ANNUAL
REPORT
2010
klöckner & co
multi metal distribution

HIGHLIGHTS 2010

- Significant increase in sales volumes, sales and earnings, positive net income for each quarter of the fiscal year

- Acquisition strategy resumed with four acquisitions: The successful integration of Becker Stahl-Service, our biggest acquisition since the initial public offering, resulted in a strong earnings contribution

- Financial flexibility further expanded and optimized by successful placement of promissory notes and a convertible bond

- Resumption of dividend policy: Proposed dividend of €0.30 per share

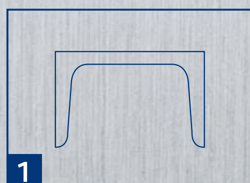
- Presentation of our growth strategy Klöckner & Co 2020, with ambitious growth targets: By focusing on the four lines of attack external growth, organic growth, business optimization and personnel and management development, we intend to become the first global multi metal distributor

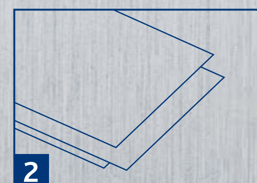
KEY FIGURES

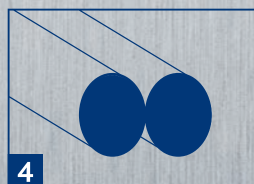
(in € million)	2010	2009	Change	Change in %
Sales	5,198	3,860	+ 1,338	+ 34.7
Earnings before interest, taxes, depreciation and amortization (EBITDA)	238	– 68	+ 306	–
Earnings before interest and taxes (EBIT)	152	– 178	+ 330	–
Earnings before taxes (EBT)	84	– 240	+ 324	–
Earnings after taxes (EAT)	80	– 186	+ 266	–
Earnings per share (basic)	1.17	– 3.61	+ 4.78	–
Earnings per share (diluted)	1.17	– 3.61	+ 4.78	–
Cash flow from operating activities	35	565	– 530	– 93.8
Cash flow from investing activities	– 188	– 8	– 180	–
Net working capital	1,017	637	+ 380	+ 59.8
Net financial debt	137	– 150	+ 287	–
Equity	1,290	1,123	+ 167	+ 14.9
Balance sheet total	3,491	2,713	+ 778	+ 28.7
Sales volumes (to ´000)	5,314	4,119	+ 1,195	+ 29.0
Employees as of December, 31	9,699	9,032	+ 667	+ 7.4

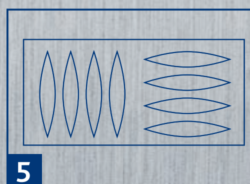
DISTRIBUTOR OF MULTI METAL PRODUCTS

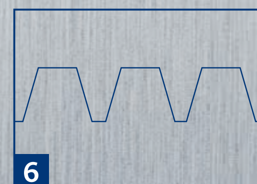
1. Long products
2. Flat products
3. Tubes and hollow sections
4. Stainless and quality steel
5. Aluminum
6. Special products







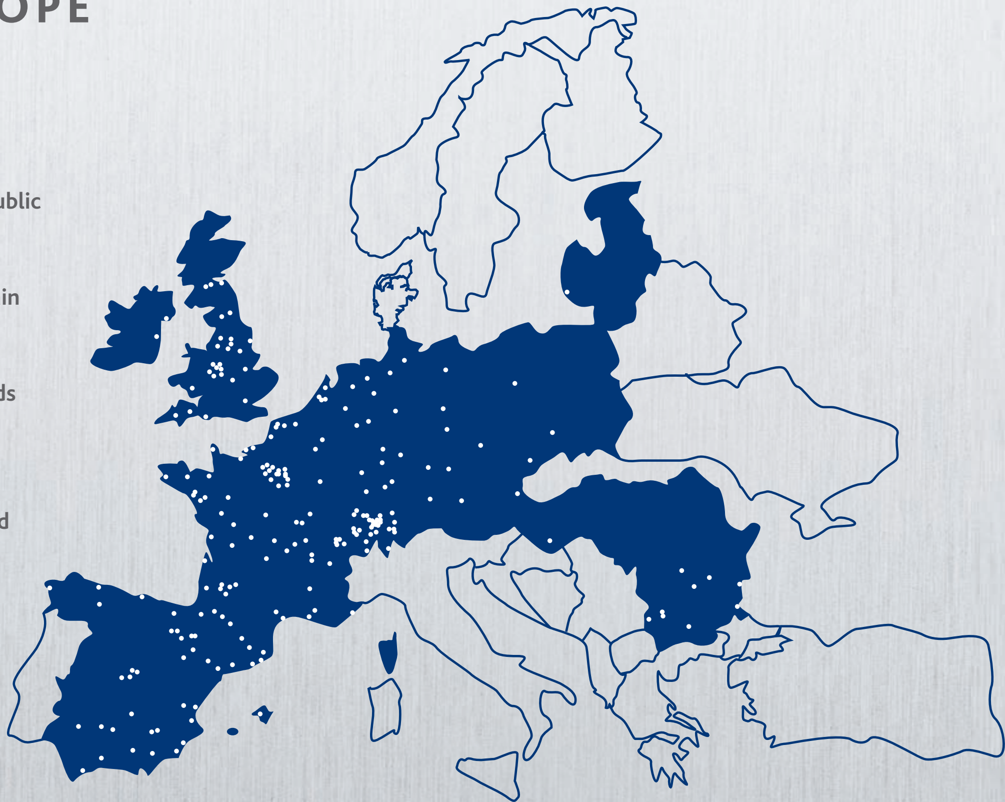




AT A GLANCE

220 LOCATIONS IN EUROPE

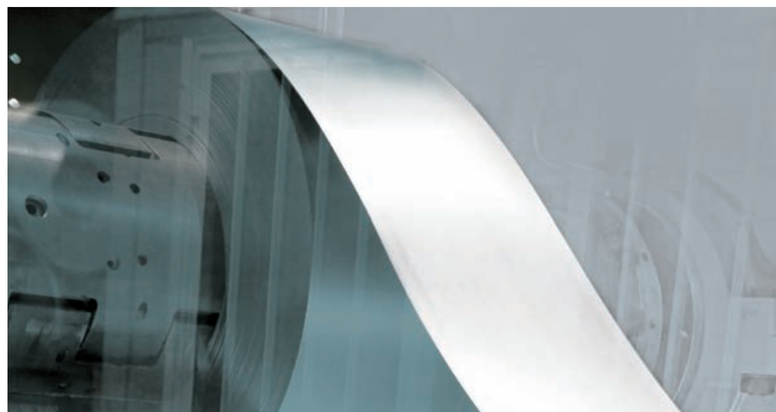
Austria
Belgium
Bulgaria
Czech Republic
France
Germany
Great Britain
Hungary
Lithuania
Netherlands
Poland
Romania
Spain
Switzerland



30 LOCATIONS IN NORTH AMERICA

WE WANT TO CREATE AN OUTSTANDING COMPANY THAT WILL BE NUMBER ONE IN TERMS OF SIZE AND GLOBAL POSITION, GROWTH, PROCESSES AND SYSTEMS AS WELL AS MANAGEMENT AND EMPLOYEES IN THE STEEL AND METAL DISTRIBUTION INDUSTRY WORLDWIDE.

CONTENT



1. OVERVIEW

Letter to the shareholders 4

Management Board and Supervisory Board 8

Report of the Supervisory Board 10

Klöckner & Co share 14

2. KLÖCKNER & CO 2020 20

3. GROUP MANAGEMENT REPORT

Overview 25

Business and economic conditions 26

Results of operations, financial position and net assets 36

Individual financial statements of Klöckner & Co SE 44

Subsequent events 47

Responsibility 48

Remuneration Report 51

Opportunities and risks 55

Forecast 65

4. FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

Consolidated statement of income 70

Statement of comprehensive income 71

Consolidated statement of financial position 72

Consolidated statement of cash flows 75

Summary of changes in equity 76

Notes to the consolidated financial statements 78

Declaration of the management board 137

Auditor's report 138

Individual financial statements of Klöckner & Co SE 139

Subsidiary listing 158

Information pursuant to Section 160 para. 1 No. 8 AktG 166

Additional information concerning individual and financial statements 167

5. SERVICES

Glossary 170

Important addresses 172

Financial calender 2011 174

Contact / Imprint 175

LETTER TO THE SHAREHOLDERS

Gisbert Rühl
Chairman of the Management Board

Dear Ladies and Gentlemen,
Dear Shareholders,

Fiscal year 2010 was a year of transition for us after the widespread upheaval caused by the global financial and economic crisis. Having withstood the crisis, we have now returned to growth again. After some painful losses in 2009, we succeeded in increasing our sales volumes and sales and once again posted a significantly positive net income for the past year. As I promised in my last letter to the shareholders, we have also taken advantage of opportunities and acquired the Becker Stahl-Service Group at the very beginning of 2010, our biggest acquisition since our initial public offering in 2006.

Nevertheless, this does not mean that we are acting as though the global financial and economic crisis was completely behind us. Although optimism is on the rise, numerous problems remain unresolved. Notable risks include the economic imbalance between different geographic regions and the high levels of government debt in many countries. In the future, considerable tensions may arise in these and other areas. Consequently, the level of uncertainty remains high. Nevertheless, we cannot simply stand by and hope for an equilibrium to be re-established and bring about smooth sailing for the global economy. Instead, we intend to seize the opportunities we now have, while many of our competitors are still hesitant or do not have the financial flexibility to act.

So where do we stand today? What is our current situation? Compared with the previous year, we increased sales by about 35% to €5.2 billion and EBITDA by €306 million from €–68 million to €238 million. The fact that we generated positive net income of €80 million after a loss of €–186 million in 2009 means that we can once again pay a dividend to our shareholders. We also managed to increase our financial flexibility by expanding and extending our syndicated loan, issuing promissory notes and placing a convertible bond.

What do we want to accomplish and what are our prospects? Our new strategy “Klöckner & Co 2020” provides the answers: we want to turn Klöckner & Co into the leading global multi metal distributor, doubling our sales volumes over the next five years and tripling to quadrupling sales volumes by the end of the decade. To successfully implement our strategy, we are focusing on four key lines of attack: external growth through acquisitions, organic growth, continuous business optimization and personnel and management development.

For external growth through acquisitions, we are mainly targeting companies with high added value or a specialized product range. As with Becker Stahl-Service Group, our acquisition of Bläsi in Switzerland and the Angeles Welding and Lake Steel acquisitions in the US were driven by such considerations. With the planned acquisition of Macsteel, we want to significantly press ahead. In addition to expanding our competitive position in the more mature markets of Europe and North America, we will grow particularly strong in emerging markets in the future, where our initial priority will be on entering the Brazilian and Chinese markets.

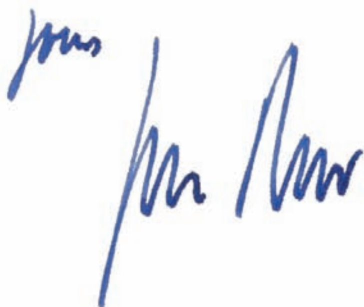
We also want to achieve more organic growth, where external conditions have changed considerably. In the past we were selling into a constantly growing market; following the market collapse, we now face much tougher competition for market share in a market that has shrunk substantially. We are therefore focusing on our customers harder than ever before, providing just-in-time solutions that are tailored to their needs.

Continuous optimization of our business processes also demands our undivided attention. From procurement through inventory management and logistics to sales, we intend to continue improving our Company's position by using state-of-the-art processes and systems. We will only be able to reach our ambitious targets if we have the best management and employee potential. Thus, we have long recognized the importance of integrating more women into our workforce and we intend that 20% of our management will be women in the coming years. It is a challenge in an industry traditionally dominated by men but we do not need a legally mandated quota for women to do so.

While pressing ahead, we also hedge our risks to ensure that we will always be in a strong position to counter the aforementioned uncertainties. Despite our ambitious growth targets, we will maintain our conservative balance sheet and financing, meaning that we are not missing out on any opportunities, and at the same time will not incur any unmanageable risks. We are taking this approach to drive continued improvements at Klöckner & Co in these turbulent times.

Dear shareholders, as you can see, we have made a lot of progress and we have big plans going forward. I hope that you see Klöckner & Co's current momentum and I am certain that together we will achieve our targets. A crucial precondition to our success is your trust, upon which we hope we can continue to build. I would like to thank you for your support and I want to thank our employees for their tireless commitment to continuous improvement for the benefit of all our stakeholders.

Best regards,



Gisbert Rühl
Chairman of the Management Board

MANAGEMENT BOARD

GISBERT RÜHL

Chairman of the Management Board
(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.

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.

SUPERVISORY BOARD

SUPERVISORY BOARD

PROF. DR. DIETER H. VOGEL
Chairman, Lindsay Goldberg Vogel GmbH, Düsseldorf, Chairman

DR. MICHAEL ROGOWSKI
Former Chairman of the Management Board, Voith AG, Heidenheim, Deputy Chairman

ROBERT J. KOEHLER
Chairman of the Management Board, 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 AG, 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[1]
Chairman

DR. MICHAEL ROGOWSKI

PROF. DR. DIETER H. VOGEL

[1] independent financial expert within the meaning of Section 100 (5) German Stock Corporation Act

REPORT OF THE SUPERVISORY BOARD

In the fiscal year 2010, the Supervisory Board once again diligently performed the supervisory and advisory obligations imposed on it by law, the Articles of Association and the internal Rules of Procedure. It advised the Management Board on the management of the Company, diligently supervised the Company's corporate governance by the Management Board and satisfied itself that corporate governance practices are in good order. Where required by law, the Articles of Association or the Rules of Procedure, the Supervisory Board adopted resolutions after carefully examining the issues.

The Supervisory Board was involved in all major Company issues from an early stage. The Management Board provided written and oral reports to the Supervisory Board both at and between Supervisory Board meetings concerning planning, the Company's business and financial position as well as all business transactions important to the Company and the Group, including detailed reporting on risk exposure, risk management and compliance. The Management Board provided pertinent documentation to the Supervisory Board at each meeting.

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 were regularly discussed in Supervisory Board sessions. Again in 2010, the written reports provided between Supervisory Board meetings primarily included the detailed monthly reports on the sales, results of operations and financial position of the Group and its main operating segments and units, capital market trends and the trend in the Klöckner & Co share price compared to shares of other companies in the steel and steel distribution industry. In addition, the Chairman of the Supervisory Board personally met with the Management Board on a regular basis to discuss current business developments and other current issues concerning the Group. In addition, the Management Board and the Chairman of the Supervisory Board also remained in close contact for information and coordination purposes of relevant issues.

ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD, CORPORATE GOVERNANCE

The Supervisory Board consists of six members, all of whom are elected by the Annual General Meeting. The Supervisory Board established two committees to carry out its duties: an Executive Committee and an Audit Committee. The Executive Committee and the Audit Committee have three members each. The Executive Committee is headed by the Chairman of the Supervisory Board. Pursuant to the recommendation of the German Corporate Governance Code (Deutscher Corporate Governance Kodex, or DCGK), the Audit Committee is headed by another Supervisory Board member, who must also meet the qualifications as a financial expert, as stipulated by Section 100, paragraph 5 of the German Stock Corporation Act (Aktiengesetz, or AktG). The committees prepare the Supervisory Board's assignments, topics and decisions. The Executive Committee also carries out the functions of the Personnel Committee, the Committee for Urgent Matters and the Nomination Committee. To the extent allowed by law, specific decision-making authority is also delegated to the committees.

The Management Board is closely involved in the work of the Supervisory Board. Generally the members of the Management Board participate in the meetings and conference calls of the Supervisory Board and its committees.

The Supervisory Board held a total of five plenary sessions during the fiscal year 2010. There were four regular face-to-face meetings, plus one teleconference that was held to discuss the Becker Stahl-Service Group acquisition. The Audit Committee held six meetings during the year under review, 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 during the fiscal year 2010; it also held a teleconference in its capacity as the Committee for Urgent Matters to discuss the issue of convertible bonds by the Company. At plenary meetings, the committee chairmen provided regular, comprehensive reports on the agendas and the committee meetings' results.

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 teleconferences – was only slightly lower, at 98%.

SUPERVISORY BOARD MEETINGS AND RESOLUTIONS

During the past fiscal year, the Supervisory Board dealt repeatedly with the after effects of the global financial and economic crisis on the Company's business and financial situation, with special attention paid to product price and sales volume trends and the change in working capital. Considerable time was also spent discussing "Klöckner & Co 2020", the new Group's strategy. In addition to the above, the Supervisory Board primarily concentrated on the following issues:

At an extraordinary meeting held in the form of a teleconference on February 24, 2010, the Supervisory Board analyzed the Becker Stahl-Service Group acquisition. It discussed with the Management Board the main findings from the due diligence work and addressed managing the risks identified by the due diligence; based on this, it approved the acquisition. The main outlines of the acquisition had already been discussed and approved by the Supervisory Board when the preliminary agreement was signed in November 2009.

Based on the preliminary audits and advice of the Audit Committee and following intense discussions with the Management Board and the auditors who were present at its March 8, 2010 meeting, the Supervisory Board approved the Company's 2009 financial statements, the consolidated financial statements and the Management Board's proposal on the appropriation of net income. At the same meeting, the Supervisory Board approved various proposals provided by the Management Board to optimize the financing and maturity portfolio, which included renewing existing financing agreements and issuing promissory notes. Following a thorough discussion that focused on the proposals for authorizations to raise capital, the Supervisory Board passed the proposed resolutions for the Company's Annual General Meeting. Further, in addition to discussing the Company's business and financial situation, it also dealt with various compliance issues, in particular steps to further improve the compliance program.

The Supervisory Board meeting held on May 26, 2010 focused on preparations for the upcoming Annual General Meeting and on discussions about the Group's current business and financial situation.

On September 22, 2010, based on the advice of, and recommendation by, the Executive Committee, the Supervisory Board approved some amendments to the employment contract with Management Board member Ulrich Becker. In particular, the aforementioned amendments were designed as an early adjustment to the current agreement to reflect the requirements of the German Act on Appropriateness of Management Remuneration (VorstAG). Since the Management Board Chairman's employment contract was adjusted accordingly last year, the Supervisory Board can now present a harmonized Management Board remuneration system to the AGM for approval. In addition, the Supervisory Board has adopted amendments to both the Supervisory Board's Rules of Procedure and the Management Board's Rules of Procedure. Following reviews and recommendation by the Audit Committee, the auditor appointed by the Annual General Meeting was commissioned to audit the 2010 financial statements. The highlight of the September meeting was the presentation of the "Klöckner & Co 2020" strategy by the Management Board. The Supervisory Board held in-depth, comprehensive discussions on the content and implementation of the Management Board's ten-year growth strategy.

At its December 15, 2010 meeting, the Supervisory Board approved the amendments to Management Board Chairman Gisbert Rühl's employment contract, prepared and recommended by the Executive Committee, to adjust his remuneration effective January 1, 2011. The Supervisory Board considered it appropriate to raise the Management Board Chairman's remuneration to a level commensurate with the average amount paid to an MDAX company's management board chairman. At the same time, the Supervisory Board approved the multi-year Management Board bonus targets for the

period 2010–2012 in line with the “Klöckner & Co 2020” strategy approved at the previous Supervisory Board meeting. In addition to the Klöckner & Co Group’s current business and financial situation and forecasts of the Company’s key performance indicators at year-end, the Supervisory Board was also deeply involved in budget planning for fiscal year 2011. The Supervisory Board satisfied itself that the budget presented by the Management Board was plausible and approved it. Finally, it approved various intra-Group measures involving legal structure and the acquisition of a steel distributor in Texas (USA).

On December 16, 2010, acting in its capacity as the Committee for Urgent Matters by virtue of a delegation resolved by the Supervisory Board, the Executive Committee approved the issue of convertible bonds.

REPORTS FROM THE COMMITTEES

During the past year, the Executive Committee acted both in its capacity as the Personnel Committee and as the Committee for Urgent Matters. The Nomination Committee did not meet during the year under review as there were no personnel changes on the Supervisory Board. During the past fiscal year, the Executive Committee drew up the amendment to the Supervisory Board’s Rules of Procedure which was then adopted at the plenary session. Acting as the Personnel Committee, the Executive Committee met several times to deal with amendments to Management Board members’ employment contracts and the harmonization of the remuneration system, and presented the corresponding proposed resolutions to the Supervisory Board. The Executive Committee met only once in its capacity as the Committee for Urgent Matters during the past fiscal year, by virtue of a delegation resolved by the Supervisory Board, in connection with the issue of convertible bonds in December 2010.

The Audit Committee held teleconferences with the Management Board before the publication of each quarterly report to discuss changes in the Group’s business and financial situation by examining key performance indicators. Face-to-face meetings primarily focused on the financial statements, the proposal to the Annual General Meeting on the appointment of the auditor and the issuance of the audit mandate, as well as regular issues such as risk management and compliance. During the year under review, they also included a review of the Internal Audit function by an independent expert.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

Following in-depth consultations, the Supervisory Board and the Management Board of Klöckner & Co SE issued the updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act (AktG) on December 15, 2010; it is permanently available to shareholders on the Company’s website. The Declaration certifies that Klöckner & Co SE is in compliance with the recommendations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex, or DCGK), as amended, apart from a few reasoned exceptions. For more information on corporate governance, see the Corporate Governance Statement which includes the Corporate Governance Report (Annual Report 2010, page 26).

The Supervisory Board also worked on the amendments to the DCGK during the past fiscal year and, at the recommendation of the Executive Board, adjusted the Supervisory Board’s Rules of Procedure to reflect the latest changes to the DCGK. At the same time, it took into account the goal of achieving diversity in the composition of the Supervisory Board when nominating future candidates. At its September 22, 2010 meeting, the Supervisory Board amended the Rules of Procedure for the Management Board, adjusting the list of transactions requiring Supervisory Board approval for major or unusual Group transactions and initiatives to reflect changes in the general environment. During the past fiscal year, another review of the efficiency of the Supervisory Board’s work was carried out; the Executive Committee compiled the results, which were then thoroughly discussed in the plenary session. The review did not reveal any need for corrective action; on the contrary, the conclusion was quite positive and the report stressed the efficient and trustworthy cooperation within the Supervisory Board bodies and with the Management Board.

AUDIT OF THE 2010 FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The 2010 financial statements for Klöckner & Co SE, the consolidated financial statements and the Combined Management Report were audited by the auditor appointed by the Annual General Meeting and commissioned by the Supervisory Board, KPMG AG Wirschaftsprüfungsgesellschaft, Berlin, and have each received an unqualified audit opin-

ion. 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 held on March 4, 2011 to approve 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 explanations by the Chairman of the Audit Committee.

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 4, 2011, 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 discussed with the Management Board the latter's proposal on the appropriation of net income and, following its own review (and taking into account the Company's results of operations and financial position), it endorsed the Management Board's proposal that the Company should resume its dividend policy by distributing an adequate portion of net income to shareholders.

With respect to the risk detection system, the auditor stated that the Management Board had taken the measures required in accordance with Section 91, paragraph 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

There were no changes in the composition of Klöckner & Co SE's Supervisory Board or Management Board in 2010.

The Supervisory Board believes that, given the continued volatility in the steel markets and the uncertainty in the financial markets, the Management Board and all of the employees of Klöckner & Co SE and its affiliates did an outstanding job in the fiscal year 2010. The Supervisory Board would like to express its gratitude and appreciation to the Management Board and all employees for their commitment and hard work in 2010.

Duisburg, March 4, 2011

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

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 €21.01, up 17.7%
- Share performance supported by resumption of acquisition strategy
- Third convertible bond successfully issued
- Analyst coverage expanded to 25 banks and investment firms

CAPITAL MARKETS REWARD OUR RESUMPTION OF ACQUISITION STRATEGY

The positive trend in the share price that began toward the end of 2009 continued until the middle of the second quarter, driven by generally positive expectations on the capital markets for continued economic improvement, especially in the steel industry. The capital markets rewarded our resumption of our acquisition strategy, by causing the Klöckner & Co share price to decouple from the until then parallel development of MDAX® and DAX® after our biggest acquisition since the initial public offering and to reach €23.46 in April, its high for the year. However, since the steel industry began to lose

KEY DATA – KLÖCKNER & CO SHARE

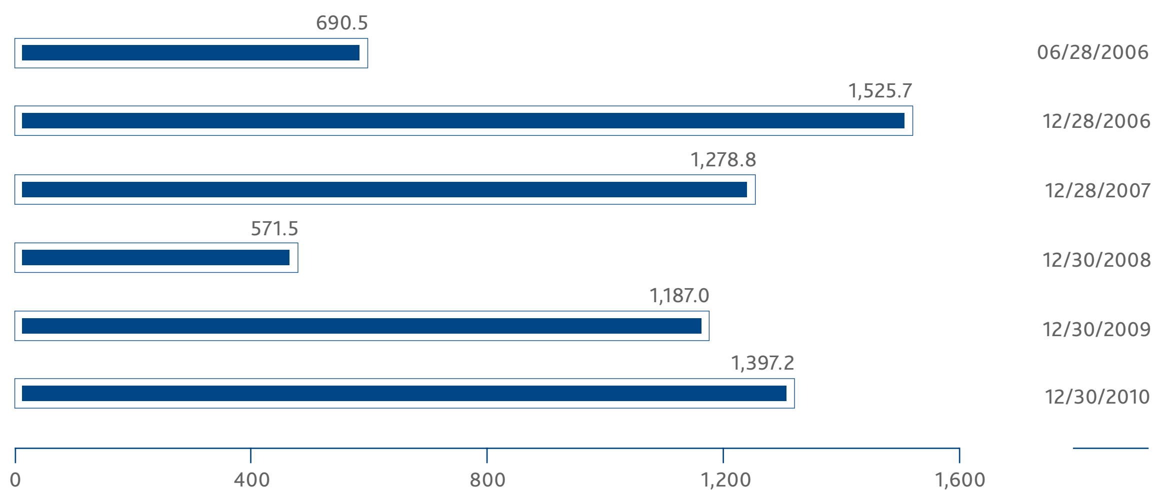
		2010	2009	2008	2007
Subscribed capital	€	**166,250,000**	166,250,000 [1]	116,250,000	116,250,000
Shares	number	**66,500,000**	66,500,000 [1]	46,500,000	46,500,000
Closing price (XETRA, close)	€	**21.01**	17.85	12.29	27.50
Market capitalization	million €	**1,397**	1,187	571	1,279
High (XETRA, close)	€	**23.46**	18.93	40.50	63.20
Low (XETRA, close)	€	**13.65**	4.87 [1]	7.65	25.88
EPS (undiluted)	€	**1.17**	-3.61	8.56	2.87
Average daily trading volume	number	**935,942**	761,087	901,919	759,379
Dividend per share	€	**0,30** [2]	–	–	0.80
Dividend yield in terms of closing price	%	**1,4**	–	–	2.9
Distribution amount	million €	**20.0**	–	–	37.2

[1] Adjusted in connection with the capital increase as per September 18, 2009.
[2] Proposal to the Annual General Meeting on May 20, 2011.

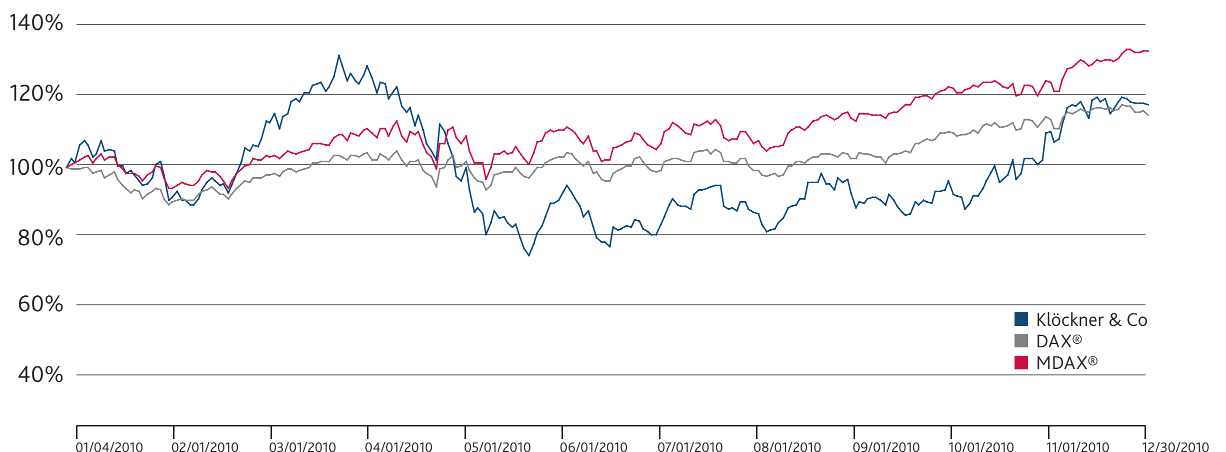
momentum, the share price came under pressure in the middle of the second quarter. On June 8, 2010, it reached €13.65, its low for the year. Toward the end of the year, the Klöckner & Co share recovered, supported by the overall economic recovery and the positive reaction to our strategy "Klöckner & Co 2020", which was presented in October. At year-end, the share price was €21.01. This represents a 17.7% increase over the closing price at the end of 2009. Compared to the end of the previous year, the MDAX® rose by around 32% and the DAX® by about 14%.

MARKET CAPITALIZATION

Compared to the previous year, market capitalization increased further. At the end of the fiscal year, market capitalization totaled approximately €1,397 million.



PERFORMANCE KLÖCKNER & CO SHARE IN COMPARISON TO DAX® AND MDAX® (values indexed)



KEY DATA ON THE KLÖCKNER & CO CONVERTIBLE BONDS

	2007 convertible bond	2009 convertible bond	2010 convertible bond
German securities code	A0N0J0	A1AHTR	A1GKFA
ISIN	DE000A0N0J03	DE000A1AHTR5	DE000A1GKFA1
Volume	€325 million	€97.9 million	€186.2 million
Issue date	July 27, 2007	June 9, 2009	December 22, 2010
Maturity date	July 27, 2012	June 9, 2014	December 22, 2017
Coupon	1.5%	6.0%	2.5%
Conversion price	€70.44*	€18.37*	€28.00
Standard & Poor's-Rating	B+ (long-term rating)	B+ (long-term rating)	B+ (long-term rating)

*) Adjusted in connection with the capital increase as per September 18, 2009.

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BONDS (IN %)

FINANCIAL POSITION STRENGTHENED BY ISSUANCE OF ADDITIONAL CONVERTIBLE BOND

We continually improved our financial position over the past fiscal year.

In December 2010, Klöckner & Co SE successfully placed a third convertible bond for a total of €186.2 million, with a seven-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 2.5% p.a. and is traded on the Open Market of the Frankfurt Stock Exchange (ISIN DE000A1GKFA1). The conversion price was set at €28.00.

We intend to use the proceeds from the convertible bond for our external growth strategy "Klöckner & Co 2020" and for general corporate purposes. Klöckner & Co SE now has a total of around €700 million available for its acquisition strategy.

The convertible bond issued in 2009 tracked Klöckner & Co's share price, while the 2007 convertible bond price remained virtually constant. On December 22, 2010, we issued a third convertible bond. On December 31, 2010, the 2007 convertible bond was trading at 94.8%, the 2009 convertible bond at 130.13% and the 2010 convertible bond at 101.0%.

FINANCIAL COMMUNITY'S INTEREST CONTINUES TO BE HIGH

The financial community's interest in Klöckner & Co not only continued unabated, but even expanded over the past fiscal year to include four more international banks and investment firms. Coverage thus reached 25 banks and investment firms at the end of 2010. These institutions published a total of 140 research reports in the fiscal year under review. At the end of 2010, 21 investment firms gave our share a "buy" recommendation. Three investment firms issued a "hold" recommendation and one 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
Berenberg Bank (new)
BHF Bank
CA Cheuvreux
Close Brothers Seydler Research (new)
Commerzbank
Credit Suisse
Deutsche Bank
DZ Bank
Goldman Sachs (new)
HSBC Trinkaus
JP Morgan Securities
Kepler Equities
Landesbank Baden-Württemberg
MainFirst Bank AG
Merck Finck & Co. Privatbankiers
Merrill Lynch
Metzler Equity Research
Morgan Stanley
Nomura Equity Research (new)
SRH AlsterResearch
Steubing
UBS Equities
UniCredit MIB
WestLB AG

2010 ANNUAL GENERAL MEETING – ONLINE REGISTRATION POSSIBLE FOR THE FIRST TIME

On May 26, 2010, the fourth Annual General Meeting of Klöckner & Co SE was held in Düsseldorf, Germany. Over 250 shareholders and shareholders' representatives attended our Annual General Meeting. A total of 40.99% of the voting capital was represented. The shareholders approved all the resolutions recommended by the Supervisory Board and the Management Board.

For the first time, shareholders were able to register themselves for the Annual General Meeting on our website www.kloeckner.de using an online tool for ordering entry tickets and for issuing authorizations and instructions to proxy holders. In addition, the shareholders were able to use our e-mail service to order entry tickets to the Annual General Meeting ("electronic delivery"). In the coming years, e-mail will take the place of postal delivery for registered shareholders. Naturally, through this electronic delivery no information will be lost. Our shareholders warmly welcomed the new service. This service will also be available to our shareholders for future Annual General Meetings.

Based on numerous conversations with our shareholders, we are aware that the Internet has become an important information-sharing platform. Moreover, our shareholder base is increasingly international, so we also wanted to offer investors who cannot attend the event in person the opportunity to follow the shareholders' meeting. People who were interested were able to listen to speeches by Supervisory Board Chairman Prof. Dr. Dieter H. Vogel and Management Board Chairman Gisbert Rühl live on the Web. Detailed information on the Annual General Meeting, the presentation to the Annual General Meeting and the speech by the Chairman of the Management Board can be found at www.kloeckner.de.

SHAREHOLDER STRUCTURE DOMINATED BY INVESTORS FROM ANGLO-SAXON COUNTRIES

During the past fiscal year, Klöckner & Co SE again commissioned regular studies to identify shareholders. The most recent analysis, carried out in December 2010, identified 87% of our shareholders. This study showed that identified institutional investors hold 57% of the subscribed capital, while 28% is held by private investors.

Geographically, our Company's identified institutional investors are located primarily in the Anglo-Saxon region: 20% of the institutional investors are headquartered in the United States, followed by 20% in Germany. Great Britain is in third place, with 14%.

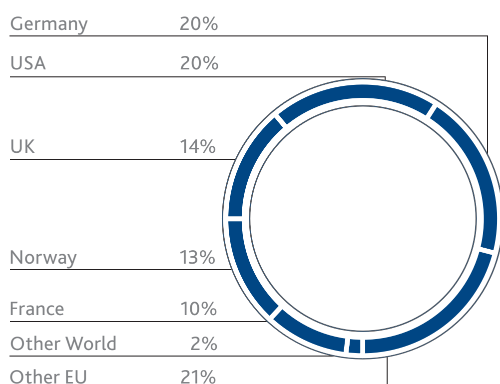
According to mandatory notification dated May 2010, as of the reporting date, Norges Bank was our largest shareholder, with 5.15%. According to the announcement dated January 2011, the second-largest shareholder was Amundi S.A., with 3.00%.

TRANSPARENT AND CONTINUOUS COMMUNICATION

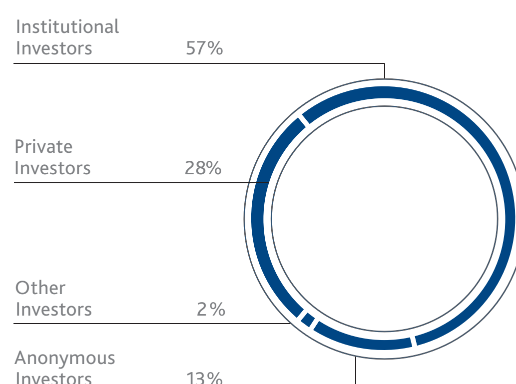
Since our initial public offering (IPO) in 2006, we have placed a high priority on transparent, continuous communication with private and institutional investors. During the 2010 fiscal year, members of the Management Board and the IR team once again kept international investors informed about the results and potential at the Klöckner & Co Group at a total of eleven road shows and 13 conferences in all the major financial centers in Europe and North America and at more than 50 additional individual meetings. During the past fiscal year, conference calls were used increasingly to respond more quickly to the information requirements of capital market players.

Discussions focused primarily on Klöckner & Co Group's results and the resumption of our external growth strategy, with participants showing particular interest in our progress in integrating our acquisitions and financing for future takeovers. In October 2010, the Management Board presented the new growth strategy "Klöckner & Co 2020". Since then, discussion has focused on the new growth targets and their implementation via the four key lines of attack: external and organic growth, business optimization and personnel development (for more information, please see p. 20).

Geographic breakdown of investors of the Klöckner & Co SE



Shareholder structure of the Klöckner & Co SE



The third Capital Market Day for institutional investors was held in October 2010 at the German headquarters of Becker Stahl-Service (BSS) in Bönen, our biggest acquisition since the IPO. The Group's Management Board, the management of BSS and the CEOs of five European country organizations informed over 60 interested investors, analysts and bank representatives. The conference gave attendees insight into our Group's operating activities. A particular focus was on the speech from Management Board Chairman Gisbert Rühl, who presented the guidelines for future growth with our new "Klöckner & Co 2020" strategy. The CEOs from our country organizations discussed country-specific issues along with progress in the Group's efficiency-improvement programs. The schedule included a tour of BSS's Plant North ("Werk Nord"), which gave conference participants an unique insight into process workflows and production lines at Becker Stahl-Service. For those who are interested, additional information and the presentations held during the investor event are available on our website.

Compared with other stock corporations (Aktiengesellschaften), private shareholders, with about 28% of holdings, hold an above-average share of Klöckner & Co's stock. During the year, we further expanded our contacts with this important group of shareholders.

In order to ensure that close contact with private investors is not limited to once a year at the Annual General Meeting the Chairman of the Board participated in a Private Investor Forum where around 250 private investors took part in a question-and-answer session and gained greater insight into business at the Klöckner & Co Group.

At the time of the rights issue in September 2009, Management Board Chairman Gisbert Rühl addressed shareholders in a video message, in which he explained the reasons and the procedure behind the corporate action. This direct communication tool was so well received that we stepped up its use in 2010. In a podcast available on our website, the Chairman of the Management Board provides a brief explanation of the key data for full-year and interim results and trends for the past reporting period. We intend to continue this service in fiscal year 2011.

Moreover, 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 is an integral part of our financial communication efforts. Interested parties can find all the relevant information about Klöckner & Co shares and the convertible bonds on the Investor Relations website www.kloeckner.de/en/investoren.html. This information includes financial reports, the financial calendar, reports on corporate governance and up-to-date information about our share price and convertible bond price. All information about the Annual General Meeting of Klöckner & Co SE scheduled for May 20, 2011 in Düsseldorf will also appear on the website.

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

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

KLÖCKNER & CO 2020

Since the initial public offering in 2006, we have largely pursued the same corporate strategy. However, long-term macroeconomic conditions for the steel and metal distribution industry have changed due to the global economic and financial crisis: during the crisis year of 2009, steel consumption in Klöckner & Co's core markets in Europe and North America almost halved. The subsequent two-speed recovery in the global economy is also reflected within the steel industry. Even though steel consumption will gradually recover in the industrialized countries, it will remain below the pre-crisis level for several more years. Based on current estimates, in 2014 – five years after the crisis – steel consumption will still be more than 10% lower than the level in the record year of 2007. By contrast, the growth trend has continued virtually uninterrupted in emerging markets.

The theme of last year's Annual Report was "Ready to grow". We systematically implemented this principle with the four acquisitions we successfully completed in 2010 and we are working on others. In our "Klöckner & Co 2020" strategy, which we presented in October, we set the course for the next ten years: we want to develop Klöckner & Co into the world's leading multi metal distributor.

The "Klöckner & Co 2020" strategy addresses both external and internal factors by pursuing four key lines of attack: external growth through acquisitions, organic growth, continuous business optimization and consistent personnel and management development. Our ambitious growth target is to double our sales volumes in five years and to triple to quadruple it by the year 2020.

External growth strategy Challenge is acquiring right objects and subsequent integration

- EBITDA-margin should be above current average at attractive multiples with transactions that are accretive from day one
- Expansion of flat steel SSC business
- Entry in emerging markets

Organic growth strategy Challenge is timeline and success monitoring

- Focusing sales force on hard selling
- Filling white spots in existing countries
- Expanding the share mainly in the area of higher margin products and value added services for industrial customer segments

Business optimization Challenge is decentralized structure

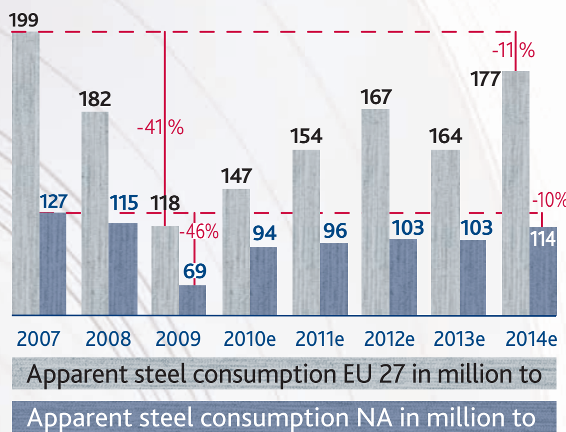
- Realizing further scale benefits in purchasing
- Further optimization of inventory management and of distribution network
- Continuous implementation of industry leading systems and processes

Personnel & Management development Challenge is to ramp up activities quickly

- Establish talent and performance management group-wide
- Implement structured compensation and benefits system
- Improve employer branding

1. EXTERNAL GROWTH

Since the global economic crisis, we have refocused the growth strategy for our core markets in Europe and North America and defined clear guidelines for entering the emerging markets. In Europe, we will strengthen our Company by adding bigger distributors and/or steel service centers and diversify the range of products and services on offer with higher-margin products, services, and customer segments. Potential takeover candidates must be able to make a positive contribution to net income from day one. The European companies acquired in 2010 – Becker Stahl-Service in Germany and Bläsi in Switzerland – are good examples of the success of our approach: both are more specialized than the distribution industry in general and their profitability is substantially higher than our average margin. In North America, our target is to significantly expand our market share through larger acquisitions. Currently, we rank No. 10 in the market for steel and metal distribution in the US, by sales. We intend



Apparent steel consumption EU 27 in million to

Apparent steel consumption NA in million to

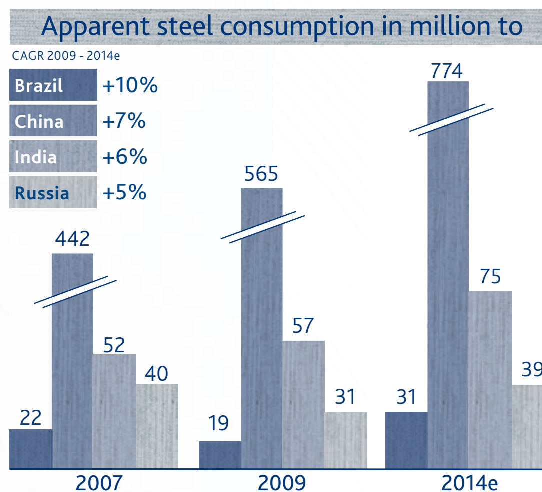
Source: Meps

to be among the top 3 in the US, just as we are in all our European markets. In general, our future focus will be on acquisition targets with a customer base outside of the construction industry; in particular, we plan to further expand our flat steel service center business.

In order to take advantage of the high growth rates in the emerging markets, we are preparing to enter the Brazilian and Chinese markets. Here, we are following two different strategies tailored to the specific conditions in each country. The Brazilian market is dominated by a small number of major distributors, the biggest of which – unlike Klöckner & Co – are not mill-independent.

Our target is to take over a big, independent distributor that will give us a leading market share from the very beginning. The growth prospects are very promising as the Brazilian market is expected to see annual increases of 10% in steel consumption, with more than 30 million

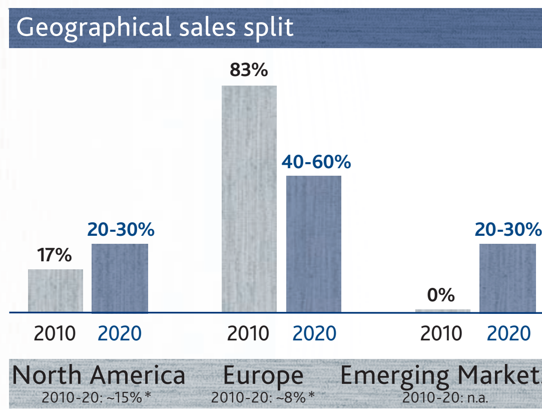
Apparent steel consumption in million to



Source: China: RB/CISA, Brazil: BMI, India and Russia: Meps

tons per year by 2014. By contrast, the Chinese market is much more fragmented. Therefore, we will initially enter the Chinese market by setting up our own service center. This approach is an interim step toward establishing a local presence for Klöckner & Co before we pursue further expansion plans. Beginning in the third quarter of 2011, we will supply local branch offices of multinational corporations that to date have not been able to find local Chinese suppliers that can meet their needs. We intend to differentiate ourselves from our Chinese competitors with just-in-time delivery, added services, reliability and

Geographical sales split



* CAGR

payment terms. While projected growth is somewhat lower in China than in Brazil, the volume of the Chinese steel market is significantly higher. It is growing 7% per year; China is already the world's biggest steel consumer and according to experts Chinese steel consumption is expected to reach 774 million tons by 2014.

2. ORGANIC GROWTH

Also, our second line of attack reflects the impact of the global economic and financial crisis. Previously, demand had steadily increased in our core markets, but times have changed. Today, we are facing tough competition for a much smaller market size with significantly more volatile steel prices. We are responding to these changes by further increasing our focus on our customers, our product portfolio and our services. To do so, we are expanding the share of products with high margins while broadening our range of value added services offered to industrial customers. Furthermore, we intend to provide more extensive coverage to regions where we currently have only a limited presence. We want to increase customer loyalty and customer benefits by providing customized products and services. To accomplish this, we will reorganize our sales forces and will be more proactive than before in approaching our customers. We will do a significantly better job of marketing the advantages of our international network. An example of this is our international key account management, which combines expertise in procurement, warehousing, prefabrication and logistics into a centralized department specially designed to meet our major customers' needs. All sales activities are controlled by a clear measurement and incentive system, which provides the foundation for further improvements.

Product portfolio ▶ **Expanding the share mainly in the area of higher margin products focusing on Sheets, Plates, Hollow Sections, Tubes, Alu and Stainless**

Value added services ▶ **Stronger focus on value added services for industrial customer segments**

White spots ▶ **Filling white spots in existing countries**

3. BUSINESS OPTIMIZATION

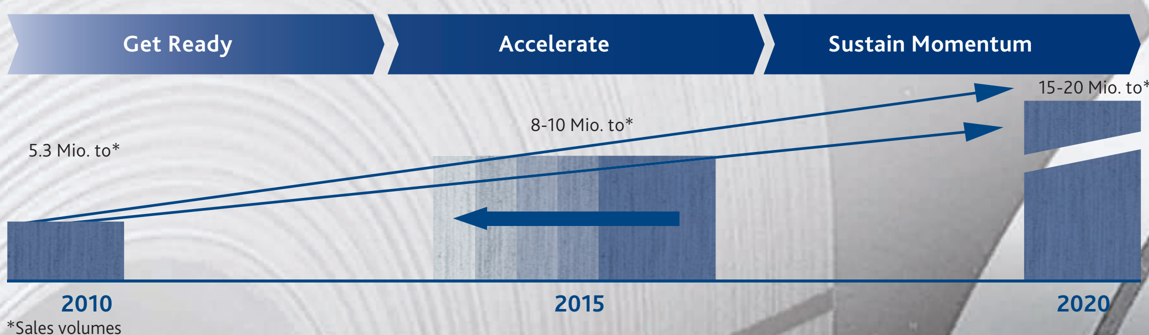
For us, as a distributor with global operations, business optimization is a never-ending task. Coordinated procurement, warehouse management and logistics processes are a major success factor placing us above the competition. We intend to use our centralized procurement capabilities to further expand our advantages in this area. Our cross-border logistics will allow us to increase the benefits to our customers by further improving our reliability and quality and continually raising our efficiency. This means that the entire process chain is under review, from unloading, warehousing, pre-processing and selection and transport. We will continue to compete by offering best-in-class solutions and continuously expanding our competitive edge.

4. PERSONNEL AND MANAGEMENT DEVELOPMENT

In a company focused on trade and services, employees are an important success factor. We changed our scope and plan to build a personnel development program that will be controlled uniformly throughout the Company. For us, personnel development means promotion, education and organizational development that prepares our employees to meet the current and future needs of the Company. Our goal is to broaden our employees' skills, expand their potential and make Klöckner & Co more attractive as an employer. Having the best employees will enable us to master the demands of tomorrow and will make us unique in our growth rates and willingness to change.

SUMMARY

Our "Klöckner & Co 2020" strategy follows clear targets. We want to develop Klöckner & Co into the first global multi metal distributor. We want our organic growth rate to exceed the market. Our growth targets are clear; to double sales volumes by 2015 and to triple to quadruple them by 2020. We want to establish market-leading processes and systems throughout the entire Company. And to achieve that, we intend to attract the industry's best employees to our Company.



Globalization	Being the first global multi metal distributor
Growth	Being the fastest growing multi metal distributor
Business optimization	Having leading edge processes and systems
Management & employees	Having best in class management and employees

1. OVERVIEW 25

2. BUSINESS AND ECONOMIC CONDITIONS 26

2.1 GROUP STRUCTURE 26
2.2 CORPORATE GOVERNANCE STATEMENT 26
2.3 COMPANY STRATEGY 32
2.4 MACROECONOMIC CONDITIONS 33
2.5 SECTOR ENVIRONMENT 34

3. RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS 36

3.1 RESULTS OF OPERATIONS 37
3.2 FINANCIAL POSITION, FINANCING, LIQUIDITY 38
3.3 NET ASSETS, BALANCE-SHEET STRUCTURE 42
3.4 OVERALL STATEMENT ON THE CURRENT BUSINESS SITUATION OF THE GROUP 44

4. INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE 44

4.1 NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE 44
4.2 LEGAL INFORMATION RELATING TO TAKEOVERS 46
4.3 DIVIDEND PLANNING 47

5. SUBSEQUENT EVENTS 47

6. RESPONSIBILITY 48

7. REMUNERATION REPORT 51

8. OPPORTUNITIES AND RISKS 55

8.1 RISK POLICY 56
8.2 RISK MANAGEMENT AND INTERNAL CONTROL STRUCTURES 56
8.3 BUSINESS RISKS OF INTERNATIONAL METAL DISTRIBUTION 57
8.4 ADDITIONAL BUSINESS RISKS 60
8.5 OPPORTUNITIES AND OPPORTUNITY MANAGEMENT 62
8.6 KEY FEATURES OF THE INTERNAL ACCOUNTING CONTROL AND RISK MANAGEMENT SYSTEM UNDER SECTION 289, PARAGRAPH 5 AND SECTION 315, PARAGRAPH 2, NO. 5 OF THE GERMAN COMMERCIAL CODE (HGB) 63
8.7 OVERALL STATEMENT ON THE RISK SITUATION OF THE GROUP 64

9. OUTLOOK 65

GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report for Fiscal Year 2010

1. OVERVIEW

- 2010 sales volumes, sales and earnings significantly higher than in the previous year, with positive consolidated net income for every quarter of the fiscal year
- Financial flexibility further optimized by successful placement of promissory notes and a convertible bond
- Acquisition strategy resumed with four acquisitions, including the biggest acquisition since the initial public offering
- Proposed dividend of €0.30 per share
- Growth strategy "Klöckner & Co 2020" presented

In 2010, our sales volumes increased 29.0% from 4.1 million tons to 5.3 million tons, mainly due to the acquisition of the Becker Stahl-Service Group (BSS), our biggest acquisition since the initial public offering. This very positive development was supported by the economic recovery and restocking during the first half of the year. We benefited, in particular, from strong demand in the automotive industry and increasing momentum in the machinery and mechanical engineering sector, especially in Germany. Due to higher prices, sales increased 34.7% from €3.9 billion to €5.2 billion, outpacing the increase in sales volumes.

The positive trend in sales volumes and sales is reflected in all the earnings figures, whereby the sustainable cost-cutting measures from the efficiency-enhancement programs also contributed to the marked improvement. We increased operating income (EBITDA) by €306 million from €– 68 million to €238 million and consolidated net income by €266 million from €– 186 million to €80 million.

Higher prices and the positive trend in sales volumes caused more funds to be tied up in working capital. Nevertheless, through tight warehouse and strict receivables management, we managed to keep net working capital below the target threshold of 20% as a percentage of sales. Moreover, acquisitions required additional funds. Although net financial debt increased to €137 million at the end of 2010 (2009: net cash position of €150 million), our net financial debt as a percentage of equity continued to be low, with gearing at 11%. We once again expanded our financial flexibility and extended the maturity of the key financing instruments to around three years. As a result, the Group has around €2.2 billion of credit facilities, over €700 million of which is available for acquisitions.

In October 2010, we presented our new growth strategy, Klöckner & Co 2020. The strategy is based on our four strategic keylines: external growth, organic growth, ongoing business optimization, and personnel and management development. By adopting this strategy, we set ourselves ambitious growth targets for the next ten years. We want Klöckner & Co to develop into the first global multi metal distributor, doubling sales volumes over the next five years and tripling to quadrupling them by 2020.

We expect our customer industries in our key European and North American markets to further recover in 2011. Against this background, we expect both sales volumes and sales to increase by more than 10%. All of our initiatives to optimize our operations while simultaneously increasing capacity utilization continue to focus on achieving an EBITDA margin of 6%. From today's perspective the acquisitions we consolidated in 2010 will have a significant positive contribution.

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 management companies of the European and North American segments with country organizations. The Group's legal and operational structure remained largely unchanged from the previous year. The service center business of Becker Stahl-Service, which was acquired in March 2010, is organizationally separated from the rest of the German operations. Klöckner & Co SE primarily follows the regulations governing SEs, its Articles of Association, and German legislation implementing the SE regulations. In addition, the provisions of the German Stock Corporations Act particularly apply.

Klöckner & Co SE's subscribed capital totals €166.25 million and is divided into 66.5 million registered, no-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.

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 and our position as a mill-independent supplier allows our customers to benefit from centrally coordinated purchasing and from our broad domestic and global procurement capabilities, encompassing around 70 main suppliers worldwide. Our key competitive factors are economies of scale in global procurement and customer access provided by a comprehensive logistics and distribution network. Our network covers 15 countries and provides our customers with local access to around 250 warehousing and prefabrication sites. Our constant availability means that our customers no longer need to maintain their own warehousing facilities. In addition to our warehouse-based distribution system, steel and metal products are also distributed to customers through steel service centers or via direct shipment from manufacturers. Our customer base comprises more than 170,000 generally small and mid-sized steel and metal consumers, primarily from the construction and the machinery and mechanical engineering industries. We also supply intermediate products for the automotive, shipbuilding, and consumer goods industries. We offer our customers the best overall solution from procurement through logistics to prefabrication. This includes individual deliveries and 24-hour service.

Both in Europe and North America, the market for warehouse-based distribution is highly fragmented into wholesale, regional and local dealers. Europe has approximately 3,000 steel distributors, while there are around 1,200 in the more consolidated North American market. In Europe, our market share is approximately 7% of the distribution market. In the USA, it is just slightly more than 1%, given that both our product range and geographic coverage are significantly smaller. However, our market share of product categories offered – primarily long products and heavy plates – is considerably higher.

2.2 CORPORATE GOVERNANCE STATEMENT

Klöckner & Co SE's management and supervisory bodies are guided by the principles of responsible and good corporate governance. The Corporate Governance Statement includes the corporate governance report, pursuant to the German Corporate Governance Code (DCGK – Deutscher Corporate Governance Kodex). Klöckner & Co sees responsible, transparent corporate governance as the basis for long-term economic success. By focusing primarily on the recommendations and suggestions in the German Corporate Governance Code, as amended from time to time, 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 most recent Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG – Aktiengesetz) was adopted by the Management Board and the Supervisory Board and made permanently available on the Company's website on December 15, 2010.

Guiding principles of corporate governance

Klöckner & Co SE is set up as a corporation under European law whose Articles of Association prescribe a management system comparable to the two-tier system as stipulated in the German Stock Corporations Act (AktG). This two-tier system involves a strict separation between the Management Board as the managing body and the Supervisory Board, as the supervisory and advisory body, that prohibits anyone from serving on both boards simultaneously. The Management Board and the Supervisory Board work closely together to promote the interests of the Company.

Management Board

The target of the Management Board, which has sole responsibility for conducting the business of the Company, is to manage the Company in such a way as to create sustainable added value. Here, the principle of joint responsibility applies, i.e. the members of the Management Board bear joint responsibility for overall management of the Company. They develop the corporate strategy and coordinate its implementation in cooperation with the Supervisory 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 the SE regulation, the German Stock Corporation Act, and the Articles of Association. It currently consists of two members: the Chairman of the Management Board, Gisbert Rühl, who also acts as Chief Financial Officer, and Ulrich Becker, the Chief Operating Officer. There were no personnel changes during the year under review. Any expansion of the Management Board is dependent on the future strategic development of the Group.

Management Board activities are governed (among other things) by detailed Rules of Procedure adopted by the Supervisory Board. In particular, the Rules of Procedure specify the responsibilities of the individual Management Board members, which matters are reserved for the full Management Board, how resolutions are adopted, and the rights and responsibilities of the Chairman of the Management Board. It also contains rules concerning reporting to the Supervisory Board and a list of transactions for which the Management Board is required to obtain the approval of the Supervisory Board.

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 fundamental decisions. The internal designation of Management Board responsibilities is based on a schedule of responsibilities drawn up by the Supervisory Board.

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. During the year under review, 20 Management Board meetings were held; in addition, there were numerous coordination-related discussions among Management Board members and meetings with managers of country organizations.

Due to the continued volatility in the steel industry’s economic situation and the impact this had on the Group’s business, the Management Board maintained a heightened level of monitoring and consulting with the country organizations during 2010. This took the form of weekly teleconferences with the managers of the country organizations. In addition, monthly meetings were held with the managers of the individual country organizations. The Management Board controls the Group via the managers of the country organizations, with the support of various corporate holding company departments, which to some extent are also responsible for cross-border coordination of the Group's business activities. The Company has gradually developed from a financial holding company into a management holding company that is distinctly more operations-oriented. This process has specifically been accomplished by the corporate functions Process Management & IT and International Product Management & Global Sourcing.

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 being shareholder representatives and elected by the Annual General Meeting. The Supervisory Board Chairman is Prof. Dr. Dieter H. Vogel and his deputy is Dr. Michael Rogowski. Both have extensive experience in managing and supervising international corporations and possess the appropriate professional qualifications required to carry out their duties, as indeed do all the other Supervisory Board members. Furthermore, all Supervisory Board members are independent, as defined by Section 100, paragraph 5 of the German Stock Corporations Act (AktG) and/or Section 5.3.2 of the DCGK.

The Management Board regularly provides timely and comprehensive written and oral reports to the Supervisory Board. The detailed monthly Board Report is the core of the written reports. It provides information about the net assets, financial position and results of operations, as well as the Company’s main operating segments and units. Capital market trends and the economic indicators of

importance to Klöckner & Co, as well as analyses illustrating industry comparisons along with steel and metal price trends, make up integral parts of the report. Supervisory Board sessions are devoted to discussing the overall economic situation, the industry, business trends at Klöckner & Co and Group segments, along with an industry comparison illustrating the trends in the Klöckner & Co share price.

According to the Rules of Procedure, resolutions are adopted by a simple majority vote, unless stipulated otherwise by law or the Articles of Association. In recent years, all resolutions were adopted unanimously. All members voted on all resolutions.

The Supervisory Board's plenary work is supplemented by the work of a three-member Executive Committee and an Audit Committee which also has three members. Under the Rules of Procedure, the Executive Committee also acts as a Personnel Committee to prepare for personnel decisions at the Management Board level. In addition, the Executive Committee acts as a Committee for Urgent Matters, with decision-making power. The Executive Committee also acts as a Nomination Committee whose task it is to suggest suitable candidates as Supervisory Board members to the plenum, who are then proposed for election at the Annual General Meeting. In addition to the necessary qualifications for potential members, such as management experience and industry expertise, the diversity of the Supervisory Board shall also be taken into account when proposing candidates. The committee must therefore ensure that, as far as possible, some members of the Supervisory Board should be female; some should work or live in a country (other than Germany) that is particularly important to the Company; and some should be younger than 60 years of age, as stipulated in the amendment to the Rules of Procedure for the Supervisory Board passed in the year under review. Furthermore, when nominating candidates, the committee must ensure that, as far as possible, at least one member of the Supervisory Board satisfies the criteria stipulated in Section 100, paragraph 5 of the German Stock Corporation Act (Financial Expert).

Prof. Dr. Dieter H. Vogel is also the Chairman of the Executive Committee; the other members of the Executive Committee are Dr. Rogowski and Dr. Vater. 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 ad hoc meetings. In 2010, five Supervisory Board meetings, four Executive Committee meetings and six Audit Committee meetings were held. 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.

The Audit Committee primarily reviews the Financial Statements and prepares them for approval, as well as supervising accounting, risk management, internal audits and financial statement audits and handling compliance issues. Furthermore, it has been entrusted 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. Vater, is an independent financial expert, as defined in Section 100, paragraph 5 of the German Stock Corporations Act (AktG) and Section 5.3.2 of the German Corporate Governance Code who, based on his many years of service as the Chief Financial Officer of a major international construction group, has specific 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 also members of the Audit Committee. Thus, the same persons serve on both the Audit Committee and the Executive Committee.

The Supervisory Board evaluates and 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. Furthermore it believes that the Supervisory Board's division of work on strategic planning, consulting and supervisory activities is well balanced. The DCGK emphasizes the obligation of the Supervisory Board members to undertake continuing education and training courses in their relevant areas of responsibility. Klöckner & Co provides the necessary support in this regard for its Supervisory Board members. In its report to the Annual General Meeting (see Annual Report 2010, page 10), the Supervisory Board reports in detail on its work and the main focus of its activities throughout the fiscal year.

Annual General Meeting

Klöckner & Co SE shareholders can exercise their rights, including their voting rights, at the Annual General Meeting (AGM). The most recent AGM took place on May 26, 2010 in Düsseldorf. The next AGM will also be held in Düsseldorf, on May 20, 2011. The Management Board and Supervisory Board have determined that the shareholders have received and are receiving the support and information stipulated, recommended or suggested by law, the Articles of Association and the German Corporate Governance Code. We publish the invitation to the Annual General Meeting together with all required reports and documents on our website in both German and English. The Management Board and the Supervisory Board first decided in 2010 to broadcast the opening of

the AGM by the Chairman of the Meeting, the speech by the Chairman of the Management Board and the Report by the Supervisory Board live via the Internet. Recordings of these events were also posted on the Internet after the close of the AGM. The same procedure shall be followed for this year's AGM.

Remuneration report

The detailed remuneration report on the compensation system and the remuneration of the Management Board and the Supervisory Board in 2010 is summarized in Section 7 of this Combined Management Report.

Directors dealings

Under Section 15a of the German Securities Trading Act (WpHG – Wertpapierhandelsgesetz), members of the Management Board and Supervisory Board as well as individuals or legal entities closely related to these members are legally required to disclose any significant acquisitions or disposals of shares or related financial instruments, in particular derivatives, to Klöckner & Co SE and to the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). Such disclosures are published immediately by the Company and can be found on the Company's website. There were eleven such transactions between January 1, 2010 and February 21, 2011. These related to shares of Klöckner & Co SE, the 2007 convertible bond and call options issued by third parties. The overview below summarizes the key data contained in the disclosures made during this period.

Date	Name	Function	Financial Instrument	Purchase/ Sale	Quantity	Price per Unit	Total Value
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
05/14/2010	Gisbert Rühl	Management Board	Share	Purchase	6,426	€17.39 €	€111,734.00
05/21/2010	Ulrich Becker	Management Board	Share	Purchase	1,553	€15.74 €	€24,436.46
05/21/2010	Ulrich Becker	Management Board	Share	Purchase	447	€15.74 €	€7,037.12
05/25/2010	Gisbert Rühl	Management Board	Share	Purchase	5,000	€14.73 €	€73,661.00
06/02/2010	Gisbert Rühl	Management Board	Share	Purchase	5,000	€14.70 €	€73,500.00
06/02/2010	Prof. Dr. Dieter H. Vogel	Supervisory Board	2007 Conv. Bond	Purchase	5	€44,250.00	€221,250.00
06/08/2010	Gisbert Rühl	Management Board	Share	Purchase	2,500	€13.80	€34,500.00
06/14/2010	Gisbert Rühl	Management Board	Call Option (Share)	Purchase	100	€190.59	€19,059.00
12/17/2010	Gisbert Rühl	Management Board	Call Option (Share)	Closing	100	€460.00	€46,000.00

Accounting, audit of the Financial Statements

The Klöckner & Co Group's accounting is carried out in accordance with 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 2010 Management Report is presented in the form of a combined management report for the individual and consolidated financial statements. The auditor of the individual and consolidated financial statements is appointed by the Annual General Meeting, as stipulated by the applicable legal provisions. The mandate letter to audit the individual and consolidated financial statements 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 2011 is scheduled to take place after the Annual General Meeting on May 20, 2011. The Management Board provides a detailed report on the Klöckner & Co Group's opportunity and risk management in Section 8 of this Combined Management Report.

Transparency

Information about the state of and special developments within our Group is provided in the Annual Report, consisting of the annual financial statements, the Management Report, and further legally required and voluntary disclosures. Other reports include the half-year financial report issued in August as well as the interim financial reports issued each year subsequent to the first quarter, in May, and the third quarter, in November. In particular, the Financial Statements Press Conference, the Analysts' Conference, and teleconferences with journalists, analysts, and investors are held in conjunction with the publication of the Annual Report and the interim reports. 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 made available soon afterwards to the general public on our website. We also publish press releases, as needed.

Regularly scheduled Klöckner & Co events are published in a financial calendar on our website. Furthermore, certain information that may have a significant effect on Klöckner & Co's share price is made public in ad-hoc disclosures, as stipulated by the German Securities Trading Act (WpHG). Such matters are also governed by a Group directive and by an internal committee of experts which obtains outside advice, particularly advice on legal issues, as necessary.

Code of Conduct, compliance organization

Klöckner & Co is aware of its role in society and its responsibilities toward customers, business partners, shareholders, and employees. 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 principles of ethical, law-abiding management form the framework for our corporate and social activities.

Klöckner & Co's commitment to compliance is based on a general Code of Conduct, as well as various guidelines covering specific compliance issues. These include guidelines for combating corruption in business transactions, on giving and accepting gifts, invitations and discounts, and on compliance with antitrust regulations. The Code of Conduct can be found on the Company's website under Investors > Corporate Governance.

Klöckner & Co SE's Compliance Management system is based on the framework laid out in the OECD's Corporate Governance principles. The Code of Conduct specifies the fundamental rules of conduct that form the framework for our 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 senior managers have a special duty to act as role models when implementing the Code of Conduct. Violations of the law, such as violations of antitrust law, are strictly forbidden. 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 the strict prohibition of child labor.

We also continued during the year under review to refine the compliance organization based on previous experience and taking into account the more rigorous requirements. Currently, an Internet-based whistleblowing system is being introduced. This will enable all Group employees, as well as third parties (e.g. suppliers or customers) to report anonymously possible compliance violations. The central contact person for these and all compliance issues is the Corporate Compliance Office in Duisburg. The office is staffed by three experienced, full-time employees and two additional senior managers.

In addition to classroom training, the Company uses Internet-based e-learning programs that help to refresh the heightened awareness of certain legal standards and codes of conduct taught during classroom training.

The Chairman of the Management Board has been assigned responsibility for compliance issues; he holds a regular monthly meeting with the members of the Corporate Compliance Office.

Declaration of Conformity dated December 15, 2010

The 2010 Declaration of Conformity is included below and is also available on Klöckner & Co's website. Previous Declarations of Conformity are also available on the website. The number and type of German Corporate Governance Code recommendations that Klöckner & Co did not or does not follow is lower than those reported in the previous year's declaration.

2010 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporation Act on the German Corporate Governance Code

The recommendations of the German Corporate Governance Code, as amended, have been complied with and are being complied with apart from the following exceptions:

Article 3.8 of the Code (directors' and officers' (D&O) liability insurance, deductible for board members)

The D&O policy taken out by the Company for its Supervisory Board members does not provide for a deductible. The Management Board and the Supervisory Board do not expect a deductible to affect the quality of the Supervisory Board's work.

Article 4.2.3 sentence 8 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 could be derived.

Article 4.2.3 sentence 13 of the Code (payments promised in the event of premature termination of Management Board member's contract due to a change of control)

The payments promised in the event of premature termination of the Management Board members' contracts due to a change of control have not been and are not formally limited to 150% of the severance payment cap. If a Board member ceases his 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. As a precautionary measure only and in view of the uncertainty regarding treatment and valuation of (virtual) stock options in applying this recommendation, the Company assumes that this compensation component may cause the threshold of 150% of the severance payment cap to be exceeded.

Article 5.4.5 of the Code (number of Supervisory Board mandates in non-group companies)

One member of the Supervisory Board of the Company, 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 as well as of one company with similar requirements 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.

Duisburg, Germany, December 15, 2010

The Supervisory Board The Management Board

Specifications of the German Corporate Governance Code

In general, the Management Board and Supervisory Board treat Code suggestions no differently than Code recommendations. As a result, the suggestions contained in the German Corporate Governance Code largely have been and are followed. In a departure from the suggestions, the Articles of Association of Klöckner & Co SE make no provision for the Supervisory Board's performance-related compensation to include any components that are dependent on long-term Company performance (Section 5.4.6, Clause 5 of the German Corporate Governance Code).

2.3 COMPANY STRATEGY

In October, we presented our new long-term growth strategy, "Klöckner & Co 2020". The upheavals created by the financial crisis and the resulting changes in economic conditions made it necessary to adjust the strategy that we had implemented largely without any changes since the IPO.

The changed economic circumstances following the drastic collapse in 2009 have resulted in steel consumption rates that will continue to be significantly below their pre-crisis levels in industrialized countries for years to come, while developing countries have not slowed down noticeably and are now able to continue along their robust growth rates. Against this background, we have redefined our strategy, focusing on the potential for further optimization. The strategy is based on four targets and highlights prospects and guidelines for the next ten years.

Klöckner & Co 2020

Globalization	Being the first global multi metal distributor
Growth	Being the over-proportionally growing multi metal distributor
Business optimization	Having leading edge processes and systems
Management & employees	Having best in class management and employees

1. External growth: In our slower-growth core market of Europe, we will focus on companies with higher-margin products, services, and customer segments. In North America, we will continue to pursue the objective of significantly expanding our market share, including through major acquisitions. Moreover, we intend to significantly expand our service center business in the US. Long term, we want to ensure our high growth rate by entering emerging markets. With the acquisition of Becker Stahl-Service Group, Bläsi AG, Angeles Welding Mfg., Inc. and Lake Steel Ltd. in fiscal year 2010 we seized the opportunity to further enhance growth and to improve our long-term profitability. Since our initial public offering in 2006, we have acquired and integrated 22 companies.

2. Organic growth: The macroeconomic conditions in our core markets of Europe and North America have changed significantly. Whereas we have previously sold into a growing market, we now find ourselves in strong competition for a much smaller market size. Consequently, we are restructuring our marketing in order to significantly increase our focus on the customer. In addition, we are going to further expand the product portfolio with higher-margin products and we will also increase prefabrication services.

3. Business optimization: For a global distributor such as Klöckner & Co, optimized, harmonized processes are a decisive success factor and a way of differentiating ourselves from the competition. As a result, we continue to place high priority on our initiatives to optimize procurement, our logistics network, and IT going forward.

4. Personnel and management development: As a service company, one of the main prerequisites for implementing our ambitious growth plans will be to develop our employees and managers. Therefore, we are currently redesigning this area.

By focusing on these four main areas, we want to develop Klöckner & Co into the first global multi metal distributor. Our ambitious growth targets include doubling our sales volumes in five years and tripling to quadrupling them by the year 2020.

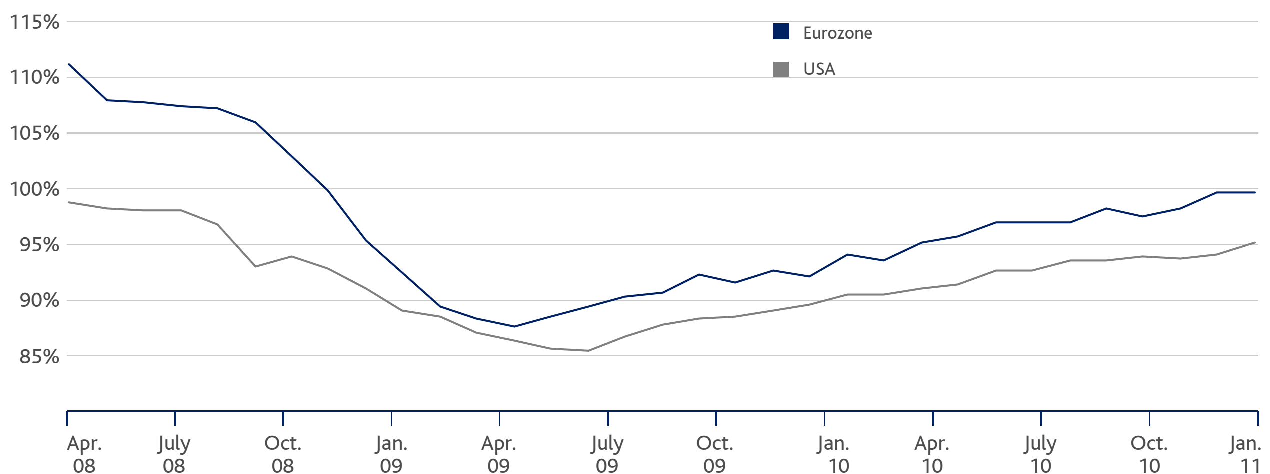
2.4 MACROECONOMIC CONDITIONS

Following the global financial and economic crisis, the global economy began to recover in 2010, but visible after-effects of the crisis remained. Major differences were particularly apparent in Europe. While Germany turned into Europe's growth engine thanks to strong exports, growing domestic demand and declining unemployment, other EU members – especially Greece and Ireland – had to look for ways to reduce high government debts. The markets' skepticism about the creditworthiness and financial stability of certain countries put pressure on the common currency and led to the Euro crisis. In order to restore confidence, the EU implemented a billion-Euro rescue package for the troubled Euro countries. Rescue packages in the industrialized countries have resulted in sharp increases in government debt.

Worldwide, the picture was also mixed. The International Monetary Fund (IMF) thus speaks of a "two-speed" global recovery in advanced and emerging economies. In the established markets, the damage caused by the crisis was more severe, because financial and currency systems and the banking industry were much harder hit. As a result, the recovery has been slower and unemployment rates are dropping only slightly.

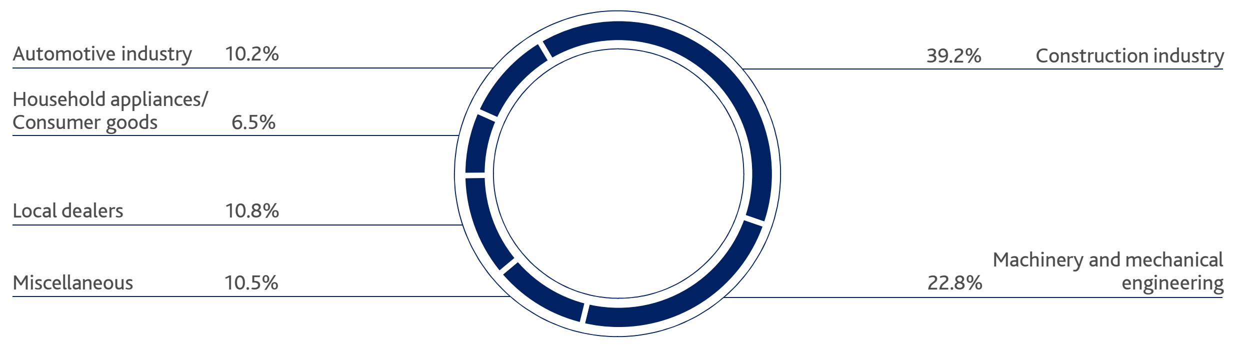
The IMF estimates that global gross domestic product (GDP) rose 5.0% in 2010, after declining by 0.6% the previous year. Developed economies achieved 3.0% growth in 2010, after dropping 3.4% the year before. The USA posted 2.8% growth, after reporting a 2.6% decline the previous year. The Euro area managed only 1.8% growth, after a drop of 4.1% the previous year. As previously mentioned, Germany was the only exception, with 3.6% growth in 2010. Emerging economies, by contrast, grew 7.1% in 2010, compared with 2.6% the previous year, according to IMF estimates. China posted GDP growth of 10.3% in 2010 (2009: 9.2%), while Brazil managed 7.5% (2009: –0.6%) growth. As with the macroeconomic trends, regional differences could also be seen in industrial production. While manufacturing increased by 7.7% and 5.9%, respectively in the Eurozone and the US, China reported a 13.5% increase and Brazilian production was up 2.7%.

Development of industrial production ***in %***



2.5 SECTOR ENVIRONMENT

Customer sectors of Klöckner & Co SE (sales)



The breakdown of Klöckner & Co's sales from individual customer sectors in 2010 was largely unchanged from the year before. The construction business continued to be our most important customer segment, although the consolidation of the BSS Group, in line with our strategic targets, reduced construction's share of total sales by 3.8 percentage points to 39.2%. Machinery and mechanical engineering, our second-biggest customer industry, accounted for 22.8%, while the automotive industry's share increased by 4.2 percentage points to 10.2% thanks to the acquisition of the BSS Group.

Construction industry
The impact of the economic and financial crisis on the construction industry continued to be immanent worldwide. Euroconstruct states that the 8.8% collapse in European construction in 2009 makes that the worst year of the decade for the industry. The association also reported a 3.3% decline in 2010 and does not expect construction volumes to recover before 2012. Especially the Euro crisis and the high government deficits in countries such as Ireland, Spain and Portugal had a negative impact. This was primarily driven by the decrease in public-sector investments, combined with government cost-cutting measures and the lack of demand in the private sector. In contrast, for the first time since the crisis, Eurofer expects steel demand from the construction industry to recover by 1.6% as early as 2011.

According to US statistics, construction industry sales dropped 10.3%. The commercial and industrial construction sectors that are important to Klöckner & Co were particularly hard hit, dropping 23.3%. Only public construction projects dropped by a slight 2.7% as they were supported by the US government's economic rescue package.

Machinery and mechanical engineering
There was a substantial upturn in the machinery and mechanical engineering industry in 2010. This industrial sector was one of the growth drivers, especially in Germany. According to the industry group VDMA, the German Mechanical Engineering Association reported an 8.8% increase in production. At the same time, order volume increased by an over-proportionately high 44%, pointing to a further significant recovery in 2011. In the specific sub-industries of machinery and mechanical engineering, the picture was quite mixed. While the VDMA reported only a hesitant recovery in construction equipment and the printing and paper industries, steelworks and rolling mills, as well as electrical automation companies exceeded even the high levels reported from 2006 to 2008.

Automotive industry

The global automotive industry has recovered far faster than expected. After reporting a sharp decline in orders for many countries in 2009, the Automotive Industry Association (VDA) reported a 12% increase in 2010. Demand was supported primarily by the US market and the BRIC countries. As expected, new automobile registrations were lower in Western Europe. After many national economic stimulus packages ended, of which primarily vehicle sales volumes in the small and mid-sized segment had benefited, demand dropped by 5%. Our acquisition of the BSS Group enabled us to participate substantially in the recovery of the automotive industry, particularly in Germany.

Significant recovery in distributors' sales volumes

During 2010 distributors sales volumes significantly increased. According to data from DISMET (Study Group of Distributors of Steel, Tubes, and Metals), the 8.5% increase in Europe laid between the real consumption growth of approximately 3% and apparent steel consumption demand of 19%. The differing growth rates were caused by restocking effects. According to DISMET, both distributors and end customers have increased their inventories. Nevertheless, because of the increased demand for steel and metal, stocks are still relatively low at an average of 72 days in 2010 (according to DISMET), compared to 87 days the previous year. The flat-steel-intense service center business, in particular, reported a 26% increase, from which we benefited to a large extent thanks to the BSS acquisition.

According to the MSCI (Metals Service Center Institute), distributors' sales volumes increased 20.4% in the US. There, too, distributors' increase in sales volumes laid between the increase in production and the increase in real steel and metal consumption. Despite the large restocking, the months of supply were relatively low. On average, distributors had enough inventory to cover 65 days of sales volumes in 2010, compared with 81 days the previous year.

Production figures

Worldwide steel production increased by 15.2% in 2010, to a record 1,395.5 million t of crude steel. The industry has thus recovered faster than expected from the previous year's crisis-related level. According to the World Steel Association, China remained the biggest steel producer by far, with 44.9% of the market, or 626.7 million t, followed by Japan, which produced 109.6 million t. While most regions of the world managed to report high double-digit production growth rates, China's still strong growth momentum slowed slightly down to 9.3%, following almost 15% growth the previous year.

The high growth rates in the US and Europe of 38.5% and 24.6%, respectively, resulted from the low prior-year levels and in absolute terms were still below 2008 levels. Although steel production in the European Union increased from 138.9 million t to 172.9 million t, it was still significantly lower than the record level of 207 million t posted in 2007. In line with overall economic growth, German production was over-proportionately higher than the European average, increasing by 33.9%. In flat steel products, growth benefited in particular from the automotive industry, while long products saw a much lower increase in 2010 due to the weak construction industry.

Steel production

in million tons	2010	2009	Change
France	15.4	12.8	20.3%
Germany	43.8	32.7	33.9%
Spain	16.3	14.4	13.2%
Great Britain	9.7	10.1	– 4.0%
Other EU	87.7	68.9	27.3%
Total EU (27)	172.9	138.9	24.6%
Total C.I.S.	108.4	97.5	11.2%
USA	80.6	58.2	38.5%
Other North America	31.2	24.2	28.9%
Total North America	111.8	82.4	35.7%
Total South America	43.8	37.8	15.9%
Africa	17.2	14.8	16.2%
Middle East	19.0	17.0	11.8%
China	626.7	573.6	9.3%
Other Asia	254.5	214.8	18.5%
Total Asia	900.2	805.4	11.8%
Total Oceania	8.1	6.0	35.0%
Other world	33.1	28.9	14.5%
Total	**1,395.5**	**1,211.5**	**15.2%**

Source: World Steel Association (as of February 2011)

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

The key performance indicators for the results of operations, financial position, and net assets for 2010 were as follows:

(€ million)	2010	2009
Sales	**5,198**	3,860
EBITDA	**238**	– 68
Cash flow from operating activities	**35**	565

(€ million)	December 31, 2010	December 31, 2009
Net working capital	**1,017**	637
Net financial debt	**137**	– 150

3.1 RESULTS OF OPERATIONS

Sales volumes and sales

In fiscal year 2010, Klöckner & Co's sales volumes of 5.3 million t were considerably higher than the previous year's figure (2009: 4.1 million t) thanks to the completed acquisitions, the recovery in demand and the upturn in the inventory cycle. This is equivalent to an increase of 29.0%. Sales volumes rose by 32.6% in Europe and by 17.4% in North America. Adjusted for the BSS acquisition, sales volumes in Europe were 7.9% higher than in the previous year, while the sales volumes for the entire Group rose by 10.1%.

The sales volumes trend was uneven in the individual country organizations. While sales volumes in the US and Germany were significantly higher than the Group average due to the economic recovery, the recovery was more hesitant in the Netherlands and Spain due to the continued weakness of the construction industry. On the product side, the economic recovery in machinery and mechanical engineering led to above-average growth rates in sales volumes of quarto plates, quality steel, and aluminum. The clear trend toward rising sales prices, which had increased since the start of the year with increased momentum in the course of Q2 flattened out in Q3. Overall, average selling prices were higher compared to the previous year's reference period.

Due to high prices, Klöckner & Co's sales increased by 34.7% – even more than sales volumes – to around €5.2 billion. Excluding BSS, sales increased by 21.3%. The European segment accounted for €4.3 billion of sales and the North American segment accounted for €0.9 billion.

Earnings

Gross profit of €1,136 million was 76.1% higher than the prior-year figure of €645 million. Along with the BSS acquisition, the increase was primarily supported by the improved business environment with rising volumes and prices, whereas gross profit in the previous year was strongly influenced by broadly crumbling prices for steel and metal products. The gross profit margin increased accordingly from 16.7% for fiscal year 2009 to 21.9% during the year under review.

EBITDA, the key performance indicator for operating income, can be reconciled to net income as follows:

(€ million)	2010	2009
EBITDA	**238**	**– 68**
Depreciation, amortization, and impairments	**– 86**	– 110
Financial result	**– 68**	– 62
Income taxes	**– 4**	54
Net income	**80**	**– 186**

The table below shows a breakdown of EBITDA by segment:

(€ million)	Q4 2010	Q4 2009	Jan. 1–Dec. 31, 2010	Jan. 1–Dec. 31, 2009
Europe	**45**	143	**223**	57
North America	**7**	2	**33**	– 44
Headquarters	**– 4**	– 62	**– 18**	– 81
Klöckner & Co Group	**48**	**83**	**238**	**– 68**

The European segment ended the year with EBITDA of €223 million, up from €57 million the previous year. Comparability with the previous year is limited by the adjustment for the €137 million KDI antitrust fine recorded in Q4 2009. Not counting the adjustment, the European segment would have had a negative EBITDA of €–80 million for the full year 2009.

All country organizations in the European segment generated positive EBITDA that exceeded the previous year's level after taking into account the impact of the adjustment for the KDI provision. BSS and the Swiss subsidiary posted particularly strong results, contributing the most to the Group's EBITDA. A particularly positive development since the previous year was also reported for Germany. In this case, the increase in quantities was significantly higher than organic segment growth. In contrast, the Spanish subsidiary remained adversely impacted by the crisis in the construction industry. With regard to the product range, double-digit sales volumes growth was reported for all product groups except for long products, which are closely linked to construction. The highest growth rates were recorded in quality steel and heavy plates. Flat products were the biggest contributors to the substantial improvement in gross profit, while quarto plates saw the biggest margin increase.

The North American segment also reported significantly stronger EBITDA of €33 million, compared with €– 44 million for the previous year. As in the European segment, this was primarily supported by cost-cutting measures, the economic recovery and the upturn in the inventory cycle. Primary und Temtco, the companies specializing in heavy and quarto plates that we acquired in 2007 and 2008, have seen positive sales volumes, sales, and earnings trends.

Comparability of results from the corporate headquarters segment is limited, because last year's results also included €–61 million of special items from the adjustment of the reimbursement claims by former shareholders relating to the KDI antitrust fine.

Finance expenses (net) for fiscal year 2010 totaled €– 68 million, compared with €– 62 million for the prior-year period. The increase in net expenses was caused by higher average financial debt.

EBIT and earnings before taxes (EBT) totaled €152 million and €84 million, respectively. Both of these key performance indicators thus followed the EBITDA trend. In addition, the previous year's EBT were negatively affected by impairment charges totaling €42 million.

Basic earnings per share stood at €1.17 compared with €– 3.61 in the previous year.

3.2 FINANCIAL POSITION, FINANCING, LIQUIDITY

Financing and financial management
We manage the Group's financing centrally through Klöckner & Co Verwaltung GmbH, which is headquartered in Duisburg, Germany. 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, enabling us to borrow at favorable rates.

The financing portfolio has been further optimized against the background of the improved market environment. The focus was on improving the maturity structure and harmonizing the contractual framework of the financing instruments, especially in relation to financial covenants.

We further diversified our portfolio over the reporting period, providing flexible financing for the Group. It consists of convertible bonds, promissory notes, a syndicated loan, ABS programs, and bilateral credit agreements.

Convertible bonds
Our convertible bonds represent a significant component of our long-term Group financing.

We issued the first €325 million convertible bond in July 2007. The bond issuer is Klöckner & Co Financial Services S.A. The bond, which is guaranteed by Klöckner & Co SE, has a five-year maturity 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 on the issue date.

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.

In December 2010, we issued another senior unsecured convertible bond with a volume of €186 million to institutional investors outside of the USA. Again, the issuer is Klöckner & Co Financial Services S.A. and the bond is guaranteed by Klöckner & Co SE. The proceeds are intended to be used to finance the "Klöckner & Co 2020" growth strategy and for general company purposes. The bond has a seven-year maturity. The coupon on the bond was set at 2.50% p.a. Under the bond terms, the holder has a put option with an entitlement to demand payment after five years at par value plus accrued interest. The issuer cannot call the bond prematurely over the first five years. After five years, the issuer can call the bond prior to maturity if the Klöckner & Co share price (over certain periods) exceeds 130% of the conversion price. The conversion price was set at €28.00. This is equal to a 35.07% premium over the reference price of €20.73.

Promissory notes

Through the issuance of promissory notes totaling €145 million, we gained access to the promissory note market for the first time in Q2 2010; this market is normally accessible only to companies rated investment grade. The promissory notes are based on basic, standard documentation using the same financial covenants as the syndicated loan. The maturities of the promissory notes range from three to five years. Of the total volume, €39 million is fixed-interest-bearing and €106 million has variable interest rates.

Syndicated loan

The syndicated loan originally due in May 2011 was modified and its volume was increased from €300 million to €500 million. The new loan agreement came into effect on June 7, 2010. The credit facility is provided by a consortium of 13 banks and has a term of three years, plus an option to extend it by one year. The balance-sheet-oriented covenant concept introduced in 2009 will be continued. At the end of the year, utilization stood at €225 million.

Under the new covenants, net financial debt may not exceed equity of shareholders of Klöckner & Co SE less goodwill from business combinations after May 28, 2010 by more than a factor of 1.5. In addition, the so adjusted shareholders' equity must total at least €500 million. Moreover, under the syndicated loan, our financial flexibility is now contractually linked to the current portfolio of unrestricted receivables and inventories as virtual borrowing base.

All covenants were complied with throughout 2010.

Asset-backed securitization programs

Our Group's working capital is also financed through a centrally controlled European asset-backed securitization program (ABS program) that was set up in 2005 and extended in 2010. The ABS program's volume of €420 million remained the same. The term was extended by two years and the number of refinancing banks was reduced from four to three. The European program is accompanied by 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, utilization under the programs totaled €88 million.

Both the European ABS program and the American program were in compliance with all covenants throughout the reporting period.

Bilateral credit facilities

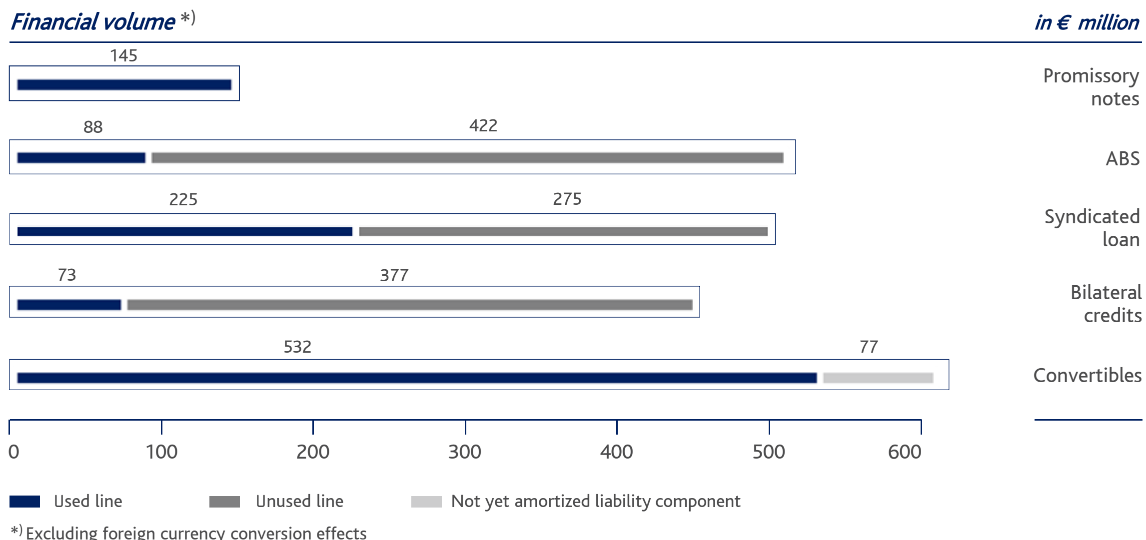
Of the approximately €450 million of bilateral credit facilities, around 16% was being utilized as of the end of 2010.

Liquidity management and intercompany settlements

The Group uses an international cash-pooling system to handle intercompany settlements and cash management. 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 the working capital required to finance the ongoing business of the individual country organizations, was ensured at all times throughout the year 2010.

Net financial debt
Due to the enlargement and extension of the facilities, Klöckner & Co has credit facilities totaling around €2.2 billion at its disposal. At the same time, the maturity of the central financing instruments was extended to around three years.

As the table below illustrates, only around €1.1 billion, or 48%, of these instruments was utilized as of December 31, 2010.



Including cash and cash equivalents, but excluding transaction costs, net financial debt totaled €137 million as of December 31, 2010 (2009: net cash position of €150 million).

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, 2010	December 31, 2009
Net financial debt	**137**	– 150
Gearing (Net financial debt/Shareholders' equity*))	**11%**	– 14%

*) Consolidated equity less non-controlling interest less goodwill from business combinations subsequent to May 28, 2010.

As of December 31, 2010, gearing was 11% and therefore satisfied 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, and their possible effects on earnings, are described in detail in the Notes to the Consolidated Financial Statements under explanations on IFRS 7.

We safeguard liquidity both through stringent inventory and receivables management and through internally defined indicators. Among other things, these include a minimum equity ratio and a maximum debt/ equity ratio. 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 at the 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 75 of the consolidated financial statements. Cash and cash equivalents included in the consolidated statement of cash flows correspond to cash and cash equivalents in the consolidated statement of financial position.

Consolidated statement of cash flows

(€ million)	2010	2009
Operating cash flow	235	– 158
Cash flow from operating activities	35	565
Cash flow from investing activities	– 188	– 8
Cash flow from financing activities	252	– 24
Changes in cash and cash equivalents	99	533
Cash and cash equivalents at the beginning of the period	827	294
Cash and cash equivalents at the end of the period	**935**	**827**

The recovery of the business environment is demonstrated by cash flow from operating activities. This is clearly indicated by the increase in the amount of funds tied up in net working capital which, adjusted for currency effects and acquisition activities, led to a cash outflow of €197 million. Including the change in other operating assets and liabilities, cash flow from operating activities of €35 million was significantly lower than the €565 million reported the previous year. The high level of cash flow in 2009 was primarily the result of the sharp decrease in net working capital due to the economic crisis.

The resumption of our acquisition strategy was mainly responsible for the significant increase in cash used in investing activities of €188 million in 2010, compared to €8 million in 2009. Net cash used for the BSS, Bläsi, Angeles Welding, and Lake Steel acquisitions completed during the reporting period totaled €164 million. Cash used for capital expenditure and intangible assets totaled €27 million, approximately the same as the 2009 figure of €25 million. Cash used for capital expenditures were offset somewhat by proceeds from the disposal of property, plant, and equipment totaling €4 million.

Cash flow from financing activities of €252 million (2009: cash used in financing activities of €24 million) includes cash flow after deducting transaction costs from the placement of the promissory notes (€144 million), proceeds from the issuance of the convertible bond (€183 million), and repayment of BSS shareholder loan (€58 million).

At the end of 2010, the Group had cash and cash equivalents of €935 million (December 31, 2009: €827 million).

3.3 NET ASSETS, BALANCE-SHEET STRUCTURE

Consolidated balance sheet

(€ million)	December 31, 2010	December 31, 2009
Non-current assets	**856**	712
Current assets		
Inventories	**899**	571
Trade receivables	**703**	464
Other current assets	**98**	139
Liquid funds	**935**	827
Total assets	**3,491**	**2,713**
Equity	**1,290**	1,123
Non-current liabilities and provisions		
Financial liabilities	**1,020**	619
Other non-current liabilities and provisions	**341**	308
Current liabilities		
Financial liabilities	**40**	52
Trade payables	**585**	398
Other current liabilities and provisions	**215**	213
Total equity and liabilities	**3,491**	**2,713**

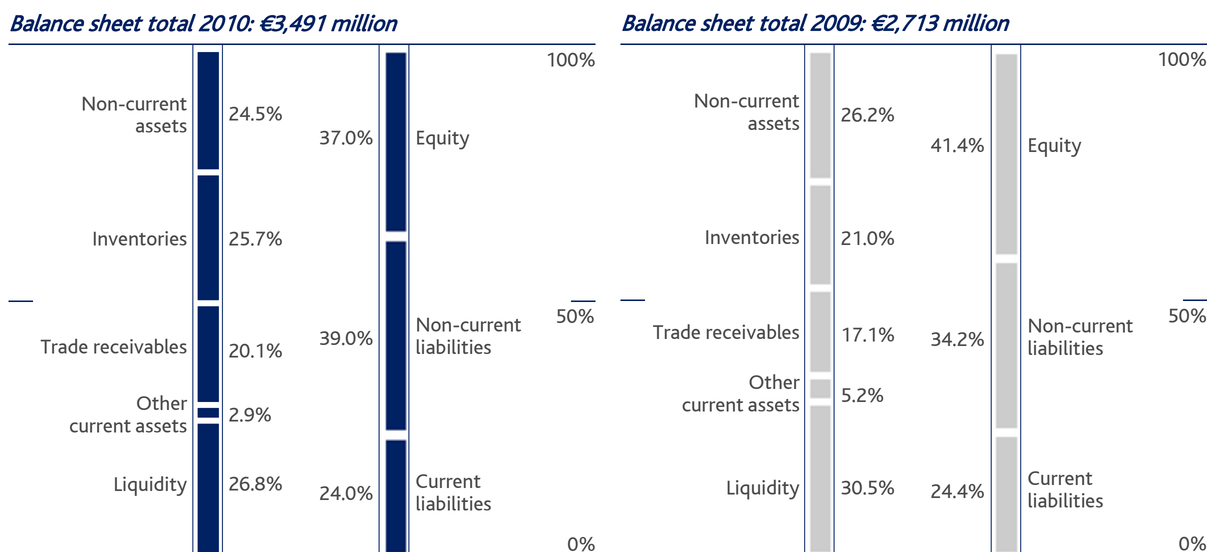
At the end of 2010, total assets stood at €3,491 million. This represented a 28.7% increase over the prior-year figure of €2,713 million.

The change in the balance sheet structure is predominantly due to the acquisition of the BSS Group and the business-driven expansion of net working capital. Non-current assets therefore increased from €712 million to €856 million (+ 20.2%) at December 31, 2010. Of this €144 million increase, €32 million is related to intangible assets and €98 million to property, plant, and equipment. As of December 31, 2010, this includes non-current assets of the BSS Group totaling €94 million.

The equity-to-fixed-assets ratio stood at approximately 169.4% as of December 31, 2010, compared with 177.5% in 2009.

When long-term debt financing is included, the excess of long-term capital over non-current assets amounted to €1,795 million, compared to €1,338 million in 2009.

The asset and capital structure for 2010 and 2009 can be summarized as follows:



Changes in net working capital are shown in the following table:

Net working capital

(€ million)	December 31, 2010	December 31, 2009
Inventories	899	571
Trade receivables	703	464
Trade payables	– 585	– 398
Net working capital	**1,017**	**637**

Net working capital of €1,017 million was much higher than at the end of the 2009 fiscal year. The increase is largely due to improvement in the operating business and to the BSS acquisition, which accounted for €166 million of total net working capital as of December 31, 2010.

Inventories increased from €571 million in the previous year to €899 million. The increase in sales volumes was also reflected in higher trade receivables, which rose from €464 million to €703 million year on year. Trade payables of €585 million were also higher than in the previous year (2009: €398 million). Overall, this tied up additional funds totaling €380 million (2009: release of funds totaling €770 million). This is equivalent to a 59.7% increase in net working capital.

We are currently maintaining a liquidity reserve in the form of cash and cash equivalents totaling €935 million (2009: €827 million). Shareholders' equity also increased thanks to net income of €80 million and the equity component of the convertible bond issued at the end of the year (€35 million) from €1,123 million to €1,290 million. At the end of the year, the equity ratio was approximately 37%, compared to 41% the previous year. If cash and cash equivalents could be used to completely eliminate financial debt, the equity ratio would be 50%.

The financial debt shown in the consolidated financial statements increased from €671 million the previous year to €1,060 million due to the resumption of our acquisition activities and the additional borrowing in the form of promissory notes and the convertible bond. Against this, cash and cash equivalents were at €935 million.

Provisions for pension obligations totaling €174 million (2009: €175 million) were largely unchanged, due to the so-called "corridor method" of recognition; the funded status (amount by which pension obligations exceed plan assets) increased from €165 million to €180 million.

3.4 OVERALL STATEMENT ON THE CURRENT BUSINESS SITUATION OF THE GROUP

Based on the information available at the end of February 2011 when the Combined Management Report was compiled, the Group's business situation has further improved from the previous year. Thanks to robust demand for steel and metal and production discipline of steel producers, prices for steel and metal have recently increased significantly. The expectations for steel consumption in 2011 show more momentum than in 2010, for which the increased sales volumes were significantly driven by restocking. Nevertheless, according to the current demand forecast, the steel industry will continue to operate below full production capacity in 2011, which may result in price fluctuations. However, based on the higher prices for iron ore and coking coal, it is expected that steel and metal prices will remain high. All our intiatives to optimize our operations while simultaneously increasing capacity utilization continue to be focused on achieving an EBITDA margin of 6%. From today's point of view, all measures implemented as part of our Klöckner & Co 2020 strategy and the acquisitions consolidated in 2010 will contribute significantly toward reaching this target.

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.

Balance sheet of Klöckner & Co SE (condensed)

(€ thousand)	December 31, 2010	December 31, 2009
Intangible assets and property, plant, and equipment	1,155	844
Investments in affiliated companies	258,328	258,303
Fixed assets	**259,483**	**259,147**
Receivables from affiliated companies	1,064,132	807,839
Other receivables	18,233	50,000
Liquid funds	9	89
Current assets	**1,082,374**	**857,928**
Prepaid expenses	73,630	56,224
Total assets	**1,415,487**	**1,173,299**
Equity	762,395	679,752
Provisions for pensions and similar obligations	9,018	10,186
Other provisions	8,814	9,705
Bonds	609,100	422,900
Liabilities to affiliated companies	21,913	49,857
Other liabilities	4,247	899
Total equity and liabilities	**1,415,487**	**1,173,299**

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).

Klöckner & Co SE's assets reflect the holding character of the Company. Fixed assets consist almost entirely of financial assets, primarily the interest 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 convertible bonds are made available to Group subsidiaries.

Klöckner & Co SE’s equity ratio declined to 53.9% as of December 31, 2010 (2009: 57.9%).

Income statement of Klöckner & Co SE (condensed)

(€ thousand)	2010	2009
Income from investments	62,152	57,980
Interest income, net	6,735	5,208
Other income and expenses, net	– 21,954	– 31,907
Result from ordinary activities	**46,933**	**31,281**
Extraordinary result	383	-
Taxes	36	– 36
Net income	**47,352**	**31,245**
Unappropriated profits carried forward	17,700	17,700
Appropriation to other revenue reserves	– 17,700	– 31,245
Unappropriated profits	**47,352**	**17,700**

The income from investments of Klöckner & Co SE resulted from dividends and profit transfers from subsidiaries passed through intermediate holding companies. During the year under review, Klöckner & Co SE received income totaling €57.2 million (2009: €58.0 million) under a profit-and-loss transfer agreement with Multi Metal Beteiligungs GmbH. In addition, for the first time, a gain of €5.0 million was received under a profit-and-loss transfer agreement entered into with Becker Besitz GmbH.

The negative balance in “Other income and expenses, net” decreased from €31.9 million in 2009 to €22.0 million in 2010. The comparability of the prior-year balance is limited by the amounts included in the prior-year figure for bank fees, auditing, and consulting expenses relating to the capital market transactions and the expenses for changing the method for recognizing pension provisions.

Net income for fiscal year 2010 amounted €47.4 million, compared to €31.2 million in the previous year. Prior-year unappropriated profits were appropriated to other revenue reserves in full. We propose that the Annual General Meeting authorize a dividend of €20.0 million (€0.30 per share) to Klöckner & Co SE shareholders and transfer the remaining unappropriated profits to revenue reserves.

Particularly in light of the dividend potential of the retained earnings in subsidiaries, we also expect positive results for 2011 and 2012.

The complete Klöckner & Co SE annual financial statements that received the auditor's unqualified opinion, will be published in the company register. Interested parties can obtain the annual financial statements at the Company's headquarters and on the Internet at www.kloeckner.de.

4.2 LEGAL INFORMATION RELATING TO TAKEOVERS

Report pursuant to Section 289, paragraph 4 and Section 315, paragraph 4 of the German Commercial Code, in conjunction with Section 176, paragraph 1, sentence 1 of the German Stock Corporations Act and Article 52 of the European SE Regulation

Composition of share capital
As of December 31, 2010, Klöckner & Co SE's subscribed share capital totaled €166,250,000. It is divided into 66,500,000 registered, no-par-value shares. All shares have the same rights and obligations. Each share has 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
As of December 31, 2010, no direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of voting rights had 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 by employees owning shares in the Company
Shares held by employees of the Klöckner & Co Group are not subject to any rules controlling voting rights.

Legislation and provisions of the Articles of Association governing the appointment and dismissal of members of the Management Board and amendments to the Articles of Association
The Management Board of Klöckner & Co SE consists of one or more members who are appointed and dismissed by the Supervisory Board (Section 9, paragraph 1 c, Section 39, paragraph 2, and Section 46 of the European SE Regulation; Sections 84, 85 of the German Stock Corporations Act; Section 6 of the Articles of Association).

Pursuant to Section 59, paragraph 1 of the European SE Regulation, amendments to the Articles of Association always require a two-thirds majority of votes cast, unless the German Stock Corporation Act stipulates or allows a bigger majority. Pursuant to Section 59, paragraph 2 of the SE Regulation and Section 51, sentence 1 of the SE Implementation Act (SEAG), in conjunction with Section 19, paragraph 2, sentence 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 the share capital is represented. Article 51, sentence 2 of the SEAG exempts from this rule amendments to the Company's business purpose, resolutions on cross-border relocation of the Company's headquarters, and cases for which a mandatory higher majority representing the capital is specified 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 also necessary at Klöckner & Co SE.

Under Section 21 of the Articles of Association, the Supervisory Board is authorized to make certain formal changes to the Articles of Association on its own when necessary.

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

Authorization is granted, with the approval of the Supervisory Board, to increase share capital by up to €83,125,000 by May 25, 2015 through one or more issues of registered, no-par-value shares in exchange for cash or contributions in kind. For a more detailed explanation see Section 4, paragraph 5a of the Articles of Association.

Until May 25, 2015, authorization is also given to issue warrant-linked and/or convertible bonds or combinations of these instruments on one or more occasions, including in different tranches, and to grant holders option or conversion rights on up to 13,300,000 no-par-value registered shares of the Company with a proportionate amount of the share capital of up to €33,250,000. The Management Board made partial use of this authorization in December 2010.

There are three authorizations for contingent capital increases of €16,625,000, €16,625,000, and €33,250,000, respectively, which may only be carried out upon exercise of the conversion rights from the convertible bonds that were issued by the Company

or its subsidiaries under the authorization by the Annual General Meeting on June 20, 2007, under the authorization by the Annual General Meeting on May 26, 2009, or under the authorization by the Annual General Meeting on May 26, 2010, or which (in the latter case) will continue to be issued. For further details see Section 4, paragraph 2, Section 4, paragraph 4, and Section 4, paragraph 5 of the Articles of Association.

Pursuant to Section 71, paragraph 1, No. 8 of the German Stock Corporation Act, and in accordance with the resolution of the Annual General Meeting on May 26, 2010, the Company is also authorized to acquire treasury stock equal to up to 10.0% of the Company's share capital of €166,250,000 existing at the time of the resolution of the Annual General Meeting. This authorization is valid until May 25, 2015.

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, June 2009, and December 2010 totaling €325 million, €97.9 million, and €186.2 million, respectively, 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. 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 50.0% of the voting rights in the Company. The respective bondholder is also entitled to exercise its conversion right at an adjusted conversion price.

Under largely the same conditions, individual lenders under the €500 million multi-currency revolving credit facility entered into in May 2010 may request repayment of the respective loan amounts granted by them. The same applies to the lenders of the various promissory notes taken out by subsidiaries with a total volume of €145 million.

Other major credit arrangements and the Group's ABS program contain customary change-of-control clauses. In addition, virtual stock options allocated to Group managers include a provision under which these 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, members the Management Board have the right to terminate their service contracts exceptionally. If they exercise this right, they will be entitled to the payment of their targeted annual salary (including the targeted bonus) until the end of the contract term, capped at three times the total compensation they received in the last completed financial year before the termination of their service contracts. Furthermore, all virtual stock options not yet allocated by this time will be considered allocated and can be exercised before the end of the contractual waiting period, but no sooner than three years from the respective issue date.

4.3 DIVIDEND PLANNING

For fiscal year 2010, the Management Board and the Supervisory Board propose to the Annual General Meeting on May 20, 2011 a dividend of €0.30 per share, thereby resuming dividend payments as part of the Company’s general dividend policy. In general, Klöckner & Co SE follows a dividend policy of distributing 30% of consolidated net income before special items. This has been the case since the IPO with the exception of 2008 and 2009.

5. SUBSEQUENT EVENTS

Memorandum of Understanding to acquire Macsteel Service Centers USA signed

On January 19, 2011, the Management Board of Klöckner & Co SE has signed a Memorandum of Understanding to acquire Macsteel service centers USA, Inc. ("Macsteel") from the seller Macsteel Global B.V. With its 30 locations, Macsteel is one of the leading service center companies in the US. In 2010, Macsteel generated sales of approximately USD 1.3 billion with its 1,183 employees. Closing of the transaction is expected to be in the second quarter of 2011, subject to a successful due diligence, the approval by the Supervisory Board of Klöckner & Co SE, and antitrust authorities. With the planned acquisition of Macsteel, Klöckner & Co SE will expand the product and service portfolio towards a higher-margined service center business and strengthen its market position significantly by at least doubling its sales in the US.

6. RESPONSIBILITY

Klöckner & Co has a special corporate responsibility when dealing with both external and internal stakeholders. This includes suppliers and customers, as well as our employees. For us, corporate social responsibility (CSR) is a moral duty that goes beyond legal compliance requirements.

We incorporate our social responsibility into corporate actions. This applies to people, society, and the environment – throughout the supply chain and in our own markets and operations.

In 2010, we started the process of building a sustainability management system. Supported by an external consultant we analyzed external and internal requirements and identified further steps to be taken.

To implement the findings, we set up a Sustainability Committee, comprising decision-makers from the Group's Operations, Legal, Sourcing, Human Resources, and Communications departments.

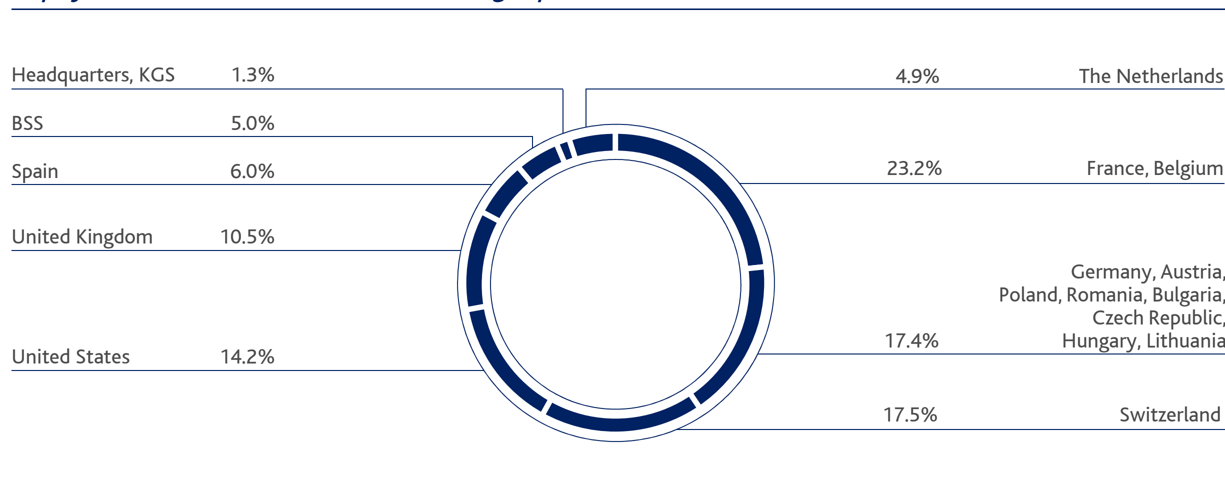
The four pillars of corporate responsibility, which we identified in 2009, are still valid. Our sustainability initiatives are focused on our employees, the environment, the supply chain, and social commitment.

Employees

In a Company that is focused on trade and providing services, it is our employees that set us apart from other competitors. In the workplace, employees should have the opportunity to apply their full potential and their commitment. Klöckner & Co's 9,699 employees provide services to more than 170,000 active customers at around 250 locations in 15 countries. Our employees are as diverse as our customer base. Therefore, diversity is particularly important to us. Ultimately, it is our employees who satisfy the needs of our numerous small and medium-sized client companies, and thus form the basis of our success as an international company. We use our broad international position to apply and exchange expertise internationally. Most of our employees work in Europe (86%), with the rest (14%) in North America. The four companies acquired in 2010 raised the number of employees from 9,032 to 9,699.

We have clearly stated our intention: we want to consistently offer all employees on-going opportunities for further development so that they will be prepared to meet the current and future requirements of the Klöckner & Co Group. For this reason, Personnel & Management development is also one of the four thrusts of the new "Klöckner & Co 2020" Company strategy. Initially, we will focus here on developing managers, especially second- and third-level managers below the Management Board level. We want to discover management talent Group-wide, develop their potential and retain them.

Employees international – overview based on subgroups



Our general targets include offering all employees continuing education and advanced training opportunities and providing ideal entry-level conditions for new hires. 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. We believe that this will particularly expand the skills and capabilities at the management level. Consequently, we expect to significantly expand the percentage of women in our Company over the medium term, especially those in executive and supervisory positions.

We cooperate with universities and other educational institutions in order to develop our employees, to ensure our Company access to good trainees, and to compete for the best employees. We work closely with the European Business School, Oestrich-Winkel, Germany, one of the leading business and legal training centers in Europe. In addition, we introduced a dual-training system in Germany last year. We have also set up programs with universities in other European countries. We established a comparable system years ago in Switzerland. 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 career-specific professional development initiatives, we offer language courses and support our employees in their own professional development endeavors.

In addition, we are happy to provide internships to interested secondary school and university students, providing them with insight into the Group's day-to-day business and easing their transition to the professional world. As part of the discussion series with secondary school students called "Youth Dialogue" as part of the "Initiativ-Kreis Ruhr", the Chairman of the Klöckner & Co Management Board regularly answers questions from young people. Klöckner & Co thus participates in a vital platform for discussion between students and corporate leaders.

Klöckner & Co offers a perfectly safe and healthy environment for our employees as a matter of course. We have thus also made improvements to many health and safety projects this year and made changes to meet current needs. In cooperation with external experts, we have analyzed and made long-term improvements to working conditions at our French, Polish, and Bulgarian subsidiaries. Certified work-safety systems and a health management program have been established at our Swiss subsidiary. In the United States and the Netherlands, we regularly offer to help employees stop smoking and lose weight.

In addition, we review and analyze workplace accidents at our companies on an ongoing basis. Also, at least once a year – and every month in the Netherlands – we offer our employees a voluntary medical consultation. This system is rounded off with annual flu shots. Our relatively low number of sick days proves that these initiatives are a success, and we intend to expand them. In the United States, Germany, and France, Klöckner & Co offers support for employees in trouble 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 recognize 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

In steel and metal distribution, environmental risks are far lower than in steel production. Nevertheless, Klöckner & Co makes every effort to utilize existing resources more efficiently and to reduce our environmental footprint. We have consistently incorporated ecological ideas into our internal directives. Three areas are especially important to us: using all our resources in a cost-efficient and energy-efficient manner; continually optimizing our logistics and vehicle fleet, as well as quality management and auditing of the measures taken.

As a Group with international operations, we want to promote personal and efficient exchanges among employees across national borders. In order to make a contribution to limiting climate change, as well as for economic reasons and due to environmental considerations, we are making increased use of modern IT and telecommunication systems, such as video and teleconferencing.

Moreover, when our employees take business trips, in addition to cost factors, they should also take pollution into consideration when selecting their mode of transportation. On the Intranet, we offer our employees a software program that allows them to calculate the CO_2 impact of different modes of transportation.

Our Group-wide quality management system exceeds legal standards and covers quality, environmental, occupational safety, health, and legal requirements individually and transparently. Our quality standards provide a structured overview of our processes and responsibilities. This means that we are able to satisfy our own exacting demands as well as those of our customers. For us, consistent service and product quality are key criteria for long-term customer satisfaction. Therefore, our subsidiaries are largely equipped with the standard global quality management tools in accordance with ISO 9001. We conduct regular audits to determine whether the standards and resources we use meet our quality objectives and key performance indicators. In 2011, we will continue to refine our approach to quality and quality management, continually improving our Company both for our customers and our employees.

Logistics and fleet management are additional aspects of our initiatives to reduce the environmental impact of our business. The bulk of our vehicle fleet in Germany is now compliant with the Euro-5 emission standards. We train our own logistics fleet drivers to drive in a fuel-efficient manner. In the area of logistics processes, we are optimizing inventory management across multiple locations. Since 2009, we have been participating in the Carbon Disclosure Project, a global network of investors and companies that encourages transparent documentation of CO_2 emissions and helps to develop and implement ways of reducing emissions. In the future, we will seek to maximize transparency as part of the project, for example by making information available on CO_2 emissions, climate risks, and reduction targets.

Value chain
As a steel and metal distributor with international operations, Klöckner & Co maintains worldwide ties with suppliers, producers of steel and metal, logistics companies and service providers, and – naturally – with its customers.

Due to our numerous supply and service relationships, we think it is important always to respect applicable laws in our business activities and to tolerate no violations. 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 our international subsidiaries. We want to set ourselves apart from our competitors through fair competition and to attract customers with the quality of our products and services. Anyone who violates our compliance guidelines or Code of Conduct is not only violating the law, but our expectations. 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.

Our first step was to train employees throughout the Group in compliance issues relating to antitrust law and anti-corruption initiatives through training classes and an e-learning program. In 2011, this program will be complemented by a special training course on the Code of Conduct. As a matter of course, we keep our employees informed of any new information. In addition, we regularly hold Group-wide compliance audits using a structured audit approach focusing on compliance issues. Not only is our Code of Conduct an obligatory set of internal rules for managers and employees of Klöckner & Co; we also expect our suppliers to agree to and comply with it. The code primarily covers ethical and law-abiding behavior, a clear commitment to fighting corruption and the prohibition of child labor, as well as adhering to workplace safety and environmental protection directives. These comprehensive measures have enabled us to come much closer to implementing throughout our entire value chain the rules we live by every day.

Social commitment
At Klöckner & Co, we take our commitment to social responsibility and investing in the future of children and young people seriously. Consequently, we focus our community service above all on projects that support basic services and education for children. Additionally, we promote science, sports, the arts, and culture, and support social and humanitarian projects.

We have clear directives for the selection and awarding of donations and sponsorship contracts. A charity committee guarantees the transparency of our selection processes and determines who will receive donations and how they will be used. The committee prevents any conflicts of interest arising in connection with donations or sponsorship contract. We do not make donations to political parties, individuals, for-profit organizations or organizations, whose objectives contradict our corporate management principles.

We focus our social commitment on covering the basic needs and education of children and young people up to university level. At our Duisburg headquarters, we are particularly involved in primary education in regions with large numbers of immigrants. Since 2009, for example, Klöckner & Co has been covering the cost of providing lunch for two Duisburg primary schools. In addition to various smaller projects, we have also been supporting so-called "MUS-E" classes at one primary school since 2010. MUS-E programs are intended to directly enhance both the creative and social aspects of children's and young people's personalities through continuous work with artists. A related objective of ours is to intervene at an early stage to provide support to children from problem areas by supporting extracurricular activities organized by the school. We also support cultural activities in the Rhine-Ruhr region. Examples include the Ruhr Piano Festival and providing guidance to young people by introducing them to music and especially opera. Our international subsidiaries have also launched sponsorship and donation programs, thereby participating actively in shaping the social responsibility process.

We are in constant contact with political institutions, the media, and various cultural and economic interest groups and industry associations. We are actively engaged in shaping public opinion on major economic topics and represent the international interests of our industry with skill and commitment.

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

7. REMUNERATION REPORT

The Combined Management Report includes a remuneration report that is also an integral part of the corporate governance report, which is now part of the Corporate Governance Statement (Annual Report 2010, page 26).

Management Board

In 2006, the Company's Annual General Meeting decided that the compensation of individual members of the Management Board would not be disclosed for a period of five years. At the suggestion of the Management Board and the Supervisory Board, the Company's AGM decided in 2010 to reverse this decision and to disclose the compensation of individual members of the Management Board earlier, i.e., beginning with fiscal year 2010. This is now being done for the first time with this report. We believe that transparent and understandable reporting of the Management Board's remuneration is an essential element of good corporate governance. In addition, the compensation system (described in greater detail below) will be presented to the Company's upcoming AGM for approval.

Following the entry into force of the German Act on Appropriateness of Management Remuneration (VorstAG) and the compensation-related components of the revised German Corporate Governance Code (DCGK), the Supervisory Board, at the suggestion of the Executive Committee, carried out a review of remuneration rules in 2009, acting in its capacity as the Personnel Committee with the assistance of an independent outside expert. Their findings were included in the new follow-up agreement entered into in 2009 with the Chairman of the Management Board. For the time being, no changes have been made to the contract with a further Management Board member entered into in 2008.

At the time of the Company's AGM in 2010, there was no standardized remuneration system. Consequently, Point 12 on the agenda gave shareholders the opportunity to express their feelings about the Management Board remuneration system, but no resolution on approving it was passed.

During the year under review, the second Management Board member's agreement was adjusted so that, beginning with the current fiscal year, the entire Management Board is compensated in accordance with the remuneration system stipulated in VorstAG.

Now that the Management Board remuneration system has in the interim been standardized and fully adapted to comply with the new legislation, it will be presented at the Company's upcoming AGM for approval.

In accordance with VorstAG and a corresponding provision of the Supervisory Board's Rules of Procedure, the plenary session of the Supervisory Board, following preparatory work by the Executive Committee acting in its capacity as the Personnel Committee, is responsible for setting the compensation of individual Management Board members.

Management Board remuneration basically consists of four components: a fixed annual salary, a variable annual bonus, a variable three-year bonus, and a medium- to long-term virtual stock option (VSO) program. The fixed annual salary was €600,000 for the Management Board Chairman and €480,000 for regular Management Board members. The rules governing the annual and three-year bonuses and the virtual stock option (VSO) program are explained in greater detail below.

In addition to the aforementioned 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 payment of insurance premiums and company cars, some with a driver, etc.

Bonuses

As part of the changes made to adapt the remuneration system to VorstAG, the variable components of compensation were more sharply focused on sustainable corporate performance. To accomplish this, the previous annual bonus has been divided. In addition to a variable annual bonus, Management Board members now receive a variable three-year bonus, the target value of which is equal to the sum of the target values of the (three) annual bonuses during this period of time.

The variable annual bonus is paid if the quantitative targets set jointly with the Supervisory Board at the beginning of each fiscal year are met. For this purpose, target figures for EBITDA and cash flow from operating activities linked to the Group's budget were defined during the year under review. The variable three-year bonus is paid if the qualitative targets set jointly with the Supervisory Board at the beginning of the three-year period are met. The sustainable qualitative targets reflect the Group's strategy and include growth targets (50% weight), targets relating to business optimization (30% weight), and targets relating to improvements in the area of personnel and management development (20% weight). Annual progress payments are made on the three-year bonus for the years 2010 through 2012 (subject to later repayment if the criteria are ultimately not met). The decision as to whether the targets have been met will be made in 2013.

If 100% of the targets are met, the Chairman of the Management Board shall receive an annual bonus of €225,000 and regular Management Board members shall receive an annual bonus of €180,000, up to a maximum of 200% for the Management Board Chairman and 133% for regular Management Board members. For the three-year bonus, the cap is also 200% or 133%, respectively.

The following overview gives a breakdown of claims to be allocated to 2010 for compensating individual members of the Management Board.

2010

(€ thousand)	Gisbert Rühl, CEO/CFO	Ulrich Becker, COO	Total
Fixed components	634	526	**1,160**
Bonuses*)			
Current	333	240	**573**
Midterm	225	180	**405**
Share-based payment**)	-	– 205	**– 205**
Total	**1,192**	**741**	**1,933**
Issued VAO tranche 2010 (number of rights)	120,900	60,000	**180,900**
Fair value tranche 2010***)	812	411	**1,223**
Remuneration attributable to current period	**2,004**	**1,357**	**3,361**
Paid remuneration incl. Excercised VSO	*1,409*	*870*	***2,279***

*) 2010 compensation paid, less prior-year provision plus provision set aside at end of current fiscal year.
**) As of the effective date of the commitment and/or the date when the exercise conditions changed.
***) Fair value on the date when the respective tranche was issued.

2009

(€ thousand)	Gisbert Rühl, CEO/CFO	Ulrich Becker, COO	Total
Fixed components	436	496	932
Bonuses*)			
Current	70	469	539
Share-based payment**)	1,366	-	1,366
Total	**1,872**	**965**	**2,837**
Issued VAO tranche 2009 (number of rights)	65,100	60,000	125,100
Fair value tranche 2009***)	327	394	721
Remuneration attributable to current period	**833**	**1,359**	**2,192**
Paid remuneration incl. Excercised VSO	*724*	*1,347*	*2,071*

*) 2009 compensation paid, less prior-year provision plus provision set aside at end of current fiscal year.
**) As of the effective date of the commitment and/or the date when the exercise conditions changed.
***) Fair value on the date when the respective tranche was issued.

Virtual Stock Options (VSOs)

The virtual stock option program agreed with the Management Board consisted in fiscal year 2010 of three types: Type I (virtual stock option I) from 2006, originally consisted of five annual tranches. 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 annual tranche by 5% of the previous year's strike price, but is adjusted for any dividend distributions and dilutive rights issues that occur in the interim. Type I VSOs (VSO I) have been adapted to satisfy the requirements of VorstAG. For this reason, the waiting periods were extended to three to five years. The waiting period for the first 1/3 of a tranche is now three years, for the second 1/3 of the tranche four years and for the third 1/3 of the tranche five years from the allotment date. The individual tranches are allocated annually. Klöckner & Co SE's cash-payment obligation corresponds 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, but is limited to a maximum of €37 per option (cap).

Type II of the VSO Program (VSO II) originally also had five tranches, which were allocated each year beginning on January 1, 2009. The virtual stock options in the allocated tranches of Type II can and/or could be exercised annually, but no sooner than 30 stock-trading days after the Annual General Meeting following the tranche allotment. After the end of the waiting period, the options for the allocated tranches can be exercised in full or in part at any time. For the Type II VSOs, the strike price is equal to the average Klöckner & Co share price over the last 30 trading days of the year before allocation of the respective tranche. The maximum cash payment (cap) is limited to €25 per option.

Type III VSOs are basically identical to Type II VSOs, but like Type I VSOs provide for waiting periods of three to five years.

In the interim, VSO II has also been adapted to satisfy the requirements of VorstAG. Consequently, the Type II VSOs issued, since January 1, 2011 or still to be issued also provide for waiting periods of three to five years and therefore are identical to the Type III VSOs.

Appropriateness

The criteria on the appropriateness of Management Board Compensation include the individual Management Board member's responsibilities, his or her personal performance, the business situation, earnings, and future prospects of the Company, the extent to which the remuneration matches that of industry peers, and the compensation structure adopted by the Company. To establish the amount of the fixed and variable components in the new agreements with Management Board members, a horizontal remuneration comparison was carried out, which, among other things, was based on an external study of the remuneration of regular Management Board members and Management Board Chairmen in other German MDAX® companies.

Due to the lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies were also analyzed. The target bonus was used to estimate total compensation. 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 results of the horizontal comparison of the Management Board's compensation with the compensation of other companies showed that Klöckner & Co is operating within the customary range; it must, however, be taken into consideration that total expenses for the Management Board, which currently has only two members, are significantly lower than the average total expenses at comparable companies.

In addition, a vertical comparison was carried out. To this end, the Supervisory Board examined the total remuneration of the CEOs of the main subsidiaries of 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 Management Board members is appropriate, given their duties and performance and the situation of the Company, and that the compensation is oriented toward sustainable corporate performance and does not exceed customary remuneration.

The total Management Board remuneration in the Klöckner & Co SE individual and consolidated financial statements pursuant to Section 285, No. 9 and Section 314, paragraph 1, No. 6 of the German Commercial Code totaled €1,933 thousand in 2010 (2009: €3,553 thousand, including the then Chairman of the Management Board), of which €– 205 thousand (2009: €1,366 thousand) is related to the fair value of the virtual stock options agreed in the year under review. The negative value of the VSOs agreed in 2010 reflect the longer VSO waiting periods agreed to as part of the amendments to the employment agreement with Management Board member Ulrich Becker. These were converted from Type II to Type III VSOs effective January 1, 2011. In order to provide the most relevant information to the Annual General Meeting, to enable a decision concerning the planned resolution on the approval of the remuneration system, this table's presentation differs from that of the table contained in the Notes showing Management Board compensation. There, all annual tranches of the respective VSO programs are fully accounted for in the year in which the Management Board member's employment agreement is signed. In order to ensure that Management Board compensation is recognized in the proper period, the Remuneration Report now shows a breakdown of the tranche values by year of issue. Payments for VSOs exercised during the year under review amounted to €537 thousand (2009: €920 thousand). The total amount of employer contributions to pensions or pension funds for members of the Management Board in 2010 was €956 thousand (2009: €667 thousand). No pension benefits were paid to former members of the Management Board or their surviving dependents.

During the year under review, the Supervisory Board decided, effective January 1, 2011, to raise the Management Board Chairman's annual base salary from €600,000 to €720,000, his annual bonus from €225,000 to €270,000 and his three-year bonus from €675,000 to €765,000. At the same time, it decided to modify the Management Board Chairman's pension, making it equal to 50% of his annual base salary and the previous €272,000 cap was eliminated. Of the total amount of employer contributions to pensions or pension funds in 2010 of €957 thousand, €693 thousand is related to this amendment. In addition, the cap on reimbursable contributions to pensions and disability insurance for regular Management Board members was raised from €120,000 to €150,000. Of this amount, €120,000 is currently being applied to defined-contribution pension plans under the regulations of the Essener Verband that are included in the aforementioned pension provisions.

The Management Board agreements provide for the payment of compensation if a Management Board contract is terminated prematurely without good cause. The compensation basically covers the remaining term of the employment contract, but is limited to two years of compensation (cap on severance pay). In the event of a change of control, members of the Company's Management Board have the right to terminate their employment agreements immediately ("Change of Control" rule). If they exercise this right, they will be entitled to the payment of their targeted annual salary until the end of the contract term, capped at three times the total compensation they received in the last completed financial year before the termination of their employment contracts. Furthermore, all virtual stock options not yet allocated by this time will be considered allocated and can be exercised before the end of the contractual waiting period, but no sooner than three years from the respective issue date.

Supervisory Board
The amount and structure of remuneration for the Supervisory Board are set forth in Section 14 of the Articles of Association available on the Company's website. The remuneration consists of fixed and variable components, which are allocated pro rata temporis in the event of personnel changes during the financial year. In addition, members receive an attendance fee, as well as reimbursement of reasonable out-of-pocket expenses and the value-added tax.

The fixed basic remuneration per fiscal 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. The variable remuneration paid to each member of the Supervisory Board may not exceed total fixed remuneration by more than 100%.

The attendance fee is €2,000 per meeting; the Chairman of the Supervisory Board and the Chairman of a Supervisory Board committee each receive three times, his or her deputy and the deputy Chairman of a Supervisory Board committee twice, the attendance fee.

There continues to be no virtual stock options for the Supervisory Board. Total Supervisory Board remuneration pursuant to Section 314, paragraph 1, No. 6 of the German Commercial Code (consolidated financial statements) and Section 285, No. 9 of the German Commercial Code (individual financial statements) totaled €382 thousand in 2010 (2009: €339 thousand).

The following overview gives a breakdown of claims due in 2010 for compensating individual members of the Supervisory Board pursuant to Section 5.4.6, sentence 6 of the German Corporate Governance Code. All payments are due after the end of the regular Annual General Meeting in 2011.

No compensation or benefits were granted for personally rendered services, in particular consulting and intermediary services.

(in €)	Fixed compensation	Variable compensation	Meeting compensation	Total
Prof. Dr. Dieter H. Vogel (Chairman)	51,000	14,400	66,000	131,400
Dr. Michael Rogowski (Deputy Chairman)	34,000	9,600	36,000	79,600
Robert J. Koehler	17,000	4,800	10,000	31,800
Frank H. Lakerveld	17,000	4,800	10,000	31,800
Dr. Jochen Melchior	17,000	4,800	10,000	31,800
Dr. Hans-Georg Vater	17,000	4,800	54,000	75,800
	153,000	**43,200**	**186,000**	**382,200**

8. OPPORTUNITIES AND RISKS

During fiscal year 2010, our risk management system again proved to be extremely efficient, even in the face of the uneven demand in our major customer industries, volatile market prices, and continued uncertainty in the capital markets. By identifying major, specific risks in a timely manner, we are in a position to appropriately manage our risk situation. From today's perspective, 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; it is often a precondition for taking advantage of market opportunities in 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 uniform understanding of the Group's risk exposure which has been continuously optimized. Our risk management system is flexible and is subject to a continuous adjustment process. It satisfies the company-specific requirements of a steel and metal distribution group with international operations.

The Risk Management System (RMS) and the Internal Control Structures (ICS) 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 and their potential negative impact thereby entirely avoided.

8.2 RISK MANAGEMENT AND INTERNAL CONTROL STRUCTURES

The primary objectives of the RMS are to identify and assess risks and opportunities and to prevent risks that could threaten the Company as a going concern. We monitor known 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, as long as it is possible and cost-effective to hedge the risk. Legal disputes for amounts of €100,000 or more must also be reported to the corporate headquarters and are subject to the continuous, centralized intra-Group monitoring processes. This enables us to ensure the long-term existence of our Group while systematically and continuously increasing 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 consultation and coordination with corporate headquarters and, to the extent it affects the entire Group, in consultation with the Management Board in conjunction with the respective corporate headquarters department. When evaluating risks, we also consider the type and scope of existing business activities.

The objective of the ICS is to use the controls implemented to ensure, with an adequate level of certainty, that we are capable of monitoring and managing identified risks. The main features of the ICS include articulating guiding principles, providing clearly defined skills, and applying the crosscheck approach (four eyes principle), under which no major transaction is entered into by Klöckner & Co without repeated crosschecks. 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. Beginning in 2011, risk reporting will be expanded to include the quantifiable risk categories Technical Property Management (TPM) and Health & Safety. These relate primarily to the risk of foregone investments in technical equipment by our warehouse locations, safety standards that have not been fully complied with and inadequate occupational safety and the resulting risks to life of our employees, as well as to existing tangible assets.

Of the major risk categories relevant to the international metal distribution industry, the full Management Board and/or regional companies' management are responsible for managing strategic risks and direct operational risks. In addition, there are significant risk areas that fall under the remit of the respective corporate headquarters departments. In addition to Group financing and Group accounting, these departments also indirectly support the operating responsibilities of the international subsidiaries. We manage cross-border risk categories centrally, in order to preserve the overall interests of the Group.

In terms of processes, both RMS and ICS apply Group-wide and therefore are centrally focused. Group directives play a central role in performance specifications, in opportunity and risk reporting, and in risk monitoring.

The quarterly report on risks and opportunities documents identifies risks and opportunities and is one of our main risk management tools. It is supplemented as needed with an ad hoc report on substantial risks or sudden risks that threaten the Company as a going concern. The report addresses risks and opportunities in the economy, price trends, inventory trends, receivables trends, and procurement, as well as opportunities and risks associated with the Company's own activities. Klöckner & Co also documents the integration status of acquisitions and provides information about the status of material legal cases. Furthermore and in addition to tax risks, it examines issues pertaining to financing and leverage, including compliance with the covenants agreed to in the credit facilities as well as information on existing pension obligations. Insurance issues, IT systems, and IT projects are also subject to constant monitoring.

The report is issued on a quarterly basis or more often, if necessary. In Audit Committee meetings of the Supervisory Board, the Klöckner & Co Management Board regularly reports on changes in material risks and opportunities. As part of the regular monthly jour fixe, 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, on the one hand, and in performance-oriented controls, on the other, is particularly important for understanding internal control processes. These controls are performed by the controlling departments in the international subsidiaries as well as by the Corporate Controlling department. Process-oriented reviews are performed by the Corporate Internal Audit department.

The controlling units of the international subsidiaries produce monthly reports. Corporate Controlling aggregates these reports into the Group Board report. In regular discussions with international subsidiaries' management and the full Board of Management, the participants consult on all important and quantifiable factors that influence earnings in a particular country.

The Corporate Internal Audit department regularly reviews organizational structures and processes, thereby enhancing the system of applied controls. The primary purpose of these reviews is to ensure that our internal controls are performing reliably. In 2010, a quality assessment carried out by a certified independent external auditor confirmed our compliance with the international quality standards for internal auditing promulgated by the Institute of Internal Auditors (IIA) and the Internal Audit Institute (Institut für Interne Revision e.V. [IIR]).

8.3 BUSINESS RISKS OF INTERNATIONAL METAL DISTRIBUTION

Strategic risks, acquisitions

In order to take advantage of the economic recovery, we have resumed our acquisition strategy and strengthened it as part of our "Klöckner & Co 2020" strategy. Within the framework of our M&A strategy, we select acquisition targets based on clearly defined selection criteria. A comprehensive M&A policy governs the processes to be followed in all M&A activities. We monitor compliance with the policy at corporate headquarters. All acquisitions undergo a detailed review (due diligence). No later than three years after an acquisition, the Corporate Internal Audit department performs an investment review.

Market and environmental risks

As a stockholding multi metal distributor, Klöckner & Co's market risk is primarily determined by demand and price trends and the competitive environment.

Our sales volumes are substantially driven by business developments in our customer industries. We are thus subject to the specific demand cycles in each of the respective industries. Our major customer industries have responded differently to the general economic recovery. While to date the construction industry has not seen a significant recovery, the trend in the automotive industry, and increasingly in the machinery and mechanical engineering industry has been positive. We have managed to increase our sales volumes and thus our business and earnings have benefited. The positive business trend was further supported by restocking throughout the entire value chain.

Although we could not actively influence the economic trends in our market, by analyzing trends and leading indicators along with available forecasts we were nevertheless able to respond as quickly as possible, for example by taking specific inventory management actions. An important element of our quarterly opportunity and risk reporting is to quantify market and business risks. We also derive guidelines for day-to-day local inventory management from such quantifications.

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

Price and inventory risks
Price and demand trends also constitute a substantial market risk, because we sell most of our products at prevailing market spot prices. The time span of several months between setting prices during procurement and invoicing for our sales means that we are permanently exposed to a substantial inventory and valuation risk. High inventory cost can have a substantial, adverse effect on earnings, leading to so-called negative windfall effects. While preparing the financial statements, it may also be necessary to write down inventory values.

The inventory and valuation risk can be rated as temporarily low as of December, 31, 2010. However, it remains to be seen whether the current increases in purchase prices will be sustainable through the first quarter of 2011 and to what extent they can be maintained in the market. We foresee risk for long products in particular, due to the high volatility of scrap prices and uncertain demand, as well as the general underutilization of capacity in the steel industry.

The starting point for the management of price and inventory risks is a comprehensive set of tools and the continuous monitoring of price trends in regional, domestic, and international markets. We record price information with the help of a price information system and exchange that information within the Group. By centralizing the procurement coordinating function in the International Product Management & Global Sourcing department, we are able to react quickly to new situations in the procurement market. In doing so, we can control the supplier portfolio and obtain preferential prices, quantities, and conditions. The essential condition for centralized procurement coordination is centralized 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. Following an inventory and product-range policy oriented toward demand and introducing specialty and central warehousing also helps reduce price risks. We assume that prices will continue to remain very volatile over the medium term. This particularly applies so long as the structural imbalance between the steel manufacturers' production capacity and actual demand from steel consumers leads to overhangs and continues to be a major factor influencing pricing. Therefore, our Group places particular importance on managing price and inventory risk.

Inventory management and inventory valuation are central components of the monthly reporting process. They allow us to detect major discrepancies fast and to take the necessary countermeasures immediately. In addition, we regularly use audits by Corporate Internal Audit to review our inventories, both at the level of international subsidiaries and in accordance with the 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. The directive defines the scope of action, responsibilities, and the required control systems. In 2010, we further optimized Group financing in terms of risk. At the same time, we increased our financing flexibility, improved the maturity structure, and harmonized the key contractual terms for central financing instruments.

Rating
As a Group, Klöckner & Co SE is currently rated by both of the leading rating agencies, Moody's and Standard & Poor's. The Moody's rating is Ba2 and the Standard & Poor's rating is BB. Both rating agencies had downgraded their outlook to negative in 2009 due to the financial crisis. By December 2009, Moody's had upgraded its outlook to stable again. Standard & Poor's followed in May 2010.

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. In this industry, it is common to hedge delivery transactions with credit insurance; this could also become more difficult, which could negatively affect sales volumes and earnings. After we announced our preliminary agreement to acquire Macsteel Service Centers USA, both rating agencies initially confirmed their rating.

We identify and monitor operating credit risk in a decentralized manner within the receivables management departments of the international subsidiaries. By doing so, we continuously control receivables and default risks. The credit limits we have set help to further reduce risk. In most of the international subsidiaries, we use commercial credit insurance. The Corporate Finance & Accounting department is integrated into the process for monitoring the decentralized receivables and payables management systems. Here, we focus on closely monitoring the solvency of major customers.

Liquidity risk
Each year, as part of Group planning, we produce a three-year financial plan. Pursuant to our business model, we also update a rolling cash budget every week with a time horizon of five weeks. All Group companies to be financed are included in this cash budget. 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. Moreover, as a result of the financial crisis, we continue to hold substantial reserves of cash and cash equivalents. We have made short-term investments with the Group's core banks with first-class ratings, and can transfer the liquidity as needed to the operating companies. The Group's intra-Company settlements and liquidity management is based on a cross-border cash-pooling system.

During the year under review, we further optimized our financing structure by renewing the syndicated credit early, with an increase in the loan amount, and by renewing the European ABS program. The volume of the ABS program remained the same, while the term was extended to two years and the number of refinancing banks was reduced from four to three. The covenant approach, which has been focused on balance-sheet items since 2009, will be continued. For the first time, promissory notes were issued in Q2; their financial covenants are identical to the ratios agreed to for the syndicated loan. In December, another convertible bond with a nominal volume of €186.2 million was placed. The bond has a seven-year maturity. Because of the investors' call rights, the convertible is reported in the balance sheet with a five-year maturity, in accordance with IFRS.

Continuous monitoring of contractual obligations and key figures limits financial risk.

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 centralized foreign currency management system. Domestic and foreign companies are obliged to identify foreign-currency risks. They must hedge these through the Corporate Finance & Accounting department or through banks, within a predefined framework. We use derivative 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 and from investing cash with banks. Our Group is primarily subject to interest-rate fluctuations in the Eurozone and the USA. The Corporate Finance & Accounting department operates a centralized interest-rate management system 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 by our Corporate Internal Audit department.

Financial instrument risks
We hedge the aforementioned financial risks arising from foreign-currency cash flows and changes in interest rates using over the counter derivative financial instruments. These are primarily fixed-price transactions, such as forwards and swaps. In the process, only marketable instruments with adequate market liquidity are used. Hedging transactions cover currency risks arising from posted and pending transactions under supply and service 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. In addition, one of the main responsibilities of the Corporate Finance & Accounting department is to control and coordinate the use of derivative financial instruments. 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 eligible current and former employees. 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, have been put in place.

The risk of defined-benefit pension plans lies in the amount of the promised benefits; these are calculated using actuarial assumptions and estimates are also required. Costs for pension benefits may increase or – in the case of funded plans – additional future contributions to planned assets may be necessary due to higher funding requirements resulting from changes in the respective legislation.

For funded plans, such as those in the USA, the UK, and 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.

We have centralized the decision-making for contributions to pension funds at the global level in the Klöckner Global Retirement Benefits Committee. The decisions must be approved by the Group's Management Board.

8.4 ADDITIONAL BUSINESS RISKS

Personnel risks
As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees; therefore, the loss of employees holding key positions represents the greatest personnel risk.

We actively compete for highly qualified technical and managerial talent and have defined personnel and management development as one of the four pillars of our "Klöckner & Co 2020" strategy. In the process, we separated the development of management personnel from traditional HR work in 2010, and established a new Corporate Management & Personnel Development department. Our target is to raise the skill level of our employees within the Company, and externally to increase the attractiveness of our Company as an employer. We expect this to significantly improve the promotion of the next generation of managers and to increase our attractiveness as an employer for top talents. Our remuneration system and our personnel development programs and actions are designed to motivate and retain our employees. In integrating the newly acquired companies, we want also to retain those employees who hold key positions.

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

Legal and compliance risks
We intend to respond quickly to potential risks from the numerous civil, tax, environmental, antitrust, and other regulations and laws. For this reason, we ensure strict adherence to such laws and regulations, and we take full advantage of the comprehensive legal advice and assistance provided both by our own experts as well as by renowned external experts.

We assume that the French competition authorities will continue their investigations relating to suspected anticompetitive behavior. Should any violations of the applicable antitrust laws arise as a result of these investigations, it could then result in fines that would negatively impact our net assets, financial position, and results of operations. Based on the nature of the charges under investigation, the Management Board currently foresees only a minor financial risk, which does not require separate recognition in the financial statements.

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

Our Group-wide compliance program stresses value-oriented management based on ethical and law-abiding behavior. 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 set up to enable both employees and third parties to report instances of possible non-compliance with the Corporate Compliance Office. The effectiveness of the compliance program is continually reviewed through annual audits and adjusted when necessary.

We also believe that in the future, serious compliance violations will be proactively prevented as a result of training programs and the Group-wide compliance-monitoring organization established in 2007–2008 and further expanded to encompass the entire Group in 2009 and 2010. 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 additional historic violations may come to light. Any suspicious facts that arise will be pursued unconditionally by Compliance-Management and the necessary actions will be taken. Even though these might not necessarily be serious violations, the imposition of fines that could adversely impact the Group cannot be ruled out.

As a preventive measure, we have continued to work during the year under review to raise awareness among our employees in order to avoid any kind of violation. These measures include classroom training and, in particular, an e-learning tool that is mandatory Group-wide. The Group-wide introduction of our Code of Conduct and other compliance-related Group directives, in particular regarding the fight against corruption and antitrust issues, is one of the major initiatives in our Group-wide Compliance Program. Through its implementation, we intend to project, both internally and externally, a clear, unambiguous stance on ethical, law-abiding behavior, which, among other things, also will help to prevent risk.

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 with 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 to the greatest extent possible.

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

Tax risks

Tax risks arise in connection with acquisitions, restructuring, and financing. Tax authorities in the various countries represent occasionally differing legal doctrines, 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 countermeasures needed to minimize such risks, and to establish appropriate provisions. Tax risks also exist in connection with existing 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 structure 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 international subsidiaries outstanding receivables. The transferable risks that we hedge Group-wide also include cross-border risks from asset losses, business interruptions, and industrial liability.

There is also Group-wide D&O protection as well as insurance against potential damage claims from employee liability.

A Group insurance directive specifies the risk guidelines under which further risks are to be hedged by the decentralized risk management systems. In addition, Klöckner & Co has maintained a central database since 2005 that allows it to track all claims management of insurable risks worldwide.

Information security risks

The business processes at the Klöckner & Co Group are heavily dependent on installed IT systems. These include not only our administrative systems, but also procurement, sales, and logistics, and their respective reporting systems. With only a few exceptions, we have already successfully completed the integration of all major applications into SAP R/3, and to a larger extent the migration to SAP ERP 6.0. The goal is to optimize and harmonize Group business processes, thereby also improving international cooperation within the Group. We are pressing ahead quickly and resolutely with the rollout of the SAP ERP 6.0 model in other countries.

With increasing use of SAP ERP 6.0, the risk and internal control structures at the subsidiaries level will be standardized and the holding Company will then be able to use this information to optimize such structures in a targeted fashion.

These projects are coordinated by the Corporate Process Management and IT. Working in cooperation with the IT coordinators in the regional companies and with the external IT service provider KIS Information Services GmbH, we are continuing to improve Information Technology within our Group.

The required IT directives were thoroughly revised during fiscal year 2010, and they govern the further development and operation of the SAP system. IT security is governed by the Group-wide IT Security Manual. Klöckner & Co has implemented a security policy that will rapidly restore system availability in the event of a catastrophic IT failure.

8.5 OPPORTUNITIES AND OPPORTUNITY MANAGEMENT

As the economic situation continues to improve, we see major opportunities for our 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. In October 2010, as a result of the general economic changes brought about by the financial crisis, we presented a new long-term growth strategy, “Klöckner & Co 2020”, which also focuses on our opportunity management. At its core, our strategy has four main thrusts: external growth, organic growth, business optimization, and personnel and management development.

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 directive issued by the Management Board for capital expenditures, acquisitions, and other measures, are supported by the corporate departments and local management. The projects are managed and monitored together with holding company management in individual countries.

Strategic opportunities in market consolidation

As part of our "Klöckner & Co 2020" strategy, we intend to grow externally through targeted acquisitions. We foresee significant growth potential, especially in emerging economies. We want to participate in that growth, initially by entering the Brazilian and Chinese markets based on our “Klöckner & Co 2020” strategy. We also want to expand our market shares in our traditional markets in Europe and North America, albeit in a much more focused manner. The acquisition of Becker Stahl-Service Group, Bläsi AG, Angeles Welding Mfg. Inc., and Lake Steel Ltd. gave us the opportunity to further boost growth and to improve our long-term profitability. The existing trend toward market consolidation is expected to accelerate because of the financial and economic crisis.

Another pillar of our growth strategy is organic growth. Having completed the implementation of our cost-cutting and profit-oriented restructuring programs, we are now resuming our growth strategy. Here, our goal is to add market share by expanding the range of products and services we offer, our customer base, and our geographic coverage. In addition, we have intensified existing measures to improve pricing by focusing on actual procurement and replacement costs. Because of the contraction in market size caused by the financial and economic crisis and the resulting increase in competitive pressure, we have also taken steps to increase our focus on customers' needs, particularly in sales and distribution. This involves focusing resource management on sales and distribution targets and continually measuring our current position with the help of standardized key performance indicators (KPIs).

Operational opportunities
The comprehensive program to improve efficiency that we have been following since 2005 was improved and made even more rigorous in the "Klöckner & Co 2020" strategy.

If we succeed in passing on to our customers the price increases that manufacturers have announced in various product segments, there would be a positive effect on earnings (positive windfall effect). Continually optimizing our business processes, especially in the areas of procurement, warehousing, sales, and distribution, provides opportunities to increase the profitability of our business activities.

Centralizing purchasing management and product management allows us to coordinate and control procurement at the European level and to optimize procurement terms and product structures. In the area of warehouse management, we see further potential in improving the warehouse network, concentrating our inventories at individual locations, and optimizing logistics. Such initiatives can reduce working capital and our vulnerability to inventory valuation effects.

We can achieve further efficiency gains by improving support processes, particularly for IT systems, in order to further increase our level of standardization.

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

Elements of the accounting-related internal control and risk management system
At Klöckner & Co SE, the corporate Finance, Accounting, Controlling, and Audit departments (assisted by the Tax and Legal departments) are primarily responsible for the internal control and monitoring system. The Group Supervisory Board – in particular represented by the Audit Committee – also forms an integral part of our control system.

In the Klöckner & Co Group, controls are used both as part of an integrated process and also on a case-by-case basis. In addition to the system-based controls (IT-based controls), we also make use of manual controls such as the crosscheck approach (the four-eye principle). There is a clear functional separation of duties between administrative activities, execution, invoicing, and approval. This reduces the potential for fraudulent activities that could damage the Company.

IT systems in accounting
The accounting for the subsidiaries included in the consolidated financial statements is carried out primarily through the standardized use of SAP software. In Q3 2010, we began using SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. The local accounting data are fed into BOFC and supplemented with additional reporting data. The data reported by the local subsidiaries are verified by the Group auditor.

All eliminations in the consolidation process are compiled and posted in our central consolidation software. They include capital and debt consolidation, the elimination of inter-company profits and earnings and the elimination of interim results. The corresponding journal entries are properly documented.

Access restrictions and defined user profiles protect both the original financial accounting records and the consolidation software from unauthorized access and prevent inappropriate reading and/or writing access to the systems.

Accounting risks
Specific accounting risks include complex matters and/or nonrecurring accounting issues such as the treatment of changes to the scope of consolidation (business combinations and disposals) or new Group financing measures. The use of estimates in preparing the financial statements, such as the annual impairment tests, creates an 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 compliance with generally accepted accounting principles
Our control measures are aimed at guaranteeing that the figures we present are reliable and obtained in accordance with generally accepted accounting principles and they ensure that our presentation of business transactions is complete, reliable, and done in a timely manner. It is done in accordance with legal regulations within the Group's accounting systems. The Companies' books included in the consolidated Group are likewise prepared properly and in accordance with generally accepted accounting principles and are complete. We verify inventory levels and property, plant, and equipment data by carrying out proper inventories. We accurately record other assets and liabilities in our financial statements, present them correctly, and value them appropriately. Each quarter, we use a centrally controlled, standardized process to verify the accuracy of the amounts recorded for financial transactions and exchanges of goods and services in the respective accounts of the Group companies concerned.

The corresponding control mechanisms are intended to reduce the probability of errors in working procedures and/or to detect any errors that have occurred. This is done by analyzing selected data using analytical methods such as ratio analyses. Our Corporate Internal Audit department or the external auditor reviews the migration of IT systems and the effects of other changes in the Company, such as business activities, restructuring programs, or changes to the economic or legal environment, in a timely manner. Klöckner & Co SE's consolidated financial statements comply with International Financial Reporting Standards (IFRS).

The continually updated Group accounting guidelines ensure that IFRS are applied consistently throughout the Group. Our Finance & Accounting department prepares and updates these accounting guidelines, which are mandatory for all the domestic and foreign subsidiaries included in the consolidated financial statements. These are supplemented by a standardized Group chart of accounts. It is maintained and adjusted exclusively by the Finance & Accounting department at Klöckner & Co SE. By using a standardized Group accounting package for all subsidiaries, we ensure the completeness and consistency of all necessary additional information published in the notes to the consolidated financial statements. We use IFRS checklists to check the disclosures in the consolidated financial statements.

At the level of the reporting entity, the plausibility checks (validations) integrated into the SAP consolidation software validate the consistency of data in all the Group reporting packages transferred into the Group accounting software. In addition to this automated quality assurance, the Finance & Accounting department also reviews content and makes any necessary corrections centrally. Here, the department also considers the audit reports from the local auditors.

The Finance & Accounting and Controlling departments carry out the annual impairment tests centrally in accordance with IAS 36. This enables Klöckner & Co to ensure that we perform a standardized valuation for all cash-generating units and exercise our discretionary powers uniformly. Valuation of share-based compensation is also carried out centrally, with the involvement of an outside expert. Pension obligations are calculated decentrally, by enlisting the help of actuarial experts. The calculation parameters used are approved by the Corporate Finance & Accounting department. An additional actuary coordinates the overall process of reporting pension obligations, thereby supervising and ensuring the quality of complex calculations and data.

Accounting-related control and management systems are limited by decisions on which assumptions to use, erroneous controls, or deliberate circumvention through criminal activities. The processes and controls we have established allow us to guarantee, with reasonable certainty, that the procedures we follow in preparing the consolidated financial statements comply with IFRS, the German Commercial Code (HGB), and other accounting rules and statements. 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, during the compilation of the financial statements, Klöckner & Co has hedged all identifiable balance-sheet risks by establishing sufficient provisions at the level of the respective Group company and the holding company, supplementing these with third-party guarantees.

The Management Board believes the Group is sufficiently protected by the implemented or planned measures and by the business systems referred to here to cushion against the described market risks. In view of the continued recovery in the global economy, based on data available at the end of February 2011, short- to medium-term market risks with a time horizon of one to two years appear more manageable today than they did a year ago. Because of the measures that have been implemented or planned – particularly measures to ensure liquidity – there are no foreseeable specific risks that could threaten the Company as a going concern.

9. OUTLOOK

Future focus of the Group

In October 2010, we presented the new “Klöckner & Co 2020” strategy, with far-reaching consequences for the Group’s focus over the next few years. In addition to focused growth via acquisitions in existing markets, we also want to enter markets in faster-growing emerging economies. In addition, we will focus on increasing added value through more intensive prefabrication, both to increase earnings overall and to shield earnings from the impact of economic ups and downs, especially due to fluctuating steel prices. Our acquisition of BSS in 2010 gave us a significant market share in the flat steel segment in Germany that we intend to expand in the coming years to the other markets in which we already operate. For us, the steel service centers represent a backward integration into the value chain towards the manufacturer and will make it possible to achieve higher margins than those possible in pure distribution. We believe that these service centers were an ideal addition to the distribution business, enabling us to respond quickly, flexibly, and efficiently to customer needs and thereby setting us apart from the competition. Furthermore, they will help us to expand our customer base, for example by adding customers in the automotive industry. In order to provide staff support for the planned growth, we are placing a high priority on personnel and management development.

Future sales markets

After 83% of 2010 sales revenues were from Europe and 17% from the USA, we plan in the coming years to gradually increase the percentage of sales generated in emerging economies. In the steel and metal distribution industry, reaching a critical mass upon entering a market is basically possible only through acquisitions. In contrast to the developed markets, the emerging economies can still look forward to a significantly more dynamic steel consumption trend. These countries saw only insignificant declines – if any – in steel consumption during the crisis, while in the developed markets, steel consumption will take years to regain their pre-crisis levels. By establishing a presence in both “worlds”, we will not only set the foundation for further growth, but will also balance out the fluctuations of different economic cycles, thereby reducing variations in earnings across the entire Group. We also intend to grow in the USA, where our goal is to become one of the top three distributors over the medium term – a position that we already hold in every European market where we operate. By 2020, the share of sales contributed by Europe should shrink to half, due to stronger growth in the other markets, with both the USA and the emerging economies accounting for 25% each.

Future process optimization

In support of our target to become the first global market leader, we use leading processes and are standardizing these in all of our country organizations in order to facilitate internal comparisons and cross-border cooperation. The new Operations Europe department within the Klöckner & Co holding company that was created during the year under review will globally coordinate and monitor this harmonization of processes. SAP 6.0 is currently being rolled out with standardized processes (templates) to provide support for the IT aspects of process standardization.

Future services

Our "Klöckner & Co 2020" strategy also represents an important step toward placing more emphasis on services going forward. Thus, at many of our locations, our service portfolio will be expanded to include additional services such as welding and milling. We are developing solutions that will allow our customers to focus on their core businesses and thus are assuming a portion of the added value, but without becoming too specialized. For these investments, the focus is on industrial customers who outsource warehousing and/or prefabrication to us, as the Meyer Shipyard in Papenburg has for years, and on other industrial companies that can take advantage of our global reach to ensure uniform quality standards in services and materials at their locations. We intend to gradually increase the share of Group sales accounted for by the service centers – especially in the USA.

Future employee development

Our well-trained, motivated employees are the key to successful implementation of our growth strategy in the service sector. In the future, we will therefore place more emphasis on developing programs that will enable us to promote employees internally while also allowing us to actively compete for new employees.

The number of employees is not expected to increase significantly from its current level of around 9,700 employees, given the expected sales volume trend over the next couple of years and the improvements we have made in our business processes, especially at the existing warehouse sites. Only in the sales area do we expect the change in customer focus and industry-specific information about new customer segments to result in slight increases in the number of employees. The only factor that may result in a major change in the number of employees would be further acquisitions. Personnel expenses, currently at €487 million, will only increase substantially in 2011 if we complete additional acquisitions.

Future macroeconomic environment

We expect the main economies affecting our Company in Europe and the USA to continue to recover over the next two years. According to the International Monetary Fund, the global economy will grow by 4.4% in 2011 and 4.5% in 2012. The US is expected to grow 3.0% in 2011 and will then lose some momentum, with 2.7% growth in 2012. By contrast, the IMF estimates that the European Union will grow 1.7% in 2011 and 2.0% in 2012. The stronger growth of the global economy is mainly driven by the emerging economies, which are expected to grow by 6.5% over each of the next two years.

Future industry trends/ sales volume trends

We expect our most important customer industries – the construction industry, the machinery and mechanical engineering industry, and the automotive industry – to continue to recover, but at different rates. Some positive signs, such as building permits, indicate moderate growth in the construction industry. Commercial construction needs the economic environment to stabilize before projects that have been postponed over the last two years can go forward. The Eurofer industry group expects steel demand in the European construction industry to grow 1.6% in 2011 and to recover further in 2012, with growth of 2.3%. Strong order volumes in machinery and mechanical engineering will lead first to an increase in production, and thus to increased demand for steel. Eurofer forecasts 7.3% growth in the European machinery and mechanical engineering industry in 2011, followed by 5.2% in 2012. Based on our expertise at BSS, we are also expecting further growth in our business with the automotive industry, especially with premium manufacturers, which are benefiting strongly from consumption in Asia. Our forecast is supported by Eurofer's estimate of 5.7% growth in 2011 and 2.7% in 2012. Our target is to over-proportionately expand the share of our business derived from the machinery and mechanical engineering industry and the automotive industry (compared to the share of our business derived from the construction industry), both through stronger organic growth in these two industries and through acquisitions. Accordingly, we expect the construction portion of our business to be around one-third over the medium term. Based on projections for our customer industries and the completed acquisitions, we expect sales volumes to increase by more than 10% in 2011.

Expected sales trend

We also expect sales to increase in 2011 thanks to the full year benefit of the 2010 BSS, Angeles Welding, and Lake Steel acquisitions. In addition, we expect demand to improve further and prices to increase, driven by raw material prices. Overall, we therefore expect sales to grow by more than 10%.

Expected cost trend

In 2010, the cost basis was €934 million, of which €487 million was for personnel costs and €447 million for other operating expenses. Our target in 2011 is to see costs increase at a disproportionately lower rate than sales volumes. We have laid the foundations for this through our numerous optimization programs, as well as through economies of scale.

Expected operating income

We expect the projected 2011 sales volumes and price trend and the cost-cutting measures implemented during the crisis, to lead to a further increase in operating income. At the same time, all initiatives aimed at optimization and increasing sales volumes and sales are focused on generating an EBITDA margin of 6%.

Expected financial position

As a stockholding steel and metal distributor, a conservative financing program that can meet our differing needs for the financing of working capital and acquisitions is of strategic importance. For acquisitions, only capital market instruments are used; for working capital, we have bank facilities that can be drawn upon flexibly. With our conservative financing approach, we want to maintain an equity ratio of at least 30% and a maximum debt-to-equity ratio (gearing) of 75%. We currently have €137 million of net financial debt and around €2.2 billion of facilities, including approximately €700 million for acquisitions and €1.5 billion for working capital needs.

As no further refinancing is pending in 2011, we expect the current financing framework to continue in place with approximately the same financing charges in 2011, despite financing for additional targeted or possible acquisitions.

Our long-term growth target of doubling sales volumes by no later than 2015 and tripling to quadrupling them by the year 2020 assumes continual growth financing, which we want to obtain in the capital markets. Thus, after exhausting all available funds for acquisitions, we will turn in due course to the capital markets in order to raise growth capital through equity and debt issues.

With sales volumes rising as expected, we are going to respond to the increasing need for working capital with our optimized inventory and payment management systems and in the future, we intend to maintain net working capital at less than one-fifth of sales.

Planned investments

In addition to making further acquisitions, we are also planning investments in 2011 at around the pre-crisis level of approximately €60 million, following two years in which we were quite restrictive to ensure liquidity. Along with capital expenditures for replacement of machinery and equipment, we will also finance new equipment and business expansion to allow us to capture a larger share of the prefabrication. Our capital expenditures shall focus on the Swiss subsidiary and Becker Stahl-Service.

General dividend policy

For fiscal year 2010, the Management Board and the Supervisory Board are going to propose to the Annual General Meeting on May 20, 2011 a dividend of €0.30 per share, thereby resuming dividend payments as part of the Company’s general dividend policy. In general, Klöckner & Co SE follows a dividend policy of distributing 30% of consolidated net income before special items. This has been the case since the IPO with the exception of 2008 and 2009.

Overall statement on Klöckner & Co SE’s business development

From today's perspective, we expect sales volumes to increase by more than 10% in 2011, also driven by the contributions of the acquired companies. Thanks to the expected higher steel and metal prices, we expect sales to grow at a faster rate than sales volumes. For both of our segments, Europe and North America, we expect a corresponding increase of sales and sales volumes. Whereby, we expect an even stronger increase for the US as compared to Europe.

Also, for the earnings development of both segments and overall we expect a significant improvement, whereby all efficiency enhancement initiatives – assisted by the expected sales volumes and sales increase – are aimed at generating a 6% EBITDA margin. These figures will also benefit from the 2010 acquisitions. We expect sales, sales volumes, and earnings to increase again in 2012 compared with the previous year.

The financial flexibility of up to €2.2 billion means we are well placed to participate in the continuing market recovery. At the same time, we are able to take advantage of the opportunities presented by consolidation and growth actively and to continue to systematically pursue the ambitious targets set down in our growth strategy "Klöckner & Co 2020".

Duisburg, February 21, 2011

The Management Board

FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

CONSOLIDATED STATEMENT OF INCOME FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2010	70
STATEMENT OF COMPREHENSIVE INCOME FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2010	71
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2010	72
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2010	75
SUMMARY OF CHANGES IN CONSOLIDATED EQUITY	76
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF KLÖCKNER & CO SE, DUISBURG, AS OF DECEMBER 31, 2010	78
DECLARATION OF THE MANAGEMENT BOARD	137
AUDITOR'S REPORT	138
INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2010 OF KLÖCKNER & CO SE	141
BALANCE SHEET AS OF DECEMBER 31, 2010 OF KLÖCKNER & CO SE	142
MOVEMENTS IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND NON-CURRENT INVESTMENTS OF KLÖCKNER & CO SE	144
NOTES TO THE FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2010 OF KLÖCKNER & CO SE	146
DECLARATION OF THE MANAGEMENT BOARD	156
AUDITOR'S REPORT	157
ADDITIONAL INFORMATION CONCERNING THE CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS	167

KLÖCKNER & CO SE

Consolidated statement of income for the 12-month period ending December 31, 2010

(€ thousand)	Notes	2010	2009
Sales	(7)	5,198,181	3,860,493
Other operating income	(8)	35,822	127,359
Change in inventory		– 7,383	– 8,661
Own work capitalized		39	10
Cost of materials	(9)	– 4,054,830	– 3,206,830
Personnel expenses	(10)	– 486,618	– 441,184
Depreciation, amortization and impairments		– 85,783	– 109,638
thereof impairment losses		-	– 41,782
Other operating expenses	(11)	– 447,442	– 399,684
Operating result		**151,986**	**– 178,135**
Income from investments		**5**	**2**
Finance income		8,793	9,006
Finance expenses		– 76,443	– 70,705
Financial result	**(12)**	**– 67,650**	**– 61,699**
Income before taxes		**84,341**	**– 239,832**
Income taxes	(13)	– 4,129	54,168
Net income		**80,212**	**– 185,664**
thereof attributable to			
– shareholders of Klöckner & Co SE		*77,541*	*– 188,484*
– non-controlling interests		*2,671*	*2,820*
Earnings per share	**(14)**		
– basic		**1.17**	**– 3.61**
– diluted		**1.17**	**– 3.61**

KLÖCKNER & CO SE

Statement of comprehensive income for the 12-month period ending December 31, 2010

(€ thousand)	2010	2009
Net income	80,212	**– 185,664**
Income/expenses directly recognized in equity		
Foreign currency translation	79,349	– 6,788
Gain/loss from cash flow hedges	– 27,187	19,900
Related income tax	2,773	– 3,602
Other comprehensive income	54,935	**9,510**
Total comprehensive income	135,147	**– 176,154**
thereof attributable to		
– shareholders of Klöckner & Co SE	*132,431*	*– 178,989*
– non-controlling interests	*2,716*	*2,835*

KLÖCKNER & CO SE

Consolidated statement of financial position as of December 31, 2010

Assets

(€ thousand)	Notes	December 31, 2010	December 31, 2009
Non-current assets			
Intangible assets	(15a)	227,323	194,985
Property, plant and equipment	(15b)	524,169	426,151
Investment property	(15c)	10,486	11,675
Financial assets		2,721	2,376
Other assets	(18)	32,027	26,736
Income tax receivable	(13)	-	11,638
Deferred tax assets	(13)	59,235	38,355
Total non-current assets		**855,961**	**711,916**
Current assets			
Inventories	(16)	898,841	570,918
Trade receivables	(17)	703,101	464,266
Income tax receivable	(13)	34,251	72,224
Other assets	(18)	62,898	65,840
Liquid funds	(19)	934,955	826,517
Assets held for sale	(20)	1,088	1,081
Total current assets		**2,635,134**	**2,000,846**
Total assets		**3,491,095**	**2,712,762**

Equity and liabilities

(€ thousand)	Notes	December 31, 2010	December 31, 2009
Equity			
Subscribed capital		166,250	166,250
Capital reserves		464,243	429,493
Retained earnings		596,162	518,621
Accumulated other comprehensive income		48,721	– 6,169
Equity attributable to shareholders of Klöckner & Co SE		**1,275,376**	**1,108,195**
Non-controlling interests		15,118	15,068
Total equity	**(21)**	**1,290,494**	**1,123,263**
Non-current liabilities and provisions			
Provisions for pensions and similar obligations	(23)	174,442	174,598
Other provisions	(24)	31,513	31,287
Income tax liabilities	(13)	-	20
Financial liabilities	(25)	1,020,582	618,744
Other liabilities	(27)	54,945	31,080
Deferred tax liabilities	(13)	79,910	71,029
Total non-current liabilities		**1,361,392**	**926,758**
Current liabilities			
Other provisions	(24)	107,259	109,868
Income tax liabilities	(13)	31,638	50,667
Financial liabilities	(25)	39,578	52,169
Trade payables	(26)	584,614	398,387
Other liabilities	(27)	76,120	51,650
Total current liabilities		**839,209**	**662,741**
Total liabilities		**2,200,601**	**1,589,499**
Total equity and liabilities		**3,491,095**	**2,712,762**

70 Consolidated statement of income
71 Statement of comprehensive income
72 Consolidated statement of financial position
75 Consolidated statement of cash flows
76 Summary of changes in equity
78 Notes to the consolidated financial statements
137 Declaration of the Management Board
138 Auditor's report
139 Individual financial statements
158 Subsidiary listing
166 Information pursuant to Section 160 para. 1 No. 8 AktG
167 Additional mandates

KLÖCKNER & CO SE

Consolidated statement of cash flows for the 12-month period ending December 31, 2010

(€ thousand)	2010	2009
Income before taxes	84,341	– 239,832
Financial result	67,650	61,699
Depreciation and amortization	85,783	109,638
Other non-cash income and expenses	– 836	– 80,128
Gain on disposal of non-current assets	– 1,781	– 9,066
Operating cash flow	**235,157**	**– 157,689**
Changes in provisions	– 35,613	– 54,441
Changes in other assets and liabilities		
Inventories	– 168,180	431,161
Trade receivables	– 136,724	337,589
Other receivables	12,188	24,321
Trade payables	108,157	581
Other liabilities	20,410	– 30,139
Income taxes paid	– 207	13,279
Cash flow from operating activities	**35,188**	**564,662**
Proceeds from the sale of non-current assets and assets held for sale	3,708	14,665
Payments for intangible assets, property, plant and equipment	– 26,976	– 25,023
Acquisition of subsidiaries	– 164,480	– 779
Margin deposits for derivative transactions	-	3,105
Cash flow from investing activities	**– 187,748**	**– 8,032**
Issue proceeds of convertible bond (incl. equity component)	183,257	95,681
Capital repayment (non-controlling interest)	– 1,157	-
Capital increase by issuance of new shares	-	193,134
Dividend payments to non-controlling interests	– 1,509	– 980
Borrowings	336,934	71,972
Repayment of financial liabilities	– 164,325	– 355,497
Repayment of BSS shareholder loans	– 57,878	-
Interest paid	– 48,375	– 34,635
Interest received	5,027	6,477
Cash flow from financing activities	**251,974**	**– 23,848**
Changes in cash and cash equivalents	**99,414**	**532,782**
Effect of foreign exchange rates on cash and cash equivalents	9,024	204
Cash and cash equivalents at the beginning of the period	826,517	293,531
Cash and cash equivalents at the end of the period	**934,955**	**826,517**

KLÖCKNER & CO SE

Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings
Balance as of January 1, 2009	**116,250**	**260,496**	**708,272**
Income/expenses directly recognized in equity			
Foreign currency translation			
Gain/loss from cash flow hedges			
Related income tax			
Net income			– 188,484
Total comprehensive income			
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			
Balance as of December 31, 2009	**166,250**	**429,493**	**518,621**
Balance as of January 1, 2010	**166,250**	**429,493**	**518,621**
Income/expenses directly recognized in equity			
Foreign currency translation			
Gain/loss from cash flow hedges			
Related income tax			
Net income			77,541
Total comprehensive income			
Equity component of convertible bond		34,750	
Capital repayment subsidiary			
Dividends			
Balance as of December 31, 2010	**166,250**	**464,243**	**596,162**

70 Consolidated statement of income
71 Statement of comprehensive income
72 Consolidated statement of financial position
75 Consolidated statement of cash flows
76 Summary of changes in equity
78 Notes to the consolidated financial statements
137 Declaration of the Management Board
138 Auditor's report
139 Individual financial statements
158 Subsidiary listing
166 Information pursuant to Section 160 para. 1 No. 8 AktG
167 Additional mandates

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
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**
		– 178,989	**2,835**	
		– 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**
10,994	**– 17,163**	**1,108,195**	**15,068**	**1,123,263**
79,304		79,304	45	**79,349**
	– 27,187	– 27,187		**– 27,187**
– 5,581	8,354	2,773		**2,773**
		77,541	2,671	**80,212**
		132,431	**2,716**	
		34,750		**34,750**
			– 1,157	**– 1,157**
			– 1,509	**– 1,509**
84,717	**– 35,996**	**1,275,376**	**15,118**	**1,290,494**

KLÖCKNER & CO SE

Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg, as of December 31, 2010

(1) COMPANY INFORMATION

Klöckner & Co SE 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 21, 2011. 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 the combined market 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, 2010 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 IFRS Interpretations Committee ("IFRIC") as of December 31, 2010 were applied.

The financial statements or interim financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2010, 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 2010 eight dormant special-purpose entities which were acquired in the prior year were merged, leaving five special-purpose entities in operation. None of the Group companies holds an equity interest in four of the remaining 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 as well as intragroup income and expenses 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:

	2010	2009
Consolidated entities at the beginning of the financial year*)	**109**	116
+ business combinations	**6**	-
+ newly formed/consolidated companies	**2**	2
– mergers	**– 19**	– 3
– disposals and liquidations	**– 2**	– 6
Consolidated entities at the end of the financial year	**96**	**109**
*thereof domestic entities including Klöckner & Co SE**)	***15***	*10*

*) Including consolidated special-purpose entities.

6 (2009: 5) 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 – 0.08% (2009: – 0.01%) of consolidated net income. The impact on the Group's equity amounts to – 1.08% (2009: – 1.24%). Such subsidiaries are accounted for as financial assets at cost as their fair values cannot be determined reliably.

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, was accounted for under the equity method until its disposal 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 to the notes.

(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 are 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. The full goodwill method is not applied. 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 change of the method of consolidation 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 using the modified closing rate method. 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. Such differences are recognized in net income when the subsidiary is sold.

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

	Closing rate		Average rate	
1 € =	December 31, 2010	December 31, 2009	2010	2009
US Dollar (USD)	**1.3362**	1.4405	**1.3257**	1.3949
Pound Sterling (GBP)	**0.8608**	0.8881	**0.8578**	0.8909
Swiss Franc (CHF)	**1.2504**	1.4836	**1.3803**	1.5100

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. The fair value of the virtual share options is calculated using an option pricing model based on a Monte Carlo simulation using the following parameters:

%	December 31, 2010	December 31, 2009
Risk-free rate or return	**0.6–2.6**	0.8–3.2
Expected volatility	**39.0**	51.0

The expected volatility is based on market-traded options on Klöckner & Co shares.

Earnings per share

Basic earnings per share are calculated by dividing consolidated net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period. 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 (as long as these differences were not considered for tax purposes) 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 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 one and 15 years. The useful life is reviewed annually and future expectations are adjusted if necessary. Intangible assets with an indefinite useful life – at Klöckner & Co only goodwill – 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. 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 is generally 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	10–50
Plant facilities similar to buildings	8–33
Warehouse and crane equipment and other technical equipment	2–20
Operating and office equipment	1–15

Leases

For leasing transactions the Company differentiates between finance lease and operating lease transactions. Transactions, in which the Company bears all significant risks and benefits, are classified as finance leases. All other lease arrangements in which Klöckner & Co is the lessee are accounted for as operating 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. Such liabilities are subsequently accounted for under the effective interest method. Assets held under finance leases are depreciated over their expected useful lives, or where shorter, the term of the underlying lease.

For operating lease arrangements in which Klöckner & Co is lessee lease payments are recognized as expense straight-line over the lease term.

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 its tangible and intangible assets as well as its investment properties 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. Except for the Becker Stahl-Service 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.

Government grants and government assistance
Government grants are only recognized when it is reasonably assured that the Company complies with the conditions attaching to them and the grants are actually received. The grants are recognized in net income in the same period in which the respective expenses are recognized.

Government grants related to assets, mainly property, plant and equipment, are deducted in arriving at the cost of the asset.

Grants becoming receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognized as other operating income in which they become receivable.

Inventories
Inventories are stated at the lower of cost or net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and estimated cost to make the sale. 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, incl. 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 mid 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 also include shares in not consolidated 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 is 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, disposal groups 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 is 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 for unfunded plans in interest expense.

Any surplus of the assets over the liabilities to be recognized is limited to the cumulative, unrecognized, net actuarial losses and past service cost, plus the present value of any available refunds 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. The settlement amount also includes expected future cost increases. 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.

Warranty provisions are accrued based on the expected development of the loss. Provisions for onerous purchase or sales contracts are established when the projected total future costs exceed the expected sales.

Restructuring provisions are only recognized if a detailed formal restructuring plan is established and communicated to the involved parties.

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 2010 the Group initially applied the Annual Improvements (Improvements to IFRSs), the changes to IFRS 2 (Share-based Payment – Group Cash-settled Share-based Payment Transactions), IAS 39 (Eligible Hedged Items - Amendment to IAS 39 Financial Instruments: Recognition and Measurement) as well as IFRIC 18 (Transfers of Assets from Customers).

The second omnibus standard “Improvements to IFRSs” issued in April 2009 comprised minor adjustments to ten standards and two interpretations. The changes to IFRS 2 (Share-based Payment – Group Cash-settled Share-based Payment Transactions) clarified the application of IFRS 2 for cash-settled transactions in the individual financial statements of consolidated subsidiaries.

In July 2008 the IASB issued an amendment to IAS 39 (Eligible Hedged Items - Amendment to IAS 39 Financial Instruments: Recognition and Measurement). The amendment clarifies hedge accounting in two specific situations: the designation of inflation risk as hedged item and a single-sided risk in a hedged item.

IFRIC 18 (Transfers of Assets from Customers), issued in January 2009, relates to accounting and revenue recognition aspects of arrangements in which an entity up front receives assets or cash or cash equivalents from a customer that the entity must then use to obtain services.

The initial application of the revised standards and interpretations did not have an impact on the 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 interpretations is yet outstanding. The following further standards and interpretations issued during the reporting period will not have an impact on the Group's financial statements:

Standard/interpretation	Mandatory application*)
IAS 24 (rev.) (Related Party Disclosures)	2011
IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments)	2011
Amendments to IAS 32 (Classification of Rights Issues)	2011
IAS 12 (Deferred Tax Recovery of Underlying Assets)	2012

*) Related to the financial year of Klöckner & Co.

In November 2009 the IASB issued IFRS 9 (Financial Instruments) on classification and measurement of financial instruments. The release marks the finalization of 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.

Also in November 2009 the IASB issued changes to IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction). The amendment “Prepayment of a Minimum Funding Requirement” is limited to certain instances in which an entity is subject to minimum funding requirements and issues prepayments fulfilling 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.

As part of its Annual Improvement Process the IASB issued the third omnibus standard “Improvements to IFRSs” in May 2010 which comprises adjustments to six standards and one interpretation. Unless otherwise noted the adjustments are binding for fiscal years beginning on or after January 1, 2011. Klöckner & Co does not expect that these changes will have a significant impact on the Group's consolidated financial statements.

Issuing the amendments to IFRS 9 (Financial Instruments) in October 2010 the phase for the classification and measurement phase of the IASB's project to replace IAS 39 was closed. The amendments follow the IASB's November 2009 issue of IFRS 9, which prescribed the classification and measurement of financial assets. Under the new requirements the issuer which elected the fair value option must record changes in the fair value of liabilities resulting from changes in the issuer's own credit risk directly in other comprehensive income and therefore not affecting net income. The revised standard is to be applied for fiscal years beginning on or after January 1, 2013. Klöckner & Co does not expect that the application of the revised standard will have a material impact on its financial statements.

Also in October 2010 amendments to IFRS 7 (Financial Instruments) were issued. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The revised standard is to be applied for fiscal years beginning on or after July 1, 2011. Klöckner & Co is currently evaluating the impact on the standard of its consolidated financial statements.

(5) ACQUISITIONS AND DISPOSALS

The Group structure changed as a result of the following acquisitions and disposals in financial years 2010 and 2009.

Acquisitions 2010

Becker Stahl-Service Group

On March 1, 2010, Klöckner & Co completed the acquisition of 100 % of Becker Stahl-Service Group (BSS) with headquarters in Bönen, Germany, and it has been consolidated since then. The transaction is deemed to be a material business combination under IFRS 3. The Becker Stahl-Service Group operates one of the largest and most modern steel service centers in the world. The group has around 500 employees.

The allocation of the purchase price to the acquired assets and liabilities is as follows:

(€ million)	Fair value
Assets	
Goodwill	5.5
Other intangible assets	36.3
Property, plant and equipment	70.4
Other non-current assets	1.3
Inventories	100.1
Trade receivables	73.9
Other current assets	4.0
Cash and cash equivalents	44.0
Total acquired assets	335.5
Liabilities and provisions	
Non-current financial liabilities	27.5
Other non-current liabilities and provisions	4.8
Income tax liabilities	8.7
Trade payables	58.8
Current financial liabilities	70.2
Other current liabilities and provisions	11.7
Total assumed liabilities	181.7
Acquired net assets	153.8
Purchase price	153.8
thereof paid in cash and cash equivalents	*153.8*
Reconciliation transaction volume	
Assumed shareholder loans	57.9
Assumed financial liabilities	39.7
Acquired cash and cash equivalents	– 44.0
Transaction volume	207.4

Acquired other intangible assets relate with €29.6 million to customer relationships and with €6.3 million to the trade name. Goodwill primarily represents future earnings potential and is expected to be tax deductible. The purchased receivables were based on gross contractual amounts of €76.1 million. BSS contributed €517.0 million to the Group's net sales and, including one-off effects from the purchase price allocation and real estate transfer tax, €28.1 million to the Group's net income. Consolidated sales would have been higher by €89.8 million and net income would have been higher by €4.7 million, if BSS had been consolidated since the beginning of the reporting period.

Acquisiton-related costs (consulting fees) of €0.4 million were recorded in other operating expenses. In the previous year costs of €0.4 million were already incurred.

Other acquisitions

Bläsi AG

In January, 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 €30 million in 2009. Bläsi AG has been included in the Group's financial statements since January 2010.

Angeles Welding & Mfg., Inc.

In August 2010, the operations of Angeles Welding & Mfg., Inc. (Angeles Welding) and its subsidiary Get Steel, Inc. were acquired via our US subsidiary Namasco Corp. by form of an asset deal. Angeles Welding conducts business in the segments of job shop steel fabrication, precision fabricated parts, and steel service center activity. In fiscal year 2009 Angeles Welding generated sales of about €30 million.

Lake Steel Ltd.

In December 2010 Klöckner & Co acquired the distributor Lake Steel Ltd. in Amarillo, Texas (USA) also via its US subsidiary Namasco Corp. With the acquisition of Lake Steel Ltd. Namasco extends its activities in northern Texas (USA). With two locations and around 100 employees, Lake Steel Ltd. also supplies customers in the surrounding states of New Mexico, Oklahoma, Colorado, Arkansas, Kansas and Louisiana. Sales amounted to approximately €35 million. Lake Steel Ltd. has been included in the scope of consolidation since December 15, 2010.

The fair values of the acquired assets and liabilities of the other acquisitions, which in part were determined provisionally, were as follows:

(€ million)	Fair value
Assets	
Non-current	**32.3**
thereof goodwill	***4.6***
Current	**46.4**
thereof cash and cash equivalents	***6.8***
Liabilities and provisions	
Non-current	**6.3**
Current	**10.7**
Acquired net assets	**61.7**
Purchase prices	**61.7**
thereof paid in cash and cash equivalents	***61.7***

The non-current assets comprise customer relationships of €8.8 million, trade names of €0.7 million and other intangible assets of €1.6 million. Goodwill primarily represents future earnings potential. The fair value of the acquired receivables of the other acquisitions amounted to €8.6 million which compares to gross contractual amounts of €8.9 million.

The other acquisitions since January 1, 2010 contributed sales of €34.4 million and net income of €1.7 million to the consolidated financial statements. The operations of Angeles Welding were completely integrated into the existing entities. As such no further information for sales and net income contribution pursuant to IFRS 3.B64 (q) can be made subsequent to the acquisition. Sales and net income would be higher by €49.9 million and by €2.0 million, respectively, if Angeles Welding and Lake Steel Ltd. would have been consolidated on January 1, 2010. Acquisiton-related cost (consulting fees) of €0.6 million was included in other operating expenses.

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 GmbH's interest to 96.77%.

Disposals

2009

On August 19, 2009 the Group disposed of its investment in Klöckner Information Services GmbH (KIS) 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.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(6) SPECIFIC ITEMS RECOGNIZED IN NET INCOME

There were no material non-recurring items included in net income in 2010. The net income of the preceeding reporting period was impacted by the reduction of the KDI antitrust fine (€+79 million), fees incurred with the restructuring of the ABS program and the syndicated loan (€–8 million) and impairment losses of the cash-generating units Spain and United Kingdom (€–41 million).

(7) SALES

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

(€ thousand)	2010	2009
Germany	1,337,168	749,704
EU excluding Germany	2,078,691	1,678,944
Rest of Europe	800,381	669,767
North America	884,612	673,460
Central and South America	21,899	23,266
Asia/Australia	22,511	18,761
Africa	52,919	46,591
Sales	**5,198,181**	**3,860,493**

(8) OTHER OPERATING INCOME

(€ thousand)	2010	2009
Foreign currency exchange gains	7,338	5,898
Reversal of provisions	6,125	10,520
Rental income	5,025	4,274
Income from written-off receivables	4,097	5,550
Gain on sale of non-current assets and assets held for sale	2,226	7,238
Reduction of antitrust fine KDI	-	80,172
Gain on sale of consolidated subsidiaries	-	2,496
Other income	11,011	11,211
Other operating income	**35,822**	**127,359**

Other income comprises €2,064 thousand (2009: €1,565 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 €4,345 thousand (2009: €7,091 thousand) and foreign currency exchange losses of €5,831 thousand (2009: €8,839 thousand) have been offset against each other.

In the previous year the reduction of the antitrust fine against KDI 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.

(9) COST OF MATERIALS

(€ thousand)	2010	2009
Cost of materials, supplies and purchased merchandise	4,047,917	3,201,301
Cost of purchased services	6,913	5,529
Cost of materials	**4,054,830**	**3,206,830**

(10) PERSONNEL EXPENSES

(€ thousand)	2010	2009
Wages and salaries	388,622	349,581
Social security contributions (including welfare benefits)	80,560	73,775
Retirement benefit cost	17,436	17,828
Personnel expenses	**486,618**	**441,184**

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.

The acquisition of Becker Stahl-Service contributed significantly to the increase of personnel expenses.

In 2010, the following average staff was employed in the Klöckner & Co Group:

	2010	2009
Salaried employees	5,209	5,256
Wage earners	4,007	3,892
Apprentices	254	254
	9,470	**9,402**

(11) OTHER OPERATING EXPENSES

(€ thousand)	2010	2009
Forwarding cost	108,325	83,926
Rental and leasing expenses	68,958	68,752
Third-party services	62,820	34,987
Supplies	43,415	37,022
Repair and maintenance	37,193	35,342
Other taxes	22,685	22,595
Audit fees and consulting	15,428	22,936
Travel expenses	13,585	12,364
Bad debt expenses	10,838	14,595
Credit insurance	9,998	8,132
Postal charges and telecommunication	8,983	10,285
Other insurance	8,867	9,060
Advertising and representation expenses	7,518	7,138
Foreign currency exchange losses	5,186	5,375
Other expenses	23,643	27,175
Other operating expenses	**447,442**	**399,684**

Third party services also include data processing cost of the IT service provider KIS Information Services GmbH, Duisburg which was spun-off in 2009.

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

(12) FINANCIAL RESULT

(€ thousand)	2010	2009
Income from non-current securities and long-term loans	103	13
Other interest and similar income	8,690	8,993
Interest and similar expenses	– 68,899	– 62,173
Interest cost for post-employment benefits	– 7,544	– 8,532
Financial result	**– 67,650**	**– 61,699**

The increase in net financial expenses is driven due to higher average net financial debt throughout the fiscal year. The 2009 financial result is impacted with expenses of approximately €8 million resulting from the restructuring and stabilization of the financing agreements.

(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 €3,460 thousand (2009: €2,161 thousand) in 2010 due to the corresponding release of deferred tax assets. In 2010 benefits of €23,365 thousand were recognized as deferred tax assets on loss carryforwards originating in prior years (2009: €0 thousand). Due to tax losses incurred in the current period deferred tax assets of €2,817 thousand were capitalized. Valuation allowances of €11,024 thousand were established for tax losses of the current reporting period.

Current tax benefits of €526 thousand (2009: expense €13 thousand) related to prior periods. In 2010 the utilization of previously unrecognized tax loss carryforwards and temporary differences led to current tax benefits of €7,940 thousand (2009: €1,283 thousand). This was mainly a result of a business combination consummated in 2010 which led to the utilization of previously unrecognized tax loss carryforwards with a tax benefit of €6,927 thousand.

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

(€ thousand)	2010	2009
Current income tax expense/benefit	**23,442**	**– 32,535**
Expense (domestic)	**4,707**	998
Expense/benefit (foreign)	**18,735**	– 33,533
Deferred tax benefit	**– 19,313**	**– 21,633**
Benefit/expense (domestic)	**– 18,801**	3,269
Expense (foreign)	**– 512**	– 24,902
Income tax expense/benefit	**4,129**	**– 54,168**

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%. Foreign tax rates vary between 10.0% and 40.0%.

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

(€ thousand)	2010	2009
Expected tax rate	30.70%	30.70%
Income before taxes	84,341	– 239,832
Expected tax expense/benefit at domestic tax rate	25,892	– 73,628
Foreign tax rate differential	– 7,785	– 5,254
Tax effects related to KDI antitrust fine	-	– 27,103
Tax rate changes	102	– 1,175
Reduced tax rate	244	– 287
Tax reduction due to tax free income	– 4,051	– 4,694
Tax increase due to non-deductible expenses	5,636	5,799
Current income tax levied for prior periods	– 526	13
Goodwill impairment and excess of net assets over purchase price in business combinations	-	267
Tax reduction due to first-time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	– 19,544	– 4,189
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 7,940	– 1,283
Tax increase due to non-capitalization of deferred tax assets on loss carryforwards and deductible temporary differences	11,942	57,520
Other tax effects	159	– 154
Effective income tax benefit/expense	**4,129**	**– 54,168**
Effective tax rate	**4.90%**	**– 22.59%**

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 €2,773 thousand (2009: €– 3,602 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, 2010	December 31, 2009
Deferred tax assets	59,235	38,355
Deferred tax liabilities	79,910	71,029
Deferred taxes, net	**– 20,675**	**– 32,674**

Deferred tax assets and liabilities arise from the following:

Deferred tax assets

(€ thousand)	December 31, 2010	December 31, 2009
from temporary differences and consolidations	68,716	41,235
Intangible assets	10,983	6,895
Property, plant and equipment	3,361	4,530
Financial assets	-	524
Inventories	559	3,990
Receivables and other current assets	5,459	1,287
Provisions for pensions and similar obligations	22,143	21,609
Other provisions and accrued liabilities	7,460	8,221
Liabilities	18,751	12,918
Tax loss carryforwards*)	117,064	93,790
Gross amount	185,780	**153,764**
Valuation allowance	– 99,492	– 102,714
Offsetting	– 27,053	– 12,695
Deferred tax assets	59,235	**38,355**

*) Including interest carryforward.

Deferred tax liabilities

(€ thousand)	December 31, 2010	December 31, 2009
from temporary differences and consolidations	106,963	83,382
Intangible assets	6,157	4,872
Property, plant and equipment	42,017	35,506
Financial assets	29	12
Inventories	24,115	18,911
Receivables and other current assets	11,289	6,624
Provisions for pensions and similar obligations	1,262	1,403
Other provisions and accrued liabilities	12,558	16,272
Other liabilities	9,536	124
Gross amount	106,963	**83,724**
Offsetting	– 27,053	– 12,695
Deferred tax liabilities	79,910	**71,029**

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 €342.2 million (2009: €353.3 million) for corporate income tax losses of foreign and domestic entities and trade tax and similar losses of €232.2 million (2009: €227.2 million). Corporate income tax losses incurred by foreign and domestic subsidiaries of €217.4 million (2009: €327.5 million) and trade tax and similar losses of €147.8 million (2009: €197.3 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 2015.

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 €4,084 thousand (2009: €4,161 thousand) which were offset by valuation allowances of €8,936 thousand for deferred taxes on temporary differences due to changes in tax consolidations.

Deferred tax assets were not recognized for temporary differences amounting to €31.3 million (2009: €59.9 million) at December 31, 2010, as it is not probable that the benefits can be realized.

Unrecognized deferred tax assets are as follows:

(€ thousand)	December 31, 2010	December 31, 2009
Temporary differences	**14,624**	18,397
Unused tax losses	**84,868**	84,317

d) Current tax

Tax receivables of €34,251 thousand (2009: €83,862 thousand) were recorded in the consolidated statement of financial position for expected tax refunds. Of this amount €15,825 thousand (2009: €40,881 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, including withholding taxes of €15,825 thousand, comprise liabilities of €15,882 thousand (2009: €40,884 thousand), when the payment obligation is nearly certain, and provisions of €15,757 thousand (2009: €9,804 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. In accordance with IAS 33.41 9,943 thousand (2009: 7,615 thousand) potential dilutive shares of the convertible bonds were not included in the computation of diluted earnings per share as this would have resulted in higher earnings per share.

		Jan. 1–Dec. 31, 2010	Jan. 1–Dec. 31, 2009
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	77,541	– 188,484
Weighted average number of shares	(thousands of shares)	66,500	52,269
Basic earnings per share	**(€/share)**	**1.17**	**– 3.61**
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	77,541	– 188,484
Interest expense on dilutive convertible bonds (net of tax)	(€ thousand)	186	-
Net income used to determine diluted earnings per share	(€ thousand)	77,727	– 188,484
Weighted average number of shares	(thousands of shares)	66,500	52,269
Dilutive potential shares from convertible bonds	(thousands of shares)	182	-
Weighted average number of shares for diluted earnings per share	(thousands of shares)	66,682	52,269
Diluted earnings per share	**(€/share)**	**1.17**	**– 3.61**

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, 2009	161,024	18,619	104,558	284,201
Accumulated amortization and impairments	– 36,759	– 11,511	-	– 48,270
Balance as of January 1, 2009	**124,265**	**7,108**	**104,558**	**235,931**
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	-	-
Balance as of December 31, 2009	**96,141**	**5,763**	**93,081**	**194,985**
Cost as of December 31, 2009*)	157,799	19,121	100,994	277,914
Accumulated amortization and impairments*)	– 61,658	– 13,358	– 7,913	– 82,929
As of January 1, 2010	**96,141**	**5,763**	**93,081**	**194,985**
Exchange rate differences	7,423	87	7,145	14,655
Changes in the scope of consolidation	47,064	304	10,109	57,477
Additions	15	800	-	815
Disposals	– 1	– 8	-	– 9
Depreciation, amortization and impairments	– 37,595	– 3,005	-	– 40,600
Transfers	– 59	59	-	-
As of December 31, 2010	**112,988**	**4,000**	**110,335**	**227,323**
Cost as of December 31, 2010	214,608	20,540	118,248	353,396
Accumulated amortization and impairments	– 101,620	– 16,540	– 7,913	– 126,073

*) Including 2009 accumulated goodwill impairments of the CGUs Spain and United Kingdom.

Goodwill of €92,993 thousand relates to the segment North America and of €17,342 to the segment Europe.

The impairment tests performed on cash generating units (CGU) in the fourth quarter 2010 confirmed the values of all goodwill. As such no impairments were required (2009: €7.9 million).

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 9.22% and 12.58% (2009: 10.65% to 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 percentage point increase in the respective discount rate would not trigger goodwill impairments. The 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, 2009	636,104	225,779	216,873	9,514	1,088,270
Accumulated amortization and impairments	– 291,428	– 152,865	– 164,436	– 120	– 608,849
Balance as of January 1, 2009	**344,676**	**72,914**	**52,437**	**9,394**	479,421
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
Balance as of December 31, 2009	**311,487**	**63,923**	**45,466**	**5,275**	426,151
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
As of January 1, 2010	**311,487**	**63,923**	**45,466**	**5,275**	426,151
Exchange rate differences	23,995	3,425	3,822	412	31,654
Changes in the scope of consolidation	54,842	24,525	6,750	286	86,403
Additions	4,301	5,964	9,406	6,041	25,712
Disposals	– 440	– 796	– 514	– 7	– 1,757
Depreciation, amortization and impairments	– 15,345	– 16,253	– 12,396	-	– 43,994
Transfers	1,643	2,790	1,398	– 5,831	-
As of December 31, 2010	**380,483**	**83,578**	**53,932**	**6,176**	524,169
Cost as of December 31, 2010	736,979	283,656	243,990	6,176	1,270,801
Accumulated amortization and impairments	– 356,496	– 200,078	– 190,058	-	– 746,632

Property, plant and equipment with a carrying amount of €86,252 thousand (2009: €78,058 thousand) were used as collateral to secure borrowings of the Group.

No impairment losses were incurred in 2010 (2009: €31,599 thousand for real estate, machines and other equipment of the CGU Spain.)

Assets held under finance leases
The Group holds various assets under finance leasing contracts, the majority of which contain purchase options. As of the reporting date, the carrying amounts of capitalized assets were as follows:

	Carrying amounts	
(€ thousand)	December 31, 2010	December 31, 2009
Real estate		
Spain (Valencia, Catalayud, Epila)	10,933	11,174
Austria (Vienna, Neumarkt)	1,430	1,690
Technical equipment and machinery	410	5,653
Vehicles	27	126
	12,800	**18,643**

Upon completion of the lease term assets under finance lease arrangement for which title passes to Klöckner & Co are reclassified from assets under finance leases to the respective asset class within property, plant and equipment.

c) Investment property

Investment property is only related to premises in Valencia.

(€ thousand)	December 31, 2010	December 31, 2009
Cost as of January 1	13,208	13,208
Accumulated amortization and impairments	– 1,533	– 20
As of January 1	**11,675**	**13,188**
Depreciation, amortization and impairments	– 1,189	– 1,513
As of December 31	**10,486**	**11,675**
Cost as of December 31	10,486	13,208
Accumulated amortization and impairments	-	– 1,533

The appraised fair value of the premise amounts to €11.6 million (2009: €11.7 million). In 2010 rental income amounts to €0 thousand (2009: €27 thousand), due to the fact that the building was demolished in 2010. As such cost as stated in the table above exclusively relates to land. Operating expenses attributable to the premises amounted to €0 thousand (2009: €7 thousand).

(16) INVENTORIES

	December 31, 2010	December 31, 2009
Raw materials and supplies	153,417	14,132
Work in progress	3,256	5,651
Finished goods and merchandise	741,432	551,135
Advance payments	736	-
Inventories	**898,841**	**570,918**

Raw materials also include coils of steel service centers.

Of the inventories recognized as of December 31, 2010, €341,471 thousand (2009: €284,105 thousand) are stated at net realizable values. Allowances for write-downs to the net realizable value amount to €44,013 thousand (2009: €70,951 thousand).

In addition to customary reservations of title, inventories with a carrying amount of €117,712 thousand (2009: €70,487 thousand) serve as collateral for financial liabilities as of December 31, 2010 of €31 thousand (2009: €1,980 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 SPEs 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, 2010 amounts to €386 million (2009: €293 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: 1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Write-downs	Carrying amount
December 31, 2010								
738,350	557,180	121,557	23,753	6,926	6,335	22,599	– 35,249	**703,101**
December 31, 2009								
493,962	367,835	78,209	17,006	4,800	6,581	19,531	– 29,696	**464,266**

As of December 31, 2010 trade receivables in the amount of €4,151 thousand (2009: €4,655 thousand) of entities that do not participate in the Group's ABS programs were used as collateral for bank loans.

(18) OTHER ASSETS

	December 31, 2010		December 31, 2009	
(€ thousand)	Current	Non-current	Current	Non-current
Reimbursement receivable against former shareholders from KDI antitrust case	**-**	**-**	3,500	-
Receivables from insurance companies	**2,105**	**-**	7,299	-
Commission claims	**31,634**	**-**	20,232	-
Reinsurance claims for pension obligations	**-**	**4,420**	-	4,475
Prepaid pension cost	**-**	**23,281**	-	19,294
Claims for other taxes	**7,347**	**-**	6,166	-
Prepaid expenses	**8,269**	**166**	5,591	480
Fair value of derivative financial instruments	**779**	**1,471**	820	877
Miscellaneous other assets	**12,764**	**2,689**	22,232	1,610
Other assets	**62,898**	**32,027**	**65,840**	**26,736**

Miscellaneous other current assets include debit balances in accounts payable of €2,139 thousand (2009: €1,002 thousand).

(19) LIQUID FUNDS

Cash and cash equivalents predominantly include bank balances. As of the reporting date none of these funds were restricted.

(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 (2009: €79 thousand) is attributable to land and buildings of the Europe segment and €890 thousand (2009: €784 thousand) to land and buildings and €119 thousand (2009: €218 thousand) to machinery, both of the North America segment.

(21) EQUITY AND NON-CONTROLLING INTERESTS

a) Subscribed capital

The Company's subscribed capital amounts unchanged to €166,250,000 and is divided in 66,500,000 shares with a calculated pro rata share of the capital stock of €2.50 per share.

Acquisition of treasury stock

By resolution of the 2010 Annual General Meeting the Management Board is permitted, until May 25, 2015, to acquire up to 10% of the existing subscribed capital at the date of the Annual General Meeting or – in case the amount is lower – the existing subscribed capital as of the date the permission is exercised. The permission may be exercised in full or in part, in one single or multiple installments by the Company or subsidiaries or by third parties on behalf of the Company or its subsidiaries. The permission may be exercised for any legal purpose; trading with treasury stock is prohibited. With this permission the Company is empowered to use the acquisition of treasury stock as additional source of financing to react quickly and flexibly. No use of this permission has yet been made.

Conditional capital

By resolutions of the Annual General Meetings in 2007 to 2010 the Company's share capital was conditionally increased as follows:

Conditional capital 2007

The conditional capital 2007 established by the Annual General Meeting held on June 20, 2007 in the amount of €11,625,000 and 4,650,000 shares, respectively, was modified by resolution of the Annual General Meeting held on May 26, 2010 so that the share capital is now conditionally increased by up to €16,625,000 by issue of up to 6,650,000 non-par-value shares.

Conditional capital 2008

The conditional capital 2008 of €11,625,000 established by the Annual General Meeting held on June 20, 2008 was cancelled by the Annual General Meeting held on May 26, 2010.

Conditional capital 2009

Also by resolution of the Annual General Meeting on May 26, 2010 the conditional capital 2009 established by the Annual General Meeting in 2009 in the amount of €11,625,000 and 4,650,000 shares respectively was adjusted so that the share capital is now conditionally increased by €16,625,000 by issue of up to 6,650,000 non-par-value shares.

Conditional capital 2010

The Annual General Meeting on May 26, 2010 also resolved that the subscribed capital was conditionally increased by €33,250,000 by issue of up to 13,300,000 non-par-value shares.

The new non-par-value shares 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 or were issued by the Company or a Group company in accordance with the authority of the respective Annual General Meeting of the Company.

Authorized capital 2010

The authorized capital per Section 4 para. 2 of articles of association was fully utilized in the 2009 rights issue. The Management Board was authorized by resolution of the Annual General Meeting on May 26, 2010 to increase the subscribed capital of the Company with permission of the Supervisory Board by single or multiple installments against cash contributions or contributions in kind by up to €83,125,000 by issue of up to 33,250,000 non-par-value shares.

Information pursuant to Sections 21 para. 1, 22 para. 1 Securities Trading Act (WpHG – Wertpapierhandelsgesetz)

As of the date the financial statements were authorized for issuance the following shareholdings in Klöckner & Co SE were held:

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
Norges Bank (Central Bank of Norway) [a]	Oslo, Norway	5.15	May 20, 2010
Amundi S.A.	Paris, France	3.003[b]	January 28, 2011

a) State of Norway.
b) Partly attributed holding.

A full listing of notifications of increase over or decrease below 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, 2010 the capital reserves amount to €464,243 thousand (2009: €429,493 thousand). The variance of €34,750 thousand is due to the equity component of the convertible bond, net of transaction costs and deferred taxes of €385 thousand.

Capital reserves are presented net of costs incurred in issuing the convertible bond and, to the extent related to the equity component, 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.

f) Dividend proposal

The Management Board and Supervisory Board propose to the Annual General Meeting to distribute dividends of €0.30 per share from the retained profits calculated in accordance with the German Commercial Code (HGB).

The development of the individual components of controlling and non-controlling interests for the period from January 1, 2010 to December 31, 2010, and from January 1, 2009 to December 31, 2009, is shown in the summary of changes in equity.

(22) SHARE-BASED PAYMENTS

In 2006 the Group 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 program

Under the Management Board programs a total of 602,700 virtual stock options are outstanding as of December 31, 2010 (2009: 667,800). The Management Board program is classified in three variants.

Variant I (VSO I) originally introduced in 2006 covered five annual tranches. The strike price for the first tranche has been set to the IPO price in June 2006 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 dividends and is adjusted to reflect potential dilutive effects of rights issues. The conditions of the program 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. 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 maximum amount of €37 per option.

Variant II (VSO II) also covered five annual tranches, which have been allocated annually since January 1, 2009. The virtual stock options of each tranche of VSO II can be exercised after a 30-day trading period after the Annual General Meeting of the allotment year of the respective tranche. Subsequent to the waiting period, the options of the relevant tranches may be exercised in full or in part at any time. In addition, VSO II accounts for a cap of €25 per option. The strike price was initially based on the non-weighted average closing price of Klöckner & Co shares over the last 30 consecutive trading days prior to issuance.

Variant III (VSO III) is largely identical to VSO II but also provides for waiting periods of three to five years as VSO I does.

In 2010, VSO II was also modified to account for the regulations of the Act on the Appropriateness of Management Board Remuneration (VorstAG). The modifications entail longer waiting periods for tranches alloted on or after January 1, 2011 and are therefore now identical to VSO III.

Senior management programs

In addition to the Management Board programs 122,000 (2009: 115,500) virtual stock options for 2010 were granted and allotted to certain members of the senior management throughout the Group during the first half year of 2010. The exercise conditions are largely identical to the Management Board program VSO I and VSO III of Klöckner & Co SE.

The total number of outstanding rights developed as follows:

(Number of virtual stock options)	Management Board programs	Other executives	Total
Outstanding at the beginning of the year	**667,800**	**180,000**	**847,800**
Granted	-	122,000	**122,000**
Exercised	– 65,100	– 113,000	**– 178,100**
Forfeited	-	– 1,000	**– 1,000**
Outstanding at the end of the reporting period	**602,700**	**188,000**	**790,700**
thereof vested	*60,000*	*76,000*	***136,000***

During the 2010 financial year 178,100 (2009: 187,900) virtual stock options were exercised. Payments for share-based compensation amounted to €1,333 thousand (2009: €982 thousand). The pro rata provision for share-based

payments to the Management Board and senior management amounts to €2,660 thousand (December 31, 2009: €2,850 thousand), the intrinsic value of the rights exercisable as of the reporting date amount to €740 thousand. Total expense recognized in 2010 of €1,143 thousand (2009: €1,562 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 in 2010 amount to €2,215 thousand (2009: €5,368 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 2010 amounted to €29,615 thousand (2009: €28,456 thousand). Included therein are employers' contributions to the statutory pension schemes in the amount of €25,865 thousand (2009: €25,366 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	Switzer-land	The Nether-lands	United Kingdom	France	United States
Discount rate	4.70	4.70	2.90	4.70	5.40	4.70	5.37–5.75
Salary trend	2.50	3.00	2.00	2.50	3.80–4.30	2.00	3.50
Pension trend	2.00	2.25	0.50	1.20	3.30	1.25*)	0.00
Expected return on plan assets	4.50	-	4.50	4.00	6.60–7.20	4.00	6.50–7.00

*) 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 Eurozone.

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.

The defined benefit plans are structured as follows:

(€ thousand)	December 31, 2010	December 31, 2009
Defined benefit obligation of unfunded plans	154,588	149,992
Defined benefit obligation of fully or partly funded defined benefit plans	581,021	465,592
Fair value of plan assets	– 555,460	– 450,307
Unrecognized actuarial gains (+) and losses (–)	– 28,953	– 13,492
Unrecognized past service cost	– 35	2,268
Amounts not recognized due to asset ceiling (IAS 19.58 (b))	-	1,173
Fair value of the reimbursement rights	– 4,420	– 4,397
Net amount recognized	146,741	**150,829**
thereof:		
– Other assets in connection with pension obligations*)	27,701	23,769
– Provisions for pensions and similar obligations	174,442	174,598

*) Also includes reimbursement rights recognized as assets.

The reconciliation of the defined benefit obligation is as follows:

(€ thousand)	2010	2009
Defined benefit obligation as of January 1	615,584	**564,975**
Service cost	14,200	12,686
Interest cost	28,857	27,055
Employee contributions	12,667	18,098
Actuarial gains and losses	30,933	25,137
Benefits paid	– 33,961	– 31,412
Past service cost	2,330	533
Curtailments and settlements	– 493	– 1,009
Change in scope of consolidation/other transfers	5,690	– 2,723
Foreign currency exchange rate differences	59,802	2,244
Defined benefit obligation as of December 31	735,609	**615,584**

The fair values of the plan assets developed as follows:

(€ thousand)	2010	2009
Fair value of plan assets as of January 1	**450,307**	**398,319**
Expected return	23,602	20,366
Employee contributions	12,667	18,098
Employer contributions	12,840	11,941
Actuarial gains and losses	15,047	18,953
Benefits paid	– 23,769	– 21,576
Change in scope of consolidation/other transfers	5,334	2,201
Foreign currency exchange rate differences	59,432	2,005
Fair value of plan assets as of December 31	**555,460**	**450,307**

The current allocation of plan assets is as follows:

(€ thousand)	December 31, 2010	December 31, 2009
Shares	205,750	152,376
Bonds	182,964	156,682
Other assets	42,630	40,844
Real estate	124,116	100,405
	555,460	**450,307**

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 €16,094 thousand (2009: €11,768 thousand).

Changes in reimbursement rights were as follows:

(€ thousand)	2010	2009
Reimbursement rights as of January 1	**4,397**	**4,429**
Expected return	190	201
Actuarial gains and losses	84	66
Benefits paid	– 299	– 299
Changes in the scope of consolidation	48	-
Reimbursement rights as of December 31	**4,420**	**4,397**

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)	2010	2009
Service cost	– 14,200	– 12,686
Interest cost for funded plans	– 21,313	– 18,523
Expected return on plan assets	23,602	20,366
Expected return on reimbursement rights	190	201
Amortization of actuarial gains and losses	– 2,530	– 2,889
Past service cost	27	– 206
Curtailments and settlements	435	1,018
Effects of limitation of asset ceiling as per IAS 19.58 (b)	1,173	334
Interest cost for unfunded plans	– 7,544	– 8,532
Net periodic benefit expense for defined benefit plans	**– 20,160**	**– 20,917**

The actual gain on plan assets amounted to €38,649 thousand in 2010 (2009: €39,319 thousand). The actual return on reimbursement rights totaled €274 thousand (2009: €267 thousand).

The funded status of defined benefit plans is as follows:

(€ thousand)	2010	2009	2008*)	2007	2006
Defined benefit obligation	735,609	615,584	564,975	558,529	607,487
Fair value of plan assets	555,460	450,307	398,319	464,622	434,395
Funded status	**180,149**	**165,277**	**166,656**	**93,907**	**173,092**

*) Comparative amounts restated due to the initial application of IFRIC 14.

Experience adjustments to the present value of pension rights and the fair values of plan assets were as follows:

(€ thousand)	2010	2009	2008*)	2007
Defined benefit obligation	2,760	8,871	– 3,585	2,428
Fair value of plan assets	15,047	18,953	– 98,363	20,022

*) Comparative amounts restated due to the initial application of IFRIC 14.

The employers' contributions to the plan assets for 2011 are expected to be €13,137 thousand.

(24) OTHER PROVISIONS

The provisions developed as follows:

(€ thousand)	As of January 1, 2010	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2010
Other taxes	2,451	650	-	– 723	– 1	– 77	**2,300**
Personnel-related obligations							
– early retirement schemes	6,203	2,852	47	– 2,910	– 309	– 1,267	**4,616**
– anniversary payments	9,730	277	45	– 262	– 21	578	**10,347**
– other	68	24	-	– 50	– 18	-	**24**
Onerous contracts	4,915	4,059	-	– 3,396	– 6	1,056	**6,628**
Restructuring expenses	10,627	1,703	-	– 8,035	– 66	19	**4,248**
KDI antitrust case	13,500	-	-	– 13,500	-	-	**-**
Litigation and other risks	14,434	389	-	– 846	– 1,334	2,712	**15,355**
Miscellaneous provisions	16,702	5,559	120	– 3,532	– 1,822	3,370	**20,397**
	78,630	**15,513**	**212**	**– 33,254**	**– 3,577**	**6,391**	**63,915**
Other accrued liabilities							
Personnel-related obligations	36,132	37,428	-	– 26,753	– 1,253	4,131	**49,685**
Outstanding invoices	26,097	28,210	-	– 31,450	– 1,295	2,920	**24,482**
Miscellaneous accrued liabilities	296	372	-	– 98	-	120	**690**
	62,525	**66,010**	**-**	**– 58,301**	**– 2,548**	**7,171**	**74,857**
Other provisions	**141,155**	**81,523**	**212**	**– 91,555**	**– 6,125**	**13,562**	**138,772**

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

Reconciliation to balance sheet amounts:

	December 31, 2010		December 31, 2009	
(€ thousand)	Non-current	Current	Non-current	Current
Other taxes	-	2,300	-	2,451
Personnel-related obligations				
– early retirement schemes	4,463	153	4,538	1,665
– anniversary payments	10,347	-	9,547	183
– other	-	24	-	68
Onerous contracts	732	5,896	865	4,050
Restructuring expenses	1,169	3,079	-	10,627
KDI antitrust case	-	-	-	13,500
Litigation and other risks	9,728	5,627	9,903	4,531
Miscellaneous provisions	5,074	15,323	6,434	10,268
	31,513	32,402	31,287	47,343
Other accrued liabilities				
Personnel-related obligations	-	49,685	-	36,132
Outstanding invoices	-	24,482	-	26,097
Miscellaneous accrued liabilities	-	690	-	296
	-	74,857	-	62,525
Other provisions	31,513	107,259	31,287	109,868

The provision for KDI antitrust case was fully utilized in 2010.

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.

Miscellaneous provisions include an amount of €1,607 thousand (2009: €1,740 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 €34,627 thousand (2009: €22,681 thousand) and accrued vacation and accrued overtime of €13,426 thousand (2009: €12,035 thousand).

(25) FINANCIAL LIABILITIES

The details of financial liabilities are as follows:

	December 31, 2010				December 31, 2009			
(€ thousand)	up to 1 year	1–5 years	Over five years	Total	up to 1 year	1–5 years	Over five years	Total
Bonds	5,511	527,774	-	533,285	5,396	360,910	-	366,306
Liabilities to banks	29,874	248,883	7,628	286,385	44,517	230,613	-	275,130
Promissory notes	2,061	144,396	-	146,457	-	-	-	-
Liabilities under ABS programs	72	87,159	-	87,231	65	20,659	-	20,724
Finance lease liabilities	2,060	4,742	-	6,802	2,191	6,176	386	8,753
	39,578	1,012,954	7,628	1,060,160	52,169	618,358	386	670,913

Of the above financial liabilities an amount of €30,498 thousand (2009: €24,710 thousand) is 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 €11,669 thousand (2009: €5,977 thousand) were offset against the respective liabilities.

Bonds

Klöckner & Co issued in 2007, 2009 and 2010 the following convertible bonds. Obligor under the bonds is Klöckner & Co Financial Services S.A., a wholly owned Luxembourg subsidiary. Payments under the bond are guaranteed by Klöckner & Co SE. The bonds are convertible into existing or new shares of Klöckner & Co SE.

Convertible bond 2010

With closing on December 22, 2010 Klöckner & Co issued a senior unsecured convertible bond with a volume of €186.2 million to institutional investors outside of the US only. Klöckner & Co intends to use the issue proceeds to finance the external expansion strategy "Klöckner & Co 2020" and for general corporate purposes.

The bond has a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond are entitled to require early redemption after five years at the principal amount plus accrued interest. Klöckner cannot call the bond within the first five years. After five years Klöckner & Co may call the bond if the Klöckner share price (over a certain period) exceeds 130% of the then prevailing conversion price. The conversion price was set at €28.00, which represents a premium of 35.07% above the reference price of €20.73.

For accounting purposes the bond was bifurcated into an equity and a liability component. The equity component, net of issuance costs of €0.6 million and deferred taxes of €0.2 million, amounted to €34.8 million and was credited to capital reserves.

Convertible bond 2009

In June 2009 Klöckner & Co issued a senior unsecured convertible bond with a nominal value of €97.9 million with an original maturity of five years and a coupon of 6.0% per annum. The conversion price amounts to €18.37. The bond cannot be called by the issuer for the first three years, and is callable thereafter when Klöckner & Co's share price (over a certain period) exceeds 130% of the conversion price.

Convertible bond 2007

In July 2007, the Company issued a not subordinated unsecured convertible bond with an aggregated nominal value of €325 million with an original maturity of five years and a coupon of 1.5% per annum. The conversion price is €70.44. Klöckner & Co is entitled to call the bond if Klöckner & Co's share price (over a certain period) exceeds 130% of the conversion price.

Liabilities due to banks

The syndicated loan due in May 2011 was modified and its volume was increased from €300 million to €500 million. The agreement was signed on May 28, 2010 and came into effect on June 7, 2010. The credit facility is provided by 13 banks and has a maturity of three years with a one-year extension possibility.

The balance-sheet-oriented financial covenant concept introduced in 2009 was maintained. Under the terms gearing (i.e. net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 28, 2010) may not exceed 150% and the equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 28, 2010 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. Throughout the fiscal year 2010 the group consistently complied with all covenants.

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

Promissory notes

In the second quarter of 2010, Klöckner & Co issued promissory notes of €145 million based on a simple standard documentation under the same balance-sheet-related financial covenants as the syndicated loan. The maturity varies between three and five years. Of the total volume, €39 million are fixed coupon instruments and €106 million bear variable interest rates.

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has conducted a European ABS program. With effect of April 1, 2010 the program was modified and a term of two years was agreed, and a term of two years negotiated. The program volume of €420 million remained unchanged. The European ABS program is also based on balance-sheet-related covenants. The US ABS program has a maximum volume of USD 125 million (€94 million).

As of the end of the reporting period, utilization of the programs of €88 million including interest breaks down as follows:

(€ million)	December 31, 2010	December 31, 2009
European program		
– utilization	20	-
– maximum volume	420	420
American program		
– utilization (at closing exchange rate)	68	21
– maximum volume (at closing rate)	94	87

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.

Liabilities under finance leases
Liabilities under finance leases have the following terms:

(€ thousand)	December 31, 2010	December 31, 2009
Due within one year	2,199	2,396
Due between one and five years	5,008	6,464
Due after five years	-	390
Future minimum lease payments	7,207	**9,250**
Due within one year	139	205
Due between one and five years	266	288
Due after five years	-	4
Interest included in future minimum lease payments	405	**497**
Due within one year	2,060	2,191
Due between one and five years	4,742	6,176
Due after five years	-	386
Total present value of future minimum lease payments	6,802	**8,753**

(26) TRADE PAYABLES

(€ thousand)	December 31, 2010	December 31, 2009
Advance payments received	3,722	1,077
Trade payables	579,053	375,778
Bills payable	1,839	21,532
Trade payables	**584,614**	**398,387**

(27) OTHER LIABILITIES

	December 31, 2010		December 31, 2009	
(€ thousand)	Non-current	Current	Non-current	Current
Liabilities due to entities in which participations are held	-	-	-	431
Social security contributions	285	11,662	-	8,724
Customers with credit balances	-	10,356	-	10,934
Liabilities to employees	-	5,719	-	2,447
Value-added tax liabilities	-	24,532	-	11,487
Other tax liabilities	-	5,734	-	5,266
Contingent consideration for business combinations	-	-	1,817	-
Negative fair value of derivative financial instruments	50,147	3,819	28,663	1,213
Miscellaneous other liabilities	4,513	14,298	600	11,148
Other liabilities	**54,945**	**76,120**	**31,080**	**51,650**

Negative fair values of derivative financial instruments of €51,965 thousand (2009: €24,765 thousand) are attributable to cross currency swaps and interest rate swaps designated as cash flow hedges for which fair value changes to the extent attributable to the effective portion of the hedging relationship 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 less goodwill from business combinations subsequent to May 28, 2010. 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, 2010	December 31, 2009	Variance
Financial liabilities	1,060,160	670,913	389,247
Transaction cost	11,669	5,977	5,692
Liquid funds	– 934,955	– 826,517	– 108,438
Net financial debt (before deduction of transaction cost)	**136,874**	**– 149,627**	**286,501**
Consolidated shareholders' equity	1,290,494	1,123,263	167,231
Non-controlling interests	– 15,118	– 15,068	– 50
Goodwill from business combinations subsequent to May 28, 2010	– 4,623	-	– 4,623
Adjusted shareholders equity	**1,270,753**	**1,108,195**	**162,558**
Gearing	**11%**	**– 14%**	

The variance of the gearing ratio results primarily from the increased net working capital and cash outflows under the reestablished strategy of external growth.

(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, 2010

(€ thousand)	Fair value	IAS 39 measurement categories: At fair value through profit or loss	IAS 39 measurement categories: Available for sale *)	IAS 39 measurement categories: Loans and receivables	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2010
Non-current financial assets						
Financial assets	2,721	-	2,431	290	-	2,721
Other assets	4,325	1,471	-	2,854	27,702	32,027
Current financial assets						
Trade receivables	703,101	-	-	703,101	-	703,101
Other assets	55,242	779	-	54,463	7,656	62,898
Liquid funds	934,955	-	154	934,801	-	934,955
Assets held for sale	-	-	-	-	1,088	1,088
	1,700,344	**2,250**	**2,585**	**1,695,509**	**36,446**	**1,736,790**

*) Including securities which are pledged to employees to secure early retirement obligations.

Financial liabilities as of December 31, 2010

(€ thousand)	Fair value	IAS 39 measurement categories: At fair value through profit or loss	IAS 39 measurement categories: Other liabilities	Carrying amount under IAS 17	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2010
Non-current financial liabilities						
Financial liabilities	1,114,526	-	1,015,840	4,742	-	1,020,582
Other liabilities	54,660	377	54,283	-	285	54,945
Current financial liabilities						
Financial liabilities	39,578	-	37,518	2,060	-	39,578
Trade payables	584,614	-	584,614	-	-	584,614
Other liabilities	32,302	1,624	30,678	-	43,818	76,120
	1,825,680	**2,001**	**1,722,933**	**6,802**	**44,103**	**1,775,839**

Financial assets as of December 31, 2009

(€ thousand)	Fair value	IAS 39 measurement categories: At fair value through profit or loss	Available for sale	Loans and recei-vables	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2009
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
	1,352,777	1,697	315	1,350,765	34,039	1,386,816

Financial liabilities as of December 31, 2009

(€ thousand)	Fair value	IAS 39 measurement categories: 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, 2009
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
	1,161,455	5,111	1,112,688	8,753	25,478	1,152,030

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, 2010 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.

Fair values by fair value hierarchy levels

(€ thousand)	December 31, 2010	Level 1	Level 2	Level 3
		Fair value measurement at the end of the reporting period by hierarchy:		
Financial assets measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	2,250	-	2,250	-
Total	**2,250**	**-**	**2,250**	**-**
Financial liabilities measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	2,001	-	2,001	-
Designated in hedge accounting	51,965	-	51,965	-
Total	**53,966**	**-**	**53,966**	**-**

(€ thousand)	December 31, 2009	Level 1	Level 2	Level 3
		Fair value measurement at the end of the reporting period by hierarchy:		
Financial assets measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	1,697	-	1,697	-
Total	**1,697**	**-**	**1,697**	**-**
Financial liabilities measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	5,111	-	5,111	-
Designated in hedge accounting	24,765	-	24,765	-
Total	**29,876**	**-**	**29,876**	**-**

Financial instruments for which the fair value is obtained from quoted prices for similar instruments are classified as Level 1. If fair values are derived from directly observable market inputs, those instruments are included in Level 2. Financial instruments for which the fair values are not based on observable market data are assigned to Level 3. Klöckner & Co only holds Level 2 financial instruments.

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 2010, a net loss of €20,687 thousand (2009: €18,291 thousand) was incurred.

Net income for other liabilities consists of foreign currency exchange gains and losses. In financial year 2010, a net gain of €2,388 thousand (2009: net loss €2,038 thousand) was incurred.

As a result of impairments of non-current securities there were no impairment losses in 2010 for financial assets. The impairment loss for trade receivables amounted to €6,237 thousand (2009: €10,820 thousand) in 2010.

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 business, 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 statement of financial position. The Group counters the credit risk with its own credit management and with credit insurance. In 2010 approximately 64% (2009: 61%) 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 Eurozone as well as to bilateral lines of credit of its US and Swiss subsidiaries. In addition interest rate risks relate to the short-term deposits of liquid funds at banks. The central finance department monitors and controls the exposure of financial liabilities by using derivative interest rate financial instruments.

Long-term financing needs in the Eurozone 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, 2010, approximately 60% 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 deduction of transaction costs amounts to approximately 82%.

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, 2010 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 €2.1 million. With a view to the liquidity reserve an investment period of one year would result in a positive effect of €8.7 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 €7.0 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. With regard to forecasted transactions compensating effects resulting from operating measures or market developments – so-called natural hedging – are taken into consideration when defining the hedging strategy.

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 two US Dollar financing arrangements both the principal and the interest payments were hedged using cross currency swaps, 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 for liquidity is constantly monitored by the Corporate Finance department to ensure appropriate levels of liquidity. In 2010 the financing structure was further optimized. By first-time issuing promissory notes of €145 million in the second quarter the financial headroom was extended and the financing portfolio was further diversified. The maturity of the European ABS program was increased to two years. The syndicated loan now has a maturity of three years and an allowance for a one-year extension. Simultaneously, the volume was increased by €200 million to €500 million. The contractual arrangements were further harmonized. The covenant concept introduced during the financial crisis was maintained.

To facilitate the new growth strategy a further convertible bond was issued in December 2010. The convertible bond has a volume of €186.2 million at a maturity of seven years. Due to an investor put option the convertible bond is disclosed as a five-year bond in the IFRS consolidated financial statements.

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 €609 million (2009: €423 million) and finance leasing of approximately €7 million (2009: €9 million) the Group has facilities of approximately €2.2 billion (2009: €1.7 billion). Financial liabilities before deduction of transaction costs amounted to €1.072 million as of December 31, 2010, (2009: €677 million) which represent 48% (2009: 41%) of the credit facilities. 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, 2010

(€ thousand)		Cash outflows Less than one year	1–5 years	More than 5 years	Total
Bonds	Nominal values	-	609,100	-	609,100
	Interest	15,404	41,143	-	56,547
	Total	**15,404**	**650,243**	**-**	**665,647**
Promissory notes	Nominal values	-	145,000	-	145,000
	Interest	6,587	18,502	-	25,089
	Total	**6,587**	**163,502**		**170,089**
Bank loans	Nominal values	28,836	254,476	7,628	290,940
	Interest	8,173	15,441	205	23,819
	Total	**37,009**	**269,917**	**7,833**	**314,759**
ABS	Nominal values	-	88,175	-	88,175
	Interest	1,014	814	-	1,828
	Total	**1,014**	**88,989**	**-**	**90,003**
Finance lease liabilities	Nominal values	2,060	4,742	-	6,802
	Interest	139	266	-	405
	Total	**2,199**	**5,008**	**-**	**7,207**
Total financial liabilities		**62,213**	**1,177,659**	**7,833**	**1,247,705**
Cash outflows from derivative financial instruments designated in interest hedging relationships		7,730	12,860	– 10	20,580

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
	Total	**10,749**	**456,159**	**-**	**466,908**
Bank loans	Nominal values	44,517	233,426	-	277,943
	Interest	5,777	5,230	-	11,007
	Total	**50,294**	**238,656**	**-**	**288,950**
ABS	Nominal values	-	20,826	-	20,826
	Interest	170	246	-	416
	Total	**170**	**21,072**	**-**	**21,242**
Finance lease liabilities	Nominal values	2,191	6,176	386	8,753
	Interest	205	288	4	497
	Total	**2,396**	**6,464**	**390**	**9,250**
Total financial liabilities		**63,609**	**722,351**	**390**	**786,350**
Cash outflows from derivative financial instruments designated in interest hedging relationships		9,492	12,036	-	21,528

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, 2010 Not designated in hedge accounting	December 31, 2010 Designated in hedge accounting	December 31, 2009 Not designated in hedge accounting	December 31, 2009 Designated in hedge accounting
Nominal values				
Forward exchange transactions	88.4	-	64.1	-
Interest rate swaps	8.1	671.1	-	831.1
Other interest rate hedging instruments	15.0	-	34.7	-
Cross currency swap	-	223.7	-	223.7
Fair values				
Forward exchange transactions	0.6	-	– 0.8	-
Interest rate swaps	– 0.4	– 18.7	-	– 17.9
Other interest rate hedging instruments	-	-	– 1.6	-
Cross currency swap	-	– 33.3	-	– 6.9
Hedging VOP	-	-	– 1.0	-

The nominal values correspond to the gross amounts of the currency and interest rate portfolio. 322,571 (2009: 588,952) options are used to hedge the exposure resulting from the Group's virtual stock option programs. The fair values of these instruments are close to zero (2009: €–1.0 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 €88.4 million (2009: €64.1 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 4.60%. 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.

To the extent attributable to the effective portion of the fair value changes of hedging instruments designated in hedge accounting such fair value changes are recognized directly in equity. For the period ending December 31, 2010 these fair value changes amounted to €– 27.2 million (2009: €19.9 million).

The other interest rate hedging instruments with a nominal amount of €23.1 million (2009: €34.7 million) refer to two interest swaps and one interest cap of BSS. The instruments are used to hedge variable bilateral credits.

(31) PENDING LITIGATION, COMMITMENTS AND CONTINGENT LIABILITIES

The Group is currently 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 €31 thousand (2009: €1 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, 2010	December 31, 2009
Due within one year	52,172	49,575
Due between one and five years	115,252	106,013
Due after five years	60,842	56,509
Future minimum lease payments (nominal amounts)	**228,266**	**212,097**

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €2,785 thousand as of December 31, 2010 (2009: €4,495 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.

Certain members of the Supervisory Board were or are Members of the Supervisory Board or Management Board of other entities. Klöckner & Co holds business relations to certain of such entities. Business with such entities is transacted at arm's length.

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 2010 amounted to:

(€ thousand)	Gisbert Rühl, CEO/CFO	Ulrich Becker, COO	2010 Total	2009 Total
Fixed components	634	526	**1,160**	1,412
Bonuses*)				
Current	333	240	**573**	775
Midterm	225	180	**405**	-
Share-based payment**)	-	– 205	**– 205**	1,366
Total	**1,192**	**741**	**1,933**	**3,553**
Present value of benefit obligation	1,618	386	**2,004**	2,488
Addition in the current reporting period	740	217	**957**	667

*) Payout less prior year accrual plus current year accrual.
**) As of the date of legally binding arrangement or date of the modification of the exercise terms.

The amount for share-based payments represents the fair value of the virtual stock options at the grant date or in case of modifications of the terms and conditions the fair value change at the date of the modification. During financial year 2010 payments for share-based compensation amounts to €537 thousand (2009: €920 thousand).

Of the 2010 additions to pension provisions an amount of €693 thousand is attributable to a modification of the defined benefit arrangement of one member of the Management Board. Statutory pension provisions for a former Management Board member amount to €1,507 thousand.

Business with members of the Management Board is restricted to their above function as members of the Management Board.

In the 2010 financial year, remuneration for the Supervisory Board amounted to €382 thousand (2009: €339 thousand).

A list of the members of the Management Board and the Supervisory Board is included on pages 8 and 9 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 €1,154 thousand (2009: €1,021 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 flows cannot be directly reconciled to the statement of financial position due to the effects of currency translation and changes in the scope of consolidation which are eliminated in compiling the statement of cash flows.

Cash flow from operating activities

Cash flow from operating activities amounted to €35.2 million in the financial year 2010 which is significantly lower than in the prior year (2009: €564.7 million). This reflects the business model which entails increased working capital needs in times of increasing demand and, accordingly, negative impacts in cash flows from operating activities.

	Variance	
(€ thousand)	2010/2009	2009/2008
Inventories	168,180	– 431,161
Trade receivables*)	136,724	– 337,589
Trade payables	– 108,157	– 581
Net working capital	**196,747**	**– 769,331**

*) Including trade receivables sold under ABS programs.

Net working capital increased net of foreign currency exchange effects, changes in the scope of consolidation and reclassification to assets held for sale by €196.7 million to €1,017.3 million.

Cash flow from investing activities

Cash outflows for the acquisitions of €164.5 million and capital expenditure for property, plant and equipment and intangible assets of €27.0 million proceeds from the sale of property, plant and equipment and non-current assets (€3.7 million) led to net outflows from investing activities to €187.7 million.

Cash flow from financing activities

Cash flow from financing activities is driven by proceeds from the issuance of promissory notes (€144.4 million) and the convertible bond net of transaction costs (€183.3 million) which are partly offset by repayments of BSS shareholder loans €57.9 million. Including net drawings of financial liabilities of €28.2 million and (net) interest payments of €43.3 million cash inflows from financing activities amount to €252.0 million (2009: cash outflow €23.8 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 €935.0 million as of December 31, 2010. Cash and cash equivalents include bank balances of €24,693 thousand (2009: €13,957 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the ABS program.

(34) SEGMENT REPORTING

	Europe		North America	
(€ thousand)	2010	2009	2010	2009
Sales	4,311,469	3,186,155	886,712	674,338
– of which with third parties	4,311,469	3,186,155	886,712	674,338
– of which with other segments	-	-	-	-
Capital expenditure for intangible assets, property, plant and equipment	23,556	23,124	2,331	626
Segment result (EBITDA)	222,618	56,593	33,040	– 43,574
Earnings before interest and taxes (EBIT)	161,416	– 6,041	9,753	– 68,541
Amortization and depreciation of intangible assets and property, plant and equipment	61,196	40,050	23,287	24,967
Impairment losses for intangible assets and property, plant and equipment	-	22,583	-	-
Other non-cash income and expenses	– 32	146,946	-	-

	Europe		North America	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Net working capital (€ thousand)	850,827	541,022	158,228	95,909
Employees at year-end	8,187	7,708	1,381	1,216

	Headquarters		Consolidation		Total	
	2010	2009	2010	2009	2010	2009
	18,460	18,977	– 18,460	– 18,977	5,198,181	3,860,493
	-	-	-	-	5,198,181	3,860,493
	18,460	18,977	– 18,460	– 18,977	-	-
	641	897	-	-	26,528	24,647
	– 17,884	– 81,514	-	-	237,774	– 68,495
	– 19,177	– 103,551	– 1	-	151,991	– 178,133
	1,299	2,839	1	-	85,783	67,856
	-	19,199	-	-	-	41,782
	868	– 66,818	-	-	836	80,128

	Headquarters		Consolidation		Total	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	8,281	– 134	– 8	-	1,017,328	636,797
	131	108	-	-	9,699	9,032

The earnings before interest and taxes (EBIT) can be reconciled to the consolidated net income before taxes as follows:

(€ thousand)	2010	2009
Earnings before interest and taxes (EBIT)	151,991	– 178,133
Financial result (Group)	– 67,650	– 61,699
Income before taxes (Group)	**84,341**	**– 239,832**

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. Klöckner & Co Group 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 as key performance indicator is defined as earnings before interest, taxes, depreciation and amortization and reversals of impairments of intangible assets and property, plant and equipment.

Net working capital comprises inventories and trade receivables less trade liabilities.

As explained in Note 6 *Specific items recognized in net income* the 2009 impairments of goodwill and property, plant and equipment relate 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 changes in fair values of derivative financial instruments. Prior-year amounts related to the adjustments of the antitrust provision in France (Europe: €145.8 million) and the corresponding claim against former shareholders (Headquarters: €– 66.5 million).

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)	2010	2009
Germany	144,412	52,610
Switzerland	187,162	150,111
United States	213,451	200,290
France	61,593	66,268
Spain	62,079	63,951
Other regions	96,002	101,957
Total	**764,699**	**635,187**

(35) SUBSEQUENT EVENTS

On January 19, 2011 Klöckner & Co SE signed a Memorandum of Understanding to acquire Macsteel Service Centers USA, Inc. ("Macsteel") from the seller Macsteel Global B.V.

With its 30 locations, Macsteel is one of the leading service center companies in the US. In 2010, Macsteel generated with its 1,183 employees sales of approx. USD 1.3 billion. The transaction will be subject to a successful due diligence, the approval by the Supervisory Board of Klöckner & Co SE and antitrust authorities. The transaction is expected to be completed in the second quarter of 2011.

With the planned acquisition of Macsteel, Klöckner & Co SE will expand the product and service portfolio towards a higher margined service center business and strengthen its market position significantly by at least doubling its sales in the US.

(36) FEES AND SERVICES OF THE AUDITOR OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, and affiliated companies in the financial year:

(€ thousand)	2010	2009
Audit of financial statements	**1,826**	1,848
Other assurance services	**355**	1,987
Tax advisory services	**183**	137
Other services	**171**	197
	2,535	**4,169**

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 in 2009 fees (incl. insurance) in the context of 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.

(37) APPLICATION OF SECTION 264 PARA. 3 AND SECTION 264B HGB

In 2010 the following domestic subsidiaries made use in part of the exemption clause included in Section 264 para. 3 of the German Commercial Code (HGB):

- Becker Besitz GmbH, Duisburg
- Becker Stahl-Service GmbH, Duisburg
- Multi Metal Beteiligungs GmbH, Duisburg
- Klöckner & Co International GmbH, Duisburg
- Klöckner & Co Verwaltung GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner Global Sourcing GmbH, Duisburg
- Umformtechnik Stendal UTS GmbH & Co KG, Stendal

(38) DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATIONS ACT (AKTG – AKTIENGESETZ)

On December 15, 2010 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 publicly available to the shareholders on the Klöckner & Co Web site.

Duisburg, February 21, 2011
Klöckner & Co SE

The Management Board

Gisbert Rühl	Ulrich Becker
Chairman	Member
of the Management Board	of the Management Board

70 Consolidated statement of income
71 Statement of comprehensive income
72 Consolidated statement of financial position
75 Consolidated statement of cash flows
76 Summary of changes in equity
78 Notes to the consolidated financial statements
137 Declaration of the Management Board
138 Auditor's report
139 Individual financial statements
158 Subsidiary listing
166 Information pursuant to Section 160 para. 1 No. 8 AktG
167 Additional mandates

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 21, 2011

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, 2010 to December 31, 2010. 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.

Düsseldorf, February 21, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Philippi	Michels-Scholz
Wirtschaftsprüfer	Wirtschaftsprüfer

INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

KLÖCKNER & CO SE

Income statement
for the period from January 1 to December 31, 2010

(€ thousand)	2010	2009
Other operating income	18,043	16,288
Personnel expenses	– 17,354	– 16,600
Depreciation of intangible assets and property, plant and equipment	– 315	– 239
Other operating expenses	– 22,328	– 31,356
Income from investments	62,152	57,980
Other interest and similar income	36,052	29,686
Interest and similar expenses	– 29,317	– 24,478
Result from ordinary activities	**46,933**	**31,281**
Extraordinary income	383	-
Extraordinary result	**383**	**-**
Income taxes	89	-
Other taxes	– 53	– 36
Net income	**47,352**	**31,245**
Unappropriated profits carried forward	17,700	17,700
Appropriation to other revenue reserves	– 17,700	– 31,245
Unappropriated profits	**47,352**	**17,700**

KLÖCKNER & CO SE

Balance sheet as of December 31, 2010

Assets

(€ thousand)	December 31, 2010	December 31, 2009
Intangible assets	508	385
Property, plant and equipment	647	459
Investments in affiliated companies	258,328	258,303
Fixed assets	**259,483**	**259,147**
Trade receivables	176	36
Receivables from affiliated companies	1,064,132	807,839
Other assets	18,057	49,964
Cash and cash equivalents	9	89
Current assets	**1,082,374**	**857,928**
Prepaid expenses	73,630	56,224
Total assets	**1,415,487**	**1,173,299**

Equity and liabilities

(€ thousand)	December 31, 2010	December 31, 2009
Equity		
Subscribed capital	166,250	166,250
Capital reserves	473,100	437,965
Other revenue reserves	75,693	57,837
Unappropriated profits	47,352	17,700
Equity	762,395	**679,752**
Provisions for pensions and similar obligations	9,018	10,186
Provisions for taxes	333	325
Other provisions	8,481	9,380
Bonds	609,100	422,900
Trade payables	529	689
Liabilities to affiliated companies	21,913	49,857
Other liabilities	3,718	210
Total equity and liabilities	1,415,487	**1,173,299**

KLÖCKNER & CO SE

Movements in intangible assets, property, plant and equipment and non-current investments in 2010 (annex to the notes)

	Cost				
(€ thousand)	As of December 31, 2009	Additions	Transfers	Disposals	As of December 31, 2010
I. Intangible assets					
1. Concessions, industrial rights and similar rights and licenses in such rights	735	315	59	4	**1,105**
2. Prepayments	59	-	– 59	-	**-**
II. Property, plant and equipment					
1. Buildings	114	102	-	-	**216**
2. Other equipment, operating and office equipment	636	209	-	16	**829**
III. Non-current investments					
Investments in affiliated companies	258,303	25	-	-	**258,328**
	259,847	**651**	**-**	**20**	**260,478**

	Accumulated amortization and depreciation				Carrying amounts	
	As of December 31, 2009	Current year amortization and depreciation	Disposals	As of December 31, 2010	Book value as of Dec. 31, 2009	Book value as of Dec. 31, 2010
	409	192	4	597	326	508
	-	-	-	-	59	-
	34	23	-	57	80	159
	257	100	16	341	379	488
	-	-	-	-	258,303	258,328
	700	315	20	995	259,147	259,483

KLÖCKNER & CO SE, DUISBURG

Notes to the financial statements for the 12-month period ending December 31, 2010

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. INITIAL APPLICATION OF THE GERMAN ACCOUNTING LAW MODERNIZATION ACT (BILMOG)

In 2010 Klöckner & Co SE initially applied the German Accounting Law Modernization Act of May 25, 2009 (BilMoG – Bilanzrechtsmodernisierungsgesetz) for the compilation of its annual financial statements. In accordance with Section 67 para. 8 sentence 2 of the Introductory Act of the German Commercial Code (EGHGB – Einführungsgesetz zum Handelsgesetzbuch). The Company made use of the allowed alternatives for implementation as follows:

- Internally generated intangible assets were not capitalized.
- The total adjustment to the provision for pensions and similar obligations was directly recorded in revenue reserves.
- The adjustment to other provisions was expensed as incurred. The provision was adjusted as of January 1, 2010. The option to carry forward the balances was not elected.
- Deferred tax assets were not capitalized.

The initial application of the BilMoG as of January 1, 2010 resulted in the following changes:

(€ thousand)	As previously reported	Initial application BilMoG	As restated
Fixed assets	259,147	-	259,147
Current assets	857,928	– 3,199	854,729
Prepaid expenses	56,224	-	56,224
Total assets	**1,173,299**	**– 3,199**	**1,170,100**
Equity	679,752	538	680,290
thereof extraordinary income/expenses recorded in income statement	-	*383*	*383*
Provisions for pensions and similar obligations	10,186	– 2,743	7,443
Other provisions	9,705	– 994	8,711
Liabilities	473,656	-	473,656
Total equity and liabilities	**1,173,299**	**– 3,199**	**1,170,100**

3. ACCOUNTING POLICIES

The financial statements for the financial year from January 1 to December 31, 2010 were compiled in accordance with the German Commercial Code (HGB – Handelsgesetzbuch) amended by the BilMoG 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. Internally generated intangible assets were not capitalized. 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 average exchange rate at the reporting date. Section 253 para. 1 sentence 1 and Section 252 para. 1 no. 4 HGB will not be applied on receivables with a remaining maturity of less than 12 months.

Equity and liabilities
Provisions for pensions and similar obligations are measured using the projected unit credit method in analogy to IAS 19. In accordance with the requirements of BilMoG the parameters for valuation were 2.5% for salary increase and 2.0% for pension increase. Unchanged, the biometrical parameters are based on Professor Dr. Klaus Heubeck's guidelines 2005 G. The obligation is discounted with the average market rate that is based on an assumed 15-year maturity and is published by the German Central Bank (Deutsche Bundesbank). At the reporting date this interest rate is 5.15%. Assets will be offset against the corresponding liability if they are excluded from the access of creditors and exclusively used to fulfill pension obligations.

Other accrued expenses account for all identifiable and pending risks. They are recorded at their pay-off amount that is estimated with due care and diligence of a prudent businessman. Provisions with a maturity of more than one year are discounted on the reporting date. The average market rates of the previous seven years according to the corresponding maturity of the provisions published by the German Central Bank were used as discount rates.

Liabilities are generally stated at their settlement amount. Liabilities in foreign currencies with a maturity of up to one year are generally converted by the average rate on reporting date. Liabilities in foreign currency with a longer maturity are converted by the rate at initial issue or the higher average rate on the reporting date.

Income statement
The income statement is prepared according to the nature of expense method per Section 275 para. 2 HGB.

In contrast to the previous year, interest cost on pensions is stated in net interest income.

The adjustments to BilMoG effecting net income are reported in the extraordinary result.

4. 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.

Furthermore, Klöckner & Co SE holds 100% of the shares in Becker Besitz GmbH, Duisburg, founded in February 2010.

A listing of all subsidiaries is presented in the appendix.

5. ACCOUNTS RECEIVABLE AND OTHER ASSETS

(€ thousand)	2010	2009
Trade receivables	176	36
Receivables from affiliated companies	1,064,132	807,839
Other assets	18,057	49,964
	1,082,365	857,839

The accounts receivable due from affiliated companies are with €167,875 thousand (2009: €169,333 thousand) attributable to MMB and relate to loans, to the 2010 profit transfer and to the current clearing. Furthermore, loan receivables of €881,454 thousand (2009: €633,898 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 prior-year rights issue.

The receivables and other assets have a remaining maturity of less than one year.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances.

7. PREPAID EXPENSES

The discounts on issuance of the convertible bonds of €124,394 thousand were capitalized as prepaid expenses in 2007, 2009 and 2010, respectively and are amortized over the remaining maturity of the bonds. In 2010, amortization expenses included in interest expense amounted to €17,994 thousand (2009: €15,646 thousand). The remaining unamortized discounts stood at €72,960 thousand (2009: €55,821 thousand) as of the end of the financial year 2010.

In addition prepaid expenses include prepaid rents.

8. EQUITY

The subscribed capital of Klöckner & Co SE as of December 31, 2010 amounts to €166,250,000.00 and consists of 66,500,000 registered shares and is fully paid-in. The capital reserve amounts to €473,100,286.68.

The authorized capital per Section 4 para. 2 of the articles of Klöckner & Co SE so far were completely used for rights issue in 2009. The Board of Management was authorized by resolution of the annual general meeting on May 26, 2010 to increase the share capital in single or multiple installments with consent of the Supervisory Board up to a total amount of €83,125,000.00 as cash contribution and/or contribution in kind by the issuance of 33,250,000 new non-par-value shares until May 25, 2015.

The capital reserve was increased by €35,135 thousand as a result of the issuance of the 2010 convertible bond.

The revenue reserves are not subject to dividend blocking constraints according to Section 268 para. 8 HGB.

9. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The pension obligation of Klöckner & Co SE amounts to €14,149 thousand. The plan assets exclusively consist of reinsurance claims for which the acquisition cost are equal to their fair values (€5,131 thousand). The provision for pensions and similar obligation are stated net of plan assets at fair values. Plan assets are measured at the asset value of the insurance company.

Plan assets are measured at the asset value of the reinsurances.

Pension liabilities were reduced as a result of the initial application of the BilMoG. The reversal of €155 thousand was allocated to revenue reserves. Expenses from the accretion of pension liabilities of €664 thousand were offset against interest income from plan assets of €557 thousand.

10. OTHER PROVISIONS

The initial application of BilMoG led to a reversal of other provisions amounting to €383 thousand which were increased in the previous year and stated in the extraordinary result in the reporting year.

Other provisions consist of:

(€ thousand)	2010	2009
Personnel expenses	6,710	6,388
Outstanding invoices	1,108	1,613
Miscellaneous other provisions	663	1,379
	8,481	9,380

11. LIABILITIES

(€ thousand)	2010	2009
Convertible bonds	609,100	422,900
Trade payables	529	689
Liabilities to affiliated companies	21,913	49,857
Other liabilities	3,718	210
	635,260	473,656

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 €70.44.

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 of this bond also amounts to five years. The bond has a coupon of 6.0% and a conversion price of €18.37.

On December 22, 2010 Klöckner & Co Financial Services S.A. issued a senior unsecured convertible bond with a volume of €186.2 million to institutional investors outside of the US only. This bond is also granted by Klöckner & Co SE. Klöckner & Co intends to use the issue proceeds for its stated external expansion strategy "Klöckner & Co 2020" and for general corporate purposes.

The bond has a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond are entitled to require the early redemption of the bonds after five years at the principal amount including accrued interest. Klöckner cannot call the bond within the first five years. After five years Klöckner & Co may call the bond if the Klöckner share price (over a certain period) exceeds 130% of the then prevailing conversion price. The conversion price is €28.00, which represents a premium of 35.07% above the reference price of €20.73.

Other liabilities include:

(€ thousand)	2010	2009
Tax payables	**3,673**	187
Social security contributions	**41**	17

Except for the convertible bonds all liabilities have a remaining maturity of less than one year.

12. COMMITMENTS

Future minimum lease payments for long-term operating leases relate with €3,705 thousand (2009: €3,430 thousand) to 2011 and with €15,368 thousand (2009: €12,868 thousand) to financial years 2012 until 2015. In periods subsequent to 2016 the obligations amount to €4,250 thousand (2009: €6,288 thousand).

13. OTHER OPERATING INCOME

Other operating income contains income attributable to prior periods of €608 thousand (2009: €965 thousand).

14. PERSONNEL EXPENSES

(€ thousand)	2010	2009
Wages and salaries	**13,248**	12,038
Social securities	**1,175**	929
Retirement benefit cost	**2,919**	3,622
Welfare	**12**	11
	17,354	**16,600**

Average number of employees:

	2010	2009
Salaried employees	**116**	88
Wage earners	**3**	3
	119	**91**

Compensation of members of the Management Board:

(€ thousand)	Gisbert Rühl, CEO/CFO	Ulrich Becker, COO	2010 Total	2009 Total
Fixed components	634	526	**1,160**	1,412
Bonuses*)				
Current	333	240	**573**	775
Midterm	225	180	**405**	-
Share-based payment**)	-	– 205	**– 205**	1,366
Total	**1,192**	**741**	**1,933**	**3,553**
Present value of benefit obligation	1,618	386	**2,004**	2,488
Addition in the current reporting period	740	217	**957**	667

*) Payout 2010 less prior year accrual plus current-year accrual.
**) As of the date of legally binding arrangement or date of the modification of the exercise terms.

The amount for share-based payments represents the fair value of the virtual stock options at the grant date or in case of modifications of the exercise terms the date on which the modification was made. During the financial year payments for share-based compensation amounted to €537 thousand (2009: €920 thousand).

Of the additions to provisions an amount of €693 thousand is attributable to a modification of the benefit arrangement of one Board member. Statutory pension provisions for a former Board member amount to €1,507 thousand (2009: €1,440 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 No. 9 HGB. This vote was reversed at the Annual General Meeting on May 26, 2010.

The CEO Gisbert Rühl is entitled to resign extraordinarily his contract if the limit of 30% of the voting rights is exceeded. In case of the exercise of that right the CEO has an entitlement to the payment of a plan annual compensation (including a plan bonus) until the end of the contracted period (December 31, 2012). At a maximum, the payment includes the triple value of the total compensation which he received in the financial year prior to the finalization of his contract.

15. OTHER OPERATING EXPENSES

In the 2010 financial year, remuneration for the Supervisory Board amounted to €382 thousand (2009: €339 thousand).

Other operating expenses also include fees incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, and affiliated companies. Detailed information on audit fees can be obtained from Note 36 to the consolidated financial statements.

Other operating expenses relate with €374 thousand (2009: €19 thousand) to prior periods.

16. INCOME FROM INVESTMENTS

Income from investments comprises income from the profit and loss transfer agreement with Multi Metal Beteiligungs GmbH, Duisburg and Becker Besitz GmbH, Duisburg.

17. INTEREST INCOME, NET

(€ thousand)	2010	2009
Other interest and similar income		
– affiliated companies	**36,052**	29,686
Interest and similar expenses		
– affiliated companies	**– 11,274**	– 8,831
– Interest on provisions	**– 107**	-
– other interest and similar expenses	**– 17,936**	– 15,647
	6,735	**5,208**

Interest income relates with €33,984 thousand (2009: €27,636 thousand) to a loan granted to Klöckner & Co Verwaltung GmbH.

18. EXTRAORDINARY RESULT

The extraordinary result exclusively comprises the following income statement effects from the initial application of BilMoG:

(€ thousand)	2010
Extraordinary expenses	
– Adjustment other provisions	383
	383

19. TAXES

(€ thousand)	2010	2009
Income taxes	– 89	-
Other taxes	53	36
	– 36	36

The calculation of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 para. 1 sentence 2 HGB the Company did not elect to recognize the net deferred tax asset. Therefore, the tax expenses do not include deferred taxes. The unrecognized net deferred tax asset result from tax losses of €17,853 thousand and deductible temporary differences of €15,869 thousand which are only partly offset by taxable temporary differences of €2,139 thousand.

Based on the three-year budget of Klöckner & Co SE for the years 2011–2013 the unrecognized deferred tax assets on loss carryforwards amount to €10,441 thousand. If the three-year budget was extended to 2014 and 2015 additional unrecognized deferred tax of €17,853 thousand would arise.

20. CONTINGENT LIABILITIES

The contingent liabilities of €429,734 thousand result from a guarantee for drawings of Klöckner & Co Verwaltung GmbH under the holding credit arrangement ("Holding Facility") in the amount of €226,039 thousand, from promissory notes of €147,061 thousand and a further guarantee for obligations of Klöckner & Co Verwaltung GmbH of €44,140 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 €12,494 thousand.

Based on our information that all respective Group companies are able to fulfill their obligations in the course of their business we do not expect a utilization.

21. 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
Increase over threshold			
Norges Bank (Central Bank of Norway)[a]	Oslo, Norway	5.15	May 20, 2010
Amundi S.A.	Paris, France	3.003[b]	January 28, 2011

a) State of Norway.
b) Partly attributed holding, not cumulative.

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.

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 15, 2010, 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 Management Board and the Supervisory Board propose to the Shareholder's Meeting to distribute an amount of €19,950,000.00 from the 2010 unappropriated surplus of €47,351,521.54 (2009: €17,699,907.99). This corresponds to a dividend of €0.30 per share on the share capital entitled to dividend of €166,250,000.00. Furthermore, the Management Board and the Supervisory Board propose to allocate the residual amount of €27,401,521.54 to the other revenue reserves.

Duisburg, February 21, 2011
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 21, 2011

The Management Board

Gisbert Rühl
Chairman
of the Management Board

Ulrich Becker
Member
of the Management Board

70 Consolidated statement of income
71 Statement of comprehensive income
72 Consolidated statement of financial position
75 Consolidated statement of cash flow
76 Summary of changes in equity
78 Notes to the consolidated financial statements
137 Declaration of the Management Board
138 Auditor's report
139 Individual financial statements
158 Subsidiary listing
166 Information pursuant to Section 160 para. 1 No. 8 AktG
167 Additional mandates

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, 2010. 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.

Düsseldorf, February 21, 2011

KPMG AG
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 SE, Duisburg, Germany		
I.	**Consolidated affiliated companies**		
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 Global Sourcing GmbH, Duisburg, Germany	100.00	
6	Klöckner Stahl- und Metallhandel GmbH, Duisburg, Germany	100.00	
7	Dobbertin Drahthandel GmbH, Hamburg, Germany	100.00	
8	ASD metal services Ltd., Leeds, United Kingdom	100.00	
9	Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland	99.99	
		0.01	
10	Klöckner Romania S.R.L., Bucharest, Romania	99.87	
		0.13	
11	Edelstahlservice Mágocs Nemesacélfeldolgozó Kft, Mágocs, Hungary	100.00	
12	Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic	100.00	
13	Klöckner Metalsnab AD, Sofia, Bulgaria	99.77	
14	Klöckner Participaciones SA, Madrid, Spain	100.00	
15	Klöckner Stahl und Metall Ges.m.b.H, Vienna, Austria	100.00	
16	Klöckner & Co Financial Services S.A., Luxembourg	100.00	
17	Klöckner S.à r.l., Luxembourg	100.00	
18	Klöckner Investment SCA, Luxembourg	96.77	
		3.23	
19	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00	
20	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00	
21	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
22	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00	
23	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
24	Klöckner Metal Services Ltd., Leeds, United Kingdom	100.00	
25	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00	
26	Namasco Corporation, Wilmington, Delaware, USA	100.00	
27	Lake Steel Ltd., Amarillo, Texas, USA	100.00	
28	Lake Operations L.L.C., Amarillo, Texas, USA	100.00	
29	Kloeckner Burlington Limited, Burlington, Ontario, Canada	100.00	
30	Kloeckner Alberta Limited, Calgary, Alberta, Canada	100.00	
31	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
32	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00	

70 Consolidated statement of income
71 Statement of comprehensive income
72 Consolidated statement of financial position
75 Consolidated statement of cash flow
76 Summary of changes in equity
78 Notes to the consolidated financial statements
137 Declaration of the Management Board
138 Auditor's report
139 Individual financial statements
158 Subsidiary listing
166 Information pursuant to Section 160 para. 1 No. 8 AktG
167 Additional mandates

	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	259,132,783.19	-	1)	-
	4	EUR	85,787.86	15,898.80	1)	24,027,962.88
	4	EUR	83,209,014.62	-	1)	929,113,700.85
	6	EUR	39,061.39	5,370.36		-
	81	GBP	2.00	-		-
	6	PLN	9,416,272.37	1,591,210.71		111,165,972.86
	7					
	6	RON	5,435,353.38	– 1,110,025.87		20,753,043.72
	7					
	6	HUF	68,062,430.00	8,426,754.00		286,581,085.00
	6	CZK	34,593,753.76	8,065,615.76		427,926,622.37
	4	BGN	8,301,572.31	– 4,169,165.39		43,490,842.94
	4	EUR	– 2,240,088.02	– 2,312,829.18		-
	6	EUR	1,619,877.95	1,358,421.29		-
	1	EUR	216,751.46	162,046.46		-
	3	EUR	12,500.00	-		-
	3	EUR	241,569.06	827,193.55		-
	17					
	20	EUR	19,341,118.42	89,066.03		-
	4	EUR	111,187,970.77	363,421.02		-
	68	EUR	16,562,572.18	1,961,352.43		47,131,914.33
	72					
	15	EUR	9,248,972.08	4,511,801.52		69,449,861.02
	31	USD	296,086,638.47	34,519,999.96		-
	25	GBP	11,737,857.00	2,184,158.00		65,407,589.72
	4	GBP	30,135,774.00	– 3,164,458.00		-
	23	USD	378,616,431.64	8,351,219.43		737,043,895.39
	26	USD	39,980,554.70	– 54,980.30		2,242,492.12
	26	USD	-	-	6)	-
	20	CAD	– 5,931,566.11	– 582,439.64		-
	20	CAD	– 325,462.01	676,011.96		-
	4	USD	– 8,721,026.77	21,666,514.32		-
	4	EUR	160,025,000.00	-	1)	-

1) Profit and loss transfer agreement.
6) Amounts included in No. 27.

No.	Entity	Interest in percent	
33	Temtco Steel, LLC, Wilmington, Delaware, USA	100.00	
34	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00	
35	Debrunner Acifer AG, St. Gallen, Switzerland	100.00	
36	Molok (Valais) SA, Siders, Switzerland	100.00	
37	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00	
38	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00	
39	Metall Service Menziken AG, Menziken, Switzerland	100.00	
40	Klöckner Stahl AG, St. Gallen, Switzerland	100.00	
41	Koenig Feinstahl AG, Dietikon, Switzerland	100.00	
42	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00	
43	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00	
44	Bläsi AG, Bern, Switzerland	100.00	
45	ODS B.V., Rotterdam, The Netherlands	100.00	
46	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
47	ODS do Brasil Sistemas de Medicao LTDA, Campinas São Paulo, Brazil	80.00	
48	O-D-S N.V., Antwerp, Belgium	99.50	
		0.50	
49	ODS Metals N.V., Antwerp, Belgium	100.00	
50	Teuling Staal B.V., Barendrecht, The Netherlands	100.00	
51	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
52	Armstrong Plate Ltd., Leeds, United Kingdom	100.00	
53	Gardiner, Barugh & Jones Ltd., Leeds, United Kingdom	100.00	
54	Grange Steels Ltd., Leeds, United Kingdom	100.00	
55	Hilton Steels Ltd., Leeds, United Kingdom	100.00	
56	Humber Steel Stockholders Ltd., Leeds, United Kingdom	100.00	
57	RW Project Metals Ltd., Leeds, United Kingdom	100.00	
58	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
59	Parkin Steel Stockholders Ltd., Leeds, United Kingdom	100.00	
60	Peterborough Steels Ltd., Leeds, United Kingdom	100.00	
61	RW Doncaster Ltd., Leeds, United Kingdom	100.00	
62	John O. Holt & Sons Ltd., Leeds, United Kingdom	100.00	
63	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
64	Berry Hill Group Ltd., Leeds, United Kingdom	100.00	
65	James & Tatton Ltd., Leeds, United Kingdom	100.00	
66	Westgarth Aberdeen Ltd., Bathgate, United Kingdom	100.00	
67	JRS Steel Stockholders Ltd., Leeds, United Kingdom	100.00	
68	Klöckner Distribution Industrielle S.A., Aubervilliers, France	96.77	

Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
31	USD	193,304,022.41	3,681,454.69		200,583,207.48
4	CHF	183,281,072.55	49,580,367.01		-
34	CHF	135,582,191.47	39,919,890.92		655,695,893.09
43	CHF	383,543.46	5,220.00		-
34	CHF	31,597,401.86	8,900,869.32		184,970,095.65
34	CHF	8,165,396.27	1,736,729.54		39,009,857.15
34	CHF	11,902,297.29	3,073,676.70		97,867,947.21
34	CHF	109,742.93	1,903.47		-
34	CHF	19,030,949.27	3,153,565.74		71,063,524.87
34	CHF	3,227,993.82	259,443.83		-
34	CHF	10,829,108.22	2,021,160.94		52,978,558.54
34	CHF	20,939,229.16	4,682,806.78		44,806,902.46
20	EUR	38,260,692.22	4,029,425.70		223,823,332.76
45	EUR	18,000.00	-		-
45	BRL	6,129,572.32	3,239,402.59		13,537,499.36
45	EUR	2,277,367.68	458,821.81		4,932,498.44
20					
45	EUR	860,376.61	– 16,828.28		6,187,166.92
45	EUR	4,276,216.07	– 1,086,500.70		4,696,551.15
25	GBP	17,379,253.00	-		-
51	GBP	– 584,019.00	-		-
51	GBP	1,561,971.00	-		-
51	GBP	558,489.00	-		-
51	GBP	– 83,890.00	-		-
51	GBP	2,371,118.00	-		-
51	GBP	46,299.00	-		-
51	GBP	2,803,828.00	-		-
51	GBP	343,591.00	-		-
51	GBP	– 370,622.00	-		-
51	GBP	– 319,199.00	-		-
51	GBP	249,843.00	-		-
62	GBP	15,804,980.00	821,702.00		77,024,934.28
51	GBP	1,872,067.00	-		-
64	GBP	2,096,520.00	-		-
51	GBP	– 116,022.00	-		-
51	GBP	– 762,236.00	-		-
4	EUR	103,879,390.00	– 5,913,880.00		-

No.	Entity	Interest in percent	
69	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
70	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
71	AT2T S.A.S., La Grand Croix, France	100.00	
72	KDI S.A.S., Aubervilliers, France	100.00	
73	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
74	Prafer SNC, Woippy, France	100.00	
75	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
76	KDI Authentic S.A.S., Aubervilliers, France	100.00	
77	Comercial de Laminados S.A., Barcelona, Spain	100.00	
78	Hierros del Turia S.A., Valencia, Spain	80.00	
79	Perfiles Aragón S.A., Zaragoza, Spain	100.00	
80	Cortichapa S.A., Valencia, Spain	85.00	
		15.00	
81	ASD Limited, Leeds, United Kingdom	100.00	
82	ASD Westok Limited, Leeds, United Kingdom	100.00	
83	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
84	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
85	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
86	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00	
87	Becker Stahl-Service GmbH, Duisburg, Germany	100.00	
88	Becker Stahl GmbH, Bönen, Germany	100.00	
89	Becker Transport GmbH, Duisburg, Germany	100.00	
90	Becker Besitz GmbH, Duisburg, Germany	100.00	
91	Umformtechnik Stendal UTS GmbH & Co. KG, Stendal, Germany	100.00	
92	Umformtechnik Stendal UTS Verwaltung GmbH, Stendal, Germany	100.00	

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	72	EUR	1,227,706.23	77,499.80		46,876,097.60
	68	EUR	17,127,187.00	2,193,179.00		102,697,225.00
	72	EUR	8,509,425.80	– 29,345.48		62,134,005.64
	68	EUR	123,088,941.51	24,519,018.32		742,463,432.03
	72	EUR	70,474,945.29	4,577,373.43		11,432,149.71
	72	EUR	3,566,680.20	182,078.83		6,914,426.26
	72	EUR	4,277,022.49	300,477.73		20,182,930.95
	72	EUR	8,539,461.90	– 73,663.59		335,495.56
	14	EUR	62,032,538.04	– 1,272,662.59		242,338,280.20
	77	EUR	28,976,446.67	– 523,991.07		45,173,551.38
	77	EUR	21,056,727.08	– 853,556.99		38,362,843.70
	77	EUR	28,604,621.29	1,852,996.56		53,965,775.75
	78					
	25	GBP	31,848,495.00	4,223,768.00		243,159,832.66
	25	GBP	10,223,196.00	1,002,500.00		13,433,385.57
	25	GBP	1,798,869.00	663,278.00		15,301,423.57
	25	GBP	120,716.00	671,935.00		4,585,610.86
	26	USD	2,305,569.24	5,171.20		-
	77	EUR	27,054.00	-		-
	4	EUR	286,473,763.43	36,900,523.16		535,139,102.62
	87	EUR	341,201.43	181,201.43	4)	265,871.76
	87	EUR	67,577.24	35,284.01	5)	737,466.29
	1	EUR	25,000.00	-	1), 5)	-
	87	EUR	2,768,438.38	– 257,563.00	4)	12,342,560.76
	91	EUR	26,743.77	743.77	4)	-

1) Profit and loss transfer agreement.
4) Financial statements as of September 30, 2010.
5) Stub period from March 1 until December 31, 2010.

No.	Entity	Interest in percent	
II.	**Non-consolidated affiliated companies**		
93	Sammi Klöckner International GmbH, Duisburg, Germany	100.00	
94	KDI Courtages SARL, Paris, France	100.00	
95	Richardson Westgarth Employees Trustees Ltd., Leeds, United Kingdom	100.00	
96	Klöckner Steel Company Ltd., Leeds, United Kingdom	100.00	
97	UAB Klöckner Baltija, Klaipeda, Lithuania	100.00	
98	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00	
III.	**Associates**		
99	Birs-Stahl AG, Birsfelden, Switzerland	50.00	
IV.	**Participations over 20%**		
100	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
	4	EUR	– 14,083,020.57	– 13,769.90		-
	68	EUR	13,218.00	– 10,244.00		-
	51	GBP	1.00	-		-
	4	GBP	61,266.00	-	2)	-
	4	LTL	– 28,345.00	– 186,002.00		3,695,423.00
	91	EUR	82,160.00	12,958.00		35,101.00
	35	CHF	690,877.41	40,599.44	3)	1,576,543.09
	75	EUR	11,037.00	3,037.00	2)	15,000.00

2) Financial statements as of December 31, 2008.
3) Financial statements as of December 31, 2009.

Annex to the notes to the financial statements and notes to 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			
FIL Holdings Limited	Hildenborough, United Kingdom	3.80	January 2, 2009
FIL Holdings Limited	Hildenborough, United Kingdom	3.06	June 22, 2009
Norges Bank (Central Bank of Norway)***)	Oslo, Norway	3.19	May 11, 2010
Norges Bank (Central Bank of Norway)***)	Oslo, Norway	5.15	May 20, 2010
Amundi S.A.**)	Paris, France	3.03	January 3, 2011
Amundi S.A.**)	Paris, France	3.003	January 28, 2011
Decrease below threshold			
FIL Holdings Limited	Hildenborough, United Kingdom	2.89	March 19, 2009
FIL Holdings Limited	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*)
BlackRock Institutional Trust Company, N.A.**)	California, USA	2.80	April 27, 2010
BlackRock Delaware Holdings, Inc.**)	Delaware, USA	2.80	April 27, 2010
BlackRock Holdco 6 LLC**)	New York, USA	2.80	April 27, 2010
BlackRock Holdco 4 LLC**)	New York, USA	2.80	April 27, 2010
BlackRock Financial Management, Inc.**)	New York, USA	4.87	April 27, 2010
BlackRock Holdco 2, Inc.**)	Delaware, USA	4.87	April 27, 2010
BlackRock, Inc.**)	New York, USA	4.87	April 27, 2010
BlackRock Financial Management, Inc.**)	New York, USA	2.78	June 8, 2010
BlackRock Holdco 2, Inc.**)	Delaware, USA	2.78	June 8, 2010
BlackRock, Inc.**)	New York, USA	2.78	June 8, 2010
Franklin Mutual Advisers, LLC**)	Short Hills, USA	4.66	July 26, 2010
Franklin Mutual Series Funds	Short Hills, USA	4.64	July 26, 2010
Franklin Mutual Series Funds	Short Hills, USA	2.86	August 4, 2010
Franklin Mutual Advisers, LLC**)	Short Hills, USA	2.66	August 6, 2009
Amundi S.A.**)	Paris, France	2.98	January 20, 2011

*) Correction of prior notification.
**) Partly attributed holding.
***) State of Norway.

70 Consolidated statement of income
71 Statement of comprehensive income
72 Consolidated statement of financial position
75 Consolidated statement of cash flow
76 Summary of changes in equity
78 Notes to the consolidated financial statements
137 Declaration of the Management Board
138 Auditor's report
139 Individual financial statements
158 Subsidiary listing
166 Information pursuant to Section 160 para. 1 No. 8 AktG
167 Additional mandates

KLÖCKNER & CO SE

Additional information concerning the consolidated and individual financial statements

Additional mandates of the Members of the Management Board of Klöckner & Co SE (Section 285, no. 10 German Commercial Code (HGB – Handelsgesetzbuch))

Gisbert Rühl, Chairman of the Management Board, CEO/CFO

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Klöckner Participaciones S.A., Madrid, Spain
- Comercial de Laminados, Madrid, Spain
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner Distribution Industrielle S.A., Aubervilliers, France
- ODS B.V., Rotterdam, The Netherlands
- Klöckner Investment S.C.A., Luxembourg
- Klöckner USA Holding Inc., Wilmington, Delaware, USA
- Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA

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

- Walter Services Holding GmbH, Ettlingen, Member of the Shareholders' Committee and the Supervisory Board
- RWE Power AG, Essen, Member of the Supervisory Board (since February 17, 2011)

Ulrich Becker, Member of the Management Board, COO

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, since July 15, 2010
- Klöckner Participaciones S.A., Madrid, Spain
- Comercial de Laminados, Madrid, Spain
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner Distribution Industrielle S.A., Aubervilliers, France
- ODS B.V., Rotterdam, The Netherlands
- Klöckner USA Holding Inc., Wilmington, Delaware, USA
- Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA

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

- Wickeder Westfalenstahl GmbH, Wickede (Ruhr), Member of the Advisory Board

Additional mandates of the Members of the Supervisory Board of Klöckner & Co SE (Section 285 no. 10 HGB)

Prof. Dr. Dieter H. Vogel, Chairman, Lindsay Goldberg Vogel GmbH, Düsseldorf

- sevenload GmbH, Member of the Supervisory Board[2)] (until December 31, 2010)
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]
- Ernst & Young AG, Member of the Advisory Board[2)]
- HDI-Gerling-Industrie Versicherung AG, Member of the Advisory Board[2)]
- Bertelsmann Stiftung, Chairman of the Board of Trustees[2)]
- Bertelsmann Verwaltungsgesellschaft mbH, Deputy Chairman of the Shareholders Committee[2)]
- denkwerk GmbH, Member of the Advisory Board[2)]

Dr. Michael Rogowski, Deputy Chairman, former Chairman of the Management Board, Voith AG, Heidenheim

- Voith AG, Chairman of the Advisory Board[1)] and the Shareholders' Committee[2)] (until March 5, 2010)
- HDI V.a.G./Talanx AG, Member of the Supervisory Board[1)]
- Carl Zeiss AG, Member of the Supervisory Board[1)]
- Vattenfall Europe AG, Member of the Supervisory Board[1)]
- Freudenberg & Co., Deputy Chairman of the Shareholders' Committee[2)]
- Deutsche Bank AG, Member of the Central Advisory Board[2)]
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board[2)]

Robert J. Koehler, Chairman of Management Board, SGL Carbon SE, Wiesbaden

- Benteler International AG, Chairman of the Supervisory Board[1)]
- Heidelberger Druckmaschinen AG, Member of the Supervisory Board[1)]
- Demag Cranes AG, Member of the Supervisory Board[1)]
- Lanxess AG, Member of the Supervisory Board[1)]

Frank H. Lakerveld, Member of the Management Board Sonepar S.A., Paris, France

- Sonepar Nederland B.V., Chairman of the Supervisory Board[2)]
- Encon Safety Products, Inc., Chairman of the Supervisory Board[2)]
- Hagemeyer North America, Inc., Chairman of the Supervisory Board[2)]
- Hagemeyer PPS Ltd., Chairman of the Supervisory Board[2)]
- Vallen Corporation, Chairman of the Supervisory Board[2)]
- Sonepar Holding S.A., Chairman of the Supervisory Board[2)]
- Sonepar Canada, Inc., Chairman of the Supervisory Board[2)]
- Sonepar Nordic A/S, Chairman of the Supervisory Board[2)]
- Sonepar USA Holdings, Inc., Chairman of the Supervisory Board[2)]
- Otra N.V., Member of the Supervisory Board[2)]
- S.I.F. S.A.S. à CA, Member of the Supervisory Board[2)]
- Lawrence & Hanson Group Pty Ltd., Member of the Supervisory Board[2)]
- Sonepar Iberica, S.A., Member of the Supervisory Board[2)]
- Sonepar France S.A., Member of the Supervisory Board[2)]
- Supermoon Holding Ltd., Member of the Supervisory Board[2)]
- Sonepar Italia SpA, Member of the Supervisory Board[2)]
- Sonepar Mexico S.A. de C.V., Member of the Supervisory Board[2)]
- Foshan Shunching Supermoon Trading Co., Ltd. Foreign Invested JV, Member of the Supervisory Board[2)]
- Hite Electric Technology Co., Ltd., Member of the Supervisory Board[2)]
- CEBEO S.A., Member of the Supervisory Board[2)]
- Elektroskandia Nordic AB, Member of the Supervisory Board[2)]
- KVC Industrial Supplies SDN BHD, Member of the Supervisory Board[2)]
- Aliaxis S.A., Member of the Supervisory Board[2)]

Dr. Jochen Melchior, former Chairman of the Management Board of the former STEAG AG, Essen

- AXA Service AG, Member of the Supervisory Board[1)] (until April 30, 2010)
- National-Bank AG, Member of the Supervisory Board[1)]
- Ernst & Young AG, Member of the Advisory Board[2)]
- Universitätsklinikum Essen AöR, Chairman of the Supervisory Board[2)]
- Schauenburg Technology SE, Deputy Chairman of the Administrative Board[2)] (since January 1, 2010)
- Schauenburg-Gruppe, Member of the Administrative Board[2)]

Dr. Hans-Georg Vater, former Member of the Management Board, HOCHTIEF Aktiengesellschaft, Essen

- MEDION AG, Deputy Chairman of the Supervisory Board[1)]
- Athens International Airport S.A., Member of the Board of Directors[2)]
- HAPIMAG AG, Member of the Administrative Board[2)]
- DEMATIC Holding S.à r.l., Member of the Board of Directors[2)]
- OWA Odenwald Faserplattenwerk GmbH, Member of the Advisory Board[2)]
- Universitätsklinikum Essen AöR, Member of the Supervisory Board[2)]
- HOCHTIEF Concessions AG, Member of the Supervisory Board[1)] (until April 13, 2010)

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).

GLOSSARY

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 potential.

Impairment
Additional depreciation or amortization for non-current assets with definite useful lives or only an acceptable method to reduce ("impair") the value of assets with indefinite useful lives in case of other than temporary decline of value. See also "Impairment Test."

Impairment Test
Test to assess the recoverable value for long-lived assets including goodwill. IFRS requires periodic assessment as to whether there are indications for other than temporary declines in value of long-lived assets. An impairment test is to be performed if internal or external indications for impairment arise. Regardless of such indications goodwill must be tested annually. In an impairment test the carrying amount of an asset is compared with its recoverable amount. If the recoverable amount is below the asset's carrying amount an impairment is recognized for the amount of the difference.

Interest 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.

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

GLOBAL HEADQUARTERS

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307-0
Fax: +49 203 307-5000
Management Board:
– Gisbert Rühl (Chairman)
– Ulrich Becker

MULTI METAL DISTRIBUTION

Austria
Metall- und Service-Center GmbH
Nfg. Co KG
Percostraße 12
1220 Wien
Austria
Telephone: +43 1 25 94 63 60
Fax: +43 1 2 59 46 36 39
Management:
– Marcus Oberhofer

Belgium
Buysmetal N.V.
Keizersstraat 50
8530 Harelbeke
Belgium
Telephone: +32 56 26 80 80
Fax: +32 56 26 80 01
Management:
– Philippe Buysschaert

Bulgaria
Klöckner Metalsnab AD
119 Iliyantsi Blvd.
Sofia 1220, Iliyantsi
Bulgaria
Telephone: +359 292 6 9868/+359 293 1 12 46
Fax: +359 293 1 0304/+359 292 6 98 65
Management:
– Metodi Ignatov (Spokesman)
– Valeria Georgieva
– Waldemar Wollny

Czech Republic
Klöckner Stahlhandel CZ, s.r.o.
Kolbenova 159
19002 Praha 9
Czech Republic
Telephone: +420 2 66 03 92 16
Fax: +420 2 66 03 92 28
Management:
– Libor Novak

France
KDI S.A.S.
173–179, bd Félix-Faure
93537 Aubervilliers Cedex
France
Telephone: +33 148 39 77 77
Fax: +33 148 39 77 78
Management:
– Marc Frustié (Spokesman)
– Jean Coeur

Germany
Klöckner Stahl- und Metallhandel GmbH
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307-0
Fax: +49 203 307-5245
Management:
– Ralf Moysig (Spokesman)
– Dr. Markus Berkenheide

Becker Stahl-Service GmbH
Weetfelder Straße 57
59199 Bönen
Germany
Telephone: +49 2383 934-0
Fax: +49 2383 934-209
Management:
– Ulrich Lollert
– Ralf Graß
– Peter Daub

Lithuania / Baltic States
UAB Klöckner Baltija
Pramones 8
Klaipeda, 94102
Lithuania
Telephone: +370 464 1 62 62
Fax: +370 464 1 62 63
Management:
– Zubavicius Rimantas

Poland
Klöckner Stal i Metal Polska Sp. z o.o.
ul. 28 Czerwca 1956r 223–229
61-485 Pozna´n
Poland
Telephone: +48 61 8 35 82 00
Fax: +48 61 8 35 82 10
Management:
– Christoph Schmidt

Romania
S.C. Klöckner Romania S.R.L.
Ap. 1, Et. 3
Str. Turnu Magurele Nr. 270 D
Sector 4, Bucuresti
Romania
Telephone: +40 21 6 83 09 35
Fax: +40 21 6 83 09 05
Management:
– Mihai Christian Chebac

Spain
Comercial de Laminados S.A.
Avda. de Bruselas, 38
28108 Alcobendas
Spain
Telephone: +34 91 369 7410
Fax: +34 91 5714 171
Management:
– Albert Garreta Palau (Spokesman)
– Enrique Gallar Romero

Switzerland
Debrunner Koenig Holding AG
Hinterlauben 8
9004 St. Gallen
Switzerland
Telephone: +41 71 2 27 29 90
Fax: +41 71 2 27 29 71
Management:
– Philippe Dietziker (Spokesman)
– Heinz Rohrer

The Netherlands
ODS B.V.
Donk 6
2991 LE Barendrecht
The Netherlands
Telephone: +31 180 64 09 11
Fax: +31 180 64 02 75
Management:
– Hans Sinnige (Spokesman)
– Jörg Müller

United Kingdom
ASD Limited
Valley Farm Road, Stourton
Leeds LS10 1SD
United Kingdom
Telephone: +44 113 2 54 07 11
Fax: +44 113 2 54 13 14
Management:
– Kaha Avaliani

USA
Namasco Corporation
Corporate Headquarters
500 Colonial Center Parkway, Suite 500
Roswell, GA 30076
USA
Telephone: +1 678 2 59 88 00
Fax: +1 678 2 59 88 73
Management:
– Bill Partalis (Spokesman)
– Kirk A. Johnson
– Mark Breckheimer

REPRESENTATIVE OFFICE

China
Klöckner & Co SE
Shanghai Representative Office
Room 435 Junling Building
Jinjiang Fandian
59 Maoming Road (South)
Shanghai 200020
China
Telephone: +86 21 5466 0606
Fax: +86 21 2302 5152
Office Manager:
– Thomas Krümmer

FINANCIAL CALENDAR 2011

March 8, 2011	Annual statement 2010 Financial statement press conference Analyst conference
May 11, 2011	Q1 interim report 2011
May 20, 2011	Annual General Meeting 2011, Düsseldorf
August 10, 2011	Q2 interim report 2011
November 9, 2011	Q3 interim report 2011

Subject to subsequent changes

CONTACT/IMPRINT

Contact

KLÖCKNER & CO SE

Dr. Thilo Theilen
Head of Investor Relations & Corporate Communications
Telephone: +49 (0) 203 307-20 50
Fax: +49 (0) 203 307-50 25
E-Mail: ir@kloeckner.de

Imprint

PUBLISHER

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307-0
Fax: +49 203 307-5000
info@kloeckner.de
www.kloeckner.de

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DISCLAIMER

This Report (particularly the “Forecast” section) contains forward-looking statements that reflect the current views of the Klöckner & Co SE management with respect to future events. They are generally identified by the words “expect,” “anticipate,” “assume,” “intend,” “estimate,” “target,” “aim,” “plan,” “will,” “endeavor,” “outlook,” and comparable expressions and include generally any information that relates to expectations or targets for economic conditions, sales or other performance measures. Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Klöckner & Co’s control. Among the relevant factors are the impact of important strategic and operating initiatives, including the acquisition or disposal of companies. If these or other risks or uncertainties materialize, or if the assumptions underlying any of the statements prove incorrect, Klöckner & Co’s actual results may be materially different from those stated or implied by such statements. Klöckner & Co SE can offer no assurance that its expectations or targets will be achieved. Without prejudice to existing obligations under capital market law, Klöckner & Co SE does not assume any obligation to update forward-looking statements to take information or future events into account or otherwise. In addition to the figures prepared in line with IFRS, Klöckner & Co SE presents non-GAAP financial performance measures, e.g. EBITDA, EBIT, net working capital and net financial debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP measures are not subject to IFRS or to other generally accepted accounting principles. Other companies may define these terms in different ways.

Variances to the German version
Variances may arise for technical reasons (e.g. conversion of electronic formats) between the accounting documents contained in this annual report and the format submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

This English version of the annual report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 (0) 203-307-0
Fax: +49 (0) 203-307-5000
www.kloeckner.de