services or for administrative purposes are presented as investment property. Measurement of such property follows the cost model. The fair values of such property are disclosed in Note 15 *Intangible assets, property, plant and equipment and investment property*.

Depreciation methods and useful lives are similar to those for property, plant and equipment.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine if there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. The recoverable amount is the higher value of the fair value less cost to sell and the value in use. In those instances in which the recoverable amount for the specific asset cannot be estimated, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, 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 if no impairment loss had been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income.

Goodwill arising from the acquisition of subsidiaries is tested for impairment at least annually. The impairment test is performed at the level of the cash-generating unit to which the goodwill has been assigned. Cash-generating units are the lowest reporting level in the Group at which management monitors goodwill for internal reporting purposes. For the Klöckner & Co Group the national sub-consolidation groups generally represent the cash-generating units. The annual impairment test for goodwill is performed in the fourth quarter of each financial year – or more frequently when there is an indication that the unit 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 higher value of fair value less cost to sell and value in use. The value in use represents the discounted cash flow of the asset or cash generating unit, respectively. Value in use or fair value less cost to sell is usually determined using a discounted cash flow approach. The estimated cash flows are based on the Company's current business plan for the following three years, based on management's estimates for the respective business unit. The interest rates used reflect the risk specific to the underlying business and the country in which the business is operated.

Impairment losses are reported in the income statement under impairment losses. Reversals of impairment losses are included in other operating income.

#### **Inventories**

Inventories are stated at the lower of cost or net realizable value. The manufacturing costs comprise production-related costs calculated on the basis of normal capacity. In addition to the directly attributable costs, adequate material and production overhead expenses including depreciation are reflected in the manufacturing costs. Cost is generally assigned to inventories on the basis of the monthly moving average method. In selected cases the specific identification method is applied.

#### **Financial instruments**

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

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

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

Financial instruments are initially measured at fair value, plus transaction costs directly attributable to the acquisition or issue unless such financial instruments are classified at fair value through profit or loss. Subsequent measurement of financial assets and liabilities depends on the financial instruments classification to categories of IAS 39.

#### a) Financial assets and financial liabilities (excluding derivative financial instruments) and equity instruments issued by Klöckner & Co

Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value and are stated at nominal value. Foreign currency balances are converted into euros at the bid rate on the balance sheet 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 only applies for derivative financial instruments unless designated in a documented hedge. Such instruments are presented as other assets in the Group's consolidated financial statements.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Also assigned to this category are non-current loans and non-current securities that do not have a quoted market price in an active market, which are measured at amortized cost.

All identified risks are allowed for by making appropriate valuation adjustments to reflect the risk of default, taking into account the credit insurance that is in place. The carrying amounts of financial assets are assessed for impairment if there is objective evidence, such as substantial financial difficulty on the part of the obligor, knowledge of insolvency proceedings or being overdue.

Non-derivative financial assets that are not assigned to any of the other categories described in IAS 39 are classified as "available for sale financial assets" and are measured at fair value. Such assets include as well shares in unconsolidated subsidiaries and other equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are accounted for at cost. If required valuation allowances are established through profit or loss to account for an impairment loss. Impairment losses are reversed when the reasons for such impairment losses no longer apply unless they relate to "available for sale financial assets" that are accounted for at cost for which no reversal of impairment losses is allowed.

Financial instruments are initially recognized as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its liabilities. An equity instrument is recognized in the amount of the proceeds received from the issuance less directly attributable transaction costs.

The components of compound financial instruments such as the convertible bonds are recognized separately as financial liabilities and equity. The fair value of the liability component was calculated using a market interest rate for equivalent financial instruments without conversion rights. Subsequent accounting of the liability component will be on an amortized cost basis until conversion or maturity of the bond. In line with the residual method the remaining difference represents the equity component which is reported within capital reserves with no subsequent adjustment. Financial liabilities are either classified as fair value through profit or loss or as other financial liabilities.

Klöckner & Co Group only classifies derivative financial instruments that are not designated as hedge and are effective as liabilities measured at fair value through profit or loss. The negative fair value of such instruments is reported under other liabilities.

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

#### b) Derivative financial instruments

The Group uses a variety of derivative financial instruments to manage its exposure to interest and foreign exchange rate risks. These include forward exchange transactions, currency swaps, cross currency swaps, interest rate swaps and interest rate collars. Further information is disclosed in Note 30 *Derivative financial instruments*.

Derivative financial instruments are initially reported at fair value at the conclusion of the agreement. The fair value is adjusted at each subsequent balance sheet date. Any gain or loss arising from a change in the fair value of a derivative financial instrument that is not part of a cash flow hedging relationship and for which the hedging relationship is effective is recognized in the income statement. For derivative financial instruments designated in a hedging relationship the timing of the recognition of gains or losses is dependent on the nature of the hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. In addition, hedge accounting is applied for certain unrecognized firm commitments.

Forward exchange transactions are valued on an item-by-item basis at the forward rate on the balance sheet date, and exchange rate differences arising because of the contracted forward exchange rate are included in the income statement.

Interest rate swap amounts from interest rate swap agreements are recognized in the income statement at the payment date or the balance sheet date. In addition, interest rate swap agreements as well as interest rate caps are carried at their fair value as of the balance sheet date, and, provided that no hedge accounting is applied, changes in the fair values are recognized in the income statement for the current reporting period.

Derivative financial instruments designated in hedging transactions are classified as non-current assets or liabilities if the remaining term of the hedging relationship is more than twelve months or as current assets or liabilities, respectively, if the remaining term of the hedging relationship is less than twelve months.

Derivative financial instruments not designated in a hedging relationship are classified either as current assets or liabilities.

#### c) Hedge accounting

Depending on volume, term and risk structure, the Klöckner & Co Group designates individual derivative financial instruments as cash flow hedges.

The relationship between the hedged item and the hedging instrument including the risk management objectives and the strategy for undertaking the hedge transaction are documented at the inception of the hedge. In addition, at the inception of a hedging transaction and over its term, the Company regularly reviews and documents whether the hedge is highly effective in terms of compensating the changes in the cash flows of the hedged item. Information on the fair values of these derivative financial instruments is provided in Note 30 *Derivative financial instruments*; changes in the reserve for fair value adjustments of financial instruments within equity can be derived from the statement of changes in equity.

#### **Cash flow hedges**

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or is no longer deemed effective. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative profit or loss deferred in equity is immediately recognized in income or expense.

### **Non-current assets held for sale and associated liabilities**

Non-current assets or groups of such assets which 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. This condition is met only when the disposal is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Depreciation and amortization is no longer recognized on assets held for sale. They are carried at the lower of the carrying amount or fair value less costs to sell.

### **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, are recognized over the total service period of the respective employee. Actuarial advice has been obtained.

Actuarial gains or losses resulting from deviations between forecast and actual changes in plan beneficiaries as well as actuarial assumptions that exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets are amortized over the expected remaining working lives of the participating employees.

Service costs are reported in personnel expenses, the interest costs in interest expense.

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

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise amortized on a straight-line basis over the average service period until the benefits become vested.

Employer contributions made by the Klöckner & Co Group to an independent entity under defined contribution plans and to which no further legal or constructive payment obligations may arise are expensed as incurred.

### **Other provisions**

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), and with IAS 19 (Employee Benefits) if applicable, 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 reliable estimate can be made of the amount of the obligation. A provision is only established for legal or constructive obligation against third parties.

Provisions are recognized at the amount which represents the best estimate of the expenditure required to settle the present obligation. Any reimbursement is treated as a separate asset and accordingly is not offset against the provision. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The present value is calculated using interest rates that reflect current market assessments and the risks specific to the liability.

**Contingent liabilities**

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 enterprise or that represent a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources 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 provided.

**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 the notes to the consolidated financial statements. Assets that will be realized within twelve months of the reporting date, as well as liabilities that will be settled within one year of the reporting date, are classified as current.

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

**Use of estimates**

The preparation of the consolidated financial statements requires the Klöckner & Co Group to make assessments, estimates and assumptions influencing the application of accounting policies in the Group and the reporting of assets, liabilities, income and expenses. The actual amounts may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates are recognized in the period in which the estimate is revised, if the change affects only that period or in the period of the revision and subsequent periods if more than one period is affected.

Estimates are particularly necessary for the valuation of intangible assets (e.g. in purchase price allocations), the recognition and measurement of deferred tax assets, the accounting for pension and other obligations as well as for impairment tests in accordance with IAS 36.

**New accounting standards and interpretations**

In 2009 the Group initially applied IAS 1 rev. 2008 (Presentation of Financial Statements), IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements), IAS 23 (Borrowing Cost), IFRS 7 (Financial Instruments: Disclosure), IFRS 8 (Operating Segments) and the interpretations IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) and IFRIC 16 (Hedges of a Net Investment in a Foreign Operation).

As a result of the application of IAS 1 rev. 2008 the consolidated financial statements now also comprise a statement of recognized income and expenses.

In January 2008, the IASB published revised versions of IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements). Significant changes from the previous standards relate among other things to the recognition and measurement of assets and liabilities acquired in a business combination, the calculation of goodwill, the treatment of acquisition-related cost, the presentation of contingent considerations and the treatment of changes in controlling interests after the achievement of control. Given that the Group temporarily suspended its acquisition strategy the initial application did not have an effect on the consolidated financial statements.

The application of the revised IFRS 7 resulted in additional notes disclosure.

Under IFRS 8, operating segments are based on the internal reporting organization ("Management Approach"). The initial application did not result in changes in the segmentation of the Group.

Under IAS 23, borrowing costs that are directly attributable to the acquisition, construction or manufacture of a qualifying asset must be capitalized. The initial application of the revised standard did not have a material effect on the Group's financial statements.

IFRIC 14 provides general guidance on how to access the limit in IAS 19 on the amount of the surplus of a pension plan that can be recognized as an asset. The initial application resulted in adjustments to the asset recognized for the Swiss pension plans. In accordance with the transition provisions of IFRIC 14 the application was made retrospectively. The comparative amounts for 2008 have been restated as follows:

(€ thousand)	As previously reported	Initial application of IFRIC 14	As restated
<b>Balances as of January 1, 2008</b>			
Excess of pension assets and Swiss employer contribution reserves	5,349	7,641	12,990
Deferred tax liabilities	82,364	1,605	83,969
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>	<b>760,641</b>	<b>6,036</b>	<b>766,677</b>
<b>Balances as of December 31, 2008</b>			
Excess of pension assets and Swiss employer contribution reserves	4,804	8,787	13,591
Deferred tax liabilities	85,028	1,845	86,873
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>	<b>1,062,412</b>	<b>6,942</b>	<b>1,069,354</b>
Personnel expenses	546,272	-255	546,017
Income taxes	79,254	54	79,308
<b>Net income attributable to shareholders of Klöckner &amp; Co SE</b>	<b>398,134</b>	<b>201</b>	<b>398,335</b>
<b>Earnings per share (€/share)</b>			
- basic	8.56	0.00	8.56
- diluted	8.11	0.00	8.11

IFRIC 16 (Hedges of a Net Investment in a Foreign Operation) addresses the question of which risks are eligible for hedge accounting under IAS 39. The initial application of the interpretation had no impact on Klöckner & Co's consolidated financial statements.

In addition the International Accounting Standards Board (IASB) and IFRIC have issued the following standards and interpretations that are applicable for the Group but whose application is not yet mandatory in the reporting period. The application of the standards and interpretations is subject to endorsement by the EU, which for certain standards and interpretation is yet outstanding. Further standards and interpretations issued during the reporting period which are not further discussed in the following paragraphs will not have an impact on the Group's financial statements.

In April 2009 the IASB issued the second omnibus standard "Improvements to IFRSs" which comprises adjustments to ten standards and two interpretations. Unless otherwise noted the adjustments are binding for fiscal years beginning on or after January 1, 2010. Klöckner & Co does not expect that these changes will have a significant impact on the Group's consolidated financial statements.

The changes to IFRS 2 (Share-based Payment – Group Cash-settled Share-based Payment Transactions) issued in June 2009 which classifies the application of IFRS 2 for cash-settled transactions in the individual financial statements of consolidated subsidiaries will not have a significant impact on the Group's consolidated financial statements.

In November 2009 the IASB issued IFRS 9 (Financial Instruments) on classification and measurement of financial instruments. The release marks the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 introduces new regulations for the classification and measurement of financial assets. The standard is to be applied for fiscal years beginning on or after January 1, 2013. Klöckner & Co is currently evaluating the impact on the standard of its consolidated financial statements.

In November 2009 the IASB issued changes to IFRIC 14 (The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction). The amendment "Prepayment of a Minimum Funding Requirement" which is limited to certain instances in which an entity is subject to minimum funding requirements and issues prepayments which fulfill these requirements. The amendment now permits the recognition of the economic benefits of such payments as an asset. The revised interpretation must be applied in fiscal years beginning on or after January 1, 2011. Klöckner & Co currently assesses the impact of the revised interpretations on its consolidated financial statements.

#### (5) ACQUISITIONS AND DISPOSALS

The Group structure changed as a result of the following acquisitions and disposals in financial years 2009 and 2008.

##### **Acquisition activity in 2009**

On November 11, 2009 the Group reestablished its acquisition strategy by signing a preliminary agreement for the acquisition of the Becker Stahl-Service Group with headquarters in Bönen, Germany. The Becker Stahl-Service Group operates one of the largest and most modern steel service centers in the world. The group has around 460 employees and generated sales of about €600 million in the 2008/2009 fiscal year ending September 30, 2009. It is expected that the transaction will be concluded in the first quarter of 2010.

##### **Acquisitions 2008**

###### **Taylor Equipment and Machine Tool Corporation**

In April 2008, Klöckner & Co entered into an agreement to acquire the operating assets of the distribution company Taylor Equipment and Machine Tool Corporation (Temtco), headquartered in Louisville, Mississippi, USA. The acquisition is deemed to be a material business combination under IFRS 3. The activities have been included in the Group's consolidated financial statement since closing on May 5, 2008.



The effects of the purchase price allocation were as follows:

Carrying amounts and fair values as of initial consolidation date			
(€ million)	Carrying amount	Adjustments	Fair value
<b>Assets</b>			
non-current	3.4	57.2	60.6
<i>thereof goodwill</i>	0.0	9.3	9.3
current	75.6	5.1	80.7
<b>Liabilities and provisions</b>			
current	18.9	0.0	18.9
<b>Acquired net assets</b>	<b>60.1</b>	<b>62.3</b>	<b>122.4</b>
<b>Purchase price</b>			<b>122.4</b>
<i>thereof paid in cash and cash equivalents</i>			122.4

#### Other acquisitions in 2008

In January 2008, the transaction to acquire a controlling stake of 77.3% from 7.3% previously held in Metalsnab Holding AD (Metalsnab), Sofia, Bulgaria, was completed. The name of the company was subsequently changed to Klöckner Metalsnab AD, Sofia, Bulgaria. Metalsnab has been included in the consolidated financial statements since January 1, 2008. After control was obtained the Group acquired further stakes of 22.5% in the third quarter of 2008. With 99.8% the Group now holds almost the entire shares of the company.

Also in January 2008, Klöckner & Co acquired 100% of the shares in Multitubes Ltd. (Multitubes), Brierley Hill, West Midlands, United Kingdom. The company was initially consolidated on January 1, 2008.

By agreement of May 21, 2008, Sherex Industries Ltd. (Sherex), New York, USA, was acquired. Sherex was part of the disposed Koenig Verbindungstechnik AG, Dietikon, Switzerland (KVT Group).

The carrying amounts and fair values at the date of the other acquisitions were as follows:

Carrying amounts and fair values as of initial consolidation date			
(€ million)	Carrying amount	Adjustments	Fair value
<b>Assets</b>			
non-current	14.0	0.9	14.9
<i>thereof goodwill</i>	<i>0.0</i>	<i>0.9</i>	<i>0.9</i>
current	18.1	2.2	20.3
<b>Liabilities and provisions</b>			
non-current	1.5	0.0	1.5
current	12.4	0.9	13.3
<b>Acquired net assets</b>	<b>18.2</b>	<b>2.2</b>	<b>20.4</b>
Non-controlling interests	4.0	0.0	4.0
Excess of net assets over purchase price			-1.2
<b>Purchase prices</b>			<b>15.2</b>
<i>thereof paid in cash and cash equivalents</i>			<i>15.2</i>

### Acquisition of non-controlling interests and other changes in controlling interests

#### 2009

By shareholder resolution dated July 15, 2009, the registered capital of Klöckner Distribution Industrielle S.A. (KDI) was increased. The non-controlling investor did not participate in the capital increase, thereby increasing Klöckner & Co Verwaltung's interest to 96.77% (2008: 90.0%).

#### 2008

In the first half of 2008 the Group increased its holdings in Debrunner Koenig Holding AG, St. Gallen, Switzerland (DKH) by 22.0% to now 100% at a purchase price of €126.7 million.

### Disposals

#### 2009

On August 19, 2009 the Group disposed of its investment in Klöckner Information Services GmbH to third-party investors. The disposal resulted in a gain of approximately €2.5 million which is included in other operating income. The purchase price was settled by offsetting with existing liabilities.

#### 2008

With effect of July 2008 the sale of the Canadian subsidiary Namasco Ltd. was completed, the primary business of which is the processing of flat-rolled metal products for the North American automotive industry.

In September 2008 the Group disposed of its interests in the Koenig Verbindungstechnik AG group (KVT). KVT's business activity is concentrated in the markets of fastening systems and sealing plugs.

The 2008 disposals resulted in disposal gains of approximately €273.4 million which are largely attributable to the sale of KVT.

## NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

### (6) SPECIFIC ITEMS RECOGNIZED IN NET INCOME

In addition to the gain on sale of KIS (see Note 5 *Acquisitions and disposals*) the Group's net income is impacted by the following special items:

#### **Reduction of antitrust fine KDI**

On January 19, 2010 the French court of appeal greatly reduced the fine on KDI S.A.S. imposed by the French antitrust authority in 2008 from €169.3 million to €23.5 million. The adjustment of the provision and the related compensation claim against previous owners resulted in additional, non-recurring income of €79 million in 2009 which is largely presented as other operating income. Further details are provided in Note 35 *Subsequent events*.

#### **Fees incurred with the restructuring of the financing arrangements**

The terms of the Multi-currency revolving credit facility and European ABS program were restructured in the second quarter (see Note 25 *Financial liabilities*). Expenses incurred in regard to the restructuring of the facilities amounted to approximately €8 million and are presented in the financial result.

#### **Impairment losses of the cash-generating units Spain and United Kingdom**

As a result of the impairment tests performed on cash generating units (CGU) in the fourth quarter 2009 goodwill impairment charges were made of approx. €7.9 million for goodwill of the CGUs' Spain (€4.7 million) and United Kingdom (€3.2 million) as well as for property, plant and equipment and investment property of the CGU Spain of approx. €33.0 million as their value in use and their fair value less cost to sell were lower than their carrying values. This is largely due to the adverse local market developments and as a result lower earnings expectations which are reflected in the planning process. For the CGU Spain this was primarily triggered by the development of the construction sector. See also Note 15 *Intangible assets, property, plant and equipment and investment property*.

## (7) SALES

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

(€ thousand)	2009	2008
Germany	749,704	1,462,369
EU excluding Germany	1,678,944	2,861,410
Rest of Europe	669,767	901,318
North America	673,460	1,379,522
Central and South America	23,266	19,054
Asia/Australia	18,761	26,669
Africa	46,591	99,253
<b>Sales</b>	<b>3,860,493</b>	<b>6,749,595</b>

## (8) OTHER OPERATING INCOME

(€ thousand)	2009	2008
Reduction of antitrust fine KDI	80,172	-
Reversal of provisions	10,520	8,138
Foreign currency exchange gains	5,898	23,448
Global Settlement Balli	-	38,718
Gain on sale of consolidated subsidiaries	2,496	273,445
Gain on sale of non-current assets and assets held for sale	7,238	4,833
Income from written-off receivables	5,550	3,886
Rental income	4,274	4,349
Excess of net assets over purchase price in business combinations	-	1,198
Other income	11,211	13,167
<b>Other operating income</b>	<b>127,359</b>	<b>371,182</b>

The reduction of the antitrust fine against KDI (see also Note 6 *Specific items recognized in net income*) resulted in gains of approximately €80 million. Including effects of the accretion of approximately €1 million of the provision and the related compensation claim against former shareholders, the net gain in 2009 amounted to €79 million.

Gain on sale of consolidated subsidiaries relate to the sale of KIS. The prior year amount is primarily attributable to the sale of KVT. For further details refer to Note 5 *Acquisitions and disposals*.

Other income comprises €1,565 thousand (2008: €1,847 thousand) excess customer payments for which the statute of limitation has been exceeded or credits which are not offset from/to customers and uncharged supplier deliveries and services as well as several income items each in the amount of less than €1.5 million. Foreign currency exchange gains and losses resulting from the prolongation of Group internal financial receivables or financial liabilities are presented on a net basis as other income or other expenses. As such foreign currency exchange gains of €7,091 thousand (2008: €7,497 thousand) and foreign currency exchange losses of €8,839 thousand (2008: €6,109 thousand) have been offset against each other.

## (9) COST OF MATERIALS

(€ thousand)	2009	2008
Cost of materials, supplies and purchased merchandise	<b>3,201,301</b>	5,387,035
Cost of purchased services	<b>5,529</b>	7,382
<b>Cost of materials</b>	<b>3,206,830</b>	<b>5,394,417</b>

## (10) PERSONNEL EXPENSES

(€ thousand)	2009	2008 <sup>*)</sup>
Wages and salaries	<b>349,581</b>	448,669
Social security contributions (including welfare benefits)	<b>73,775</b>	84,707
Retirement benefit cost	<b>17,828</b>	12,641
<b>Personnel expenses</b>	<b>441,184</b>	<b>546,017</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

The reduction of personnel expenses is due to the lay-offs initiated in 2009 and lower bonuses.

The majority of the personnel expenses relate to remuneration, which comprises wages, salaries, compensation and all other remuneration for work performed by employees of the Group in the financial year. The mandatory statutory contributions to be borne by the Company, including in particular social security contributions, are reported under social security contributions.

Retirement benefit expenses relate to active and former staff or their surviving dependents. These expenses include net periodic pension costs, employer contributions to supplementary occupational pension plans and retirement benefit payments by the Company for its employees.

In 2009, the following average staff was employed in the Klöckner & Co Group:

	2009	2008
Salaried employees	<b>5,256</b>	5,814
Wage earners	<b>3,892</b>	4,591
Apprentices	<b>254</b>	276
	<b>9,402</b>	<b>10,681</b>

## (11) OTHER OPERATING EXPENSES

(€ thousand)	2009	2008
Forwarding cost	83,926	111,303
KDI antitrust case	-	79,300
Rental and leasing expenses	68,752	69,873
Repair and maintenance	35,342	50,470
Third-party services	34,987	38,661
Supplies	37,022	49,252
Audit fees and consulting	22,936	20,508
Other taxes	22,595	23,830
Rescission of the sale of the Valencia premise	-	18,215
Travel expenses	12,364	16,782
Postal charges and telecommunication	10,285	10,708
Bad debt expenses	14,595	11,731
Credit insurance	8,132	8,936
Other insurance	9,060	9,738
Advertising and representation expenses	7,138	10,988
Foreign currency exchange losses	5,375	23,928
Other expenses	27,175	36,389
<b>Other operating expenses</b>	<b>399,684</b>	<b>590,612</b>

Other expenses include fringe benefits, office materials, expenses arising from secondary business and incidental bank charges.

## (12) FINANCIAL RESULT

(€ thousand)	2009	2008
Income from non-current securities and long-term loans	13	16
Other interest and similar income	8,993	6,965
Interest and similar expenses	-62,173	-68,731
Interest cost for post-employment benefits	-8,532	-8,032
<b>Financial result</b>	<b>-61,699</b>	<b>-69,782</b>

The financial result is impacted with expenses of approximately €8 million resulting from the restructuring and stabilization of the financing agreements as outlined in Note 25 *Financial liabilities*.

### (13) INCOME TAXES

#### a) Income taxes in the income statement

The income taxes comprise current and deferred taxes.

The utilization of tax loss carryforwards resulted in increased income tax expense of €2,161 thousand (2008: €6,374 thousand) in 2009 due to the corresponding release of deferred tax assets. In 2009 no benefits were recognized for the first time recognition of deferred tax assets on loss carryforwards (2008: €2,452 thousand).

Valuation allowances for deferred tax assets on loss carryforwards resulted in deferred tax expense of €7,973 thousand (2008: €0 thousand)

Current taxes of €13 thousand (2008: €850 thousand) related to prior periods.

Income tax benefit/expense for the Klöckner & Co Group are broken down as follows:

(€ thousand)	2009	2008 <sup>*)</sup>
<b>Current income tax benefit/expense</b>	<b>-32,535</b>	<b>77,774</b>
Expense (domestic)	998	737
Income/expense (foreign)	-33,533	77,037
<b>Deferred tax benefit/expense</b>	<b>-21,633</b>	<b>1,534</b>
Expense/benefit (domestic)	3,269	-1,845
Income/expense (foreign)	-24,902	3,379
<b>Income tax benefit/expense</b>	<b>-54,168</b>	<b>79,308</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

The combined income tax rate amounts unchanged to 30.7%, comprising the corporate income tax (including solidarity surcharge) of 15.8% and trade tax Klöckner & Co of 14.9%.

The expected tax benefit/expense is reconciled to the actual tax benefit/expense as follows:

(€ thousand)	2009	2008 <sup>*)</sup>
<b>Expected tax rate</b>	<b>30.70%</b>	<b>30.70%</b>
<b>Income before taxes</b>	<b>-239,832</b>	<b>463,482</b>
Expected tax benefit/expense at domestic tax rate	-73,628	142,289
Foreign tax rate differential	-5,254	-28,934
Tax effects related to KDI antitrust fine	-27,103	30,106
Tax rate changes	-1,175	-886
Reduced tax rate	-287	-
Tax reduction due to tax free income	-4,694	-57,167
Tax increase due to non-deductible expenses	5,799	15,665
Current income tax levied for prior periods	13	850
Goodwill impairment and excess of net assets over purchase price in business combinations	267	-368
Tax reduction due to first-time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	-4,189	-5,626
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	-1,283	-18,793
Tax increase due to non-capitalization of deferred tax assets on loss carryforwards	57,520	1,956
Other tax effects	-154	216
<b>Effective income tax benefit/expense</b>	<b>-54,168</b>	<b>79,308</b>
<b>Effective tax rate</b>	<b>-22.59%</b>	<b>17.11%</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

b) Taxes recognized directly in equity

Current and deferred taxes are generally recognized as income or expense and are included in the net profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period, directly in equity.

Taxes recognized in equity amounted to €-3,602 thousand (2008: €8,113 thousand).

c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>
Deferred tax assets	38,355	46,491
Deferred tax liabilities	71,029	86,873
<b>Deferred taxes, net</b>	<b>-32,674</b>	<b>-40,382</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).



Deferred tax assets and liabilities arise from the following:

### Assets

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>
from temporary differences and consolidations	<b>28,882</b>	34,878
Intangible assets	<b>2,803</b>	2,147
Property, plant and equipment	<b>257</b>	-1,138
Inventories	<b>3,707</b>	6,739
Provisions for pensions and similar obligations	<b>8,279</b>	7,023
Other provisions and accrued liabilities	<b>3,125</b>	4,227
Liabilities	<b>8,887</b>	15,697
Other items	<b>1,824</b>	183
Tax loss carryforwards <sup>**)</sup>	<b>9,473</b>	11,613
<b>Deferred tax assets</b>	<b>38,355</b>	<b>46,491</b>

<sup>\*)</sup> Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

<sup>\*\*)</sup> Including interest carryforward.

### Equity and liabilities

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>
from temporary differences and consolidations	<b>71,029</b>	86,873
Intangible assets	<b>3,907</b>	4,948
Property, plant and equipment	<b>32,915</b>	40,831
Financial assets	<b>-512</b>	-550
Inventories	<b>18,228</b>	19,753
Receivables and other current assets	<b>6,531</b>	8,721
Provisions for pensions and similar obligations	<b>-5,337</b>	-3,746
Other provisions and accrued liabilities	<b>16,195</b>	15,131
Other items	<b>-898</b>	1,785
<b>Deferred tax liabilities</b>	<b>71,029</b>	<b>86,873</b>

<sup>\*)</sup> Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

A deferred tax asset for unused tax losses is only recognized if it is probable that this benefit can be realized.

Unused tax loss carryforwards as of the reporting date amount to €353.3 million (2008: €216.4 million) for corporate income tax losses of foreign and domestic entities and trade tax and similar losses of €227.2 million (2008: €120.2 million). Corporate income tax losses incurred by foreign and domestic subsidiaries of €327.5 million (2008: €184.8 million) and trade tax and similar losses of €197.3 million (2008: €90.9 million) were not recognized because it is not probable that they will be used.

The major part of the loss carryforwards does not expire under the current tax regulations, unless specific circumstances arise (e.g. change of control). To the extent loss carryforwards do expire, this will largely not occur prior to 2014.

Consistent with deferred tax assets for loss carryforwards a deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The initial recognition of deferred tax assets of deductible temporary differences resulted in tax benefits of €4,161 thousand (2008: €3,724 thousand).

Deferred tax assets were not recognized for temporary differences amounting to €59.9 million (2008: €85.5 million) at December 31, 2009, as is not probable that the benefits can be realized.

Unrecognized deferred tax assets are as follows:

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>
Temporary differences	<b>18,397</b>	26,255
Unused tax losses	<b>84,317</b>	43,176

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

#### d) Current tax

Tax receivables of €83,862 thousand (2008: €29,388 thousand) were recorded in the consolidated statement of financial position for expected tax refunds. Of this amount €40,881 thousand (2008: €9,939 thousand) are attributable to tax refunds resulting from the deduction of withholding taxes on dividends including solidarity surcharge. The remainder is due to refunds resulting mainly from tax loss carrybacks.

The income tax payables comprise liabilities of €40,884 thousand (2008: €1,269 thousand), when the payment obligation is nearly certain, and provisions of €9,804 thousand (2008: €17,920 thousand), when uncertainty exists concerning the amount or the date of payment.

### (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 including the effects of the rights issue in the third quarter. In accordance with IAS 33.41 7,615 potential dilutive shares of the convertible bonds have not been included in the computation of diluted earnings per share for 2009 as this would have resulted in a lower loss per share. In 2008 the diluted earnings per share computation was based on 4,025 potential dilutive shares of the 2007 convertible bond.

		2009	2008 <sup>*)</sup>
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	<b>- 188,484</b>	398,335
Weighted average number of shares	(thousands of shares)	<b>52,269</b>	46,500
<b>Basic earnings per share</b>	<b>(€/share)</b>	<b>-3.61</b>	<b>8.56</b>
Diluted earnings per share	(€/share)	<b>-3.61</b>	8.11

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (15) INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

#### a) Intangible assets

(€ thousand)	Licenses, similar rights and other intangible assets	Software	Goodwill	Total intangible assets
Cost as of January 1, 2008	118,939	16,417	91,218	226,574
Accumulated amortization and impairments	-17,390	-11,603	-	-28,993
<b>As of January 1, 2008</b>	<b>101,549</b>	<b>4,814</b>	<b>91,218</b>	<b>197,581</b>
Exchange rate differences	6,558	-6	2,452	9,004
Changes in the scope of consolidation	38,970	-796	10,888	49,062
Additions	15	4,831	-	4,846
Disposals	-	-151	-	-151
Depreciation and amortization	-22,797	-1,614	-	-24,411
Transfers	-30	30	-	-
<b>As of December 31, 2008</b>	<b>124,265</b>	<b>7,108</b>	<b>104,558</b>	<b>235,931</b>
Cost as of December 31, 2008	161,024	18,619	104,558	284,201
Accumulated amortization and impairments	-36,759	-11,511	-	-48,270
<b>Balance as of January 1, 2009</b>	<b>124,265</b>	<b>7,108</b>	<b>104,558</b>	<b>235,931</b>
Exchange rate differences	-2,468	-	-2,190	-4,658
Changes in the scope of consolidation	-6	-106	-	-112
Additions	96	1,807	-	1,903
Disposals	-	-126	-1,374	-1,500
Depreciation, amortization and impairments	-25,907	-2,759	-7,913	-36,579
Transfers	161	-161	-	-
<b>Balance as of December 31, 2009</b>	<b>96,141</b>	<b>5,763</b>	<b>93,081</b>	<b>194,985</b>
Cost as of December 31, 2009	157,799	19,121	93,125	270,045
Accumulated amortization and impairments	-61,658	-13,358	-44	-75,060

Goodwills in the amount of €82.004 thousand relate to the segment North America.

As a result of the impairment tests performed on cash generating units (CGU) in the fourth quarter 2009 goodwill impairments were made for the goodwill of the CGUs' Spain (€4.7 million) and United Kingdom (€3.2 million) as their value in use and their fair value less cost to sell were lower than their carrying values. This is largely due to the adverse local market developments and as a result lower earnings expectations which are reflected in the planning process. For the CGU Spain this was primarily triggered by the development of the construction sector, which is deemed to be adversely affected for the foreseeable future.

Key assumptions used by management in determining the value in use or the fair value less cost to sell comprise the assessment of expected future gross profit, expected inflations and discount rates. The assumptions are based both on historical data and expected market developments.

For the reporting period pre-tax discount rates between 10.65% and 13.42% depending on the respective cash generating unit were used. To monitor potential impairment exposure the Group performs simulations using higher discount rates. Based on such simulations even a 0.5 percent point increase in the respective discount rate will trigger additional goodwill impairments of €18.2 million. Management, however, does not expect that negative changes in the material assumptions will occur.

b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total property, plant and equipment
Cost as of January 1, 2008	632,174	216,741	209,574	14,778	1,073,267
Accumulated amortization and impairments	-280,978	-149,775	-160,376	-	-591,129
<b>As of January 1, 2008</b>	<b>351,196</b>	<b>66,966</b>	<b>49,198</b>	<b>14,778</b>	<b>482,138</b>
Exchange rate differences	7,264	-760	2,252	367	9,123
Changes in the scope of consolidation	-3,133	1,076	-1,427	43	-3,441
Additions	6,939	12,125	12,452	11,414	42,930
Disposals	-2,971	-515	-1,049	-70	-4,605
Depreciation and amortization	-16,654	-13,694	-12,593	-	-42,941
Transfers	5,818	7,716	3,604	-17,138	-
Reclassification to assets held for sale	-3,783	-	-	-	-3,783
<b>As of December 31, 2008</b>	<b>344,676</b>	<b>72,914</b>	<b>52,437</b>	<b>9,394</b>	<b>479,421</b>
Cost as of December 31, 2008	636,104	225,779	216,873	9,514	1,088,270
Accumulated amortization and impairments	-291,428	-152,865	-164,436	-120	-608,849
<b>Balance as of January 1, 2009</b>	<b>344,676</b>	<b>72,914</b>	<b>52,437</b>	<b>9,394</b>	<b>479,421</b>
Exchange rate differences	441	398	-207	-22	610
Changes in the scope of consolidation	-45	-	-1,089	-	-1,134
Additions	4,306	6,930	5,583	5,925	22,744
Disposals	-1,211	-812	-1,816	-26	-3,865
Depreciation, amortization and impairments	-39,949	-18,559	-13,038	-	-71,546
Transfers	3,348	3,052	3,596	-9,996	-
Reclassification to assets held for sale	-79	-	-	-	-79
<b>Balance as of December 31, 2009</b>	<b>311,487</b>	<b>63,923</b>	<b>45,466</b>	<b>5,275</b>	<b>426,151</b>
Cost as of December 31, 2009	638,086	234,651	218,649	5,396	1,096,782
Accumulated amortization and impairments	-326,599	-170,728	-173,183	-121	-670,631

Property, plant and equipment with a carrying amount of €78,058 thousand (2008: €120,032 thousand) have been used as collateral to secure borrowings of the Group.

In 2009 the Group recognized impairment losses of €31,599 thousand (2008: €0 thousand) for real estate, machines and other equipment of the CGU Spain, as their carrying amount exceeded the recoverable amounts. As part of the initial purchase price allocation of the Group in 2005 excess fair values of land and buildings were allocated to the segment Headquarters. As such impairment losses of €12.4 million were allocated to the segment Europe and the remainder of €19.2 million to the segment Headquarters.

**Assets held under finance leases**

The Group holds various assets under finance leasing contracts. As of the reporting date, the carrying amounts of capitalized assets were as follows:

(€ thousand)	Carrying amounts	
	December 31, 2009	December 31, 2008
Real estate		
Spain (Valencia, Catalayud, Epila)	11,174	11,414
Austria (Vienna, Neumarkt)	1,690	1,949
Technical equipment and machinery	5,653	6,325
Vehicles	126	519
	<b>18,643</b>	<b>20,207</b>

## c) Investment property

Investment property is only related to land and buildings in Valencia.

(€ thousand)	
Cost as of December 31, 2008	13,208
Accumulated amortization and impairments	- 20
<b>Balance as of January 1, 2009</b>	<b>13,188</b>
Depreciation, amortization and impairments	- 1,513
<b>Balance as of December 31, 2009</b>	<b>11,675</b>
Cost as of December 31, 2009	13,208
Accumulated amortization and impairments	- 1,533

Due to the ongoing negative development of the real estate prices in Spain the fair value of the premise declined from €13.2 million to €11.7 million resulting in an impairment loss of €1.4 million. The fair value is based on an external appraisal.

In 2009 rental income amounts to €27 thousand (2008: €20 thousand); operating expenses attributable to the premise amounted to €7 thousand (2008: €15 thousand).

## (16) INVENTORIES

(€ thousand)	December 31, 2009	December 31, 2008
Raw materials and supplies	<b>14,132</b>	30,807
Work in progress	<b>5,651</b>	7,317
Finished goods and merchandise	<b>551,135</b>	948,415
Advance payments	-	14,073
<b>Inventories</b>	<b>570,918</b>	<b>1,000,612</b>

Of the inventories recognized as of December 31, 2009, €284,105 thousand (2008: €384,781 thousand) are stated at net realizable values. Write-downs to the net realizable value amount to €70,951 thousand (2008: €102,453 thousand).

In addition to customary reservations of title, inventories with a carrying amount of €70,487 thousand (2008: €74,328 thousand) serve as collateral for financial liabilities as of December 31, 2009 of €1,980 thousand (2008: €3,349 thousand).

## (17) TRADE RECEIVABLES

Trade receivables are generally invoiced in the local currency of the relevant Group company; in general export receivables in foreign currencies are hedged.

The Klöckner & Co Group regularly sells trade receivables under two ABS programs. The trade receivables are sold by the participating Group companies to two special-purpose entities (SPE). As the programs do not qualify for derecognition under the requirements of IAS 39, the receivables are reported on the Group's consolidated statement of financial position.

The refinancing of the purchased receivables by the SPE is therefore reported in the consolidated financial statements as loans due to the conduits.

The carrying amount of the receivables of the Group companies participating in the ABS programs as of December 31, 2009 amounts to €293 million (2008: €605 million).

For further information to the ABS programs see Note 25 *Financial liabilities*.

The following table provides information on the extent of credit risks attributable to trade receivables:

### Trade receivables

(€ thousand)	Of which not overdue as of the reporting date	Of which overdue by days as of the reporting date					Write-downs	Carrying amount
		1-30 days	31-60 days	61-90 days	91-120 days	> 120 days <sup>*)</sup>		
<b>December 31, 2009</b>								
493,962	367,835	78,209	17,006	4,800	6,581	19,531	-29,696	464,266
<b>December 31, 2008</b>								
827,664	634,909	128,767	30,274	10,834	7,035	15,845	-29,046	798,618

\*) Also includes deductible of credit insured receivables. Prior amount adjusted to conform with current year presentation.

As of December 31, 2009 trade receivables in the amount of €4,655 thousand (2008: €3,903 thousand) of entities that do not participate in the Group's ABS-programs were used as collateral for bank loans.

### (18) OTHER ASSETS

(€ thousand)	December 31, 2009		December 31, 2008 <sup>*)</sup>	
	Current	Non-current	Current	Non-current
Reimbursement receivable against former shareholders from KDI antitrust case	3,500	-	70,000	-
Receivables from insurance companies	7,299	-	6,386	-
Commission claims	20,232	-	25,435	-
Reinsurance claims for pension obligations	-	4,475	-	4,429
Prepaid pension cost	-	19,294	-	19,720
Claims for other taxes	6,166	-	3,259	-
Prepaid expenses	5,591	480	4,242	428
Fair value of derivative financial instruments	820	877	11,878	-
Miscellaneous other assets	22,232	1,610	20,645	9,755
<b>Other assets</b>	<b>65,840</b>	<b>26,736</b>	<b>141,845</b>	<b>34,332</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

Other current assets include deposits of €1,692 thousand (2008: €1,417 thousand) and creditors with debit balances of €1,002 thousand (2008: €884 thousand). Other current assets are with €7,367 thousand attributable to escrow receivables from the sale of Namasco Ltd., which were paid to Klöckner & Co upon expiration of the warranty period on January 8, 2010.



As a result of the reduced KDI antitrust fine the corresponding compensation claim was adjusted accordingly. Also see Note 35 *Subsequent events*.

## (19) LIQUID FUNDS

Cash and cash equivalents predominantly include bank balances. As of the reporting date none of these funds were restricted (2008: €3,105 thousand restricted as collateral for fair values of derivative financial instruments).

## (20) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include assets no longer used in operations. The amount of €79 thousand (2008: €4,044 thousand) is attributable to land and buildings of the Europe segment and €784 thousand (2008: €739 thousand) to land and buildings and €218 thousand (2008: €159 thousand) to machinery, both of the America segment.

The Swiss land and buildings classified as held for sale in 2008 were disposed of in 2009. The sale resulted in disposal gains of €2.2 million.

## (21) EQUITY AND NON-CONTROLLING INTERESTS

### a) Subscribed capital

Effective with registration on September 18, 2009 the Company's subscribed capital was increased from €116,250,000 by €50,000,000 to €166,250,000. The increase from authorized capital was achieved by issuance of 20,000,000 non-par-value shares with a calculated pro rata share of the capital stock of €2.50 per share with full dividend rights from January 1, 2009. Including the rights issue, a total of 66,500,000 shares are issued and outstanding. The issue price for the new share amounted to €10.00 per share.

The new shares were offered to Klöckner & Co shareholders for subscription at a ratio of 7 : 3. Shareholders' statutory subscription rights were excluded in relation to 71,429 shares to ensure an even subscription ratio.

By resolutions of the Annual General Meetings in 2007, 2008 and 2009 the Company's share capital has been conditionally increased in each case by up to €11,625,000 each by issue of up to 4,650,000 new non-par-value shares that are entitled to profits from the beginning of the business year in which they are issued. The conditional capital serves to grant subscription and/or conversion rights to the holders of option bonds and/or convertible bonds that are issued by the Company or a Group company in accordance with the authority of the respective Annual General Meeting of the Company.

In accordance with the information according to Sections 21 para. 1, 22 para. 1 Securities Trading Act (WpHG – Wertpapierhandelsgesetz) the following shareholdings in Klöckner & Co SE were held at the date of authorization of the financial statements:

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
<b>Increase over threshold</b>			
BlackRock Inc.	New York, USA	5.61 a)	December 1, 2009
Franklin Mutual Advisers LLC	Short Hills, USA	9.89 a), b)	November 21, 2008

a) Attributed holding.

b) Information excluding dilutive effects of the rights issue in 2009.

A full listing of notifications of increase or decrease, respectively, under threshold in accordance with Section 21 para. 1 and Section 22 para. 1 Securities Trading Act (WpHG) is attached as appendix to the notes to the consolidated financial statements.

b) Capital reserves

As of December 31, 2009 the capital reserves amount to €429,493 thousand (2008: €260,496 thousand). The increase is with €143,134 thousand attributable to the premium received for the rights issue and with €25,863 thousand to the equity component of the convertible bond also issued in 2009.

Capital reserves are presented net of costs incurred in issuing the rights and, as far as related to the equity component, the issuance cost associated with the convertible bond, are stated net of deferred taxes.

c) Retained earnings

Retained earnings include the accumulated undistributed earnings of the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, as well as effects on equity from consolidation.

d) Accumulated other comprehensive income

Accumulated other comprehensive income comprises foreign currency translation adjustments resulting from the translation of the financial statements of foreign subsidiaries and changes in the fair value of cash flow hedges, net of deferred taxes.

e) Non-controlling interests

Non-controlling interests represent third party interest in consolidated subsidiaries.

The development of the individual components of consolidated equity and non-controlling interests for the period from January 1, 2009 to December 31, 2009, and from January 1, 2008 to December 31, 2008, is shown in the summary of changes in equity.

## (22) SHARE-BASED PAYMENTS

In 2006 the Group has established share-based payment programs. Eligible for share-based payment are Management Board members as well as certain members of the senior management. The Group's plans are cash-settled virtual stock option plans.

### **Management Board programs**

Under the Management Board programs a total of 667,800 virtual stock options are outstanding as of December 31, 2009 (December 31, 2008: 858,000).

#### **Management Board program 2006 as amended in 2009**

Under the virtual stock option plan introduced in 2006 a total of 930,000 virtual options were allocated to the Management Board. The program covers a five year-period in which equal annual tranches of 186,000 virtual stock options are granted to the Management Board. The strike price for the first tranche has been set to the IPO price of €16/share. The strike price for each subsequent tranche is increased by 5% over the previous year's strike price. The individual strike price is reduced by subsequent dividends and was adjusted to reflect dilutive effects of the rights issue in 2009. The virtual stock options of each tranche become exercisable after 30 stock trading days after the Annual General Meeting following the allotment of the respective tranche. Subsequently, the options of the relevant tranches may be exercised in full or in part at any time. The amount to settle the obligation corresponds to the difference between the average trading price of the last 30 trading days (XETRA trading, Deutsche Börse AG, Frankfurt a. M.) prior to exercising the option and the respective strike price of the tranche. The settlement amount is capped at a defined maximum amount.

In 2009 the conditions of the not yet allocated tranches were modified to account for the regulations of the Act on the Appropriateness of Management Board Remuneration (VorstAG). The modifications primarily entail longer waiting periods. Under the revised conditions the waiting periods for the initial third, the second and the remaining third of a tranche amount to three, four and five years from the issue date, respectively.

### Management Board program 2008

In connection with the enlargement of the Management Board, the Board program was amended in 2008 by 300,000 virtual stock options which will be issued in five annual tranches beginning business year 2009. The strike price is based on the non-weighted average closing price of Klöckner & Co shares over the last 30 consecutive trading days prior to issuance reduced by dividends attributable to the respective program term.

The virtual stock options of each tranche can be exercised after a 30-day trading period after the Annual General Meeting of the allotment year of the respective tranche. Subsequently, the options of the relevant tranches may be exercised in full or in part at any time.

### Management Board program 2009

In light of the change of the Chairman of the Management Board, 232,500 virtual stock options were added to the Board programs in 2009. The conditions of the new grants also account for extended waiting periods while the remaining material conditions are largely identical to the 2008 Management Board program.

### Senior management programs

In addition to the Management Board programs 115,500 (2008: 121,500) virtual stock options were granted to certain members of the senior management throughout the Group during the first half year of 2009. The exercise conditions are largely identical to the Management Board program with, however, lower maximum payouts for certain members of senior management. Furthermore, for certain members of the senior management the strike price calculation follows the calculation of the extended Management Board program. The programs do not account for waiting periods over several years.

The total number of outstanding rights developed as follows:

(number of virtual stock options)	Management Board programs	Other executives	Total
<b>Outstanding at the beginning of the year</b>	<b>858,000</b>	<b>76,500</b>	<b>934,500</b>
Granted	232,500	115,500	<b>348,000</b>
Exercised	-180,900	-7,000	<b>-187,900</b>
Forfeited	-241,800	-5,000	<b>-246,800</b>
<b>Outstanding at the end of the year</b>	<b>667,800</b>	<b>180,000</b>	<b>847,800</b>

During the second half of 2009 187,900 (2008: 233,000) virtual stock options were exercised. Payments for share-based compensation amounted to €982 thousand (2008: €3,421 thousand). The pro rata provision for share-based payments to the Management Board and senior management amounts to €2,850 thousand (December 31, 2008: €2,270 thousand) with total expense recognized in 2009 of €1,562 thousand (2008: €2,864 thousand).

To limit expenses and cash flows for the granted and approved further grants of virtual stock options until and including financial year 2011 the Group entered into certain derivative financial instruments in January 2008. The instruments are accounted for at fair value through profit or loss in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

The positive fair value changes and settlement effects of these instruments amount to €5,368 thousand (2008: expense €- 8,468 thousand) and were offset against personnel expenses. The fair values of the financial instruments are described in Note 30 *Derivative financial instruments*.

**(23) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS**

Various types of pension schemes have been established for most employees of the Group, depending on the legal, economic and tax environment of the respective jurisdictions. Benefits provided are usually based on the length of service and the employees' salaries.

Benefits provided comprise of both defined contribution plans and defined benefit plans.

For defined contribution plans, the Company contributes funds to private or public pension institutions on the basis of statutory or contractual requirements. With these payments the Company is discharged from all further obligations. Defined contribution expenses in 2009 amounted to €17,726 thousand (2008: €20,615 thousand). Included therein are employers' contributions to the statutory pension schemes in the amount of €14,636 thousand (2008: €16,240 thousand).

Most of the pension schemes are designed as defined benefit plans, either funded or unfunded.

The following actuarial assumptions were used in the actuarial calculations performed by third party actuaries:

%	Germany	Austria	Switzerland	The Netherlands	United Kingdom	France	United States
Discount rate	5.10	5.10	3.50	5.10	5.75	5.10	5.97-6.10
Salary trend	3.00	3.00	2.00	2.65	3.90-4.40	2.00	3.50
Pension trend	2.00	2.25	0.50	1.50	3.50	1.25 <sup>*)</sup>	0.00
Expected return on plan assets	4.50	-	4.50	4.60	6.70-7.60	4.50	6.50

<sup>\*)</sup> Depending on the respective pension plan.

Unchanged to the prior year, the Company uses Prof. Dr. Klaus Heubeck's 2005 G biometric tables ("Richttafeln") to calculate its obligations under German pension plans. Such tables are widely recognized for use in the measurement of company pension obligations.

The discount rate assumption reflects the rates available for high-quality fixed income investments during the period to maturity of the benefit in the respective obligation. A uniform interest rate was used for the euro zone.

Expected returns on plan assets are calculated according to the allocation of plan assets. For investments in equity securities, the yield reflects the observable performance in the individual countries and the respective portfolio. The return on debt securities is derived from quoted prices of such securities. The expected return for real estate investments depends on the marketability, which is determined by local market conditions and individual contractual commitments.

The pension obligations of the German Group companies arising from defined benefit plans are largely unfunded, whereas those of the foreign subsidiaries are predominantly funded.

In the reporting period the Group initially applied IFRIC 14. The effects of the applications are discussed in Note 4 *Significant accounting policies*.

The defined benefit plans are structured as follows:

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>
Defined benefit obligation of unfunded plans	149,992	144,897
Defined benefit obligation of fully or partly funded defined benefit plans	465,592	420,078
Fair value of plan assets	-450,307	-398,319
Unrecognized actuarial gains and losses	-13,492	-10,410
Unrecognized past service cost	2,268	2,622
Amounts not recognized due to asset ceiling (IAS 19.58 (b))	1,173	1,507
Fair value of the reimbursement rights	-4,397	-4,429
<b>Net amount recognized</b>	<b>150,829</b>	<b>155,946</b>
thereof:		
- Other assets in connection with pension obligations <sup>**)</sup>	23,769	24,149
- Provisions for pensions and similar obligations	174,598	180,095

<sup>\*)</sup> Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

<sup>\*\*)</sup> Also includes reimbursement rights recognized as assets.

The reconciliation of the defined benefit obligation is as follows:

(€ thousand)	2009	2008
<b>Defined benefit obligation as of January 1</b>	<b>564,975</b>	<b>558,529</b>
Service cost	12,686	11,481
Interest cost	27,055	25,596
Employee contributions	18,098	15,785
Actuarial gains and losses	25,137	-11,090
Foreign currency exchange rate differences	2,244	15,403
Benefits paid	-31,412	-30,085
Past service cost	533	-339
Change in scope of consolidation/other transfers	-2,723	-18,643
Curtailments and settlements	-1,009	-1,662
<b>Defined benefit obligation as of December 31</b>	<b>615,584</b>	<b>564,975</b>

The fair values of the plan assets developed as follows:

(€ thousand)	2009	2008 <sup>*)</sup>
<b>Fair value of plan assets as of January 1</b>	<b>398,319</b>	<b>469,971</b>
Expected return	20,366	24,265
Employee contributions	18,098	15,786
Employer contributions	11,941	8,673
Actuarial gains and losses	18,953	- 98,618
Foreign currency exchange rate differences	2,005	20,335
Benefits paid	- 21,576	- 20,575
Change in scope of consolidation/other transfers	2,201	- 21,518
<b>Fair value of plan assets as of December 31</b>	<b>450,307</b>	<b>398,319</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

The current allocation of plan assets is as follows:

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>
Shares	152,376	125,931
Bonds	156,682	137,680
Other assets	40,844	36,282
Real estate	100,405	98,426
	<b>450,307</b>	<b>398,319</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

Plan assets do not comprise financial instruments issued by the plan sponsor; own-used real estate and other assets used by the Company amounted to €11,768 thousand (2008: €11,117 thousand).

Changes in reimbursement rights were as follows:

(€ thousand)	2009	2008
<b>Reimbursement rights as of January 1</b>	<b>4,429</b>	<b>6,139</b>
Expected return	201	197
Actuarial gains and losses	66	- 54
Benefits paid	- 299	- 8
Changes in the scope of consolidation	-	- 1,845
<b>Reimbursement rights as of December 31</b>	<b>4,397</b>	<b>4,429</b>

Reimbursement rights recognized contain life insurance policies and claims arising from other insurances concluded to cover the relevant pension obligations.

Pension expenses consist of personnel expenses and interest expenses which are included in interest income, net:

(€ thousand)	2009	2008 <sup>*)</sup>
Service cost	-12,686	-11,481
Interest cost for funded plans	-18,523	-17,564
Expected return on plan assets	20,366	24,265
Expected return on reimbursement rights	201	197
Actuarial gains and losses	-2,889	-60,643
Past service cost	-206	640
Curtailments and settlements	1,018	1,662
Effects of limitation of asset ceiling as per IAS 19.58 (b)	334	55,982
Interest cost for unfunded plans	-8,532	-8,032
<b>Net periodic benefit expense for defined benefit plans</b>	<b>-20,917</b>	<b>-14,974</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

The actual gain on plan assets amounted to €39,319 thousand in 2009 (2008: loss €-74,367 thousand). The actual return on reimbursement rights totaled €267 thousand (2008: €3 thousand).

The funded status of defined benefit plans is as follows:

(€ thousand)	2009	2008 <sup>*)</sup>	2007	2006
Defined benefit obligation	615,584	564,975	558,529	607,487
Fair value of plan assets	450,307	398,319	464,622	434,395
<b>Funded status</b>	<b>165,277</b>	<b>166,656</b>	<b>93,907</b>	<b>173,092</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

In 2009, 2008 and 2007, experience adjustments to the present value of pension rights and the fair values of plan assets were as follows:

(€ thousand)	2009	2008 <sup>*)</sup>	2007
Defined benefit obligation	8,871	-3,585	2,428
Fair value of plan assets	18,953	-98,363	20,022

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

The employers' contributions to the plan assets for the 2010 financial year are expected to be €11,467 thousand.

## (24) OTHER PROVISIONS

The provisions developed as follows:

(€ thousand)	As of January 1, 2009	Additions	Accretion <sup>**)</sup>	Utilization	Reversals	Other changes <sup>*)</sup>	As of December 31, 2009
Other taxes	977	2,101	-	-724	-	97	2,451
Personnel-related obligations							
– early retirement schemes	9,983	3,484	148	-4,817	-1,925	-670	6,203
– anniversary payments	12,844	-	47	-140	-2,879	-142	9,730
– other	59	68	-	-59	-	-	68
Onerous contracts	5,867	3,849	-	-4,749	-	-52	4,915
Restructuring expenses	10,716	10,008	-	-9,925	-175	3	10,627
KDI antitrust case	169,300	-	1,781	-10,000	-147,581	-	13,500
Litigation and other risks	15,229	2,022	-	-1,383	-1,420	-14	14,434
Miscellaneous provisions	17,831	5,091	126	-6,136	-302	92	16,702
	<b>242,806</b>	<b>26,623</b>	<b>2,102</b>	<b>-37,933</b>	<b>-154,282</b>	<b>-686</b>	<b>78,630</b>
Other accrued liabilities							
Personnel-related obligations	51,869	16,139	-	-28,004	-2,849	-1,023	36,132
Outstanding invoices	25,334	14,736	-	-13,829	-855	265	25,651
Miscellaneous accrued liabilities	1,681	806	-	-1,613	-115	-17	742
	<b>78,884</b>	<b>31,681</b>	<b>-</b>	<b>-43,446</b>	<b>-3,819</b>	<b>-775</b>	<b>62,525</b>
<b>Other provisions</b>	<b>321,690</b>	<b>58,304</b>	<b>2,102</b>	<b>-81,379</b>	<b>-158,101</b>	<b>-1,461</b>	<b>141,155</b>

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

\*\*\*) The effects from accretion of the provision for the antitrust case resulted from the agreed long-term payment plan in the second quarter.



Reconciliation to balance sheet amounts:

(€ thousand)	December 31, 2009		December 31, 2008	
	Non-current	Current	Non-current	Current
Other taxes	-	2,451	-	977
Personnel-related obligations				
– early retirement schemes	4,538	1,665	6,665	3,318
– anniversary payments	9,547	183	12,601	243
– other	-	68	-	59
Onerous contracts	865	4,050	1,087	4,780
Restructuring expenses	-	10,627	-	10,716
KDI antitrust case	-	13,500	-	169,300
Litigation and other risks	9,903	4,531	10,382	4,847
Miscellaneous provisions	6,434	10,268	6,189	11,642
	<b>31,287</b>	<b>47,343</b>	<b>36,924</b>	<b>205,882</b>
<b>Other accrued liabilities</b>				
Personnel-related obligations	-	36,132	-	51,869
Outstanding invoices	-	25,651	-	25,334
Miscellaneous accrued liabilities	-	742	-	1,681
	-	62,525	-	78,884
<b>Other provisions</b>	<b>31,287</b>	<b>109,868</b>	<b>36,924</b>	<b>284,766</b>

The provision for onerous contracts is based on procurement and sale contracts for goods and other contractual obligations.

The provisions for restructuring relate to obligations in respect of termination benefits granted in redundancy programs and other restructuring expenses.

On January 19, 2010 the fine imposed by the French antitrust authority in 2008 was reduced from €169.3 million to €23.5 million of which €10 million had already been paid by December 31, 2009. Accordingly, the provision was adjusted to the remaining unpaid amount. Further details are provided in Note 35 *Subsequent events*.

Miscellaneous provisions include an amount of €1,740 thousand (2008: €2,017 thousand) for compensation payments to former employees of a subsidiary acquired in 2000 due to the insolvency of the relevant insurance company. Furthermore, provisions for environmental remediation including decontamination and other risks are included under this caption.

Accrued liabilities for employee-related obligations include bonus payments of €22,681 thousand (2008: €35,023 thousand) and accrued vacation and accrued overtime of €12,035 thousand (2008: €15,022 thousand).

## (25) FINANCIAL LIABILITIES

The details of financial liabilities are as follows:

(€ thousand)	December 31, 2009				December 31, 2008			
	up to 1 year	1-5 years	Over five years	Total	up to 1 year	1-5 years	Over five years	Total
Bonds	5,396	360,910	-	366,306	2,097	276,162	-	278,259
Liabilities due to banks	44,517	230,613	-	275,130	42,985	317,927	-	360,912
Liabilities under ABS programs	65	20,659	-	20,724	524	209,962	-	210,486
Finance lease liabilities	2,191	6,176	386	8,753	2,506	7,386	1,563	11,455
	<b>52,169</b>	<b>618,358</b>	<b>386</b>	<b>670,913</b>	<b>48,112</b>	<b>811,437</b>	<b>1,563</b>	<b>861,112</b>

Financial liabilities of €24,710 thousand (2008: €28,424 thousand) are secured by mortgages. Furthermore, inventories listed in Note 16 *Inventories* serve as collateral as well as trade receivables under the ABS programs.

Transaction costs that are directly attributable to the issue of financial liabilities in the amount of €5,977 thousand (2008: €6,312 thousand) were offset against the respective liabilities.

**Bonds**

On June 9, 2009 Klöckner & Co issued via its wholly owned Luxembourg subsidiary, Klöckner & Co Financial Services S.A., a senior unsecured convertible bond with a nominal value of €97.9 million. Payments under the bond are guaranteed by Klöckner & Co SE. The bond, which is convertible into existing or new shares of Klöckner & Co SE, has a maturity of five years and a coupon of 6.0%. The initial conversion price was set at €21.06 (i.e. a 35% premium over the share price). To allow for dilutive effects of the rights issue the conversion price was reduced to €18.37. The bond cannot be called by the issuer for the first three years, and is callable thereafter when the stock exchange price of Klöckner & Co's shares (over certain periods) exceeds 130% of the conversion price. The proceeds from the issuance will be used for general corporate purposes and at a later stage to continue the external growth strategy.

For accounting purposes the bond was bifurcated into an equity and a liability component. The equity component, net of issuance costs, amounted to €25.9 million and was credited to capital reserves.

In July 2007, Klöckner & Co SE issued via its wholly owned subsidiary Klöckner & Co Finance International S.A. a convertible bond with an aggregated nominal value of €325 million. Payments under the bond are guaranteed by Klöckner & Co SE. The bond which is convertible into shares of Klöckner & Co SE has a maturity of five years and a coupon of 1.5%. The conversion price was set at €80.75 which also was adjusted for the effects of the rights issue in 2009 to €70.44. On December 4, 2009 the bond liability was transferred to Klöckner & Co Financial Services S.A.

**Liabilities due to banks**

During the second quarter of 2009 the terms and conditions for the syndicated multi-currency revolving credit facility were renegotiated. Performance covenants were replaced with balance-sheet-related covenants. As part of the renegotiation the volume of the multi-currency revolving credit facility was reduced from €600 million to €300 million. The term of the facility until May 10, 2011 remains unchanged.

Under the revised terms gearing (i.e. net financial debt divided by equity attributable to shareholders of Klöckner & Co SE) may not exceed 150% and the equity attributable to shareholders of Klöckner & Co SE may not decrease below €500 million. Violation of such financial covenants would not automatically result in an event of default but would require repayment of all outstanding amounts. Subsequent drawings would then be available when the covenants are again met.

Further liabilities due to banks exclusively comprise of bilateral borrowings of international subsidiaries, which are primarily used to finance working capital.

#### Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has conducted a European ABS program with a term of five years. The European program has a volume of €420 million. Also for the European ABS programs the covenants were modified from performance-based to balance-sheet-related covenants. The US ABS program has a maximum volume of USD 125 million (€87 million).

As of the end of the reporting period, utilization of the programs of €21 million including interest breaks down as follows:

(€ million)	December 31, 2009	December 31, 2008
European program		
– utilization	-	125
– maximum volume	<b>420</b>	420
American program		
– utilization	<b>21</b>	88
– maximum volume	<b>87</b>	90

The utilization of the programs is recognized as loans given that the requirements for derecognition under IAS 39 of the receivables transferred were not met.

In connection with the restructuring and stabilization of the syndicated loan and the European ABS-program the Group incurred fees of €7.7 million which are included in the financial expenses.

**Liabilities under finance leases**

Liabilities from finance leases are carried at the present value of future lease payments which have the following terms:

(€ thousand)	December 31, 2009	December 31, 2008
Due within one year	2,396	3,086
Due between one and five years	6,464	8,506
Due after five years	390	1,636
<b>Future minimum lease payments</b>	<b>9,250</b>	<b>13,228</b>
Due within one year	205	580
Due between one and five years	288	1,120
Due after five years	4	73
<b>Interest included in future minimum lease payments</b>	<b>497</b>	<b>1,773</b>
Due within one year	2,191	2,506
Due between one and five years	6,176	7,386
Due after five years	386	1,563
<b>Present value of future minimum lease payments</b>	<b>8,753</b>	<b>11,455</b>

**(26) TRADE PAYABLES**

(€ thousand)	December 31, 2009	December 31, 2008
Advance payments received	1,077	125
Trade payables	375,778	360,838
Bills payable	21,532	31,220
<b>Trade payables</b>	<b>398,387</b>	<b>392,183</b>

## (27) OTHER LIABILITIES

(€ thousand)	December 31, 2009		December 31, 2008	
	Non-current	Current	Non-current	Current
Liabilities due to entities in which participations are held	-	431	-	37
Social security contributions	-	8,724	-	10,857
Customers with credit balances	-	10,934	-	14,770
Liabilities to employees	-	2,447	-	6,600
Value-added tax liabilities	-	11,487	-	19,688
Other tax liabilities	-	5,266	-	16,570
Contingent consideration for business combinations	1,817	-	3,874	-
Negative fair value of derivative financial instruments	28,663	1,213	53,716	2,181
Miscellaneous other liabilities	600	11,148	2,044	10,937
<b>Other liabilities</b>	<b>31,080</b>	<b>51,650</b>	<b>59,634</b>	<b>81,640</b>

Negative fair values of derivative financial instruments of €24,765 thousand (2008: €44,665 thousand) are attributable to cross currency swaps and interest rate swaps designated as cash flow hedges for which fair value changes are directly recognized in equity and thus do not effect net income.

## OTHER INFORMATION

### (28) INFORMATION ON CAPITAL MANAGEMENT

The Group determines the amount of its capital in relation to risk. The capital structure is managed and, if necessary, adjusted in line with changes in the economic environment. Options for maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

The capital management is based on gearing. Gearing is calculated as the ratio of net financial debt to equity attributable to shareholders of Klöckner & Co SE as stated in the statement of financial position. Net financial debt is calculated as the difference between financial liabilities (adjusted for transaction costs) and cash and cash equivalents reported on the statement of financial position. The Group's target is to maintain a gearing below 150% in order to be able to obtain finance at reasonable conditions.

Gearing – based on consolidated equity attributable to shareholders of Klöckner & Co SE – is calculated as follows:

(€ thousand)	December 31, 2009	December 31, 2008 <sup>*)</sup>	Variance
Financial liabilities	<b>670,913</b>	861,112	-190,199
Transaction cost	<b>5,977</b>	6,312	-335
Liquid funds	<b>-826,517</b>	-296,636	-529,881
<b>Net financial debt (before deduction of transaction cost)</b>	<b>-149,627</b>	<b>570,788</b>	<b>-720,415</b>
Equity attributable to shareholders of Klöckner & Co SE	<b>1,108,195</b>	1,069,354	38,841
Gearing	<b>-14%</b>	53%	

<sup>\*)</sup> Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

The improvement of the gearing ratio results primarily from the reduction of net working capital and the proceeds from the rights issue.

The Company's midterm goal is to achieve investment grade rating.

## (29) ADDITIONAL INFORMATION FOR FINANCIAL INSTRUMENTS

The carrying amounts and fair values by category of financial instruments are as follows:

### Financial assets as of December 31, 2009

(€ thousand)	IAS 39 measurement categories					Total carrying amount as of Dec. 31, 2009
	Fair value	At fair value through profit or loss	Available for sale	Loans and receivables	Not covered by the scope of IFRS 7	
Non-current financial assets						
Financial assets	482	-	194	288	1,894	2,376
Other assets	2,960	877	-	2,083	23,776	26,736
Current financial assets						
Trade receivables	464,266	-	-	464,266	-	464,266
Other assets	58,552	820	-	57,732	7,288	65,840
Liquid funds	826,517	-	121	826,396	-	826,517
Assets held for sale	-	-	-	-	1,081	1,081
	<b>1,352,777</b>	<b>1,697</b>	<b>315</b>	<b>1,350,765</b>	<b>34,039</b>	<b>1,386,816</b>

### Financial liabilities as of December 31, 2009

(€ thousand)	IAS 39 measurement categories					Total carrying amount as of Dec. 31, 2009
	Fair value	At fair value through profit or loss	Other liabilities	Carrying amount under IAS 17	Not covered by the scope of IFRS 7	
Non-current financial liabilities						
Financial liabilities	653,647	-	612,182	6,562	-	618,744
Other liabilities	31,080	3,898	27,182	-	-	31,080
Current financial liabilities						
Financial liabilities	52,169	-	49,978	2,191	-	52,169
Trade payables	398,387	-	398,387	-	-	398,387
Other liabilities	26,172	1,213	24,959	-	25,478	51,650
	<b>1,161,455</b>	<b>5,111</b>	<b>1,112,688</b>	<b>8,753</b>	<b>25,478</b>	<b>1,152,030</b>

**Financial assets as of  
December 31, 2008**

IAS 39 measurement categories

(€ thousand)	Fair value	At fair value through profit or loss	Available for sale	Loans and receivables	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2008 <sup>*)</sup>
Non-current financial assets						
Financial assets	789	-	410	379	1,575	2,364
Other assets	9,946	1,446	-	8,500	24,386	34,332
Current financial assets						
Trade receivables	798,618	-	-	798,618	-	798,618
Other assets	137,326	12,484	-	124,842	4,519	141,845
Liquid funds	296,636	-	105	296,531	-	296,636
Assets held for sale	-	-	-	-	4,942	4,942
	<b>1,243,315</b>	<b>13,930</b>	<b>515</b>	<b>1,228,870</b>	<b>35,422</b>	<b>1,278,737</b>

\*) Comparative amounts for 2008 restated due to initial application of IFRIC 14 (see Note 4)

**Financial liabilities as of  
December 31, 2008**

IAS 39 measurement categories

(€ thousand)	Fair value	At fair value through profit or loss	Other liabilities	Carrying amount under IAS 17	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2008
Non-current financial liabilities						
Financial liabilities	733,762	-	804,051	8,949	-	813,000
Other liabilities	59,619	9,051	50,568	-	15	59,634
Current financial liabilities						
Financial liabilities	48,113	-	45,606	2,506	-	48,112
Trade payables	392,183	-	392,183	-	-	392,183
Other liabilities	34,524	2,383	32,142	-	47,115	81,640
	<b>1,268,201</b>	<b>11,434</b>	<b>1,324,550</b>	<b>11,455</b>	<b>47,130</b>	<b>1,394,569</b>



### Fair values by fair value hierarchy levels

#### Financial assets measured at fair value

Fair value measurement at the end of the reporting period using:				
	December 31, 2009	Level 1	Level 2	Level 3
(€ thousand)				
Derivative financial instruments	1,697	-	1,697	-
<b>Total</b>	<b>1,697</b>	<b>-</b>	<b>1,697</b>	<b>-</b>

#### Financial liabilities measured at fair value

Fair value measurement at the end of the reporting period using:				
	December 31, 2009	Level 1	Level 2	Level 3
(€ thousand)				
Derivative financial instruments	5,111	-	5,111	-
<b>Total</b>	<b>5,111</b>	<b>-</b>	<b>5,111</b>	<b>-</b>

The fair values of current financial assets are largely identical to their carrying amounts. The fair values of financial liabilities reflect the current market environment as of December 31, 2009 for the respective financial instruments. The fair value is not reduced by transaction costs. For current financial liabilities for which no transaction costs are to be considered, the carrying amount approximates fair value.

#### Net income by measurement categories

Cash and cash equivalents, trade receivables and other receivables predominantly are of short term maturity. Therefore, the carrying amounts at the reporting date closely approximate fair values.

Net income for the measurement category loans and receivables consists of foreign currency exchange gains and losses, impairments and write-offs, recoveries on impaired receivables and compensation by and fees for credit insurance. In financial year 2009, a net loss of €18,291 thousand (2008: €16,489 thousand) was incurred.

Net income for other liabilities consists of foreign currency exchange gains and losses. In financial year 2009, a net gain of €2,038 thousand (2008: net loss €418 thousand) was incurred.

As a result of impairments of non-current securities there were no impairment losses in 2009 for financial assets. The impairment loss for trade receivables amounted to €10,820 thousand (2008: €8,504 thousand) in 2009.

#### Credit risks

The Company's exposure to credit risks mainly arises from its operating business. A credit risk is defined as an unexpected loss of financial assets, e.g. if a customer is unable to meet its obligations within the appropriate period. Throughout the operating businesses, receivables are locally monitored on an ongoing basis. Valuation allowances are recorded to reflect credit risks.

The maximum exposure to credit risk is reflected by the carrying amounts of the financial assets reported in the balance sheet. The Group counters the credit risk with its own credit management and with credit insurance. In 2009 approximately 61% (2008:70%) of the trade receivables were covered by credit insurance.

### (30) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are accounted for at fair value in compliance with IAS 39.

In operating its business the Group is exposed to interest and currency risks. Such risks are hedged using derivative financial instruments.

The Group only uses standard instruments for which sufficient liquid markets exist. Derivative financial instruments are entered into and managed in compliance with internal directives that govern the scope of action, responsibilities and control systems. According to these directives, the use of derivative financial instruments is a key task of the Corporate Finance department of Klöckner & Co SE, which manages and coordinates such use. The transactions are concluded exclusively with counterparts with first-class credit ratings. Derivative financial instruments cannot be used for speculative purposes, but exclusively for hedging risks associated with underlying transactions.

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.

Information with regard to credit risk is provided in Note 29 *Additional information for financial instruments*.

#### **Information on interest rate risk**

The Group is exposed to interest rate changes due to the use of financial instruments. The hedging policy is designed to cover interest rate changes of variable interest rate bearing financial liabilities. The Group is facing interest rate exposure with regard to its central financing instruments in the euro zone as well to bilateral lines of credit of its US and Swiss subsidiaries. The central finance department monitors and controls this exposure by using derivative interest rate financial instruments.

Long-term financing needs in the euro zone are primarily refinanced by capital market instruments such as convertible bonds with fixed coupons. Under the Group's hedging policy variable interest bearing loans used for long-term financing are synthetically converted to fixed rate using interest rate swaps. Due to their term and volume these instruments qualify for cash flow hedge accounting.

Changes in interest levels will have an impact on the reserve for fair value adjustments of financial instruments included in equity, and are therefore separately recognized in the sensitivity analysis.

Under consideration of the convertible bonds and the fixed rate bilateral credit arrangements as of December 31, 2009, approximately 63% of the financial indebtedness before transaction costs was of a fixed rate nature. If hedging instruments are incorporated in the analysis, the amount of a fixed interest debt included in the financial indebtedness before transaction costs amounts to approximately 98%.

Due to the measures implemented for liquidity protection a significant liquidity reserve was built up by short-term deposits at banks with first-class credit ratings. If interest rates increase the temporary liquidity reserves would lead to improved interest income.

Under IFRS 7 interest rate risk and chances are assessed using sensitivity analyses in which the impact of interest rate changes on interest income and expense and equity as of the end of the reporting period is assessed. Interest rate risk is measured as cash flow risk.

The Group assesses equity and income statement effects under parallel shifting of the euro and US dollar yield curves. The cash flow impact from the parallel shifting only refers to interest income and interest expense in the following reporting period.

If US dollar/euro interest rate levels as of December 31, 2009 had been higher by 100 basis points the financial result driven from financial liabilities and hedging instruments for the following year would have been impacted negatively

by €0.1 million. With a view to the liquidity reserve an investment period of one year would result in a positive effect of €7.8 million.

At a US dollar/euro interest rate increase of 100 basis points the value of derivative financial instruments designated as cash flow hedges would have been positively increased by €8.8 million, which would have been reflected in equity in the reserve for fair value adjustments of financial instruments.

#### **Information on foreign currency exchange risk**

The Group is exposed to foreign currency exchange risk resulting from financing activity, Group internal dividend payments and acquisitions of subsidiaries as well as from operating activity. The Group's hedging policy is focused on cash-flow-related exposures. Solely translation-related risks, which result from the conversion of assets and liabilities, are not hedged.

The Group operates a central foreign currency exchange management. Foreign and domestic subsidiaries are required to identify foreign currency exposure and to communicate the exposure to the central finance department, or within certain thresholds, hedge the exposure with financial institutions. The hedging transactions cover the exposure from actual and forecasted transactions.

As of the end of the reporting period no material foreign currency exchange risks from the operating business or acquisitions were identified.

Financing activity foreign exchange risk is the risk that results from foreign currency loans of the holding companies. As part of the central Group financing these loans denominated in Pounds Sterling and US dollars were granted to subsidiaries and were fully hedged.

Due to the volume and long-term nature of a US dollar financing both the principal and the interest payments were hedged using a cross currency swap, designated as cash flow hedge.

Loans granted in Pounds Sterling were hedged including interest payments via forward contracts and foreign currency swaps.

The impact of changes of foreign currency rates on foreign exchange gains and losses as well as on the Group's equity as of the balance sheet date is monitored by a sensitivity analysis. The exposure is assessed as cash flow risk for the following year.

The sensitivity analysis identifies compensating income effects of forward exchange contracts and swaps, since their maturity is consistent to the maturity of the underlying transaction.

Cross currency swaps designated as cash flow hedge may result in changes in the reserves for fair values of financial instruments included in equity. Increases or decreases in the US dollar to euro exchange rate would, if assessed in isolation, lead to changes of such reserves. However, compensating changes in the value of the underlying transaction would also be recorded in equity, because the underlying transaction is a net investment in a foreign subsidiary.

### Information on liquidity risk

The demand of liquidity is constantly monitored by the Corporate Finance department to ensure appropriate levels of liquidity. During the financial market crisis the Group has implemented a set of measures to safeguard liquidity which includes the restructuring of the syndicated loan and the European ABS program. The changes encompassed new covenants which will prove more robust in economic downturns. By the rights issue and the placement of a new convertible bond the Group further optimized its financing structure. In addition significant liquidity reserves were established to ensure appropriate liquidity levels. Liquid funds are invested as short-term deposits with the Group's core banks. The solvency of these financial institutions is monitored on a regular basis.

Including the convertible bonds with nominal amounts of €423 million (2008: €325 million) and finance leasing of approximately €9 million (2008: €11 million) the Group has lines of credit of approximately €1.7 billion (2008: €1.8 billion), of which as of December 31, 2009, €677 million (2008: €862 million) or 41% (2008: 47%) were used. This amount includes among bilateral credit facilities also the convertible bonds and drawings under the syndicated loan, for which hedge-accounting is applied in accordance with IAS 39.

The following table illustrates the contractual undiscounted interest and principal payments of the non-derivative and derivative financial instruments for the periods indicated.

December 31, 2009		Cash outflows			
(€ thousand)		Less than one year	1-5 years	More than 5 years	Total
Bonds	Nominal values	-	422,900	-	422,900
	Interest	10,749	33,259	-	44,008
	<b>Total</b>	<b>10,749</b>	<b>456,159</b>	<b>-</b>	<b>466,908</b>
Bank loans	Nominal values	44,517	233,426	-	277,943
	Interest	5,777	5,230	-	11,007
	<b>Total</b>	<b>50,294</b>	<b>238,656</b>	<b>-</b>	<b>288,950</b>
ABS	Nominal values	-	20,826	-	20,826
	Interest	170	246	-	416
	<b>Total</b>	<b>170</b>	<b>21,072</b>	<b>-</b>	<b>21,242</b>
Finance lease liabilities	Nominal values	2,191	6,176	386	8,753
	Interest	205	288	4	497
	<b>Total</b>	<b>2,396</b>	<b>6,464</b>	<b>390</b>	<b>9,250</b>
<b>Total financial liabilities</b>		<b>63,609</b>	<b>722,351</b>	<b>390</b>	<b>786,350</b>
Cash outflows from derivative financial instruments designated in interest hedging relationships		9,492	12,036	-	21,528

December 31, 2008

Cash outflows

(€ thousand)		Cash outflows			Total
		Less than one year	1-5 years	More than 5 years	
Bonds	Nominal values	-	325,000	-	325,000
	Interest	4,875	14,625	-	19,500
	<b>Total</b>	<b>4,875</b>	<b>339,625</b>	-	<b>344,500</b>
Bank loans	Nominal values	42,985	319,737	-	362,722
	Interest	10,929	19,171	-	30,100
	<b>Total</b>	<b>53,914</b>	<b>338,908</b>	-	<b>392,822</b>
ABS	Nominal values	-	212,372	-	212,372
	Interest	8,222	9,520	-	17,742
	<b>Total</b>	<b>8,222</b>	<b>221,892</b>	-	<b>230,114</b>
Finance lease liabilities	Nominal values	2,506	7,386	1,563	11,455
	Interest	580	1,120	73	1,773
	<b>Total</b>	<b>3,086</b>	<b>8,506</b>	<b>1,636</b>	<b>13,228</b>
<b>Total financial liabilities</b>		<b>70,097</b>	<b>908,931</b>	<b>1,636</b>	<b>980,664</b>
Cash outflows from derivative financial instruments designated in interest hedging relationships		6,713	10,084	-	17,583

Included are all financial instruments for which payments have already been fixed as of the end of the reporting period; expected payments on future obligations not yet incurred have not been included. Variable interest payments on financial instruments were determined on the interest rate fixed as of the end of the reporting period. For the use of the revolving credit facility it was assumed that the level of drawings will be maintained until expiration of the facility.

The nominal and fair values of the derivative financial instruments used to hedge interest and foreign exchange exposures are as follows:

(€ million)	December 31, 2009		December 31, 2008	
	Not designated in hedge-accounting	Designated in hedge-accounting	Not designated in hedge-accounting	Designated in hedge-accounting
<b>Nominal values</b>				
Forward exchange transactions	64.1	-	280.6	-
Interest rate swaps	-	831.1	-	831.1
Other interest rate hedging instruments	34.7	-	35.9	-
Cross-currency-swap	-	223.7	-	223.7
<b>Fair values</b>				
Forward exchange transactions	- 0.8	-	11.9	-
Interest rate swaps	-	- 17.9	-	- 12.9
Other interest rate hedging instruments	- 1.6	-	- 2.8	-
Cross-currency-swap	-	- 6.9	-	- 31.8
Hedging VOP	- 1.0	-	- 6.6	-

The nominal values correspond to the gross amounts of the currency and interest rate portfolio. 588,952 (2008: 837,000) options are used to hedge the exposure resulting from the Group's virtual stock option programs. The fair values of these instruments amount to €-1.0 million (2008: €-6.6 million).

The fair values of the derivative financial instruments are determined on the basis of banks' quoted market prices or on financial formulae based on models commonly used by banks. If fair values exist they correspond to the amount third parties 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 value in the underlying transactions.

Forward exchange transactions with a nominal amount of €64.1 million (2008: €280.6 million) have a remaining term of less than one year. To hedge its foreign currency exposure of long-term inter-group financing Klöckner & Co Verwaltung GmbH entered into cross currency swaps maturing in May 2013 and December 2014, respectively. With regard to the financing volume of USD 335 million the principal swap at the beginning and the end of the term as well as semi-annual or quarterly interest payments the interest rate was fixed at the inception of the swap agreement. Due to its duration and volume the cross currency swap qualifies as cash flow hedge under IAS 39.

The interest rate swaps designated in a hedging relationship relate to forward interest rate swaps and on an interest rate swap on a volume of €223.7 million and a swap interest rate between 4.40% and 4.50%. The total term of these transactions covers a period of up to seven years. The interest rate swaps are used to hedge existing and future variable euro interest rate debt of the holding companies which relates to refinancing of non-current assets.

The other interest rate hedging instruments with a nominal amount of €34.7 million (2008: €35.9 million) refer to a US dollar interest collar of Klöckner & Co Verwaltung GmbH with a floor of 3.75% and a cap of 5.80%. The US dollar interest collar is used to hedge variable-interest-bearing US dollar loans of Namasco Corporation.

### (31) PENDING LITIGATION, COMMITMENTS AND CONTINGENT LIABILITIES

In addition to the KDI antitrust case (also see Note 35 *Subsequent events*) the Group is not subject to pending litigation that may have a material effect on the Group's net assets and results of operation. Despite the comprehensive set of compliance measures, it can, however, not be ruled out that isolated violations may arise or that there are yet undetected historic violations.

The liabilities on bills amount to €1 thousand (2008: €67 thousand). In addition the Group has issued guarantees in connection with the disposal of subsidiaries. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

In the Klöckner & Co Group, there are other financial obligations arising in particular from agreements that qualify as non-cancelable operating leases. Operating leases mainly relate to real estate, 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, 2009	December 31, 2008
Due within one year	<b>49,575</b>	45,199
Due between one and five years	<b>106,013</b>	104,609
Due after five years	<b>56,509</b>	63,039
<b>Future minimum lease payments (nominal amounts)</b>	<b>212,097</b>	<b>212,847</b>

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €4,495 thousand as of December 31, 2009 (2008: €2,098 thousand).

### (32) RELATED PARTY TRANSACTIONS

Within the framework of its ordinary business activities, the Klöckner & Co Group has business relationships with numerous companies. These also include related parties that were accounted for at cost. Business relations with these companies do not fundamentally differ from trade relationships with other companies. No material transactions were conducted with any of these companies in the year under review.

The compensation model of the Management and Supervisory Board is presented in the compensation report, which is included in the management report. The compensation of members of the Management Board of Klöckner & Co SE for their activities in 2009 amounted to:

(€ thousand)	2009	2008
Short-term benefits		
– fixed components	<b>1,412</b>	1,487
– variable components	<b>775</b>	930
Share-based payment	<b>1,366</b>	2,072

The amount for share-based payments represents the fair value of the virtual stock options at the grant date. During financial year 2009 payments for share-based compensation amounts to €920 thousand (2008: €2,773 thousand).

The additions to the statutory pension provisions for active members of the Management Board amounted to €667 thousand (2008: €828 thousand). Pension provisions for a former Management Board member amount to €1,440 thousand.

Business with members of the Management Board is restricted to their above function as members of the Management Board.

Due to the resolution of the Annual General Meeting on June 7, 2006, individual disclosure of the Management Board compensation is omitted.

In the 2009 financial year, remuneration paid to the Supervisory Board amounted to €339 thousand (2008: €708 thousand).

A list of the members of the Management Board and the Supervisory Board is included on pages 12 and 13 of this annual report.

Also a related party in accordance with IAS 24 is the pension fund of the Debrunner & Acifer group, Switzerland. The pension fund leases premises to the Swiss subsidiaries. Rental expenses for such premises amount to €1,021 thousand (2008: €903 thousand).

### (33) SUPPLEMENTAL CASH FLOW INFORMATION

The consolidated statement of cash flows is presented in line with IAS 7 (Cash Flow Statement). The statement of cash flows is of central importance in assessing the financial position 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 flow 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 compiling the statement of cash flows.

#### Cash flow from operating activities

Cash flow from operating activities amounted to €564.7 million in the financial year 2009 (2008: €186.9 million). This reflects the robustness of the business model which – as discussed below – generates strong cash flows from the release of working capital even in times of economic downturns.

(€ thousand)	Variance	
	2009/2008	2008/2007
Inventories	-431,161	6,444
Trade receivables <sup>*)</sup>	-337,589	-143,449
Trade payables	-581	223,699
<b>Working capital</b>	<b>-769,331</b>	<b>86,694</b>

\*) Including trade receivables sold under ABS programs.

Working capital declined net of foreign currency exchange effects, changes in scope of consolidation and reclassification to assets held for sale by €-769.3 million to €636.8 million.

#### Cash flow from investing activities

Due to the reduced capital expenditure for property, plant and equipment and intangible assets of €25.0 million and under consideration of proceeds from the sale of property, plant and equipment and non-current assets (€13.9 million) and repayments of margin deposits for derivative financial instruments of €3.1 million net outflows from investing activities amounted to €-8.0 million.



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### **Cash flow from financing activities**

Cash flow from financing activities are driven by proceeds from the capital market transactions in 2009 of €288.8 million. Including net repayments of financial liabilities of €283.5 million and interest payments of €28.2 million cash outflows for financing activities amount to €-23.8 million (2008: €-123.4 million).

The business activities of the Klöckner & Co Group continuously generate short-term cash and cash equivalents. As a general rule they are used within one month to repay working capital credits.

### **Liquid funds**

Liquid funds comprise cash and cash equivalents including short-term securities amounting to €826.5 million as of December 31, 2009. Cash and cash equivalents include bank balances of €13,957 thousand (2008: €43,392 thousand) relating to the consolidated special purpose entities whose business is conducted exclusively for the subsidiaries participating in the ABS program.

## (34) SEGMENT REPORTING

(€ thousand)	Europe		North America	
	2009	2008 <sup>1)</sup>	2009	2008
External sales	<b>3,186,155</b>	5,373,659	<b>674,338</b>	1,375,936
– of which with third parties	<b>3,186,155</b>	5,373,659	<b>674,338</b>	1,375,936
– of which with other segments	-	-	-	-
Capital expenditure for intangible assets, property, plant and equipment	<b>23,124</b>	55,449	<b>626</b>	3,566
Segment result (EBITDA)	<b>56,593</b>	376,936	<b>-43,574</b>	148,624
Earnings before interest and taxes (EBIT)	<b>-6,041</b>	336,209	<b>-68,541</b>	126,685
Amortization and depreciation of intangible assets and property, plant and equipment	<b>40,050</b>	40,727	<b>24,967</b>	21,939
Impairment losses for intangible assets and property, plant and equipment	<b>22,583</b>	-	-	-
Other non-cash income and expenses	<b>146,946</b>	-166,316	-	-

	Europe		North America	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Net working capital (€ thousand)	<b>541,022</b>	1,109,826	<b>95,909</b>	279,617
Employees at year-end	<b>7,708</b>	8,696	<b>1,216</b>	1,409

Headquarters		Consolidation		Total	
2009	2008	2009	2008	2009	2008 <sup>1)</sup>
18,977	44,623	-18,977	-44,623	3,860,493	6,749,595
-	-	-	-	3,860,493	6,749,595
18,977	44,623	-18,977	-44,623	-	-
897	1,969	-	-	24,647	60,984
-81,514	75,076	-	-	-68,495	600,636
-103,551	70,370	-	-	-178,133	533,264
2,839	4,706	-	-	67,856	67,372
19,199	-	-	-	41,782	-
<b>-66,818</b>	103,129	<b>-</b>	<b>-</b>	<b>80,128</b>	-63,187

Headquarters		Consolidation		Total	
December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
-134	17,603	-	-	636,797	1,407,046
<b>108</b>	177	<b>-</b>	<b>-</b>	<b>9,032</b>	10,282

The earnings before interest and taxes (EBIT) can be reconciled to the consolidated net income before taxes as follows:

(€ thousand)	2009	2008 <sup>*)</sup>
Earnings before interest and taxes (EBIT)	– 178,133	533,264
Financial result (Group)	– 61,699	– 69,782
<b>Income before taxes (Group)</b>	<b>– 239,832</b>	<b>463,482</b>

\*) Comparative amounts for 2008 restated due to the initial application of IFRIC 14 (see Note 4).

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. Klöckner & Co is organized by regions. The internal reporting compiles information at the level of the reportable segments Europe and North America, which include all entities domiciled in those regions. Central functions that are not assigned to a segment, as well as the consolidation effects are reported separately.

The segments use the same accounting policies described in Note 4 *Significant accounting policies*, except for effects of intragroup transactions (e.g. profit distributions), which are eliminated within the individual segments.

The external sales comprise all sales generated with customers. Sales between segments are disclosed separately to allow reconciliation to consolidated sales. Intersegment sales – exclusively deliveries from the central purchasing entity Klöckner Global Sourcing GmbH, Duisburg – are invoiced at arms' length exclusively. EBITDA is defined as earnings before interest, taxes, depreciation and amortization and reversals of impairments of intangible assets and property, plant and equipment.

Net working capital comprises inventories and trade receivables less trade liabilities.

As explained in Note 6 *Specific items recognized in net income* impairment of goodwill and property, plant and equipment relates to CGU Spain and CGU United Kingdom. In the course of the initial consolidation of the Klöckner & Co Group in 2005 the purchase price allocation, required by IFRS 3, was made centrally and attributed to the segment Headquarters. Excess fair values for land and buildings were assigned to segment Headquarters due to internal controlling purposes. As such the respective impairment losses on these fair values relating to the Spanish property are included in the segment Headquarters.

Non-cash income and expenses mainly relate to the adjustments of the antitrust provision in France (Europe: €145.8 million) and the corresponding claim against former shareholders (Headquarters, €–66.5 million). Further details are provided in Note 6 *Specific items recognized in net income*.

#### Non-current assets by regions

Intangible assets, property, plant and equipment, investment property and non-current investments and securities are broken out by regions as follows:

(€ thousand)	2009	2008
Germany	52,610	54,766
Switzerland	150,111	154,811
United States	200,290	231,757
France	66,268	71,099
Spain	63,951	105,331
Other regions	101,957	113,140
<b>Total</b>	<b>635,187</b>	<b>730,904</b>

### (35) SUBSEQUENT EVENTS

#### Reduction of antitrust fine KDI

On January 19, 2010 the French court of appeal (Cour d'Appel de Paris) reduced significantly the fine imposed by the French antitrust authority on KDI S.A.S. in 2008 from €169.3 million to €23.5 million of which €17.5 million had already been paid by the date of the issuance of these financial statements.

The reduction of the fine improves the 2009 group results of Klöckner & Co SE by a total of €79 million. The limited effect is due to a compensation claim of Klöckner & Co totaling €70 million against the previous owners of the Klöckner & Co Group resulting from the acquisition of the Group in 2005 which is now only used at lower level.

#### Acquisition of Bläsi

On January 22, 2010 Klöckner & Co acquired via its Swiss subsidiary Debrunner Koenig Holding AG the distribution company Bläsi AG, located in Berne, Switzerland. With this acquisition the Swiss subsidiary now holds a leading position in the greater Berne area for water supply and building technology products. Bläsi's main customers are linked to the construction segment. With its two sites in the greater Berne area Bläsi generated sales of approximately €32 million in 2008.

### (36) FEES AND SERVICES OF THE AUDITOR OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following fees were incurred for services performed by the auditor KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne and affiliated companies in the financial year:

(€ thousand)	2009	2008
Audit of financial statements	1,848	1,864
Other assurance or valuation services	1,987	338
Tax advisory services	137	63
Other services	197	516
	<b>4,169</b>	<b>2,781</b>

The fees for auditing primarily include the audit of the consolidated IFRS financial statements and audits of the stand-alone financial statements of the entities included in the consolidated financial statements. Other assurance services include reviews of interim financial statements and fees (incl. insurance) for the rights issue.

The fees for tax advisory services relate to advice for individual matters and consulting on other national and international tax issues.

The fees for other services relate mainly to project-related consulting services.

Other assurance fees incurred in connection with the rights issue and the issue of the convertible bond were directly deducted from equity or to the extent attributable to the liability component of the convertible bond deducted from the respective liability.

(37) APPLICATION OF SECTION 264 PARA. 3 HGB

In 2009 the following domestic subsidiaries made use in part of the exemption clause included in Section 264 para. 3 of the German Commercial Code (HGB):

- Multi Metal Beteiligungs GmbH, Duisburg
- Klöckner & Co International GmbH, Duisburg
- Klöckner & Co Verwaltung GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Klöckner Global Sourcing GmbH, Duisburg

(38) DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATIONS ACT (AKTG - AKTIENGESETZ)

On December 7, 2009 the Management Board and Supervisory Board issued the declaration of compliance in accordance with Section 161 German Stock Corporations Act (AktG) and made it permanently available to the shareholders on the Klöckner & Co Web site.

Duisburg, February 26, 2010  
Klöckner & Co SE

The Management Board

Gisbert Rühl  
Chairman  
of the Management Board

Ulrich Becker  
Member  
of the Management Board

## DECLARATION OF THE MANAGEMENT BOARD

### Declaration of the Management Board on the consolidated financial statements and the management report

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report which has been combined with the management report for Klöckner & Co SE, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Duisburg, February 26, 2010

The Management Board

Gisbert Rühl  
Chairman  
of the Management Board

Ulrich Becker  
Member  
of the Management Board

## AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Klöckner & Co SE, Duisburg, comprising statement of income, statement of comprehensive income, statement of financial position, statement of cash flows, summary of changes in equity and notes to the financial statements, together with the management report for the company and the Group for the business year from January 1, 2009 to December 31, 2009. The preparation of the consolidated financial statements, the management report of the company and the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements, on the management report of the company and on the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as supplementary consideration of International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the management report of the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, February 26, 2010

KPMG Hartkopf + Rentrop Treuhand KG  
Wirtschaftsprüfungsgesellschaft

Philippi  
Wirtschaftsprüfer

Michels-Scholz  
Wirtschaftsprüfer



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# INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE



# KLÖCKNER & CO SE

## Income statement for the period from January 1 to December 31, 2009

(€ thousand)	2009	2008
Other operating income	16,288	7,607
Personnel expenses	- 16,600	- 14,050
Depreciation of intangible assets and property, plant and equipment	- 239	- 237
Other operating expenses	- 31,356	- 21,385
Income from investments	57,980	38,441
Other interest and similar income	29,686	27,093
Interest and similar expenses	- 24,478	- 19,573
<b>Result from ordinary activities</b>	<b>31,281</b>	<b>17,896</b>
Income taxes	-	- 165
Other taxes	- 36	- 31
Net income	31,245	17,700
Unappropriated profits carried forward	17,700	-
Appropriation to other revenue reserves	- 31,245	-
<b>Unappropriated profits</b>	<b>17,700</b>	<b>17,700</b>

# KLÖCKNER & CO SE

Balance sheet as of December 31, 2009

## Assets

(€ thousand)	December 31, 2009	December 31, 2008
Intangible assets	385	158
Property, plant and equipment	459	450
Financial assets	258,303	258,303
<b>Fixed assets</b>	<b>259,147</b>	<b>258,911</b>
Trade receivables	36	3
Receivables from affiliated companies	807,839	481,511
Other assets	49,964	14,665
Cash and cash equivalents	89	174
<b>Current assets</b>	<b>857,928</b>	<b>496,353</b>
Prepaid expenses	56,224	45,504
<b>Total assets</b>	<b>1,173,299</b>	<b>800,768</b>

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## Equity and liabilities

(€ thousand)	December 31, 2009	December 31, 2008
<b>Equity</b>		
Subscribed capital	<b>166,250</b>	116,250
Capital reserves	<b>437,965</b>	260,496
Other revenue reserves	<b>57,837</b>	26,592
Unappropriated profits	<b>17,700</b>	17,700
<b>Equity</b>	<b>679,752</b>	<b>421,038</b>
Provisions for pensions and similar obligations	<b>10,186</b>	6,679
Provisions for taxes	<b>325</b>	-
Other provisions	<b>9,380</b>	8,671
Bonds	<b>422,900</b>	325,000
Trade payables	<b>689</b>	390
Liabilities to affiliated companies	<b>49,857</b>	33,093
Other liabilities	<b>210</b>	5,897
<b>Total equity and liabilities</b>	<b>1,173,299</b>	<b>800,768</b>

# KLÖCKNER & CO SE

## Movements in intangible assets, property, plant and equipment and non-current investments in 2009

(€ thousand)	Cost				As of December 31, 2009
	As of December 31, 2008	Additions	Disposals		
<b>I. Intangible assets</b>					
1. Concessions, industrial rights and similar rights and licenses in such rights	450	290	5		<b>735</b>
2. Prepayments	-	59	-		<b>59</b>
<b>II. Property, plant and equipment</b>					
1. Buildings	110	4	-		<b>114</b>
2. Other equipment, operating and office equipment	542	131	37		<b>636</b>
<b>III. Non-current investments</b>					
Investments in affiliated companies	258,303	31	31		<b>258,303</b>
	<b>259,405</b>	<b>515</b>	<b>73</b>		<b>259,847</b>

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Accumulated amortization and depreciation				Carrying amounts		
	As of December 31, 2008	Current year amortization and depreciation	Disposals	As of December 31, 2009	Book value as of Dec. 31, 2008	Book value as of Dec. 31, 2009
	292	118	1	409	158	326
	-	-	-	-	-	59
	20	14	-	34	90	80
	182	107	32	257	360	379
	-	-	-	-	258,303	258,303
	<b>494</b>	<b>239</b>	<b>33</b>	<b>700</b>	<b>258,911</b>	<b>259,147</b>

# KLÖCKNER & CO SE, DUISBURG

## Notes to the financial statements for the 12-month period ending December 31, 2009

### 1. GENERAL INFORMATION

Klöckner & Co SE (the "Company") is the parent company of the Klöckner & Co Group. With approximately 250 locations in Europe and North America, the Klöckner & Co Group is the largest mill-independent distributor of steel products and other materials for the combined European and North American market.

The main activity of Klöckner & Co SE is the management of operations of the Klöckner & Co Group. The company directly or indirectly controls the management companies of the Group's operating subsidiaries in Germany and Austria, The Netherlands, France, Belgium, the UK, Spain, Switzerland and in Eastern Europe and the US.

The shares of Klöckner & Co SE have been listed on the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange since the IPO on June 28, 2006 and the shares were added to Deutsche Börse's MDAX® index on January 29, 2007.

### 2. ACCOUNTING POLICIES

The financial statements for the financial year from January 1 to December 31, 2009 were compiled in accordance with the German Commercial Code (HGB – Handelsgesetzbuch) and the German Stock Corporations Act (AktG – Aktiengesetz) as required for large corporations. Klöckner & Co SE compiles consolidated financial statements under International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements will be published in the electronic Federal Gazette.

The presentation of the financial statements adheres to Sections 266 – 278 German Commercial Code (HGB).

#### **Assets**

Acquired intangible assets as well as property, plant and equipment are generally carried at cost less accumulated amortization and depreciation in accordance with the German Commercial Code. Moveable property, plant and equipment subject to depreciation are amortized on a straight-line basis. Low-value assets are expensed on acquisition. Impairment losses are recognized if the carrying amount exceeds fair value or value in use. Other property and equipment is amortized over useful lives between three and 13 years.

Non-current financial assets are stated at acquisition cost; impairment losses are recognized for other than temporary declines in value.

Receivables and other assets are generally stated at cost. Specific valuation allowances are established to account for identifiable risks. Receivables denominated in foreign currencies are translated at the exchange rate at the transaction date or if lower at the exchange rate at the reporting date.



### Equity and Liabilities

As of December 31, 2009 the Company has determined its provisions for pensions and similar obligations using the projected unit credit method in analogy to IAS 19. The change improves the presentation of the entity's net assets, but limits the comparability to prior year amounts in this regard. The change resulted in non-recurring personnel expenses of €2,870 thousand.

Other accrued expenses account for all identifiable and pending risks. Liabilities are generally stated at their pay-off amount.

### Income statement

The income statement is prepared according to the nature of expense method per Section 275 para. 2 HGB.

## 3. FIXED ASSETS

The development of fixed assets is presented in the movement schedule.

Klöckner & Co SE holds via its shares in the intermediate holding company Multi Metal Beteiligungs GmbH ("MMB"), Duisburg, an investment in Klöckner & Co International GmbH, Duisburg ("Klöckner & Co International GmbH"), which has a 100% stake in the Klöckner & Co Verwaltung GmbH. Klöckner & Co Verwaltung GmbH directly or indirectly holds the operating companies of the Klöckner & Co Group. In addition the Company holds 100% of the shares of Klöckner & Co Financial Services S.A., Luxembourg founded in 2009, which has issued a convertible bond in the reporting year.

Klöckner & Co SE held 100% of the shares in Klöckner & Co Finance International S.A., Luxembourg, which issued a convertible bond already in 2007. With effect of December 4, 2009 the convertible bond was transferred to Klöckner & Co Financial Services S.A. On December 18, 2009 Klöckner & Co Finance International S.A. was liquidated.

A listing of all subsidiaries is presented in the appendix.

## 4. ACCOUNTS RECEIVABLE AND OTHER ASSETS

(€ thousand)	2009	2008
Trade receivables	36	3
Receivables from affiliated companies	807,839	481,511
Other assets	49,964	14,665
	<b>857,839</b>	<b>496,179</b>

The accounts receivable due from affiliated companies are with €169,333 thousand (2008: €152,857 thousand) attributable to MMB and relate to loans, to the 2009 profit transfer and to the current clearing. Furthermore, loan receivables of €633,898 thousand (2008: €321,588 thousand) due from Klöckner & Co Verwaltung GmbH relate to loans out of the issuance of the convertible bonds by Klöckner & Co Financial Services S.A., Luxembourg and the transfer of cash from the capital increase.

Other assets comprise a corporation tax credit and solidarity surcharge of €40,881 thousand from the distribution by Klöckner & Co Beteiligungs GmbH, Duisburg, to their parent Klöckner & Co Verwaltung GmbH, Duisburg.

Other assets of €3,199 thousand (2008: €2,581 thousand) have a remaining maturity of more than one year.

The other receivables and other assets have a remaining maturity of less than one year.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances.

## 6. PREPAID EXPENSES

The discounts on issuance of the convertible bonds of €62,797 thousand and €26,462 thousand have already been capitalized as prepaid expenses in 2007 and 2009 respectively and are amortized over the duration of the bonds. In 2009, amortization expenses included in interest expense of €15,646 thousand (2008: €12,559 thousand) were recorded. The remaining discounts were stated at €55,821 thousand (2008: €45,005 thousand) as of the end of the financial year 2009.

In addition prepaid expenses include prepaid rents.

## 7. EQUITY

The subscribed capital of Klöckner & Co SE as of December 31, 2009 amounts to €166,250,000 and consists of 66,500,000 registered shares and is fully paid-in.

By resolutions of the Annual General Meetings in 2007, 2008 and 2009 the share capital of the company has been conditionally increased up to €11,625 thousand to fulfill conversion rights of the holders of the convertible bonds.

On September 18, 2009, the issue of 20,000,000 new non-par value shares with a calculated pro rata share of the capital stock of €2.50 per share and full dividend entitlement as of January 1, 2009 was registered in the commercial register. The share capital was hence increased by €50,000 thousand.

The issue price of the share amounted to €10.00, the gross issue proceeds about €200 million. The shareholders of Klöckner & Co SE could subscribe three new shares for seven old shares until September 21, 2009. Shareholders' statutory subscription rights are excluded for a residual amount of 71,429 shares to ensure an even subscription ratio.

The capital reserve increased from €260,496 thousand to €437,965 thousand as a result of the capital increase and the issue of the convertible bond.

## 8. OTHER PROVISIONS

(€ thousand)	2009	2008
Other provisions for		
– personnel expenses	<b>6,388</b>	5,725
– outstanding invoices	<b>1,613</b>	1,075
– miscellaneous other	<b>1,379</b>	1,871
	<b>9,380</b>	<b>8,671</b>

## 9. LIABILITIES

(€ thousand)	2009	2008
Convertible bonds	<b>422,900</b>	325,000
Trade payables	<b>689</b>	390
Liabilities to affiliated companies	<b>49,857</b>	33,093
Other liabilities	<b>210</b>	5,897
	<b>473,656</b>	<b>364,380</b>

In July 2007, Klöckner & Co issued via its wholly owned subsidiary Klöckner & Co Finance International S.A. a convertible bond with an aggregated nominal value of €325 million. Payments under the bond are guaranteed by Klöckner & Co SE. The bond which is convertible into shares of Klöckner & Co SE has a maturity of five years and a coupon of 1.5% per annum. The conversion price has been set at €80.75. The conversion price was decreased to €70.44 by the capital increase.

On June 9, 2009, Klöckner & Co issued a further convertible bond with an aggregated nominal value of €97.9 million which was issued by Klöckner & Co Financial Services S.A. and is also convertible into shares of Klöckner & Co SE. The maturity is also five years. The bond has a coupon of 6.0% and a conversion price after the reduction through the capital increase of €18.37. The convertible bond of Klöckner & Co Finance International S.A. and the loan to Klöckner & Co SE was transferred to Klöckner & Co Financial Services S.A. on December 4, 2009.

The syndicated loan agreed with Klöckner & Co SE and its subsidiaries was restructured on May 11, 2009. The total volume was reduced from €600 million to €300 million with a remaining maturity until May 10, 2011.

Liabilities to affiliated companies mainly consist of liabilities to Klöckner & Co Verwaltung GmbH for reimbursement of a claim for withheld corporation tax including solidarity surcharge from the distribution from Klöckner & Co Beihilfungs GmbH due to the tax unity.

Other liabilities include:

(€ thousand)	2009	2008
Tax payables	187	5,866
Social security contributions	17	16

Except for the convertible bonds all liabilities have a remaining maturity of less than one year.

## 10. COMMITMENTS

Future minimum lease payments for long-term operating leases relate with €3,430 thousand (2008: €3,239 thousand) to 2010 and with €12,868 thousand (2008: €13,239 thousand) to financial years 2011 until 2014. In periods subsequent to 2015 the obligations amount to €6,288 thousand (2008: €10,703 thousand).

## 11. OTHER OPERATING INCOME

Other operating income contains income attributable to prior periods from the reversal of provisions, indemnification and sale of fixed assets of €965 thousand (2008: €864 thousand).

## 12. PERSONNEL EXPENSES

(€ thousand)	2009	2008
Wages and salaries	12,038	11,576
Social securities	929	877
Retirement benefit cost	3,622	1,586
Welfare	11	11
	16,600	14,050

Average number of employees:

	2009	2008
Salaried employees	88	75
Wage earners	3	3
	91	78

On October 31, 2009, Dr. Thomas Ludwig, CEO of Klöckner & Co SE resigned from the company. The CFO Gisbert Rühl is his successor who additionally keeps the responsibility of CFO. As of November 1, 2009 the number of members of the Board was reduced to two members.

In the reporting year, the members of the Management Board of Klöckner & Co SE received the following compensation from Group companies:

(€ thousand)	2009	2008
Short-term benefits		
– fixed components	<b>1,412</b>	1,487
– variable components	<b>775</b>	820
Share-based payment	<b>1,366</b>	2,072

The amount for share-based payments represents the fair value of the virtual stock options at the grant date. During the financial year payments for share-based compensation amounted to €920 thousand (2008: €2,773 thousand).

The additions to the pension provisions for members of the Management Board amounted to €667 thousand (2008: €828 thousand). Pension accruals existing for a former Board member amount to €1,440 thousand (2008: €0 thousand).

Business with members of the Management Board is restricted to their above function as members of the Management Board.

The Annual General Meeting on June 7, 2006 unanimously voted in accordance with Section 286 para. 5 HGB not to disclose the compensation and other benefits of the members of the Management Board on an individual basis for the financial years from 2006 up to and including 2011 as required by Section 285 para. 9 HGB.

### 13. OTHER OPERATING EXPENSES

In the 2009 financial year, remuneration paid to the Supervisory Board amounted to €339 thousand (2008: €708 thousand).

The following fees included in other expenses were incurred for services performed by the auditor KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne, and KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin:

(€ thousand)	2009	2008
Audit of financial statements	<b>48</b>	52
Other assurance services	<b>1,393</b>	46
Tax advisory services	<b>89</b>	52
Other services	<b>3</b>	391
	<b>1,533</b>	<b>541</b>

Other assurance services include insurance premiums in connection with the capital increase.

Other operating expenses relate with €19 thousand (2008: €354 thousand) to prior periods.

### 14. INCOME FROM INVESTMENTS

Income from investments comprises income from the profit and loss transfer agreement with Multi Metal Beteiligungs GmbH, Duisburg.

## 15. INTEREST INCOME, NET

(€ thousand)	2009	2008
Other interest and similar income		
– affiliated companies	29,686	27,093
Interest and similar expenses		
– affiliated companies	–8,831	–7,011
– other interest and similar expenses	–15,647	–12,562
	<b>5,208</b>	<b>7,520</b>

Interest income relates with €27,636 thousand (2008: €20,742 thousand) to a loan granted to Klöckner & Co Verwaltung GmbH.

## 16. TAXES

(€ thousand)	2009	2008
Income taxes	-	165
Other taxes	36	31
	<b>36</b>	<b>196</b>

## 17. CONTINGENT LIABILITIES

The contingent liabilities of €250,831 thousand result from a guarantee for drawings of Klöckner & Co Verwaltung GmbH under the holding credit arrangement ("Holding Facility") in the amount of €225,797 thousand and a further guarantee for obligations of Klöckner & Co Verwaltung GmbH of €20,564 thousand incurred in connection with the forward contracts under a master agreement with a bank. Besides that, the company guarantees the credit line of a foreign subsidiary in the amount of €4,670 thousand.

## 18. OTHER INFORMATION

### Information pursuant to Section 160 para.1 No. 8 German Stock Corporations Act (AktG)

In accordance with Section 21, para. 1 and Section 22, para. 2 Securities Trading Act (WpHG) the Company was notified as follows:

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
<b>Increase over threshold</b>			
BlackRock Inc.	New York, USA	5.61 a)	December 1, 2009
Franklin Mutual Advisers LLC	Short Hills, USA	9.89 a), b)	November 21, 2008

a) Attributed holding, not cumulative.

b) Information excluding dilutive effects of the capital increase in 2009.

A full listing of notifications when a threshold was met in accordance with Section 21 para. 1 and Section 22 para. 1 Securities Trading Act (WpHG) is attached as annex to the notes of the consolidated financial statements.

68	Consolidated statement of income	74	Summary of changes in equity	137	Individual financial statements
69	Statement of comprehensive income	76	Notes to the consolidated financial statements	154	Subsidiary listing
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73	Consolidated statement of cash flows	136	Auditor's Report	164	Additional Mandates

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### **Corporate bodies**

A listing of the members of the corporate bodies is attached as appendix.

### **Declaration of compliance with the German Corporate Governance Code**

On December 7, 2009, the Management Board and Supervisory Board issued the declaration of compliance in accordance with Section 161 German Stock Corporations Act (AktG) and made it permanently available to the shareholders on the Klöckner & Co SE Web site.

### **Profit distribution proposal**

The income for the year was allocated to other revenue reserves. The Management Board and Supervisory Board propose to the Shareholders' Meeting that the retained profits of Klöckner & Co SE be allocated to other revenue reserves.

Duisburg, February 26, 2010  
Klöckner & Co SE  
The Management Board

Gisbert Rühl  
Chairman  
of the Management Board

Ulrich Becker  
Member  
of the Management Board

## DECLARATION OF THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Klöckner & Co SE, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Duisburg, February 26, 2010

The Management Board

Gisbert Rühl  
Chairman  
of the Management Board

Ulrich Becker  
Member  
of the Management Board



## AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and its report on the position of the Company and the Group prepared by Klöckner & Co SE, Duisburg, for the business year from January 1 to December 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB („Handelsgesetzbuch“: „German Commercial Code“) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne, February 26, 2010

KPMG Hartkopf + Rentrop Treuhand KG  
Wirtschaftsprüfungsgesellschaft

Philippi  
Wirtschaftsprüfer

Michels-Scholz  
Wirtschaftsprüfer

**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 Societas Europaea, Duisburg, Germany	
<b>I.</b>	<b>Consolidated affiliated companies</b>	
2	Multi Metal Beteiligungs GmbH, Duisburg, Germany	100.00
3	Klöckner & Co International GmbH, Duisburg, Germany	100.00
4	Klöckner & Co Verwaltung GmbH, Duisburg, Germany	100.00
5	Klöckner & Co Beteiligungs GmbH, Duisburg, Germany	100.00
6	Klöckner Global Sourcing GmbH, Duisburg, Germany	100.00
7	Klöckner Stahl- und Metallhandel GmbH, Duisburg, Germany	100.00
8	Dobbertin Drahthandel GmbH, Hamburg, Germany	100.00
9	ASD metal services Ltd., Leeds, United Kingdom	100.00
10	Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland	99.99
		0.01
11	Klöckner Romania S.R.L., Bucharest, Romania	99.75
		0.25
12	Edelstahlservice Mágocs Nemesacélfeldolgozó Kft, Mágocs, Hungary	100.00
13	Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic	100.00
14	Klöckner Metalsnab AD, Sofia, Bulgaria	99.77
15	Klöckner Participaciones SA, Madrid, Spain	100.00
16	Klöckner Stahl und Metall Ges.m.b.H, Vienna, Austria	100.00
17	Klöckner & Co Financial Services S.A., Luxembourg	100.00
18	Klöckner S.à r.l., Luxembourg	100.00
19	Klöckner Investment SCA, Luxembourg	96.77
		3.23
20	Klöckner Finance S.à r.l., Luxembourg	100.00
21	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00
22	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00
23	Buysmetal N.V., Harelbeke, Belgium	99.99
		0.01
24	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00
25	Klöckner UK Holdings Ltd. i. L., Leeds, United Kingdom	100.00
26	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00
27	Klöckner Metal Services Ltd., Leeds, United Kingdom	100.00
28	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00
29	Namasco Corporation, Wilmington, Delaware, USA	100.00
30	Namasco Holding Corporation, Wilmington, Delaware, USA	100.00
31	Namasco Metals L.P., Dallas, Texas, USA	99.00
		1.00

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	1	EUR	257,932,945.30	-	1)	-
	2	EUR	357,899,443.92	-	1)	-
	3	EUR	257,862,067.19	-	1)	-
	4	EUR	309,573,240.28	4,768,319.37		-
	4	EUR	30,032.06	-	1)	22,555,128.59
	4	EUR	81,934,377.62	-	1)	759,015,841.14
	7	EUR	140,558.14	6,042.62		-
	92	GBP	2.00	-		-
	7	PLN	7,825,061.66	- 4,826,271.85		60,976,261.61
	8					
	7	RON	- 254,620.75	- 3,877,344.31		8,834,584.68
	8					
	7	HUF	59,635,676.00	8,182,954.00		216,345,200.00
	7	CZK	26,528,138.00	- 59,759,948.75		207,372,210.48
	4	BGN	12,470,737.70	- 9,767,447.40		38,804,181.00
	4	EUR	72,741.16	- 2,389,521.86		-
	7	EUR	1,180,397.29	918,940.63		-
	1	EUR	54,705.00	23,705.00		-
	3	EUR	12,500.00	-		-
	3	EUR	- 585,624.49	1,021,176.28		-
	18					
	19	EUR	- 15,405.24	- 45,946.48		-
	22	EUR	19,252,052.39	160,143.14		-
	4	EUR	110,824,549.75	15,443,462.46		-
	72	EUR	15,511,958.52	440,835.89		37,529,997.86
	76					
	16	EUR	7,737,170.56	2,844,418.19		50,137,369.75
	28	GBP	-	-		-
	35	USD	406,001,756.51	- 24,411,258.79		-
	28	GBP	9,553,699.00	968,684.00		48,906,874.00
	4	GBP	33,300,232.00	- 1,927,796.00		-
	26	USD	394,881,566.16	- 5,739,323.62		444,171,521.56
	29	USD	109,064,481.43	-		-
	30	USD	110,166,324.68	- 661,546.15		130,008,447.60
	29					

1) Profit and loss transfer agreement.

No.	Entity	Interest in percent
32	Primary Steel LLC, Middletown, Connecticut, USA	100.00
33	Kloeckner Burlington Limited, Burlington, Ontario, Canada	100.00
34	Kloeckner Alberta Limited, Calgary, Alberta, Canada	100.00
35	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00
36	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00
37	Temtco Steel, LLC, Wilmington, Delaware, USA	100.00
38	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00
39	Debrunner Acifer AG, St. Gallen, Switzerland	100.00
40	Molok (Valais) SA, Siders, Switzerland	100.00
41	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00
42	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00
43	Metall Service Menziken AG, Menziken, Switzerland	100.00
44	Klöckner Stahl AG, St. Gallen, Switzerland	100.00
45	Koenig Feinstahl AG, Dietikon, Switzerland	100.00
46	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00
47	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00
48	Davum Construction S.A., Crissier, Switzerland	100.00
49	ODS B.V., Rotterdam, The Netherlands	100.00
50	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00
51	ODS do Brasil Sistemas de Medicao LTDA, Campinas São Paulo, Brazil	80.00
52	O-D-S N.V., Antwerp, Belgium	100.00
53	ODS Metals N.V., Antwerp, Belgium	99.50
		0.50
54	Teuling Staal B.V., Barendrecht, The Netherlands	100.00
55	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00
56	Armstrong Plate Ltd., Leeds, United Kingdom	100.00
57	Gardiner, Barugh & Jones Ltd., Leeds, United Kingdom	100.00
58	Grange Steels Ltd., Leeds, United Kingdom	100.00
59	Hilton Steels Ltd., Leeds, United Kingdom	100.00
60	Humber Steel Stockholders Ltd., Leeds, United Kingdom	100.00
61	RW Project Metals Ltd., Leeds, United Kingdom	100.00
62	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00
63	Parkin Steel Stockholders Ltd., Leeds, United Kingdom	100.00
64	Peterborough Steels Ltd., Leeds, United Kingdom	100.00
65	RW Doncaster Ltd., Leeds, United Kingdom	100.00

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	29	USD	222,509,241.20	- 18,005,434.32		286,563,716.32
	22	CAD	- 5,349,126.47	- 1,257,456.59		-
	22	CAD	- 1,001,473.97	- 502,610.37		-
	4	USD	112,248,972.93	- 52,156,377.22		-
	4	EUR	160,025,000.00	-	1)	-
	35	USD	188,828,720.37	- 12,636,598.00		153,495,226.12
	4	CHF	163,700,705.54	49,264,623.04		-
	38	CHF	118,472,700.55	30,506,819.54		613,105,725.45
	47	CHF	378,323.46	3,369.90		-
	38	CHF	20,926,842.21	4,446,218.29		165,726,868.75
	38	CHF	7,428,666.73	2,007,601.57		39,323,634.13
	38	CHF	10,328,620.59	1,054,215.97		77,511,647.90
	38	CHF	107,839.46	- 321.73		-
	38	CHF	32,877,383.53	12,408,554.61		75,608,859.86
	38	CHF	2,968,549.99	90,773.41		-
	38	CHF	10,807,947.28	3,052,366.71		50,385,674.66
	38	CHF	4,769,690.33	648,800.25		-
	22	EUR	34,784,341.66	- 9,230,153.73		221,482,697.26
	49	EUR	18,000.00	-		-
	49	BRL	2,976,789.71	2,165,499.44		21,790,939.71
	49	EUR	1,818,545.87	474,600.47		4,851,304.15
	49	EUR	877,204.89	- 113,409.22		4,114,180.53
	22					
	49	EUR	5,362,717.00	41,465.00		4,900,275.00
	28	GBP	17,379,253.00	-		-
	55	GBP	- 584,019.00	-		-
	55	GBP	1,561,971.00	-		-
	55	GBP	558,489.00	-		-
	55	GBP	- 83,890.00	-		-
	55	GBP	2,371,118.00	-		-
	55	GBP	46,299.00	-		-
	55	GBP	2,803,828.00	-		-
	55	GBP	343,591.00	-		-
	55	GBP	- 370,622.00	-		-
	55	GBP	- 319,199.00	-		-

1) Profit and loss transfer agreement.

No.	Entity	Interest in percent
66	John O. Holt & Sons Ltd., Leeds, United Kingdom	100.00
67	Armstrong Steel Ltd., Leeds, United Kingdom	100.00
68	Berry Hill Group Ltd., Leeds, United Kingdom	100.00
69	James & Tatton Ltd., Leeds, United Kingdom	100.00
70	Westgarth Aberdeen Ltd., Bathgate, United Kingdom	100.00
71	JRS Steel Stockholders Ltd., Leeds, United Kingdom	100.00
72	Klöckner Distribution Industrielle S.A., Aubervilliers, France	96.77
73	KDI Export S.A.S., Cergy-Pontoise, France	100.00
74	Reynolds European S.A.S., Rueil Malmaison, France	100.00
75	Adrien Targe S.A.S., La Grand Croix, France	100.00
76	KDI S.A.S., Aubervilliers, France	100.00
77	KDI Immobilier S.A.S., Aubervilliers, France	100.00
78	Prafer SNC, Woippy, France	100.00
79	KDI Davum S.A.S., Le Port, La Réunion, France	100.00
80	KDI Authentic S.A.S., Aubervilliers, France	100.00
81	Comercial de Laminados S.A., Barcelona, Spain	100.00
82	Klöckner Aluminio Ibérica S.A., Madrid, Spain	100.00
83	Hierros del Turia S.A., Valencia, Spain	80.00
84	Materiales Siderúrgicos S.A., Madrid, Spain	100.00
85	Suministros Loinaz S.A., Guipuzcoa, Spain	100.00
86	Hierros Guadalquivir S.A., Seville, Spain	100.00
87	Hierros del Ebro S.A., Zaragoza, Spain	100.00
88	Perfiles Aragón S.A., Zaragoza, Spain	100.00
89	Hierros del Cantábrico S.A., Asturias, Spain	100.00
90	Cortichapa S.A., Valencia, Spain	85.00
91	Aesga Aceros Especiales S.A., Madrid, Spain	100.00
92	ASD Limited, Leeds, United Kingdom	100.00
93	ASD Westok Limited, Leeds, United Kingdom	100.00
94	ASD Interpipe Ltd., Leeds, United Kingdom	100.00
95	ASD Multitubes Ltd., Leeds, United Kingdom	100.00
96	NC Receivables Corporation, Wilmington, Delaware, USA	100.00

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	55	GBP	249,843.00	-		-
	66	GBP	14,983,299.00	- 4,100,838.00		63,055,646.00
	55	GBP	1,872,067.00	-		-
	68	GBP	2,096,520.00	-		-
	55	GBP	- 116,022.00	-		-
	55	GBP	- 762,236.00	-		-
	4	EUR	173,088,309.54	120,786,469.00		-
	76	EUR	1,150,206.00	384,519.00		42,655,338.00
	72	EUR	13,887,401.00	1,096,950.00		67,484,580.00
	76	EUR	7,889,957.00	- 2,456,725.00		42,027,520.00
	72	EUR	- 35,117,091.00	- 41,144,414.00		662,703,474.00
	76	EUR	74,003,317.00	8,499,109.00		13,639,239.00
	76	EUR	3,365,565.00	1,391,327.00		12,489,439.00
	76	EUR	3,976,545.00	122,215.00		19,921,642.00
	76	EUR	8,613,125.00	17,392.00		132,644.00
	15	EUR	47,142,813.98	- 3,571,517.58		79,573,503.00
	81	EUR	- 2,306,375.52	- 3,366,595.98		35,009,785.00
	81	EUR	16,818,055.14	- 1,998,328.81		33,707,753.00
	81	EUR	6,293,078.51	- 1,019,021.80		18,901,774.00
	81	EUR	6,324,553.73	- 1,316,169.96		20,504,315.00
	81	EUR	16,378,003.03	- 2,309,701.30		33,106,902.00
	81	EUR	11,217,384.03	- 1,180,984.18		25,787,837.00
	81	EUR	8,825,404.18	- 2,227,323.60		27,640,828.00
	81	EUR	5,743,057.08	- 5,727,694.97		38,738,441.00
	81	EUR	8,393,206.45	- 1,105,747.59		34,777,061.00
	81	EUR	400,362.10	- 2,459,134.00		8,848,468.00
	28	GBP	27,706,487.00	- 17,935,521.00		196,807,766.00
	28	GBP	9,220,694.00	2,168,831.00		11,324,156.00
	28	GBP	1,135,591.00	- 314,194.00		12,599,134.00
	28	GBP	- 551,219.00	- 479,680.00		3,736,727.00
	31	USD	2,300,398.04	5,045.30		-

No.	Entity	Interest in percent
97	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00
98	Hierros Cantabrico Cobros S.L., Madrid, Spain	100.00
99	Hierros Ebro Cobros S.L., Madrid, Spain	100.00
100	Hierros Guadalquivir Cobros S.L., Madrid, Spain	100.00
101	Hierros Turia Cobros S.L., Madrid, Spain	100.00
102	Klöckner Aluminio Ibérica Cobros S.L., Madrid, Spain	100.00
103	Materiales Siderúrgicos Cobros S.L., Madrid, Spain	100.00
104	Perfiles Aragón Cobros S.L., Madrid, Spain	100.00
105	Suministros Loinaz Cobros S.L., Madrid, Spain	100.00
<b>II.</b>	<b>Non-consolidated affiliated companies</b>	
106	Sammi Klöckner International GmbH, Duisburg, Germany	100.00
107	KDI Courtages SARL, Paris, France	100.00
108	Richardson Westgarth Employees Trustees Ltd., Leeds, United Kingdom	100.00
109	Klöckner Steel Company Ltd., Leeds, United Kingdom	80.00
110	UAB Klöckner Baltija, Klaipeda, Lithuania	100.00
<b>III.</b>	<b>Associates</b>	
111	Debrunner Koenig Informatik AG, Dietikon, Switzerland	50.00
112	Birs-Stahl AG, Birsfelden, Switzerland	50.00
<b>IV.</b>	<b>Participations over 20%</b>	
113	GIE Mer, La Réunion, France	20.00



	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	81	EUR	3,006.00	-		-
	5	EUR	-14,069,250.67	-10,496.26		-
	72	EUR	15,505.00	-10,244.00		-
	55	GBP	1.00	-		-
	5	GBP	61,266.00	-	2)	-
	4	LTL	154,775.00	37,617.00	2)	-
	38	CHF	268,346.12	95,975.90		2,201,167.05
	39	CHF	650,277.97	38,741.34	2)	1,801,553.35
	79	EUR	11,037.00	3,037.00	2)	15,000.00

2) Financial statement as of December 31, 2008.

**Annex to the notes to the financial statements and notes the consolidated financial statements of Klöckner & Co SE  
Information pursuant to Section 160 para. 1 No. 8 German Stock Corporations Act (AktG)**

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
SIA Funds AG	Ziegelbrücke, Switzerland	3,002	April 16, 2009
FIL Limited	Hamilton, Bermuda	3.08	June 22, 2009
FIL Investment Management Limited	Hildenborough, United Kingdom	3.08	June 22, 2009
FIL Investments International	Hildenborough, United Kingdom	3.06	June 22, 2009
Barclays Global Investors N.A.	San Francisco, USA	3.01	August 21, 2009
JPMorgan Chase & Co	New York, USA	6.02	September 18, 2009
JPMorgan Chase Bank N.A.	Columbus, USA	6.02	September 18, 2009
JPMorgan International Inc.	New York, USA	6.02	September 18, 2009
Bank One International Holdings Corporation	Chicago, USA	6.02	September 18, 2009
JPMorgan International Finance Limited	Newark, USA	6.02	September 18, 2009
JPMorgan Capital Holdings Limited	London, United Kindom	6.02	September 18, 2009
JPMorgan Chase (UK) Holdings Limited	London, United Kindom	6.02	September 18, 2009
JPMorgan Chase International Holdings Limited	London, United Kindom	6.02	September 18, 2009
JPMorgan Securities Ltd.	London, United Kindom	6.02	September 18, 2009
The Royal Bank of Scotland Group plc	Edinburgh, United Kingdom	6.87	September 18, 2009
RFS Holdings B.V.	Amsterdam, The Netherlands	6.87	September 18, 2009
ABN AMRO Holding N.V.	Amsterdam, The Netherlands	6.87	September 18, 2009
ABN AMRO Bank N.V.	Amsterdam, The Netherlands	6.87	September 18, 2009
Deutsche Bank Aktiengesellschaft	Frankfurt, Germany	6.02	September 18, 2009
Commerzbank Aktiengesellschaft	Frankfurt, Germany	6.09	September 18, 2009
Barclays Plc	London, United Kindom	6.63	September 18, 2009
BlackRock Institutional Trust Company, N.A.	New York, USA	3.20	December 1, 2009 <sup>1)</sup>
BlackRock Delaware Holdings, Inc.	New York, USA	3.20	December 1, 2009
BlackRock Holdco 6 LLC	New York, USA	3.20	December 1, 2009
BlackRock Holdco 4 LLC	New York, USA	3.20	December 1, 2009
BlackRock Financial Management, Inc.	New York, USA	5.61	December 1, 2009
BlackRock Holdco 2 LLC	New York, USA	5.61	December 1, 2009
BlackRock, Inc.	New York, USA	5.61	December 1, 2009

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Decrease below threshold			
Alken Fund SICAV	Luxembourg	2.97	February 11, 2009
Virmont S.à r.l.	Luxembourg	2.97	February 11, 2009
FIL Limited	Hamilton, Bermuda	2.89	March 19, 2009
FIL Investment Management Limited	Hildenborough, United Kingdom	2.89	March 19, 2009
FIL Investments International	Hildenborough, United Kingdom	2.89	March 19, 2009
SIA Funds AG	Ziegelbrücke, Switzerland	1.16	May 15, 2009
JPMorgan Chase & Co	New York, USA	0.09	September 22, 2009
JPMorgan Chase Bank N.A.	Columbus, USA	0.09	September 22, 2009
JPMorgan International Inc.	New York, USA	0.09	September 22, 2009
Bank One International Holdings Corporation	Chicago, USA	0.09	September 22, 2009
JPMorgan International Finance Limited	Newark, USA	0.09	September 22, 2009
JPMorgan Capital Holdings Limited	London, United Kindom	0.09	September 22, 2009
JPMorgan Chase (UK) Holdings Limited	London, United Kindom	0.09	September 22, 2009
JPMorgan Chase International Holdings Limited	London, United Kindom	0.09	September 22, 2009
JPMorgan Securities Ltd.	London, United Kindom	0.09	September 22, 2009
The Royal Bank of Scotland Group plc	Edinburgh, United Kingdom	0.35	September 22, 2009
RFS Holdings B.V.	Amsterdam, The Netherlands	0.35	September 22, 2009
ABN AMRO Holding N.V.	Amsterdam, The Netherlands	0.35	September 22, 2009
ABN AMRO Bank N.V.	Amsterdam, The Netherlands	0.35	September 22, 2009
Commerzbank Aktiengesellschaft	Frankfurt, Germany	0.24	September 22, 2009
Deutsche Bank Aktiengesellschaft	Frankfurt, Germany	0.05	September 23, 2009
FIL Investments International	Hildenborough, United Kingdom	2.99	September 23, 2009
FIL Limited	Hamilton, Bermuda	2.97	September 25, 2009
FIL Investment Management Limited	Hildenborough, United Kingdom	2.97	September 25, 2009

# KLÖCKNER & CO SE

## Additional information concerning the individual and consolidated financial statements

### Additional mandates of the Members of the Management

#### Board of Klöckner & Co SE

(Section 285, para. 1 no. 10 German Commercial Code (HGB – Handelsgesetzbuch))

#### Gisbert Rühl,

#### Chairman of the Management Board, CEO / CFO

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Comercial de Laminados, Madrid, Spain
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands
- Klöckner Distribution Industrielle S.A., Aubervilliers, France
- Klöckner Investment S.C.A., Luxembourg, Luxembourg
- Klöckner Metalsnab AD, Sofia, Bulgaria, until October 16, 2009
- Klöckner Namasco Holding Corporation, Wilmington, USA
- ODS B.V., Rotterdam, The Netherlands
- Klöckner Participaciones S.A., Madrid, Spain
- Klöckner USA Holding Inc., Wilmington, Delaware, USA

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

- Deutsche Bank Aktiengesellschaft, Essen branch, Member of the Regional Advisory Board, until December 31, 2009
- DAL Deutsche Afrika Linien GmbH & Co KG, Hamburg, Member of the Advisory Board, until March 9, 2009
- Walter Services Holding GmbH, Ettlingen, Member of the Shareholders' Committee and the Supervisory Board

#### Ulrich Becker

#### Member of the Management Board, COO

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

- Comercial de Laminados, Madrid, Spain
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner Distribution Industrielle S.A., Aubervilliers, France, since October 19, 2009

- ODS B.V., Rotterdam, The Netherlands, since January 1, 2009
- Klöckner Metalsnab AD, Sofia, Bulgaria, from January 15, 2009 until October 16, 2009
- Klöckner Namasco Holding Corporation, Wilmington, USA, since October 31, 2009
- Klöckner Participaciones S.A., Madrid, Spain
- Klöckner USA Holding Inc., Wilmington, Delaware, USA, since October 31, 2009

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

- Wickeder Westfalenstahl GmbH, Wickede (Ruhr), Member of the Advisory Board

#### Dr. Thomas Ludwig

#### Chairman of the Management Board (CEO),

until October 31, 2009

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, until October 31, 2009
- Klöckner Distribution Industrielle S.A., Aubervilliers, France, until October 19, 2009
- Klöckner Investment S.C.A., Luxembourg, Luxembourg, until October 31, 2009
- Klöckner Metalsnab AD, Sofia, Bulgaria, until October 16, 2009
- Klöckner Namasco Holding Corporation, Wilmington, USA, until October 31, 2009
- ODS B.V., Rotterdam, The Netherlands, until October 31, 2009

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

- Trimet Aluminium AG, Essen, Member of the Supervisory Board
- Bandstahl Schulte & Co. GmbH, Hagen, Chairman of the Advisory Board
- Trimet AG, Chairman of the Supervisory Board
- Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, Chairman of the Supervisory Board
- 7(S) Personal GmbH, Hamburg, Chairman of the Advisory Board

### Additional mandates of the Members of the Supervisory Board of Klöckner & Co SE (Section 285 para. 1 no. 10 HGB)

#### Prof. Dr. Dieter H. Vogel, Chairman

- sevenload GmbH, Member of the Supervisory Board<sup>2)</sup>
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board<sup>2)</sup>
- Ernst & Young AG, Member of the Advisory Board<sup>2)</sup>
- HDI-Gerling-Industrie Versicherung AG, Member of the Advisory Board<sup>2)</sup>
- Bertelsmann Stiftung, Chairman of the Board of Trustees<sup>2)</sup>

#### Dr. Michael Rogowski, Deputy Chairman

- Voith AG, Chairman of the Advisory Board<sup>1)</sup> and the Shareholders' Committee<sup>2)</sup>
- HDI V.a.G./Talanx AG, Member of the Supervisory Board<sup>1)</sup>
- Carl Zeiss AG, Member of the Supervisory Board<sup>1)</sup>
- Vattenfall Europe AG, Member of the Supervisory Board<sup>1)</sup>
- Freudenberg & Co., Deputy Chairman of the Shareholders' Committee<sup>2)</sup>
- Deutsche Bank AG, Member of the Central Advisory Board<sup>2)</sup>
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board<sup>2)</sup>

#### Robert J. Koehler

- Benteler AG, Chairman of the Supervisory Board<sup>1)</sup>
- Heidelberger Druckmaschinen AG, Member of the Supervisory Board<sup>1)</sup>
- Demag Cranes AG, Member of the Supervisory Board<sup>1)</sup>
- Lanxess AG, Member of the Supervisory Board<sup>1)</sup>

#### Frank H. Lakerveld

- Sonepar Nederland B.V., Chairman of the Supervisory Board<sup>2)</sup>
- Encon Safety Products, Inc., Chairman of the Supervisory Board<sup>2)</sup>
- Hagemeyer North America, Inc., Chairman of the Supervisory Board<sup>2)</sup>
- Hagemeyer PPS Ltd., Chairman of the Supervisory Board<sup>2)</sup>
- Vallen Corporation, Chairman of the Supervisory Board<sup>2)</sup>
- Sonepar Holding S.A., Chairman of the Supervisory Board<sup>2)</sup>
- Sonepar Canada, Inc., Chairman of the Supervisory Board<sup>2)</sup>
- Sonepar Nordic A/S, Chairman of the Supervisory Board<sup>2)</sup>
- Sonepar USA Holdings, Inc., Chairman of the Supervisory Board<sup>2)</sup>
- Otra N.V., Member of the Supervisory Board<sup>2)</sup>
- S.I.F. S.A.S. à CA, Member of the Supervisory Board<sup>2)</sup>
- Lawrence & Hanson Group Pty Ltd., Member of the Supervisory Board<sup>2)</sup>
- Sonepar Iberica, S.A., Member of the Supervisory Board<sup>2)</sup>
- Sonepar France S.A., Member of the Supervisory Board<sup>2)</sup>
- Supermoon Holding Ltd., Member of the Supervisory Board<sup>2)</sup>
- Sonepar Italia SpA, Member of the Supervisory Board<sup>2)</sup>
- Sonepar Mexico S.A. de C.V., Member of the Supervisory Board<sup>2)</sup>
- Foshan Shunching Supermoon Trading Co., Ltd. Foreign Invested JV, Member of the Supervisory Board<sup>2)</sup>
- Hite Electric Technology Co., Ltd., Member of the Supervisory Board<sup>2)</sup>
- CEBEO S.A., Member of the Supervisory Board<sup>2)</sup>
- Elektroskandia Nordic AB, Member of the Supervisory Board<sup>2)</sup>
- KVC Industrial Supplies SDN BHD, Member of the Supervisory Board<sup>2)</sup>
- Aliaxis S.A., Member of the Supervisory Board<sup>2)</sup>

**Dr. Jochen Melchior**

- AXA Service AG, Member of the Supervisory Board<sup>1)</sup>
- National-Bank AG, Member of the Supervisory Board<sup>1)</sup>
- Mattson Technology Inc, Member of the Board of Directors, until August 10, 2009<sup>2)</sup>
- Ernst & Young AG, Member of the Advisory Board<sup>2)</sup>
- Universitätsklinikum Essen AöR, Chairman of the Supervisory Board<sup>2)</sup>
- Schauenburg Technology SE, Deputy Chairman of the Administrative Board, since January 1, 2010<sup>2)</sup>; from July 17, 2009 until change of legal form Chairman of the Advisory Board Schauenburg Technology AG<sup>1)</sup>
- Schauenburg-Gruppe, Member of the Administrative Board, since January 1, 2009<sup>2)</sup>

**Dr. Hans-Georg Vater**

- MEDION AG, Deputy Chairman of the Supervisory Board<sup>1)</sup>
- Athens International Airport S.A., Member of the Board of Directors<sup>2)</sup>
- HAPIMAG AG, Member of the Administrative Board<sup>2)</sup>
- DEMATIC GmbH & Co. KG, Member of the Advisory Board<sup>2)</sup>
- OWA Odenwald Faserplattenwerk GmbH, Member of the Advisory Board<sup>2)</sup>
- Universitätsklinikum Essen AöR, Member of the Supervisory Board, since January 10, 2009<sup>2)</sup>
- HOCHTIEF Concessions AG, Member of the Supervisory Board, since November 14, 2009<sup>1)</sup>

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG)

<sup>2)</sup> Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG)

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# GLOSSARY

## Asset-Backed Securitization Programs (ABS-Programs)

Group finance programs under which Klöckner trade receivables are converted into cash. Asset-backed securities are generally issued by a special purpose entity which are collateralized by an asset portfolio (i. e. Klöckner trade receivables). Within the program specified trade receivables are sold to special-purpose entities, that are established for this purpose. The sole purpose of the special purpose entities is to purchase receivables of Klöckner Group companies and to refinance such purchases by issuance of securities. As the programs do not meet criteria under the respective accounting standards the legally transferred receivables are not derecognized from the Group's balance sheet, but the funds received are presented as loans due to the purchasers of the receivables.

## 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 which could affect profit or loss. If the hedge is considered highly effective income effects of such instruments can be directly recorded in equity bypassing the income statement.

## Conduits

Conduits are special-purpose entities of banks in ABS programs that refinance themselves on the money market based on the purchase of receivables.

## Cross Currency Swap

Foreign exchange agreement between two parties to exchange a principal amount and the respective periodic interest payment of one currency for another and, after a specified period of time, to transfer back the original amounts swapped.

## Derivative Financial Instrument

Contractual agreement based on an underlying value (e. g. reference interest rate, securities prices, foreign exchange rates) and a nominal amount. Little or no payment is necessary at the time the agreement is concluded.

## Dilution

Describes the reduction in amount earned per share in an investment due to an increase in the total number of shares (e. g. due to convertible bonds). As the number of shares outstanding increases the proportional share embodied in each share decreases (i. e. dilutes).

## Discounted Cash Flow Method (DCF)

Valuation technique used to estimate the value of individual assets or group of assets. Under the approach all future cash flows are discounted to their present value as of the valuation date. The interest rate is determined using the Capital Asset Pricing Model (CAPM), a widely known approach in the financial asset portfolio theory.

## EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) is an internal 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.

## Floor

Financial instrument between two parties under which compensating payments are made to the holder of the instrument if the value of the underlying financial instruments falls under a defined threshold.

## Foreign Currency Swap

Financial instrument which combines a spot foreign exchange transaction, and a forward foreign exchange transaction.

## 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 potentials.

## 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 Collars

Combination of Floor and Cap. Derivative financial instrument which provides compensating payments based on an underlying notional amount to the holder of the instrument when either the market interest rate falls under or exceeds the defined threshold.

### 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 its 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).

### 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.

### Monte Carlo Simulation

Approach to calculate option values (e.g. virtual stock options). The price of the underlying share is calculated as statistical movement based on a large number of simulations. The individual simulations provide an expected payout to the plan participants based on the individual option agreement. The fair value of a virtual stock option is equal to the present value of the expected payout (average amount).

### Multi-Currency Revolving Credit Facility

Line of credit which has been issued by a number of participating banks by way of syndication with an initial term of three years allowing Klöckner & Co to draw funds in various amounts, currencies and maturities. This line of credit is primarily used for general purpose financing.

### Net Financial Debt

Net balance of cash and cash equivalents and financial liabilities.

### 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.

### 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.

### Sale and Leaseback

Special form of leasing in which usually real estate is sold to a leasing Company which then is leased back by the seller lessee.

### Virtual Stock Program

Stock-based compensation program for Management Board members and certain other executives which is settled in cash. The exercise gain equals the difference between share price over a 30-day period prior to the exercise and the strike price at the exercise date.

### Working Capital

Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.

# IMPORTANT ADDRESSES

## HEAD OFFICE

### **Klöckner & Co SE**

Am Silberpalais 1  
D-47057 Duisburg  
Telephone: +49 (0) 203-307-0  
Fax: +49 (0) 203-307-5000  
Management Board:  
– Gisbert Rühl (Chairman)  
– Ulrich Becker

## MULTI METAL DISTRIBUTION

### **Belgium**

#### **Buysmetal N.V.**

Keizersstraat 50  
B-8530 Harelbeke  
Telephone: +32 (0) 56-2680-80  
Fax: +32 (0) 56-2019-42  
Management:  
– Philippe Buysschaert

### **Bulgaria**

#### **Klöckner Metalsnab AD**

119 Illiyantsi Blvd.  
BG-Sofia 1220, Illientsi  
Telephone: +359 (0) 2-926-9800 / +359 (0) 2-931-1246  
Fax: +359 (0) 2-931-0497 / +359 (0) 2-926-9865  
Management:  
– Metody Ignatov (Spokesman)  
– Waldemar Wollny  
– Helmut Geisen

### **Germany**

#### **Klöckner Stahl- und Metallhandel GmbH**

Am Silberpalais 1  
D-47057 Duisburg  
Telephone: +49 (0) 203-307-0  
Fax: +49 (0) 203-307-5245  
Management:  
– Ulrich Becker (Spokesman)  
– Dr. Oliver Falk

### **France**

#### **KDI S.A.S.**

173–179, bd Félix-Faure  
F-93537 Aubervilliers Cedex  
Telephone: +33 (0) 1-4839-7777  
Fax: +33 (0) 1-4839-7778  
Management:  
– Marc Frustié (Spokesman)  
– Jean Coeur

### **United Kingdom**

#### **ASD Limited**

Valley Farm Road, Stourton  
GB-Leeds LS10 1SD  
Telephone: +44 (0) 113-2540-711  
Fax: +44 (0) 113-2721-689  
Management:  
– Martin Joyce

### **Lithuania / Baltic States**

#### **UAB Klockner Baltija**

Pramones 8  
LT-Klaipeda, 94102  
Telephone: +370 (0) 46-4162-62  
Fax: +370 (0) 46-4162-63  
Management:  
– Waldemar Wollny

### **The Netherlands**

#### **ODS B.V.**

Donk 6  
NL-2991 LE Barendrecht  
Telephone: +31 (0) 180-640-911  
Fax: +31 (0) 180-640-2 75  
Management:  
– Hans Sinnige  
– Dr. Oliver Falk

### **Austria**

#### **Metall- und Service-Center GmbH Nfg. Co KG**

Percostraße 12  
A-1220 Wien  
Telephone: +43 (0) 1-259-4636-0  
Fax: +43 (0) 1-259-4636-19  
Management:  
– Marcus Oberhofer

## Poland

### **Klöckner Stal i Metal Polska Sp. z o.o.**

ul. 28 Czerwca 1956r 223-229  
PL-61-485 Poznań  
Telephone: +48 (0) 61-8358-200  
Fax: +48 (0) 61-8358-210  
Management:  
– Christoph Schmidt

## Romania

### **S.C. Klöckner Romania S.R.L.**

Ap. 1. Et. 3  
Str. Turnu Magurele Nr. 270 D  
RO-Sector 4, Bucuresti  
Telephone: +40 (0) 21-6830-935  
Fax: +40 (0) 21-6830-905  
Management:  
– Mihai Christian Chebac

## Switzerland

### **Debrunner Koenig Holding AG**

Hinterlauben 8  
CH-9004 St. Gallen  
Telephone: +41 (0) 71-2272-990  
Fax: +41 (0) 71-2272-972  
Management:  
– Philippe Dietziker

## Spain

### **Comercial de Laminados S.A.**

Avda. de Bruselas. 38  
E-28108 Alcobendas  
Telephone: +34 (0) 91-4492-396  
Fax: +34 (0) 91-6625-813  
Management:  
– Albert Garreta Palau (Sprecher)  
– Enrique Gallar Romero

## Czech Republic

### **Klöckner Stahlhandel CZ, s.r.o.**

Kolbenova 159  
CZ-19002 Praha 9  
Telephone: +42 (0) 2-6603-9216  
Fax: +42 (0) 2-6603-9228  
Management:  
– Libor Novak

## USA

### **Namasco Corporation**

Corporate Headquarters  
500 Colonial Center Parkway, Suite 500  
USA-Roswell, GA 30076  
Telephone: +1 (0) 678-259-8800  
Fax: +1 (0) 678-259-8873  
Management:  
– Bill Partalis (Spokesman)  
– Kirk A. Johnson  
– Mark Breckheimer

## REPRESENTATIVE OFFICES

## China

### **Klöckner & Co SE**

Shanghai Representative Office  
Room 435 Junling Building  
Jinjiang Fandian  
59 Maoming Road (South)  
Shanghai 200020  
China  
Telephone: +86 (0) 21-5466-0606  
Fax: +86 (0) 21-2302-5152  
Office Manager:  
– Thomas Krümmer

# FINANCIAL CALENDAR 2010

<b>March 9, 2010</b>	Annual statement 2009 Financial statement press conference Analyst conference
<b>May 12, 2010</b>	Q1 interim report 2010
<b>May 26, 2010</b>	Annual General Meeting 2010 Düsseldorf
<b>August 11, 2010</b>	Q2 interim report 2010
<b>November 10, 2010</b>	Q3 interim report 2010

Subject to subsequent changes

# CONTACT/IMPRINT

## Contact

KLÖCKNER & CO SE

### **Dr. Thilo Theilen**

Head of Investor Relations & Corporate Communications

Telephone: +49 (0) 203 307-2050

Fax: +49 (0) 203 307-5025

E-Mail: [ir@kloeckner.de](mailto:ir@kloeckner.de)

## Imprint

PUBLISHER

### **Klöckner & Co SE**

Am Silberpalais 1

D-47057 Duisburg

Telephone: +49 (0) 203 307-0

Fax: +49 (0) 203 307-5000

[www.kloeckner.de](http://www.kloeckner.de)

CONCEPTION, DESIGN

IR-One AG & Co. KG, Hamburg

[www.ir-1.com](http://www.ir-1.com)

PHOTOGRAPHY

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istockphoto, Strandperle

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**Klöckner & Co SE**

Am Silberpalais 1

D-47057 Duisburg

Telephone: +49 (0) 203 307-0

Fax: +49 (0) 203 307-5000

[www.kloeckner.de](http://www.kloeckner.de)