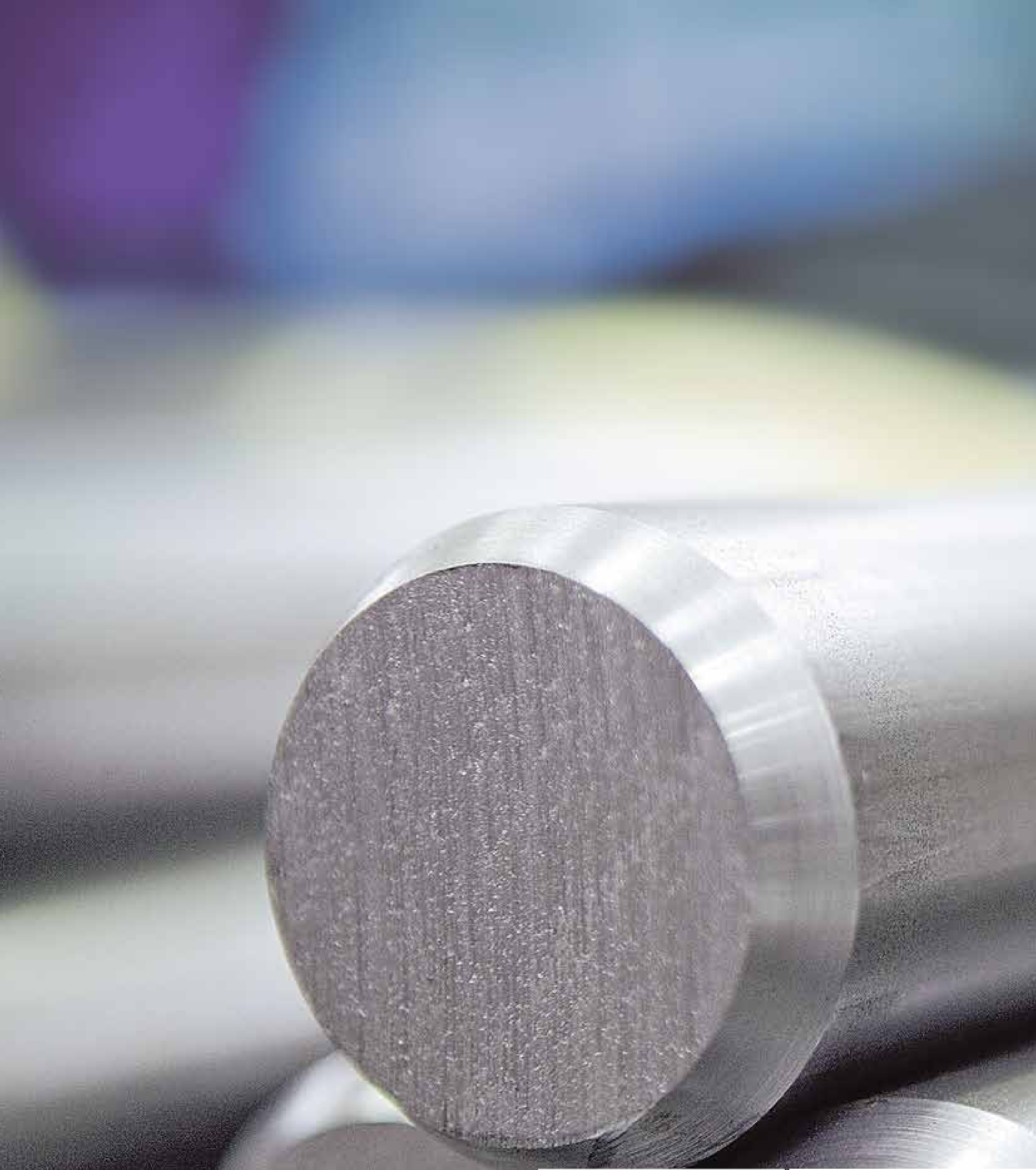

ANNUAL REPORT 2012

klöckner & co

multi metal distribution

Content

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5 years in figures

(in € million)		2012	2011	2010	2009	2008	Change in % 2012 – 2011
Turnover	Tto	7,068	6,661	5,314	4,119	5,974	+6.1
Sales		7,388	7,095	5,198	3,860	6,750	+4.1
EBITDA before restructuring		139	227	238	-68	601	-38.6
EBITDA		62	217	238	-68	601	-71.5
EBIT		-103	111	152	-178	533	-192.6
EBT		-179	27	84	-240	463	-763.5
EAT		-198	10	80	-186	384	n.a.
Earnings per share (basic)	€	-1.95	0.14	1.17	-3.61	8.56	n.a.
Earnings per share (diluted)	€	-1.95	0.14	1.17	-3.61	8.11	n.a.
Free cash flow		67	-524	-196	528	221	+112.7
Cash flow from investing activities		-34	-483	-188	-8	72	+92.9
Liquid funds		610	987	935	827	297	-38.2
Net working capital		1,407	1,534	1,017	637	1,407	-8.3
Net financial debt		422	471	137	-150	571	-10.5
Equity ratio	%	41.9	39.2	37.0	41.4	35.1	+2.7p
Balance sheet total		3,905	4,706	3,491	2,713	3,084	-17.0
Employees as of December, 31		10,595	11,381	9,699	9,032	10,282	-6.9

Review by quarter 2012

(in € million)		Q1 Jan. 1 – Mar. 31	Q2 Apr. 1 – Jun. 30	Q3 Jul. 1 – Sep. 30	Q4 Oct. 1 – Dec. 31
Turnover	Tto	1,857	1,863	1,764	1,585
Sales		1,945	1,964	1,847	1,633
EBITDA before restructuring		48	50	19	22
EBITDA		45	33	19	-35
EBIT		18	-23	-9	-89
EBT		-6	-41	-30	-101
EAT		-10	-38	-28	-121

All over the world

WE SUPPLY OVER 160,000 CUSTOMERS THROUGH AROUND 255 DISTRIBUTION AND SERVICE LOCATIONS WITH OVER 10,000 EMPLOYEES IN 19 COUNTRIES.

Sales by segments (in € million)

2012

2012		2011
2,738	Americas	2,052
4,650	Europe	5,043
7,388	Total	7,095

2011

WITH THREE DIRECTIONS OF THRUST:

→ GROWTH IN NORTH AMERICA

→ STABILIZING THE STRONG PROFITABILITY OF OUR ACTIVITIES IN SWITZERLAND AND AT BECKER STAHL-SERVICE

→ RESTRUCTURING OUR EUROPEAN DISTRIBUTION NETWORK

WE ARE PREPARING THE WAY TO CONTINUE OUR "KLÖCKNER & CO 2020" GROWTH STRATEGY IN TODAY'S CHALLENGING ENVIRONMENT

LETTER TO THE SHAREHOLDERS

Gisbert Rühl
Chairman of the Management Board

Dear Ladies and Gentlemen,
Dear Shareholders,

The past financial year was another difficult year for the steel industry, especially in Europe, where steel consumption fell by another 9% and is now almost 30% below the pre-crisis level. Demand is expected to fall again in the current fiscal year, albeit at a much slower rate. From today's perspective, steel consumption in Europe is only expected to return to slight growth in 2014. In the United States, by contrast, there was a much better trend in demand, although margins came under pressure here, too, due to oversupply.

This development clearly left its mark on our operating income (EBITDA). At €139 million before restructuring expenses, we missed our target and failed to achieve the prior-year EBITDA level of €227 million. Our negative net income of €198 million was further burdened by some €115 million of restructuring expenses and impairments. By contrast, we increased our sales by 4.1% to €7.4 billion and our turnover by 6.1% to 7.1 million tons, both mainly due to growth in the United States. The development of our free cash flow of €67 million was also encouraging; we used it to reduce our debt from €471 million to €422 million. Accordingly, we were able to further improve our already sound financial situation, despite the unsatisfactory results for the past year.

In last year's letter to the shareholders, I announced extensive restructuring measures in Europe in response to the foreseeable development. We implemented these measures and, after the trend deteriorated further, strengthened them substantially. As part of this program, we are currently in the process of closing or selling some 60 branches and cutting around 1,800 jobs. By the end of last year, approximately two-thirds of the program had been implemented. Having already sold most of our Eastern European activities and substantially reduced our network in Spain, we are now streamlining our network structure in Germany, France and the United Kingdom. In this way, we are adjusting our capacities to the current level of demand in Europe, as we no longer anticipate any substantial recovery in demand in the short or medium term. The deep cuts are especially painful for our employees, but they are necessary and consistent with our current business environment. We do not want to sit back and hope for better times. Rather, we are taking action and improving our profitability by our own means.

We had a much better year in the United States, at least in terms of turnover and sales. Following the complete integration of Macsteel Service Centers USA, we now have a nationwide network of around 60 locations under the umbrella of Kloeckner Metals US. This means we are in an excellent position to exploit future opportunities in the US market, including, in particular, rising steel consumption due to the rapidly growing exploration of shale gas and the reindustrialization anticipated as a consequence of the lower cost of energy. As of today, we already generate close to 40% of our sales in the United States and expect this percentage to rise to 50% over the next few years.

Our activities in Switzerland and at Becker Stahl-Service remain stable at a satisfactorily high level.

Buoyed by the directions of thrust of growth in the USA, stabilization of the high level of earnings of the Swiss country organization and Becker Stahl-Service, and restructuring in the remaining country organizations in Europe, we will once again accelerate out the low of 2012, even despite the lack of momentum from the steel market, especially in Europe.

Thus, we are essentially continuing to pursue our Klöckner & Co 2020 strategy, yet adapting our approach to the current requirements. The constant switching from growth to crisis and back to growth – or even tackling both at the same time – is a huge challenge, above all for our employees. I would therefore like to take this opportunity to offer my warmest thanks to our employees for their great dedication and commitment, despite the adverse circumstances. I would also like to thank you, dear shareholders, for your confidence and patience. We will need to call on your patience still further, since in light of the poor earnings, the Management Board and Supervisory Board will propose to the Annual General Meeting that once again no dividend be paid for the past fiscal year.

The development of our share price was also disappointing, especially compared with the DAX® and MDAX®. On the other hand, we did not perform any worse than the common steel indexes. That fact, however, is of course no comfort. For the current fiscal year, on the other hand, I am optimistic that the trend will reverse. Uncertainties are diminishing and there is growing confidence that the crisis has bottomed out. In addition, our restructuring measures will already have a significant positive impact on earnings this year. We aim to increase our EBITDA to around €200 million in 2013 while maintaining stable turnover. This also means that we plan to achieve positive net income again.

For the challenges ahead, we have received internal support: my new colleagues on the Management Board, Marcus A. Ketter, who has taken charge of finance, and Karsten Lork, who is responsible for our European and Asian activities, will provide fresh momentum and, undoubtedly, also new ideas. Together with William A. Partalis, our Management Board colleague responsible for the Americas, we are optimistic that we will be able to master the challenges ahead as a team.

I would like thank you once again for your confidence, also on behalf of my fellow Management Board members.

Kind regards,

Gisbert Rühl
Chairman of the Management Board

MANAGEMENT BOARD

GISBERT RÜHL
Chairman of the Management Board
(CEO)

Born in 1959. CEO since November 1, 2009 and CFO from July 2005 to December 2012, appointed until December 31, 2017. He is responsible for coordinating the Management Board and functionally responsible for the headquarters functions Corporate Development/M&A, Executive HR & Talent Management, Human Resources/Legal & Compliance, Internal Audit, and Investor Relations & Corporate Communications.

MARCUS A. KETTER
Chief Financial Officer
(CFO)

Born in 1968. CFO since January 1, 2013, appointed until December 31, 2015. He is functionally responsible for the headquarters functions Corporate Controlling, Corporate IT, Corporate Taxes, and Finance & Accounting.

KARSTEN LORK
Member of the Management Board

Born in 1963. Member of the Management Board since February 1, 2013, appointed until January 31, 2016. He represents the European and Asian operations on the Management Board. He is functionally responsible for the headquarters functions International Product Management & Global Sourcing and Operations Europe.

WILLIAM A. PARTALIS
Member of the Management Board

Born in 1953. Member of the Management Board since October 1, 2011, appointed until December 31, 2014. William A. Partalis represents the Americas segment on the Management Board. As well as being responsible for Americas, he is also CEO of the American business operations.

ULRICH BECKER
Member of the Management Board (COO) until September 30, 2012,
born in 1961.

SUPERVISORY BOARD

SUPERVISORY BOARD

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

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

ULRICH GRILLO
Chairman of the Management Board, Grillo Werke AG, Duisburg (since May 25, 2012)

ROBERT J. KOEHLER
Chairman of the Management Board, SGL CARBON SE, Wiesbaden

DR. DR. H.C. JOCHEN MELCHIOR
Former Chairman of the Management Board of the former STEAG AG, Essen (until May 25, 2012)

HAUKE STARS
Member of the Management Board, Deutsche Börse AG, Frankfurt

DR. HANS-GEORG VATER
Former Member of the Management Board, 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 reporting year, the Supervisory Board looked in-depth at the Company's situation and outlook and diligently performed the supervisory and advisory tasks required of it by law, under the Articles of Association and under the Supervisory Board's Rules of Procedure. We regularly advised the Management Board on its management of the Company, supervised continuously the Company's corporate governance by the Management Board and satisfied ourselves that the corporate governance practices were legally compliant, in good order and fit for purpose. Where required by law, the Articles of Association or the Rules of Procedure, the Supervisory Board adopted the necessary resolutions after giving the matter at hand thorough and careful consideration. These included in particular legal transactions and measures for which the Management Board is required, under the Articles of Association or the Rules of Procedure, to obtain the Supervisory Board's approval.

The Supervisory Board was involved on a timely basis in all important Company and Group matters. To this end, the Management Board provided us with written and verbal reports on planning, the Company's business and financial position and all transactions of importance to the Company and the Group, both at and between Supervisory Board meetings. In light of the ongoing sovereign debt crisis in Europe and its impact on the market environment relevant for the Company, the restructuring measures first introduced in the fall of 2011 and further expanded in the reporting year formed a significant part of the Management Board's reporting and the discussions in the plenary Supervisory Board. The risk exposure, risk management and compliance were also covered in detail. In each case, the Management Board provided the Supervisory Board with pertinent documentation.

Items reported on at all face-to-face Supervisory Board meetings included the overall economic situation, the industry situation, the business performance of Klöckner & Co and its segments, with particular attention being devoted to the Group's key performance indicators and Klöckner & Co's share price performance. Both in plenary sessions and committee meetings, members of the Supervisory Board made a critical appraisal of the reports of the Management Board and added their own suggestions. Information was also exchanged on a regular basis between meetings. In 2012, the core elements of the written Management Board reports were once again the detailed monthly Board Reports on the sales, results of operations and financial status of the Group and its segments and main operating units, capital market developments as well as Klöckner & Co's share price performance relative to that of other companies in the steel and steel distribution industry. Furthermore, the CEO met in person with the Chairman of the Supervisory Board to report on, discuss and reach agreement on current business development, current issues and upcoming decisions.

ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD

The Supervisory Board comprises six members, all of whom represent shareholders and are elected by the Annual General Meeting. The Supervisory Board has established two committees to carry out its duties: an Executive Committee and an Audit Committee, each of which has three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Michael Rogowski (Deputy Chairman), Ulrich Grillo (since May 25, 2012), Robert J. Koehler, Dr. Dr. h. c. Jochen Melchior (until May 25, 2012), Hauke Stars and Dr. Hans-Georg Vater. All members of the Supervisory Board meet the criteria of independence pursuant to Section 5.4.2 of the German Corporate Governance Code. No members of the Supervisory Board are former members of the Company's Management Board or representatives of a stakeholder group. The Chairman of the Supervisory Board, or in his absence the Deputy Chairman, is authorized to make and accept on behalf of the Supervisory Board the declarations of intent required to implement resolutions. The Executive Committee is made up of Prof. Dr. Vogel (Chairman), Dr. Rogowski and Dr. Vater, and the Audit Committee of Dr. Vater (Chairman), Dr. Rogowski and Prof. Dr. Vogel. Dr. Vater is a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG).

The committees prepare the Supervisory Board's tasks, topics and decisions. The Executive Committee also carries out the functions of a Personnel Committee, a Committee for Urgent Matters and a Nomination Committee. In its capacity as Personnel Committee, the Executive Committee proposes suitable candidates for the Supervisory Board to appoint as members of the Management Board and in particular makes proposals with regard to their compensation. In its capacity as Nomination Committee, the Executive Committee proposes suitable candidates for the Supervisory Board to nominate for election as members of the Supervisory Board at the Annual General Meeting. In urgent cases, the Executive Committee meets in its capacity as the Committee for Urgent Matters. Where permitted by law, certain decision-making powers have been delegated to the committees.

The Management Board is closely involved in the work of the Supervisory Board. The meetings and teleconferences of the Supervisory Board are usually attended by all members of the Management Board; the meetings of the Executive Committee are attended by the Chairman of the Management Board and other Management Board members as needed, and the meetings of the Audit Committee by the Chief Financial Officer.

The Supervisory Board held a total of five plenary meetings in fiscal year 2012, four of them ordinary face-to-face meetings and one extraordinary meeting in the form of a teleconference when Marcus A. Ketter was appointed as member of the Management Board and Ulrich Becker left the Management Board. The Audit Committee had six meetings during the reporting period, on three occasions in face-to-face meetings and on a further three occasions via teleconference to discuss the quarterly reports with the Chief Financial Officer on the day before their publication. The Executive Committee held three face-to-face meetings in fiscal year 2012; in addition, it met via teleconference in its capacity as Personnel Committee when Gisbert Rühl was reappointed and his contract extended. At the plenary meetings, the committee chairmen reported regularly and in-depth on the subject matter and outcome of the committee meetings. Every Supervisory Board and committee member took part in at least half of the Supervisory Board or committee meetings – including teleconferences – held in fiscal year 2012; three members were each only prevented once from attending a meeting. The average attendance for all Supervisory Board meetings including the committee meetings was 95%. A detailed and individual overview of attendance at the meetings can be found on the Company's website (http://www.kloeckner.com/en/investor-relations/supervisory-board.php).

SUPERVISORY BOARD MEETINGS AND RESOLUTIONS

In the past fiscal year, the Supervisory Board regularly looked at the restructuring program introduced in the fall of 2011, which was substantially expanded in the fall of 2012 due to the persistently weak market environment. Implementation of this program is to be completed in the first half of fiscal year 2013. In addition, matters pertaining to the Management Board and the future composition of the Management Board were the subject of a number of meetings of the Executive Committee and of the plenary sessions. The Supervisory Board dealt in particular with the following topics:

Based on the Audit Committee's preliminary review and deliberations, and following intense discussion with the Management Board and the auditors present at its meeting on March 6, 2012, the Supervisory Board approved the Company's financial statements for 2011, the consolidated financial statements, and the Management Board's proposal on the appropriation of the balance sheet profit. The Supervisory Board also dealt with the Combined Management Report. Following an in-depth discussion that focused primarily on the proposals for the creation of authorized capital 2012 as well as for the election of two Supervisory Board members, the Supervisory Board passed the proposed resolutions for the Company's Annual General Meeting. In line with the Executive Committee's proposals, the Supervisory Board approved the setting of the annual bonus (short-term bonus) for fiscal year 2011 and the Management Board members' targets for the short-term bonus for fiscal year 2012; the long-term bonus for 2012 to 2014 for William A. Partalis, who was newly appointed to the Management Board in September, was also set. Furthermore, in addition to discussing the business situation and financial position, intensive discussions were also held with the Management Board about the implementation status of the restructuring program introduced by the Management Board in the fall of 2011 as well as the effects of this program on the "Klöckner & Co 2020" strategy, which had been jointly adopted in fiscal year 2010.

Besides the preparations for the subsequent Annual General Meeting, dealing with matters pertaining to the Management Board was the primary focus of the Supervisory Board meeting on May 25, 2012. Following detailed discussion, the Supervisory Board resolved, in accordance with the recommendations of the Executive Committee, to reappoint Mr. Rühl and extend his contract for another five years and not to reappoint and extend the contract of Mr. Becker. A key area of the discussion regarding extension of the contract with Mr. Rühl was the modification of the previous compensation model. The previous model had proven to be less than ideal, especially with regard to the setting of long-term targets, given the huge volatility in the economic environment. Instead of granting a bonus based on the achievement of three-year targets, the modified remuneration model provides for a personal investment by the Management Board members of 50% of their annual bonus with a vesting period of three years and thus specifically reflects the aspect of sustainable business success in the variable remuneration. The amount of the annual target bonus was increased accordingly due to the abolition of the previous long-term bonus. In addition to this, it remains unchanged that the virtual stock options allocated to the Management Board members can only be exercised after a vesting period of several years; per allocated tranche, the vesting period for the first third of a tranche is three years, for the second third, four years, and for the last third, five years. Furthermore, the Group's current business and financial situation was discussed with the Management Board at the meeting held on May 25, 2012.

The Annual General Meeting was followed by the constitutive meeting of the Company's new Supervisory Board, in which elections were held for a vacant position in the Executive Committee and one in the Audit Committee. Dr. Vater was reelected as a member of the Executive Committee and, as a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG), as a member of the Audit Committee, where he was also reappointed as chairman.

At the extraordinary meeting held via teleconference on July 27, 2012, the Supervisory Board once again dealt with matters pertaining to the Management Board. The discussions focused on adding a separate Chief Financial Officer to the Management Board and thus separating out the dual roles of Chairman of the Management Board and Chief Financial Officer hitherto performed by Mr. Rühl. This addition had already been planned when Mr. Rühl was reappointed as member and Chairman of the Management Board in May 2012. At the meeting on July 27, 2012, the Supervisory Board appointed Marcus A. Ketter as a member of the Company's Management Board on the recommendation of the Executive Committee. At the same time, following a detailed discussion about the main terms and conditions of a service contract, the Supervisory Board adopted a resolution to conclude such a service contract with Mr. Ketter as well as an agreement for virtual stock options in the Company. Mr. Ketter took office on January 1, 2013. At the same meeting, changes were also made to the Management Board's schedule of responsibilities as of Mr. Ketter's taking office, in order to reflect the separation of the functions of Chairman of the Management Board and Chief Financial Officer. Finally, the Supervisory Board discussed in detail the need to prematurely revoke the appointment of Mr. Becker as a Management Board member, which had arisen because the decision made in May not to extend his contract, which expires in March 2013, had become known in the market. The Supervisory Board resolved to prematurely revoke his appointment as a Management Board member as of September 30, 2012, and at the same time, adopted a resolution on the main terms and conditions of a termination agreement with Mr. Becker.

At the Supervisory Board meeting on September 20, 2012, it was resolved, in order to standardize the compensation system for members of the Company's Management Board, to amend the service contract concluded in the prior year with Mr. Partalis, the Management Board member responsible for the Americas portfolio, in line with the modified compensation system as described above. Prominent topics for discussion were current corporate governance issues, especially the amendments to the German Corporate Governance Code adopted by the Government Commission on the Code on May 15, 2012. In accordance with the amended recommendations on the composition of the Supervisory Board, the existing provisions in the Supervisory Board´s Rules of Procedure were revised in order to more firmly enshrine the concept of the independence of Supervisory Board members. With regard to the amended recommendations of the Code on compensation for the Supervisory Board, following an intensive discussion on the advantages and disadvantages of a variable compensation component, the Supervisory Board declared that it would in the future forgo a variable compensation component – while increasing the fixed compensation – and that it would submit a corresponding proposal for resolution to the Company's Annual General Meeting 2013 to amend the Articles of Association pertaining to compensation for the Supervisory Board. The meeting focused on discussions relating to the adjustments proposed and deemed necessary by the Management to the "Klöckner & Co 2020" strategy adopted in September 2010. In response to the global downturn in the steel industry since that time and the resulting decreases in steel consumption, the Company's profitability and the share price, the Management Board explained the short- and medium-term measures it considered necessary to improve profitability. The Supervisory Board approved the action plan presented.

Alongside the Klöckner & Co Group's current business and financial position and the forecasts of the Company's key performance indicators at year-end, the central focus of the Supervisory Board meeting on December 4, 2012 was the budget planning for fiscal year 2013. The plenary Supervisory Board satisfied itself of the plausibility of, and gave its approval for, the budget presented by the Management Board. The discussions also focused on the extension of the restructuring program. This program was launched back in September 2011, at which time the decline in demand for steel was expected to be only temporary. Its extension reflects the changed assumption that the lull in demand on the steel market will persist for some time, especially in Europe. The impact of the action plan on the product and service range was discussed in detail, as well as its effects on employees and locations and on the financial statements for fiscal year 2012.

At the December meeting, the Supervisory Board also looked in detail at the results of the efficiency review of the Supervisory Board's work, which took the form of a self-evaluation. The assessment used a catalog of 35 questions based on the criteria of information, organization and self-image of the plenary and each committee. Another topic was the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act. The Supervisory Board also discussed with the Management Board the Chief Compliance Officer's annual report. The Supervisory Board satisfied itself that the Company has a compliance management system capable of promoting lawful conduct within the Company, with precautionary measures to minimize the risk of violations and the capability for prompt identification and elimination of any violations that nonetheless occur. A further item on the agenda was the extension and increase of two financing instruments in the USA to finance the working capital needed there, which the Supervisory Board approved.

REPORTS FROM THE COMMITTEES

Executive Committee:
During the past year, the Executive Committee was active in its capacity as the Personnel Committee and the Nomination Committee. It did not act in its capacity as the Committee for Urgent Matters.

Acting as the Personnel Committee, the Executive Committee dealt in particular with the reappointment of the Chairman of the Management Board and the appointment of a further Management Board member as Chief Financial Officer, the service contracts and virtual stock option agreements to be signed in that context, and a change to the Management Board's schedule of responsibilities. In addition, it was decided to recommend that the plenary Supervisory Board not extend the mandate of the Management Board member responsible for the Europe and Asia segment. On the recommendation of the Executive Committee, the Supervisory Board ultimately resolved to dismiss this Management Board member prematurely and agreed the general terms and conditions for a mutual termination agreement. When the service contract of the Chairman of the Management Board was extended in May 2012, a modified compensation model was also drawn up for the Management Board and proposed to the Supervisory Board. The legal concept that requires the compensation structure of listed companies to be geared toward the sustained onward development of the Company is now additionally satisfied by the obligation for Management Board members to invest half of their annual bonus in the Company's shares with a vesting period of three years. The new compensation provisions have also since been agreed with the other members of the Management Board.

At its meeting in March, the Executive Committee also discussed, in its capacity as the Personnel Committee, the Management Board members' annual bonus (short-term bonus) for fiscal year 2011 and drew up targets for the short-term bonus for fiscal year 2012, as well as targets for the long-term bonus for 2012 to 2014 of Mr. Partalis in accordance with the compensation structure in place at that time.

Furthermore, acting in its capacity as the Nomination Committee, the Executive Committee dealt with the nominations for election to the Supervisory Board at the 2012 Annual General Meeting. Two seats were up for reelection. Dr. Hans-Georg Vater, one of the two Supervisory Board members whose term of office ended at the close of the 2012 Annual General Meeting, had indicated his willingness to make himself available for a further term of office. Dr. Vater not only has many years of experience as a Supervisory Board member, including at other companies, but as former Chief Financial Officer of Hochtief AG, he also has the specialist knowledge in the area of financial reporting required by law for a financial expert, as well as the necessary independence. The Executive Committee therefore decided to recommend that the Supervisory Board propose Dr. Vater to the Annual General Meeting for re-election, in order to retain his great wealth of experience within the Company's Supervisory Board in the interests of the Company as well as to fill the position of financial expert through him. For the second vacant seat, a suitable male or female candidate had to be found, taking into account the criteria for selecting candidates set down in the Rules of Procedure. Candidates must be aged under 60, should preferably still be active as a manager or entrepreneur, and should work in an industry that is at least related to the Company's business. As a result of this process, Ulrich Grillo, who is Chairman of the Management Board of Grillo-Werke AG, which operates in the metals and chemicals sectors, and who also holds leading positions in major associations, was identified as the most suitable candidate. On the recommendation of the Executive Committee, the Supervisory Board put Dr. Vater and Mr. Grillo forward to the Annual General Meeting for election as new Supervisory Board members and they were duly elected.

The Executive Committee meeting in September focused on considerations about changing Supervisory Board compensation as well as resolutions to be proposed to the plenary Supervisory Board concerning the amendment of the Supervisory Board Rules of Procedure in order, among other things, to bring the objectives for the composition of the Supervisory Board in line with the German Corporate Governance Code as amended on May 15, 2012. At its meeting in December 2012, the Executive Committee deliberated in detail on the findings of the Supervisory Board's efficiency review, which was also carried out in the fiscal year 2012 in the form of a self-evaluation, and submitted a proposal for resolution to the plenary Supervisory Board for the joint annual declaration by the Management Board and Supervisory Board in respect of conformity with the German Corporate Governance Code.

Audit Committee:
The Audit Committee held a teleconference prior to the publication of each interim report, during which it discussed with the Chief Financial Officer the development in the Group's business and financial position based on the key performance indicators.

Regular topics of discussion at the three face-to-face meetings comprised risk management issues, including the findings of the Internal Audit Department, and compliance issues; for the latter, the Chief Compliance Officer reported directly to the committee. Discussions at the March meeting focused on the Company's annual and consolidated financial statements for 2011. The auditors reported to the committee in detail on the focal points of their audit activities as well as the material findings of their audit of the annual and consolidated financial statements for fiscal year 2011. At the same meeting, the Audit Committee deliberated on the proposal for the election of the auditors and prepared for the plenary Supervisory Board to commission the auditors. It examined in particular the independence of the auditors, the fee offered and the matter of determining further focal points of the auditors' activities.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

Following in-depth discussion, the Supervisory and Management Boards issued the updated Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG) on December 4, 2012. This is permanently available to shareholders on the Company's website and states that Klöckner & Co SE complies with the recommendations of the German Corporate Governance Code, as amended, with a small number of exceptions, for which reasons are given. Further information on corporate governance can be found on pages 18ff of this Annual Report.

The Management and Supervisory Boards monitor changes to the recommendations and suggestions of the German Corporate Governance Code and their implementation in a timely manner. In the past fiscal year, this led to a change in the Supervisory Board Rules of Procedure and to the decision to propose to the next Annual General Meeting that the variable components of Supervisory Board compensation be eliminated to make it entirely fixed compensation (at a correspondingly increased rate) and that an associated amendment to the Articles of Association be adopted. At its meeting in December, the Supervisory Board discussed the results of its efficiency review, which took the form of a self-evaluation by means of a questionnaire and did not reveal any essential need for action. The review once again emphasized the efficient and loyal cooperation within the Supervisory Board and its committees and with the Management Board. Individual suggestions for improvements are to be considered in future work.

AUDIT OF THE 2012 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Klöckner & Co SE's annual financial statements for fiscal year 2012, the consolidated financial statements and the Combined Management Report were audited by, and received an unqualified audit opinion from, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditor elected by the Annual General Meeting and commissioned by the Supervisory Board. Klöckner & Co SE's annual financial statements and the Combined Management Report for Klöckner & Co SE and the Group were prepared in accordance with German commercial law. Pursuant to Section 315a of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The audit reports and further financial statement documents were available to all members of the Supervisory Board in good time. The documents were dealt with in detail by both the Audit Committee and the plenary Supervisory Board in the presence of the auditors.

At the meeting held on March 5, 2013 to approve the annual financial statements, the Chairman of the Audit Committee reported on the attention given to the annual and consolidated financial statements and the Combined Management Report by the Audit Committee. The auditors took part in both the Audit Committee's discussions and the Supervisory Board meeting, reported on the material findings of their audit and answered questions. With regard to the risk detection system, the auditors stated that the Management Board had taken the measures required by Section 91 (2) AktG, in particular to establish a monitoring system in an appropriate manner, and that the monitoring system was capable of promptly identifying developments that threaten the Company's ability to continue as a going concern. The Supervisory Board received and approved the auditors' findings and the explanations provided by the Chairman of the Audit Committee. On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the Combined Management Report, and in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on March 5, 2013, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted. The Supervisory Board discussed with the Management Board the latter's proposal on the appropriation of the balance sheet profit and, after its own examination taking into account the Company's results of operations and cash flows, endorsed the Management Board's proposal to transfer the balance sheet profit to other revenue reserves.

PERSONNEL CHANGES

At the close of the Annual General Meeting on May 25, 2012, Dr. Dr. h. c. Jochen Melchior, who was not standing for re-election, left the Company's Supervisory Board. The Supervisory Board thanked Dr. Melchior for the strong working relationship and his loyal cooperation. At the proposal of the Supervisory Board, the Annual General Meeting elected Ulrich Grillo to the Supervisory Board in his place. Dr. Hans-Georg Vater, whose term of office also ended at the close of the Annual General Meeting, was re-elected. The Supervisory Board's nominations for election at the Annual General Meeting were based on a recommendation by the Nomination Committee.

As already reported, at the Supervisory Board meeting in May 2012, Gisbert Rühl was reappointed as member and Chairman of the Management Board for another five years effective January 1, 2013. The Supervisory Board appointed Marcus A. Ketter as a member of the Company's Management Board by resolution dated July 27, 2012; his term of office began on January 1, 2013 and will initially run for three years. With the appointment of Mr. Ketter as Chief Financial Officer, the Supervisory Board completed the announced separation of the dual function of Chairman of the Management Board and Chief Financial Officer, which Mr. Rühl had performed for more than three years. As Chief Financial Officer, Mr. Ketter is responsible for the Corporate Controlling, Finance & Accounting, Corporate Taxes and Corporate IT portfolios. Effective September 30, 2012, Mr. Ulrich Becker left the Company's Management Board by mutual agreement. After the close of the fiscal year, on January 8, 2013, the Supervisory Board also appointed Karsten Lork as a further member of the Company's Management Board for a period of three years with effect from February 1, 2013. Mr. Lork is responsible for the operating business in Europe and Asia, for which Mr. Rühl had taken on temporary responsibility following the departure of Mr. Becker. The Company's Management Board is thus complete and, as Chairman of the Management Board, Mr. Rühl is now responsible for the Corporate Development/M&A, Human Resources/Legal & Compliance, Executive HR & Talent Management, Internal Audit and Investor Relations & Corporate Communications portfolios. Mr. Partalis remains responsible for the operating business of the Americas segment.

The Supervisory Board would like to thank the Management Board, all employees and the employee representatives of Klöckner & Co SE, as well as of all Group companies, for their hard work and dedication during the past fiscal year.

Duisburg, March 5, 2013

The Supervisory Board

Prof. Dr. Dieter H. Vogel
Chairman

*) Not part of the audited Management Report

GROUP MANAGEMENT REPORT

Klöckner & Co SE
Combined Management Report for Fiscal Year 2012

1. OVERVIEW

- Growth in the United States brings significant increases in turnover (up 6.1% to 7.1 million tons) and sales (up 4.1% to €7.4 billion)
- Operating income (EBITDA) before restructuring expenses drops to €139 million due to ongoing margin pressure after €227 million in the prior year
- Further progress along strategic directions of thrust consisting of growth in the USA, stabilization of the profitable country organizations, and restructuring in the rest of the country organizations in Europe
- Substantial expansion of restructuring measures with deep cuts in the European network structure and implementation to be fully completed by mid-year
- Sale of Eastern European business operations completed for the most part
- Positive free cash flow of €67 million led to a reduction in net financial debt from €471 million to €422 million despite the net loss of €198 million due in part to restructuring expenses
- EBITDA expected to improve significantly in 2013 thanks to restructuring contributions, generally stable turnover, and sales as well as continued positive free cash flow

In fiscal 2012, we increased turnover and sales significantly on the back of strong growth in the United States and aided by the acquisition of Macsteel Service Centers USA (Macsteel). Turnover was up by 6.1% from 6.7 million tons to 7.1 million tons. The rise in sales of 4.1% to €7.4 billion did not match the rise in turnover due to growing price pressure over the course of the year.

The European economy was impacted in 2012 by considerable uncertainty regarding the sovereign debt crisis, which again had a negative effect on steel consumption. The overcapacities already existing were exacerbated by a decline of 9% in demand for steel in Europe. The demand decline drove prices for steel and metal steadily downward starting from the second quarter, with the corresponding negative effects on the gross profit margin. Even in the United States, the economic trend deteriorated increasingly amid concerns about resolving the fiscal cliff situation. Both the economy and demand for steel still experienced growth, but with a declining tendency.

Our EBITDA trend also followed this pattern. Whereas first quarter EBITDA was still more or less at the level of the prior year, earnings over subsequent quarters increasingly departed from the previous year's results. We accordingly registered EBITDA before restructuring expenses of only €139 million (2011: €227 million). After adjustment for restructuring expenses and disposal losses on our Eastern European business totaling €77 million, EBITDA amounted to €62 million. Additionally burdened by impairment losses, net income thus came in far below the prior-year figure of €10 million at €– 198 million.

Despite the unsatisfactory earnings trend, positive free cash flow of €67 million was generated thanks to strict net working capital management. This also led to a reduction in net financial debt from €471 million to €422 million. Gearing (ratio of debt to equity) was maintained at a low level of 28% despite the net loss.

Due to further weak economic growth in Europe in particular, we have adapted our "Klöckner & Co 2020" strategy, which we continue to pursue, to the change in underlying conditions. In the United States, we took advantage of market growth to gain additional market share. We have thus shifted our regional weighting toward this growth region. At the same time, in Europe, we stabilized the profitability of our Swiss country organization and Becker Stahl-Service at a high level. Together with the United States, these segments together contribute some two-thirds to Group sales. Extensive restructuring measures were initiated for all other country organizations in Europe. The aim is to operate the network profitably, even at current turnover levels, in regions in which no recovery is expected in the foreseeable future and to take early precautions to decrease the risk of another decline in demand. To this end, we have already sold most of our Eastern European business and significantly reduced capacities in Spain, meaning that our Southern European activities now contribute a mere 3% to Group sales. However, locations are also being shut down in Germany, the Netherlands, the United Kingdom, and France to enable higher capacity utilization of the existing network. All in all, the restructuring measures will result in closure of around 60 locations and a total of 1,800 job cuts. This corresponds to sales volumes of some €500 million. We have already made good progress in this by shutting down or selling 35 locations, particularly in Eastern Europe and Spain, and cutting more than 1,200 jobs prior to the end of the reporting year. We will have completed the restructuring measures by mid-year. Overall, we expect the restructuring to contribute €150 million annually to EBITDA.

With respect to the business trend in 2013, it is likely that turnover and sales will remain at around the previous year's level due to additional growth in the United States and despite the relinquishment of turnover volumes in Europe through the restructuring. For operating income (EBITDA), we anticipate a significant increase from €139 million in the past fiscal year (before restructuring expenses) to approximately €200 million, mainly due to the cost savings effect of the Group-wide restructuring initiative, which is expected to contribute an additional €60 million to EBITDA in the current fiscal year. We also expect to generate net income in 2013 based on the improvement in operating performance.

2. CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT*)

*) Not part of the audited Management Report

The Management Board and Supervisory Board of Klöckner & Co SE are required under Section 161 of the German Stock Corporation Act (AktG) to submit an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code (the Code) published by the Federal Ministry of Justice in the official section of the Federal Gazette have been and continue to be complied with, or listing those recommendations that have not been or will not be complied with and the reasons therefore. The last annual declaration was submitted in December 2012. It is reprinted below and is also available on the Klöckner & Co SE website. All Declarations of Conformity previously submitted are also available on the website.

2012 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:

1. 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.

2. 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.

3. Article 4.2.3 sentence 14 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 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.

4. 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, is besides the office at Klöckner & Co SE also member of two other Supervisory Boards of non-group listed companies as well as of one other non-group company that has similar requirements. The recommended number of in total three such mandates thus has been and is exceeded. However, we do not believe that this detracts from the ability of the individual concerned to diligently perform his duties as a member of the Company's Supervisory Board.

5. Article 5.4.6 sentence 5 of the Code (Supervisory Board compensation)

The compensation of the Supervisory Board members of the Company is to date partly performance-related without being oriented toward sustainable growth of the enterprise. Therefore, the Company's Articles of Association do not comply with the Code's recommendation as amended on 15 May 2012. With regard to the 2013 Annual General Meeting, Management Board and Supervisory Board intend to propose an amendment to the compensation system for the Supervisory Board that is in line with the recommendation.

Duisburg, December 4, 2012

The Supervisory Board　　　　The Management Board

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE

Responsible corporate governance has always been given high priority at Klöckner & Co. It guides the actions of the management and supervisory bodies of Klöckner & Co SE. Good corporate governance denotes responsible business management and control geared to long-term value creation. The Management Board and Supervisory Board of Klöckner & Co SE consider it their duty to practice responsible corporate governance with a long-term view to ensuring the Company's continuation as a going concern and sustained growth in value.

The Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention in the year under review to meeting the recommendations and suggestions of the German Corporate Governance Code. In applying the recommendations and suggestions of the German Corporate Governance Code, as amended, as our fundamental guidance, we advance the Code's purpose of promoting the confidence of international and national investors, customers, employees, and the general public in the management and supervision of German listed companies. The current Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) states five points in which the Company departs, with reason, from recommendations contained in the German Corporate Governance Code. In general, the Management Board and Supervisory Board treat suggestions in the German Corporate Governance Code no differently from recommendations. All suggestions in the German Corporate Governance Code as amended on May 15, 2012 are complied with.

GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

Klöckner & Co SE is a Company under European law whose Articles of Association stipulate a two-tier management system as for a German stock corporation (Aktiengesellschaft). The two-tier system is characterized by strict separation, with no shared membership, between the executive decision-making body (the Management Board) and the advisory and supervisory body (the Supervisory Board). The Management Board and the Supervisory Board work together closely to further the Company's interests. Intensive ongoing dialogue between the two bodies provides a sound basis for efficient corporate management. Their joint objective is to ensure the Company's continuation as a going concern and its sustained profitable growth.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE has full responsibility for management of the Group and the Group holding company. The Management Board sets the targets and the strategies for the Group, its segments, and the country organizations and defines the guidelines and principles for the resulting corporate policy. It coordinates and supervises all significant activities, and is in charge of executive development and deployment, distributing resources, and deciding on Group financial management and reporting. This management responsibility, which the Management Board discharges as a collegiate body, includes corporate goal setting, Group strategy, Group management and control, corporate planning, and Group financing.

Overall responsibility for management is shared by the members of the Management Board, who work cooperatively and keep each other informed of important measures and developments in their portfolios. They develop corporate strategy and see to its implementation in consultation with the Supervisory Board. Notwithstanding the overall responsibility of all Management Board members, the individual members each manage their allotted portfolios on their own responsibility within the framework of Management Board resolutions.

The Management Board of Klöckner & Co SE currently consists of four individuals who are appointed and replaced by the Supervisory Board in accordance with the EC Regulation on the European Company (SE), the German Stock Corporation Act (AktG), and the Articles of Association: Chairman of the Management Board Gisbert Rühl (CEO); Chief Financial Officer (CFO) Marcus A. Ketter, who took up his post at the start of 2013; Karsten Lork, who has been in charge of the operating business in Europe and Asia since February 1, 2013; and William A. Partalis, who is responsible for the operating business in North and South America. Mr. Rühl had initially continued to act as CFO when he was appointed CEO at the end of 2009. After Ulrich Becker left the Company in the fall of 2012, Mr. Rühl additionally assumed temporary responsibility for the Europe and Asia portfolios.

The work of the Management Board is governed, among other things, by detailed Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure state the responsibilities in each Management Board portfolio, matters that are reserved for the full Management Board, decision-making procedures as well as the rights and obligations of the Chairman of the Management Board. They also contain rules on reporting to the Supervisory Board and a list of transactions for which the Management Board requires Supervisory Board approval. These include material, high-risk, or unusual transactions, and decisions of a fundamental nature. The Rules of Procedure require the Management Board to hold regular meetings at least once a month, and in general although the Management Board does meet on a monthly basis. At such meetings, the Management Board coordinates its work and makes joint decisions. In addition to 22 meetings held in the year under review, members of the Management Board on numerous occasions held coordinating discussions and met with the management teams of the major country organizations of the segments.

In view of the ongoing difficulties in the steel industry's operating environment and its impacts on the Group's business, the Management Board continued to maintain a heightened level of monitoring and consultation with country organizations during 2012. This included monthly teleconferences with the management teams of the major country organizations. In addition, meetings were held monthly for the most part with the management teams of the major country organizations of the segments.

SUPERVISORY BOARD

The Supervisory Board of Klöckner & Co SE advises the Management Board and oversees the latter's management of the Company. The Supervisory Board comprises six members, all of whom represent shareholders and are elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel; his deputy is Dr. Michael Rogowski. Both have extensive experience in managing and supervising international corporations and, like all other members of the Supervisory Board, possess the high level of professional expertise required to carry out their duties. All Supervisory Board members are independent within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) and Article 5.4.2 of the German Corporate Governance Code.

The Supervisory Board is directly involved in decisions of fundamental importance for the Company. It also consults with the Management Board on the Company's strategic positioning and discusses the status of business strategy implementation with it. The Chairman of the Supervisory Board coordinates the work of the committee and chairs its meetings. The Supervisory Board exchanges ideas with the Management Board on a regular basis to ensure that it stays abreast of business policy, corporate planning, and strategy. The Supervisory Board approves the annual budget and the annual financial statements of Klöckner & Co SE and the Klöckner & Co Group as well as the combined Management Report, taking into account the auditor's reports.

The Management Board provides regular, timely, and comprehensive written and verbal reporting to the Supervisory Board. Written reporting centers around the monthly Board Report. This furnishes information on the financial position, cash flows, and results of operations of the Group as well as of the Europe and Americas operating segments. The report also covers capital market developments, economic indicators relevant to Klöckner & Co, industry rankings, and trends in steel and metal prices. Items on the agenda at all Supervisory Board meetings include the overall economic situation, the industry situation, the business performance of the Company and its operating segments, and the performance of the Klöckner & Co share price relative to industry peers.

In accordance with the Supervisory Board Rules of Procedure, resolutions are adopted by simple majority unless otherwise stipulated by law or by the Articles of Association. As in past years, all resolutions were adopted unanimously in the year under review.

The plenary Supervisory Board holds at least four, and the Executive Committee holds at least three regular meetings a year. The two bodies also hold meetings on an ad-hoc basis as needed. The Supervisory Board held five meetings in the year under review, the Executive Committee four meetings, and the Audit Committee six meetings. The committees' chairmen provide the plenary Supervisory Board with regular and comprehensive reporting on the agendas and outcomes of committee meetings. The Management Board always provides relevant documentation for the meetings of the Supervisory Board and its committees.

The Supervisory Board evaluates and reviews the efficiency of its own activities once a year. Additional committees have not been set up thus far in view of the relatively small number of Supervisory Board members and the resulting high level of efficiency in plenary work. The Supervisory Board does not consider any major change to be necessary in the preparation, running, and agendas of meetings. It considers the division of its work to be well balanced between strategic issues, advisory, and supervisory activities. The Supervisory Board itself reports annually in detail on its work and the main focus of its activities in each fiscal year in its report to the Annual General Meeting (see the 2012 Annual Report, p. 8 et seq.).

COMMITTEES OF THE SUPERVISORY BOARD

The plenary work of the Supervisory Board is supplemented by the activities of a three-member Executive Committee and a three-member Audit Committee.

EXECUTIVE COMMITTEE

The Executive Committee is composed of the Chairman of the Supervisory Board, who chairs the committee, the Deputy Chairman, and one additional member. Thus the Chairman of the Executive Committee is Supervisory Board Chairman Prof. Dr. Dieter H. Vogel. The remaining members of the Executive Committee are Dr. Michael Rogowski and Dr. Hans-Georg Vater.

In accordance with the Rules of Procedure, the Executive Committee also acts as a Personnel Committee for the purpose of preparing staffing decisions at Management Board level. The Executive Committee proposes suitable candidates for the Supervisory Board to appoint as members of the Management Board and in particular makes proposals with regard to their compensation. It also advises on long-term succession planning for the Management Board and acts, with decision-making power, as a Committee for Urgent Matters. The Executive Committee further acts as a Nomination Committee. In this capacity, it proposes suitable candidates for the plenary Supervisory Board to nominate for election at the Annual General Meeting.

AUDIT COMMITTEE

The Audit Committee primarily reviews the accounting process, the effectiveness of the internal control system and the internal audit system, the audits of the financial statements – particularly the independence of the auditor – the services additionally rendered by the auditor, the engagement of the auditor, the matter of establishing focal points of the auditor's activities, fee arrangements, and compliance. The Audit Committee is also entrusted by the Supervisory Board with discussing half-year and quarterly financial reports with the Management Board ahead of publication. The Chairman of the Audit Committee, Dr. Vater, is an independent financial expert within the meaning of Article 100 (5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the German Corporate Governance Code and, based on his many years of service as the Chief Financial Officer of a listed major international construction group, has specific expertise and experience in applying financial reporting principles and internal control procedures. The Audit Committee meets at least six times a year, including three teleconferences held to discuss the interim financial reports. Alongside Dr. Vater, the Committee Chairman, the other members of the Audit Committee are Chairman of the Supervisory Board Prof. Dr. Vogel and his deputy, Dr. Rogowski.

GOALS FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND STATUS OF IMPLEMENTATION

The Supervisory Board is composed such that, taken together, its members possess the knowledge, skills, and professional experience required for the proper execution of their duties. When proposing candidates to the Annual General Meeting, the Supervisory Board's Rules of Procedure stipulate that, alongside factors qualifying a potential candidate such as management experience and industry knowledge, consideration must also be given to diversity in the composition of the Supervisory Board. It is therefore taken into account in nomination that the Supervisory Board should, where possible, also include members who are female, who are under the age of 60, and/or who live or work in a country other than Germany that is of particular relevance to the Company. The objectives in this regard are met by the current composition of the Supervisory Board.

Another objective set forth by the Supervisory Board's Rules of Procedure is that two-thirds of the members of the Supervisory Board be independent within the meaning of Article 5.4.2 of the German Corporate Governance Code. In the opinion of the Supervisory Board, all Supervisory Board members are currently independent within the meaning of this recommendation. In assessing independence, the Supervisory Board refers to the criteria specified in the recommendation by the European Commission of February 15, 2005 (Appendix 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees [2005/162/EC]).

Also to be taken into account in nomination is that the Supervisory Board should, if possible, have at least one financial expert within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG). The current financial expert is Dr. Hans-Georg Vater.

ANNUAL GENERAL MEETING

The shareholders of Klöckner & Co SE exercise their rights, including their voting rights, at the Annual General Meeting (AGM). The most recent Annual General Meeting took place in Düsseldorf on May 25, 2012. The next will likewise be held in Düsseldorf, on May 24, 2013. The Management Board and Supervisory Board have provided that the shareholders receive all support and information in accordance with the law, the Articles of Association, and the recommendations and suggestions contained in the German Corporate Governance Code. We publish the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on our website. Since 2010, the opening of the Annual General Meeting by the Chairman of the Meeting, the CEO's speech, and the report by the Supervisory Board have been broadcast live online, and are made available in recorded form after the Annual General Meeting.

DIRECTORS' DEALINGS

Under Section 15a of the German Securities Trading Act (WpHG), members of the Management Board and Supervisory Board as well as closely associated individuals and legal entities are required by law to disclose to Klöckner & Co SE and to the German Federal Financial Supervisory Authority (BaFin) any significant purchases or disposals of shares, or related financial instruments, including derivatives, to the extent that the value of the transactions reaches or exceeds €5,000 in one calendar year. Such disclosures are published immediately by the Company. Klöckner & Co sends the corresponding documentation to the German Federal Financial Supervisory Authority (BaFin); the information is stored in the company register (Unternehmensregister). The reports are also available on the Company's website.

There were seven such transactions between January 1, 2012 and February 22, 2013.

The table below summarizes the main information from disclosures during the period.

Date	Name	Position	Instrument	Purchase/ Sale	Quantity	Price per unit	Total price
03/21/2012	Dr. Michael Rogowski	Supervisory Board	Convertible Bond	Sale	1	€49,725.00	€49,725.00
04/03/2012	Dr. Michael Rogowski	Supervisory Board	Convertible Bond	Sale	1	€49,725.00	€49,725.00
05/10/2012	Gisbert Rühl	Management Board	Shares	Purchase	10,000	€8.33	€83,300.00
05/17/2012	Gisbert Rühl	Management Board	Shares	Purchase	5,000	€7.70	€38,500.00
06/20/2012	Dr. Hans-Georg Vater	Supervisory Board	Shares	Purchase	2,213	€8.31	€18,390.03
08/09/2012	Gisbert Rühl	Management Board	Shares	Purchase	10,000	€6.91	€69,100.00
11/16/2012	Gisbert Rühl	Management Board	Call-Option (Share)	Purchase	200	€79.15	€15,830.00

According to information provided to the Company by the members of the Management Board and the Supervisory Board, their total holdings in shares of Klöckner & Co SE or related financial instruments accounted for less then 1% of the shares in circulation as of the reporting date.

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Financial reporting by the Klöckner & Co Group is performed in accordance with International Financial Reporting Standards (IFRS). The financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB).

For reasons of simplicity and clarity, the Management Report takes the form of a combined management report covering the separate and consolidated financial statements. By law, the auditor of the separate and consolidated financial statements is elected by the Annual General Meeting. The audit mandate for the separate and consolidated financial statements is prepared by the Audit Committee and then discussed and issued by the Supervisory Board. The Management Board provides a detailed report on opportunity and risk management in the Klöckner & Co Group as Section 9 of this Combined Management Report.

TRANSPARENCY

Reporting on the Group's situation and on significant events relating to the Group is provided in the Annual Report containing the financial statements, the Management Report as well as other statutory and voluntary disclosures. Other elements of reporting include the half-year financial report in August, the first-quarter interim report in May, and the third-quarter interim report in November of each year. A financial statements press conference as well as an analysts' and investors' conference are held on publication of the Annual Report. We hold teleconferences for journalists, analysts, and investors on publication of quarterly and half-year reports. We also organize events and numerous consultations with financial analysts and investors in Germany and internationally, as well as with journalists. We use the Internet as our main channel of communication for providing shareholders and the public with equal access to timely, comprehensive information. Road show presentations for financial analysts and investors are made available to the general public on our website soon after each road show. We also publish press releases as needed.

Regular dates and events relating to Klöckner & Co are listed in the financial calendar on our website. Specific information likely to have significant influence on the Klöckner & Co share price is additionally published in ad-hoc announcements as required by the German Securities Trading Act (WpHG). Such matters are governed by a Group policy and an internal committee of experts (ad-hoc committee) who obtain outside advice (particularly on legal issues) as needed.

FUNDAMENTAL CORPORATE PRACTICES AND COMPLIANCE

Compliance – in the sense of measures to ensure adherence to statutory requirements and internal company policies, and observance of those measures by Group companies, their decision-making bodies and workforces – is a fundamental management and supervisory responsibility at Klöckner & Co. A compliance program centered on antitrust law and anti-corruption policies was introduced some years ago. Since then, the program has been regularly reviewed, developed and supplemented, which has led to the addition of data protection and export control as additional focal areas. Within our compliance program, we have adopted extensive measures to ensure adherence notably to anti-corruption and antitrust rules and regulations as well as to the Group policies based on them.

The Management Board of Klöckner & Co SE has unequivocally expressed its non-acceptance of antitrust violations and corruption in "Tone from the top", published on the Klöckner & Co intranet and on its website. Antitrust violations and violations of provisions prohibiting corruption are not tolerated in any way and result in sanctions against the offending employees. These may range from consequences under labor law or civil law to personal liability for any damage incurred by the Company (e.g., fines to be remitted). Employees are each called upon to work actively toward implementing the compliance program in their areas of responsibility.

The Code of Conduct published on the Company website and elsewhere sets out basic principles and rules for our corporate and social responsibility. The Code of Conduct is supplemented by a range of Group policies and procedural instructions that explain and illustrate the underlying legislation. Members of the Management Board and all managerial personnel lead by example and have heightened responsibility for ensuring that the Code of Conduct is put into practice.

A compliance system has been established to manage and implement the program and continue its development. As part of this system, full-time compliance officers hold regular training sessions in which employees learn about the relevant law and internal policies, and serve as points of contact for individual questions as they arise. Classroom training is complemented by a Group-wide interactive e-learning program that has been completed by some 4,000 employees so far. In 2012, the e-learning program focused on the Code of Conduct as a topic.

As an additional compliance element, Klöckner & Co has launched a Compliance Helpdesk for whistleblowers. Accessible from the Klöckner & Co website, the whistleblower helpdesk is available for Group employees and outsiders to report potential compliance violations at Group companies. The helpdesk can be accessed from anywhere in the world, is free of charge and can also be used anonymously.

Other compliance measures relate to areas such as capital market laws and relevant Group policies. Statutory provisions prohibiting insider trading are supplemented by a Group insider-trading policy governing transactions in Company securities by board members and employees. The insider trading policy also ensures transparency concerning insider-trading information. Individuals who have legitimate access to insider information as part of their work are listed in an insider list.

3. BUSINESS AND ECONOMIC CONDITIONS

3.1 GROUP STRUCTURE

Klöckner & Co SE is the parent and the ultimate holding company of the Klöckner & Co Group. It controls the management companies of the Europe and Americas segments with the operational country organizations. Except for the sale of the Eastern European operations, the Group's legal and financial structure did not change from the prior year. Klöckner & Co SE primarily follows the provisions of the European Company Regulation, its Articles of Association, and the German SE Implementation Act (SEAG). It is also subject, in particular, to the provisions of the German Stock Corporations Act.

Klöckner & Co SE's subscribed capital remains unchanged at a total of €249.4 million, composed of 99.75 million no-par-value registered shares carrying full voting rights. Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market since the initial public offering at the end of June 2006 and have been a component of Deutsche Börse AG's MDAX® index since January 2007.

Business activities/business model

Klöckner & Co is the largest producer-independent, stockholding steel and metal distributor and one of the leading steel service center companies operating in Europe and the Americas. We act as a connecting link between steel producers and consumers. As we are not tied to any particular steel producer, our customers benefit from our centrally coordinated procurement activities and wide range of national and international sourcing options spanning around 70 main suppliers worldwide. Our key competitive factors are economies of scale in global procurement and the customer access provided by an extensive logistics and distribution network. Our network spans some 19 countries and provides our customers with local access to around 255 distribution and service locations. Our products are constantly available, largely eliminating the need for customers to hold their own inventories. Our customer base comprises more than 160,000 mostly small to medium-sized steel and metal consumers, primarily from the construction as well as the machinery and mechanical engineering industries. We also supply intermediate products for the automotive, shipbuilding, and consumer goods industries. We offer our customers an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual deliveries and 24-hour service.

Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented into wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and 1,200 in the more consolidated North American market. In Europe, our market share in steel and metal distribution is approximately 7% and in the USA approximately 3%. In all the European markets in which we operate and in the USA, we are one of the top three distributors and service centers.

3.2 COMPANY STRATEGY

"Klöckner & Co 2020" long-term growth strategy

In October 2010, we presented our long-term growth strategy "Klöckner & Co 2020". It sets the strategic direction for Klöckner & Co to develop further into a global multi-metal distributor with faster-than-average growth by 2020.

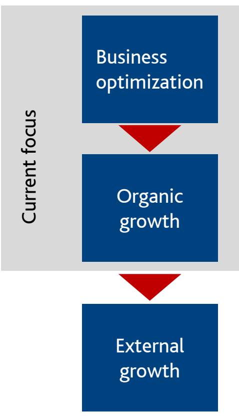
The "Klöckner & Co 2020" strategy is built on the four pillars of external growth, organic growth, business optimization, and personnel and management development.

External growth	Acquisition of distributors and steel service centers with higher-margin products and value added services
Organic growth	Stronger focus on expansion of value added services especially for industrial customer segments and increasing the share of higher-margin products
Business optimization	Realizing further scale benefits in purchasing and product management and optimization of logistics and inventory management
Personnel & Management development	Group-wide talent and performance management supported by structured compensation and benefits system

Current focus: strategic directions of thrust of growth, stabilization, and restructuring

Despite our long-term strategy "Klöckner & Co 2020", which we will continue to pursue in general, we need to respond promptly and flexibly to changes in economic conditions.

After signs of renewed economic slowdown multiplied over the course of the third quarter of 2011, we initiated a comprehensive action plan in September 2011 which we substantially expanded over the course of 2012, most recently in the third quarter of the year, due to the continued fall in demand for steel in Europe.

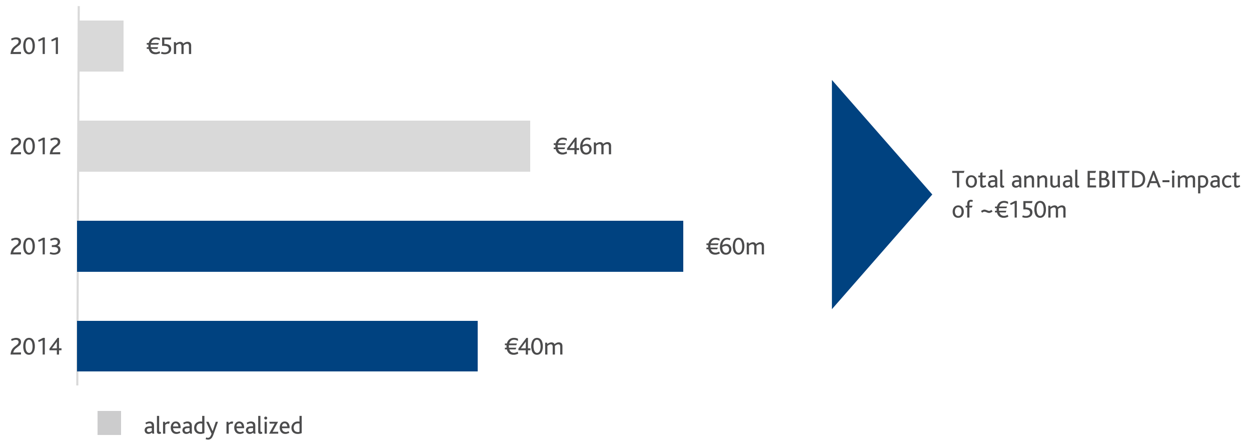


Since we no longer anticipate a substantial recovery in European steel consumption in the short to medium term, we are adapting our structure to the current demand and making substantial cuts. Alongside the closure of unprofitable branches and the discontinuation of insufficiently profitable business activities, the restructuring program centers on cuts in administration costs and sales overheads, which are to be achieved partly by reducing headcount by a total of 1,800. This means a workforce reduction of 16% based on the level when the program started in September 2011. The closure or sale of 60 locations will reduce our network by 20% to 230 locations. This affects all European country organizations except for the one in Switzerland and Becker Stahl-Service. In the USA, by contrast, we want to grow faster than the market again, following the fully completed integration of Macsteel.

This results in the three directions of thrust comprised of growth in the USA, stabilization at a high level in Switzerland and at Becker Stahl-Service, and restructuring in the rest of the country organizations in Europe. From 2014, the program is expected to make a fully effective annual contribution to EBITDA totaling around €150 million. The measures will be completed by mid-2013. The once-only expenditure required for this, which impacts on EBITDA, is expected to amount to around €80 million and will be financed in full by the reduction in net working capital and by disposal proceeds. The restructuring costs of €77 million are already included in the 2012 financial statements, so that we do not expect any further appreciable adverse effects on earnings in 2013. Once the restructuring measures are complete, acquisitions will grow in strategic importance again. The expansion strategy centers, in particular, on niche providers that create a lot of added value in the growth market of the United States, and that ideally profit from the growing need for infrastructure as a result of the change in energy costs.

So far, the Group-wide restructuring and optimization program has added €51 million to EBITDA since it started in September 2011, €46 million of this in fiscal year 2012.

Annual incremental EBITDA-impact



The restructuring measures particularly affected our subsidiary in Spain, where we made deep cuts to the site network. But our country organizations in Germany, the United Kingdom and France are also undergoing far-reaching changes to the structure of their site networks. In addition, we are reducing low-margin commodity business such as the large account beams business, since our competitors here in particular are the plants' own distributors or the plants themselves, and there are hardly any opportunities for differentiation, for instance through prefabrication. The announced withdrawal from Eastern Europe is also well advanced. Activities in the Czech Republic, Bulgaria and Romania, and thus more than two-thirds of the Eastern European business, were initially sold in December 2012. The activities in Lithuania and Poland have likewise been sold and we expect this sale to be completed before the end of the first quarter of 2013. Thanks to these measures, the risks have largely been mitigated and the foundation laid for profitable growth even if market conditions in Europe remain difficult.

Further location closures, which affect almost all European countries, will be implemented by the end of the first half of the year. Our basic approach is to maintain distribution for higher-value products, wherever logistically possible, and to supply customers from other warehouses in the region. Experience has shown that, depending on our network in the respective region, this allows us to retain half to two-thirds of turnover. In this way, we reduce low-margin business while, at the same time, improving efficiency by cutting costs. The closure of the affected branches is being financed using the net working capital tied up in them until now and through the sale of property.

In addition to selective location closures, productivity improvements in warehousing and the reduction in overhead and logistics costs, we are also optimizing and gradually expanding our core business with an eye toward higher and more stable margins, including partially expanding prefabrication services and selectively extending our product range. We are gearing the expansion of our prefabrication services mainly to existing customers where a demand has been identified and targeting our investments accordingly, currently with a focus on Switzerland and the United States. Examples of this are the construction of our steel service center as an entry into the automotive sector in Alabama, USA, as well as the planned increase in machine running time and thus output at our Swiss bending operations for construction steel. We plan to extend our product range to include more specialized products related to the existing core offering. In doing so, we are focusing on leveraging synergies with existing customers and sticking close to our core expertise in order to make the best possible use of our skills. In the case of the service center in Alabama, we will use the product expertise of Becker Stahl-Service to move into business with premium European automobile suppliers that produce in the United States and with which there is already a close business relationship in their home market.

3.3 MACROECONOMIC CONDITIONS

Economic environment

Macroeconomic situation

The uncertainties surrounding future US fiscal policy and the economic risks arising from the sovereign debt crisis in the eurozone intensified over the course of 2012. The negative trend particularly affected Western industrial nations, especially the eurozone, where economic performance was disappointing. After almost zero growth in the first quarter, economic output in the eurozone fell by 0.5% in the second quarter and by 0.6% in the third quarter. On aggregate estimates, this trend continued in the fourth quarter with a fall of 0.6%, such that on an annual basis, economic output declined by 0.4%.

In the US, economic growth was primarily bolstered by increased industrial production and stronger private consumption. In the fourth quarter, however, this trend was subdued by uncertainties surrounding the aversion of the fiscal cliff, which would have brought an emergency budget into force as of January 1, 2013 had no agreement been reached in the Senate. After 2.0% growth in the first quarter of 2012, 1.3% in the second quarter and 3.1% in the third, the US economy grew by just 1.5% in the fourth quarter. On an annual basis, there was growth of 2.3%.

In the emerging economies, the economic growth rate, which had so far mainly been high, significantly lost momentum over the year. Weak growth in Europe also impacted on the Chinese export industry, such that economic growth slowed from 8.1% in the first quarter and 7.6% in the second quarter to 7.4% in the third quarter, its lowest rate in more than three years. The final quarter, however, saw a recovery, with growth of 7.9%. Accordingly, annual growth stood at 7.8%. In Brazil, economic growth was unexpectedly low, primarily due to declining exports, a reduction in industrial production and a low investment rate. In addition to the continued strength of the currency, this was mainly attributable to a rapid increase in wage levels, which has significantly impaired the competitiveness of the Brazilian economy and resulted in growth of just 0.75% in the first quarter, 0.5% in the second and 0.9% in the third quarter. In the fourth quarter, the situation brightened somewhat on aggregate estimates, with growth of 1.7%. On an annual basis, there was growth of 1.0%.

Development of GDP in our core countries (in percent)	2012 vs 2011
Europe	**– 0.4**
Germany	0.9
United Kingdom	– 0.2
France	0.2
Spain	– 1.4
Switzerland	0.9
China	**7.8**
Americas	
United States	2.3
Brazil	1.0

Source: IMF, Bloomberg, in part preliminary estimates.

Industry-specific situation

Steel production and turnover at the distribution level

Worldwide steel production increased by 1.2% in 2012, setting a record volume of 1,547.8 million tons of raw steel, although again with considerable regional differences. While production in the EU declined by 4.7% in 2012 according to the World Steel Association, in North America it grew by 2.5%. According to Eurometal, the distribution level in Europe was even more affected by this development due to destocking at customers, with a decline of 9%. In the United States, by contrast, turnover in distribution increased by 1.3% according to the Metals Service Center Institute (MSCI), although this increase was much faster in the first half than in the second half of the year.

Despite growth in a number of regions, existing global production capacities are problematic. Above all in China, but also in Europe and the Americas, there are huge excess capacities, preventing a balance between supply and demand. At the end of December, the capacity utilization of steel producers in Europe and the United States stood at just under 70% and 74%, respectively. There are also considerable excess capacities at distribution level which need to be eliminated.

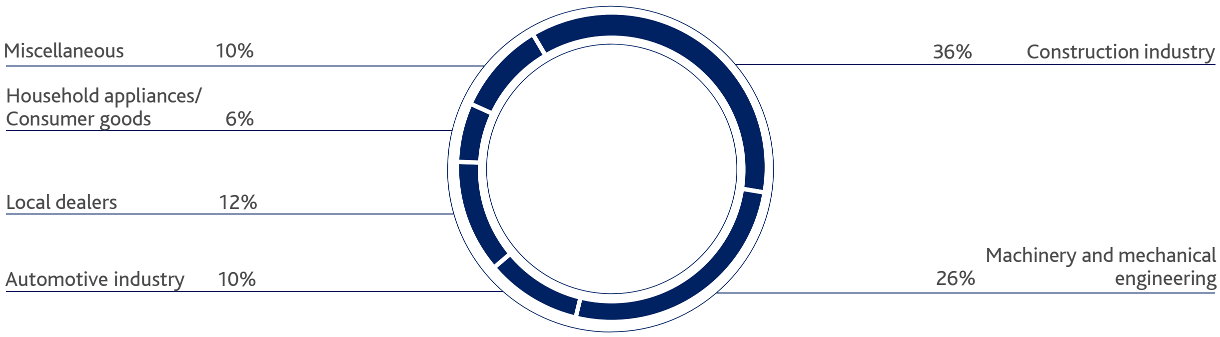
Steel production

(in million tons)	2012	2011	Variance
France	15.6	15.8	– 1.1 %
Germany	42.6	44.3	– 3.7 %
Spain	13.6	15.5	– 12.1 %
United Kingdom	9.8	9.5	+2.9 %
EU (27), total	**169.4**	**177.6**	**– 4.7 %**
Rest of Europe	37.9	37.2	+ 1.9 %
C.I.S. total	111.2	112.5	– 1.2 %
United States	88.6	86.4	+ 2.5 %
North America, other	33.3	32.5	+ 2.5 %
North America, total	**121.9**	**118.9**	**+ 2.5 %**
South America, total	**46.9**	**48.4**	**– 3.0 %**
Africa	15.7	15.7	+0.3 %
Middle East	24.2	23	+ 5.3 %
China	716.5	694.8	+ 3.1 %
Asia, other	296.2	291.7	+ 1.5 %
Asia, total	**1,012.7**	**986.5**	**+ 2.6 %**
Oceania, total	**5.8**	**7.2**	**– 19.9 %**
Other countries	**2.1**	**2.2**	**– 4.5 %**
Total	**1,547.8**	**1,529.2**	**+ 1.2 %**

Source: World Steel Association (January 2013).

3.4 SECTOR ENVIRONMENT

Customer sectors of Klöckner & Co SE (sales)



The share of sales attributable to the construction industry was 36% in the past fiscal year, followed by machinery and mechanical engineering, which went up by two percentage points to 26%. This partly reflected the full integration of Macsteel Service Centers USA with its focus on flat steel. The automotive industry was the third-largest buyer industry in the past fiscal year, with a 10% share of sales.

Trend in our core customer sectors

Automotive industry

The international automotive sector was stable in 2012, although the regional picture varied. In Europe, in addition to strain in the mass market segment, which had been growing since the start of the year, demand in the premium segment also began to decline in the second half of the year. According to the German Association of the Automotive Industry (VDA), new car registrations were 7.8% down year-on-year in 2012.

In the United States, by contrast, the sector profited from low interest rates and catch-up effects, recording an increase in turnover of 13.4% in 2012. Current turnover is still below the pre-crisis level, whereas European turnover has long since overtaken pre-crisis levels. Growth rates are also high in the emerging economies. China and Brazil provided positive momentum for the sector with increases in turnover of 8.4% and 6.1% respectively.

Machinery and mechanical engineering

Demand for machinery and mechanical engineering increased further in some regions, although with varying degrees of intensity. According to the industry association Eurofer, the sector in Europe contracted by 0.9% in 2012, in strong contrast to the growth in previous years, due in particular to declining exports to China. In the United States, by contrast, demand increased again in 2012, driven in part by agricultural machinery and equipment from the oil and gas sector. Demand also increased further in the emerging economies – especially China – in some areas by double digits, with their own developments partially replacing previous imports.

Construction industry

As the largest user of steel, the construction industry is key in the global development of steel consumption. According to estimates by Euroconstruct, construction activity in Europe fell by 4.7% in the past year due to subdued macroeconomic prospects and government austerity programs. Mediterranean countries are particularly affected by this. In comparatively more stable European economies, private residential construction performed better, benefiting from low interest rates and the fact that alternative investments are less attractive. In the United States, private residential construction began to grow again for the first time since the financial crisis escalated, while commercial construction at least stabilized. Overall, the construction investment volume in the United States increased by 9.2% in the past year. The private construction sector in China slowed down during 2012. Although the residential market showed signs of recovery by the end of the year, growth is expected to have slowed in 2012, despite the fact that infrastructure investments are also on the increase.

3.5 CAPITAL MARKET ENVIRONMENT

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 performance impacted by uncertain economic environment

Klöckner & Co shares initially outperformed the market in the first quarter of 2012, but then came under pressure from the middle of the second quarter onward as the uncertainties facing capital markets continued to increase. The steel sector, and therefore Klöckner & Co shares too, initially failed to benefit from the general upward trend on the capital markets from the middle of the year, as there was no pick-up in steel demand after the summer as there usually is. Steel prices also continued to drop as a result. Supported by higher commodity prices, steel and metal prices rose in the middle of the fourth quarter – something the capital market viewed as favorable for Klöckner & Co as a stockholding distributor. This rise was underpinned by the further improvement in capital market sentiment after the European Central Bank announced that it would buy up unlimited amounts of sovereign bonds if necessary to ward off a possible eurozone breakup.

Key data - Klöckner & Co share

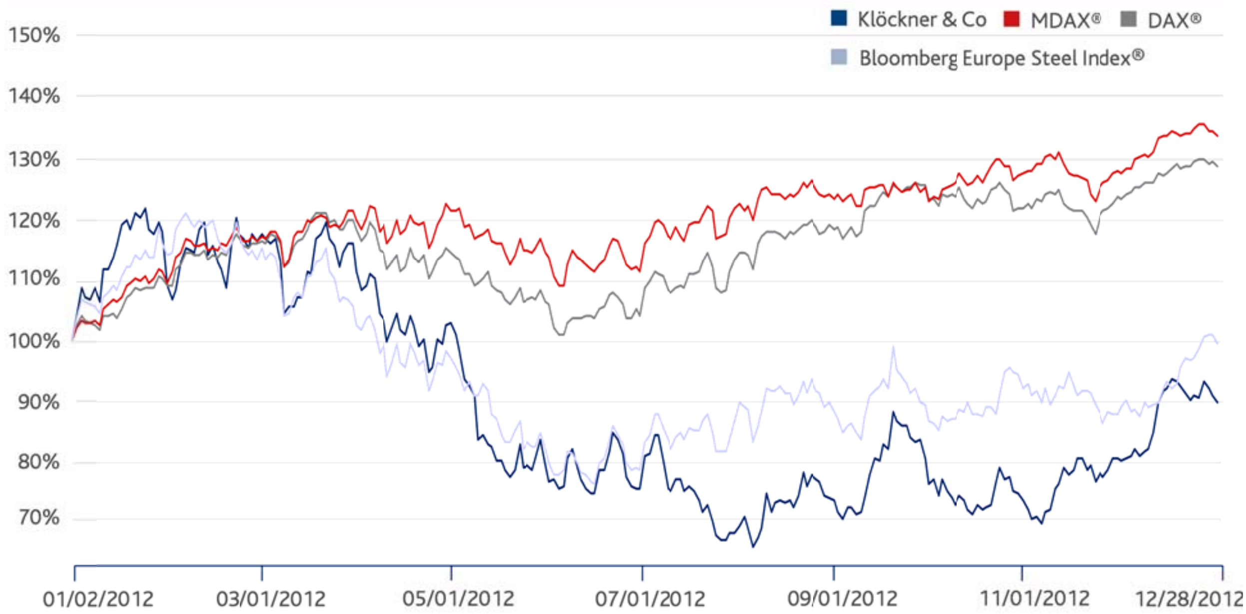
		2012	2011	2010	2009	2008
Share capital	€	**249,375,000**[1]	249,375,000[1]	166,250,000	166,250,000[2]	116,250,000
Number of shares	in shares	**99,750,000**[1]	99,750,000[1]	66,500,000	66,500,000[2]	46,500,000
Closing price (Xetra, Close)	€	**8.97**	9.92	21.01	17.85	12.29
Market capitalization	€ million	**895**	990	1,397	1,187	571
High (Xetra, Close)	€	**12.02**	23.42[1]	23.46	18.93[2]	40.50
Low (Xetra, Close)	€	**6.62**	8.28[1]	13.65	4.87[2]	7.65
Earnings per share (basic)	€	**– 1.95**	0.14	1.17	– 3.61	8.56
Average daily trading volume	in shares	**1,101,199**	1,539,240[1]	935,942	761,087	901,919
Dividend per share[3]	€	**-**	-	0.30	-	-
Dividend yield based on closing stock price	%	**-**	-	1.4	-	-
Total dividend paid	€ million	**-**	-	20.0	-	-

[1] Adjusted in light of the capital increase on June 8, 2011.

[2] Adjusted in light of the capital increase on September 18, 2009.

[3] In each case for the fiscal year.

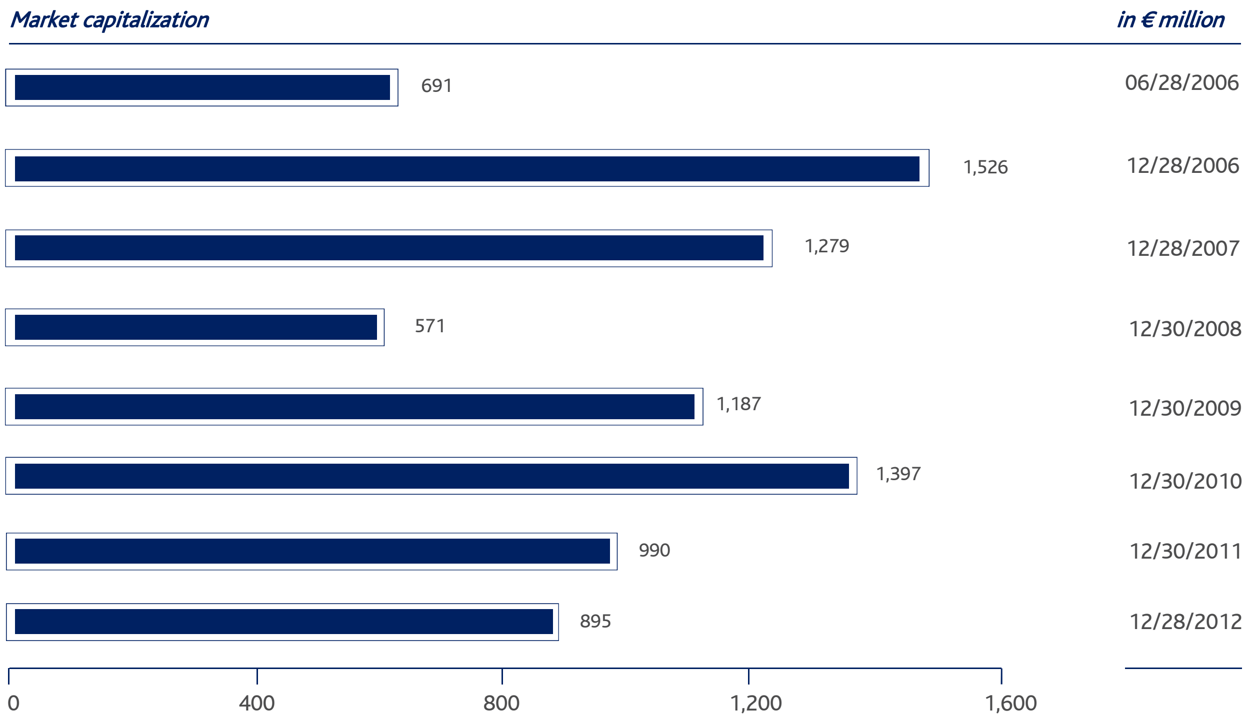
Performance Klöckner & Co share in comparison to DAX®, MDAX® and Bloomberg Europe Steel Index® *(values indexed)*



On December 28, 2012, the shares closed at €8.97, a fall of around 10% from the 2011 year-end closing price. The industry index only lost around 2% over the course of the year. The MDAX® gained around 34% and the DAX® around 29% compared with the 2011 year-end. In Deutsche Börse AG's MDAX® ranking for December, Klöckner & Co ranked thirty-fourth on free float market capitalization and fifteenth on trading volume.

Market capitalization

The market capitalization was approximately €895 million at the end of the fiscal year compared with €990 million a year earlier.



Klöckner & Co Convertible Bonds: Key data

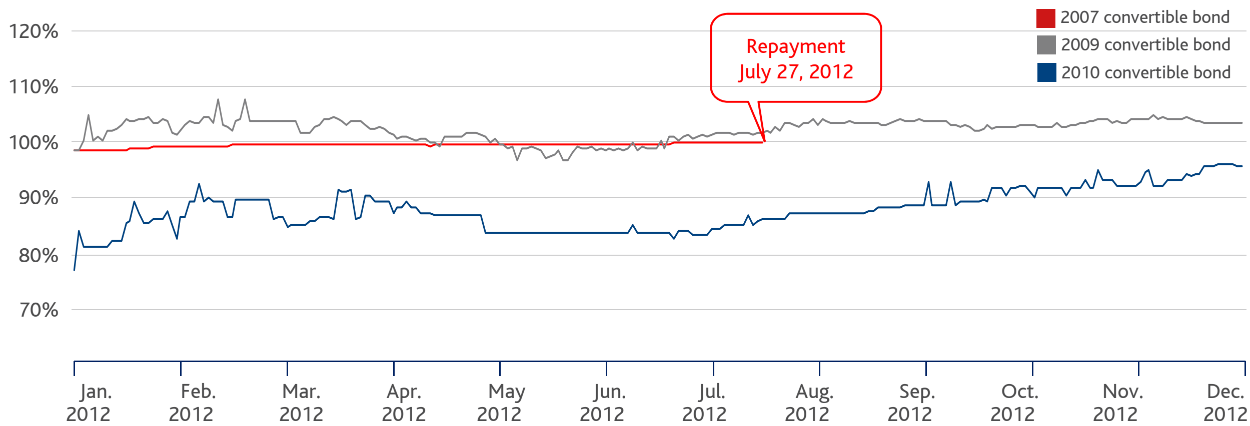
	2007 Convertible Bond [1]	2009 Convertible Bond	2010 Convertible Bond
German securities code	A0N0J0	A1AHTR	A1GKFA
ISIN	DE000A0N0J03	DE000A1AHTR5	DE000A1GKFA1
Volume	€325 million	€97.7 million	€186.2 million
Issue date	July 27, 2007	June 9, 2009	December 22, 2010
Maturity date	July 27, 2012	June 9, 2014	December 22, 2017
Coupon	1.5%	6.0%	2.5%
Conversion price	63.95 € [2]	16.47 € [3]	25.10 € [4]
Standard & Poor's-Rating	B+ (Long-term rating)	B+ (Long-term rating)	B+ (Long-term rating)

[1] Convertible bond repaid out of cash on July 27, 2012.
[2] Adjusted in light of 2009 and 2011 capital increases.
[3] Adjusted in light of 2011 dividend payment and 2009 and 2011 capital increases.
[4] Adjusted in light of 2011 dividend payment and 2011 capital increase.

Performance of Klöckner & Co convertible bonds

The convertible bonds issued in 2009 and 2010 tracked the price of Klöckner & Co shares as anticipated. Both convertible bonds initially performed well in the first half of the year, but then lost ground in the middle of the second quarter. They staged a recovery from the third quarter onward and closed above the 2011 year-end closing price. The 2007 convertible bond with a nominal value of €325 million was repaid out of cash on July 27, 2012. As it was due to mature in July 2012, the bond tracked an almost unchanged course. On December 31, 2012, the 2009 convertible bond was trading at 104.2% and the 2010 convertible bond at 96.5 %. The actual underlying yield is therefore 2.95% and 3.28%, respectively.

Performance of Klöckner & Co convertible bonds (Month-end figures)



2012 Annual General Meeting

The sixth Annual General Meeting of Klöckner & Co SE took place in Düsseldorf on May 25, 2012. Around 300 shareholders and shareholder representatives attended this event. In all, approximately 32% of the voting capital took part in voting. Shareholders approved all the resolutions proposed by the Supervisory and Management Boards with large majorities. The elections to the Supervisory Board once again attracted a great deal of attention this year. Dr. Hans-Georg Vater, who was standing for re-election, was confirmed in his post by the Annual General Meeting. Dr. Jochen Melchior, whose term of office expired on the day of the Annual General Meeting, did not stand for another term of office. Ulrich Grillo, Chairman of the Executive Board of Grillo-Werke AG, Duisburg, and now also President of the Federation of German Industries (BDI), was newly elected to the Supervisory Board.

In 2012, an online service was once again available to shareholders in the run-up to the Annual General Meeting. Shareholders were able to register for the Annual General Meeting on our website at www.kloeckner.com, where an online tool ensures that they are able to order an admission ticket, submit authorizations and instructions for proxy holders and order postal voting documents quickly and easily. The tool also allows shareholders to request the invitation to the Annual General Meeting electronically through the e-mail service (“electronic delivery”). Around 14% of the admission tickets were ordered by shareholders online. In the coming years, e-mail delivery will replace postal delivery for registered participants.

Group of analysts expands

Klöckner & Co continues to attract the interest of the financial community and last year saw five international banks and securities houses join the group of analysts covering the Company. Klöckner & Co’s shares were therefore being watched and rated by 28 analysts at year-end. These published a total of 141 research reports in the past fiscal year. At the end of 2012, ten securities houses gave our shares a “buy” recommendation, nine gave a “hold” recommendation and nine a “sell” recommendation. We provide an up-to-date overview of the research recommendations on our website under Investors/Share/Analysts.

Klöckner & Co shares are analyzed by the following banks and securities houses:

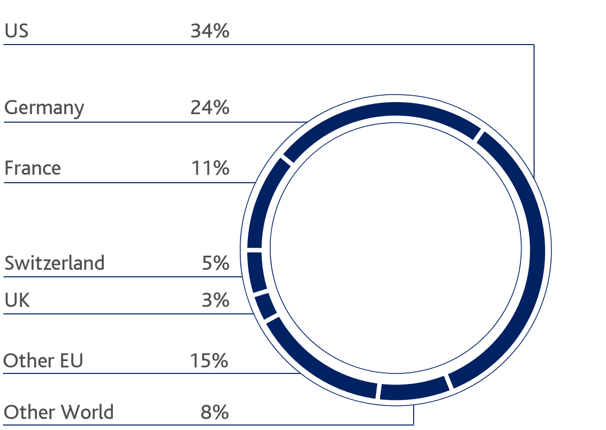
Baader Bank (new)	Jefferies (new)
Bankhaus Lampe	JP Morgan Securities
Bank of America Merrill Lynch	Kepler Equities
Berenberg Bank	MainFirst Bank
BHF Bank	Metzler Equity Research
Citigroup	M. M. Warburg (new)
Close Brothers Seydler Research	Montega
Commerzbank	Morgan Stanley
Credit Suisse	National Bank (new)
Deutsche Bank	Nomura Equity Research
DZ Bank	NordLB (new)
Exane BNP Paribas	SRH AlsterResearch
HSBC Trinkaus & Burkhardt	Steubing
Independent Research	UBS Equities

OWNERSHIP STRUCTURE

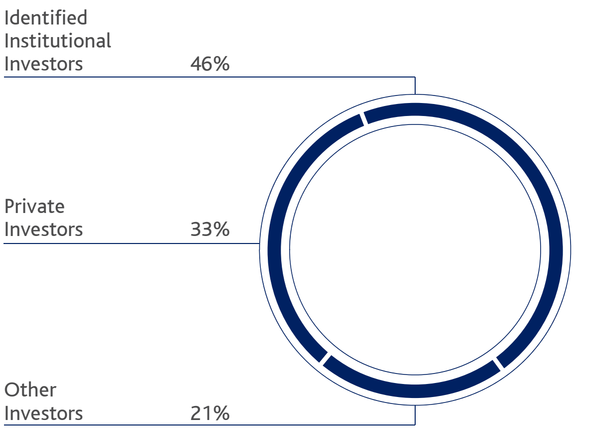
Last year, Klöckner & Co once again commissioned regular shareholder identification analyses in order to gain an up-to-date overview of the regional distribution of its investors. The data enable investor relations work to be targeted appropriately and road shows and conferences to be planned effectively. The most recent analysis was conducted in January 2013 and identified around 90% of shareholders.

This most recent analysis showed that identified institutional investors held 46% of the share capital and private individuals 33%.

Geographic breakdown of identified institutional investors of the Klöckner & Co SE



Shareholder structure of the Klöckner & Co SE



At the time of preparation, our largest shareholders, with shareholdings of between 5% and 10%, was Interfer Holding GmbH, and of between 3% and 5% each Franklin Templeton Investments Corp., Dimensional Holdings Inc./Dimensional Fund Advisors LP, Templeton Investment Counsel, LLC, and Allianz Global Investors Kapitalanlagegesellschaft mbH.

Open and continuous communications

At Klöckner & Co, Investor Relations is all about transparent and continuous communications with private and institutional investors. In 2012, members of the Management Board and the IR team once again kept international investors informed about the Klöckner & Co Group's results and potential, not only at the Annual General Meeting, but also at a total of thirteen road shows and fifteen conferences in all the major financial centers in Europe and the Americas, as well as at more than 50 additional individual meetings. During the past year, active use was made of teleconferences in order to respond even more quickly to the information requirements of capital market players and engage in direct dialogue without any time delay.

In addition to the Klöckner & Co Group's current results, discussions focused primarily on the strategy and the restructuring measures initiated back in September 2011, with participants showing interest in our progress in integrating Macsteel Service Centers USA, the largest acquisition in the Company's recent history. As the share price came under pressure, questions increasingly turned to the valuation of shares relative to the Klöckner & Co Group's financial position, above all the solidity of the Group's financial position and financing. The progress of the restructuring program and its contributions to earnings were also a major subject of discussion, as was the issue of limiting risk, in particular stemming from crisis-hit countries such as in Eastern Europe and Spain.

In addition to its contact with institutional investors, Klöckner & Co attaches particular importance to direct dialogue with private investors. At events held by shareholder protection organizations, the Chairman of the Management Board and the IR team seek to engage in an open exchange of views and information with private investors. In addition, in a vodcast available on the homepage, the Chairman of the Management Board explains the full-year and quarterly results as well as the developments in the past reporting period. As this direct communications tool has been so well received, we have used it on a regular basis since the 2009 capital increase and will continue this service in fiscal year 2013.

In addition to direct contact with investors, our website at www.kloeckner.com forms an integral part of our financial communications efforts. Interested parties can find all the relevant information about Klöckner & Co shares and the convertible bonds in the Investors section of our website at www.kloeckner.com/en/investors.php. This includes financial reports, the financial calendar, information on corporate governance as well as current data on share and convertible bond performance. All information about Klöckner & Co SE's Annual General Meeting in Düsseldorf on May 24, 2013 will also appear on the website.

Our newsletter keeps shareholders and other interested parties abreast of current developments in the Group. You are welcome to sign up for this newsletter at ir@kloeckner.com.

The Investor Relations team would be happy to communicate with interested shareholders at any time by telephone, e-mail or letter, and is looking forward to receiving your questions and suggestions.

4. RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL POSITION

The key figures for the results of operations, cash flows and financial position for fiscal 2012 are as follows:

Key figures

(€ million)	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011
Sales	**7,388**	7,095
EBITDA before restructuring expenses*)	**139**	227
EBITDA including restructuring expenses	**62**	217
Free cash flow	**67**	– 524

(€ million)	December 31, 2012	December 31, 2011
Net working capital	**1,407**	1,534
Net financial debt	**422**	471

*) Further information can be taken from Note 6 of the Notes to the Group financial statements.

4.1 RESULTS OF OPERATIONS

Turnover and sales increased, earnings well below prior year

Supported by the full inclusion of the prior-year acquisitions and strong growth in the United States, Klöckner & Co's turnover of 7.1 million tons in fiscal 2012 was up 6.1% on the prior year (2011: 6.7 million tons), with significant differences in performance between the Europe and Americas segments.

In the Europe segment, the increasing economic slowdown over the course of fiscal 2012 and the ongoing process of streamlining the portfolio with regard to low-profitability activities within the scope of the restructuring program resulted in a reduction in turnover of 6.5% compared with the prior year. Despite the discontinuation of our low-margin large account beams business and the location closures, turnover fell less strongly than the market as a whole (down 9%). Except for the Swiss country organization, which slightly increased turnover, all European country organizations showed a decrease in turnover relative to the prior year. Turnover in the Netherlands and in Spain was substantially below the prior year level due to the portfolio streamlining. In the Netherlands we systematically pulled out of low-margin, largely undifferentiated large account business in construction, while in Spain we adjusted our distribution capacity to a lasting decrease in the size of the market by closing a total of eight locations. An above-average drop in turnover due to discontinuation of the large account beams business was also recorded by the German country organization, which additionally labored under fierce competition.

Turnover in the Americas segment increased by 30.8% in 2012 relative to the prior year, primarily due to acquisitions, but also as a result of the far more positive market environment compared to Europe. Organic growth in North America (i.e. after adjustment for Macsteel) was 4.9%, surpassing both the prior year and the market (1.3%). Overall, following the successful integration of Macsteel and the resulting significant improvement in our market position, we substantially increased our market share in North America, most of all in the flat steel service center business.

The difference in performance between the Europe and Americas segments is also visible in the product portfolio. We thus achieved significant turnover growth, most notably in the flat steel products that are decisive in North America and also in heavy plate and hollow section products. In contrast, the steel girder and merchant bar business that is important in the Europe segment was down, primarily due to the portfolio streamlining applied as part of the restructuring measures.

Our selling prices increased up to the second quarter and then fell more or less continuously – in line with the market price trend – until well into the fourth quarter. This is especially clear in heavy plate. Driven mostly by price pressure in North America, the gap between the peak prices in May and the lowest price level in the fourth quarter marked price erosion of more than €100 per ton. In comparison, long products saw a more moderate decline over the duration of fiscal 2012. Overall, average selling prices were slightly down on the prior year.

The sales trend approximately followed the turnover trend. Sales increased relative to the prior year by 4.1% to approximately €7.4 billion and thus showed slightly smaller growth than turnover because of the somewhat lower average prices. Adjusted for prior-year acquisitions, sales were 4.7% down on the prior year. €4.7 billion of the total sales figure was generated by the Europe segment and €2.7 billion by the Americas segment.

Earnings

Earnings in fiscal 2012 are marked by a decreased gross profit and the impact of restructuring measures.

At €1,288 million, gross profit was 2.1% down on the prior-year figure of €1,315 million. Despite the amounts contributed by prior-year acquisitions, the sustained price pressure from the second quarter onward meant it was not possible to match the gross profit generated in the prior year. The gross profit margin fell accordingly from 18.5% in fiscal 2011 to 17.4% in the year under review.

Operating income (EBITDA) fell year on year from €227 million to €139 million before restructuring expenses, and from €217 million to €62 million after restructuring expenses. The EBITDA margin (EBITDA/sales) stood at 1.9%, or 0.8% after restructuring expenses (2011: 3.2% before or 3.1% after restructuring expenses).

EBITDA before restructuring expenses by segments

(€ million)	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011	Q4 2012	Q4 2011
Europe	**91**	177	**18**	22
Americas	**76**	81	**15**	13
Headquarters	**– 28**	– 31	**– 11**	– 11
Klöckner & Co Group	**139**	**227**	**22**	**24**

The Europe segment generated EBITDA of €91 million (2011: €177 million) before restructuring expenses in the year under review, or €17 million including restructuring expenses (2011: €167 million). All country organizations saw EBITDA decrease year on year. Even adjusting for restructuring expenses, the Spanish and French country organizations were unable to generate positive operating income. As in past years, Becker Stahl-Service and the Swiss country organization were the main drivers of segment EBITDA, although these companies, too, were unable to break entirely free from the hostile market environment. The major share of the restructuring expenses of €74 million impacting EBITDA in the Europe segment relates to location closures already carried out in Spain, the measures initiated in Germany and France, and the withdrawal from Eastern Europe.

The contracts for the sale of the Eastern European companies were signed in December 2012. The sale of the companies in Bulgaria, Romania, and the Czech Republic was closed before the end of 2012. The companies in Poland and Lithuania are presented as of December 31, 2012 as held for sale. The sale of the Bulgarian, Romanian, and Czech companies resulted in a loss of €3 million. Additionally, in view of agreed purchase prices that were less than the net assets being disposed of, impairment losses of €7 million were recognized on assets of the Polish and Lithuanian companies.

Despite the earnings contribution from Macsteel being included for the entirety of 2012 (2011: eight months), adjusted EBITDA in the Americas segment went down from €81 million in the prior year to €76 million in the year under review. From about mid-year, continuously falling market prices due to strong imports and intense competition led to weak margins notably in the heavy plate and flat steel business. The positive turnover trend was therefore not quite enough to make up for the pressure on margins.

Our Brazilian country organization was unable to generate positive EBITDA due to strong ongoing price pressure as a result of excess capacity and persistently high imports. Supported by an improved market environment, however, the action taken had a positive effect toward the end of the year.

Reconciliation to net income

(€ million)	2012	2011
EBITDA including restructuring expenses	**62**	**217**
Depreciation, amortization and impairments	– 165	– 106
Financial result	– 76	– 84
Income taxes	– 19	– 17
Net income	**– 198**	**10**

Despite the most recently positive trend in Brazil, the goodwill from the Frefer acquisition was written off with an impairment loss of €36 million. This was partly offset by €17 million from the associated remeasurement of the put liability relating to the remaining minority interest, leaving a net charge of €19 million. Further impairments totaling €19 million were recognized on property, plant and equipment of the Eastern European companies being divested, in connection with the restructuring in Spain and Germany, and on goodwill in France.

Earnings before interest and taxes (EBIT) amounted to a loss of €103 million (2011: profit of €111 million). The financial result in fiscal 2012 amounted to €– 76 million (2011: €– 84 million). This figure includes income from the adjustment in profit or loss of the put liability arising from the Frefer acquisition. Earnings before taxes (EBT) amounted to a loss of €179 million (2011: €27 million).

Taking into account the tax expense of €19 million, the Group's net loss came to €198 million (2011: net income of €10 million). The tax expense mainly relates to valuation allowances recognized, in light of the weak economic trend in some European countries, against deferred tax assets relating to tax loss carryforwards from past periods, and to the non-recognition of deferred tax assets on tax loss carryforwards in the year under review. Benefits from the future utilization of tax loss carryforwards are only recognized as assets if we consider their utilization probable. Nonetheless, depending on economic developments, it is possible that the utilization of the existing tax loss carryforwards will result in substantial relief from tax. Absent the ability to offset tax losses in one European country with taxable profits in other European countries or in the United States, the income tax expense for 2012 comprised a current tax expense of €37 million.

Basic earnings per share amounted to a negative €1.95 compared with a positive €0.14 in the prior-year period.

4.2 CASH FLOWS, FINANCING AND LIQUIDITY

Financing and financial management

Group financing is generally centrally managed through Klöckner & Co SE. We back the liquidity of our Group companies with central and bilateral credit facilities, using an international cash pooling system. Centralized financing strengthens our negotiating position with banks and other lenders, making it easier to implement a uniform finance policy and limit financing risk.

Financing for the Group is generally secured on a flexible and diversified basis using a portfolio including convertible bonds, promissory notes, a syndicated loan, an asset-based lending facility, ABS programs, and bilateral loan agreements.

Convertible bonds

Our convertible bonds make up a substantial component of our long-term Group financing. We issued a first €325 million convertible bond in July 2007 which matured in July 2012. The bond was repaid in full from available cash resources on July 27, 2012.

A second convertible bond for €98 million with a term of five years and a 6% coupon was placed with institutional investors in June 2009. The issuer is Klöckner & Co Financial Services S.A., Luxembourg. The conversion price was €21.06 when the convertible bond was issued (35% above the reference price of €15.60) and has since been adjusted to €16.47 to reflect rights issues and dividends.

A further convertible bond for €186 million was issued in December 2010. The issuer is once again Klöckner & Co Financial Services S.A. and the bond is guaranteed by Klöckner & Co SE. The bond has a seven-year term. The coupon on the bond was set at 2.5% p.a. Under the bond terms, the holders of the bond are entitled to require early redemption after five years at par value plus accrued interest. The conversion price was set at €28.00. This was equal to a 35.07% premium over the reference price of €20.73. The conversion price of the bond has been adjusted to €25.10 reflecting the rights issue and the dividend.

Promissory notes

Promissory notes issued in 2010 and 2011 come to a total amount of €343 million as in the prior year. The promissory notes are based on basic, standard documentation using the same financial covenants as the syndicated loan. The promissory notes have maturities of between three and five years. Of the total amount, €123 million is fixed-interest-bearing and €220 million has variable interest rates.

Syndicated loan

The syndicated loan (a multi-currency revolving credit facility) for a facility amount of €500 million has a term ending May 2014. The credit facility is provided by a syndicate of 13 banks. The balance sheet-based covenants adopted in 2009 have been retained. Drawings stood at €160 million at year-end.

Under the covenants, net financial debt must not exceed equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 28, 2010 by more than a factor of 1.5. The same adjusted equity figure must equal at least €500 million. The scope for drawings on the syndicated loan is also tied to the current totals for unrestricted receivables and inventories by way of virtual collateral.

All covenants were complied with throughout the reporting period.

Asset-backed securitization programs

Group working capital funding is additionally secured through a centrally managed European Asset-Backed Securitization (ABS) program launched in 2005. In April 2012, the program was extended by one year to May 2014 and the total amount reduced from €420 million to €360 million. The American ABS program, on the other hand, was expanded by USD 75 million to USD 275 million and extended to the end of 2017. Utilization under the programs totaled €161 million as of the reporting date.

The covenants on both the European and the US ABS programs were likewise complied with throughout the reporting period.

Bilateral credit facilities and asset-based lending

The bilateral credit facilities for a total of approximately €583 million were only 17% drawn at the end of 2012. Alongside the ABS program, the US country organizations have an asset-based lending facility that was expanded from USD 250 million to USD 325 million in the year under review and expires in 2017.

Liquidity management and inter-company settlements

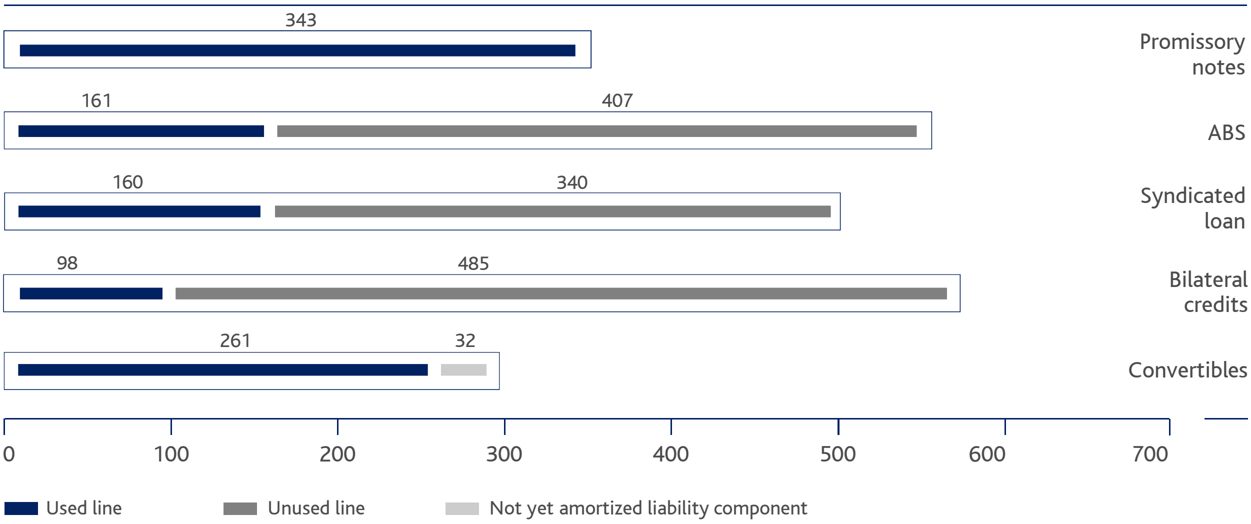
The Group uses an international cash pooling system to handle inter-company settlements and cash management. Our country organizations in Switzerland and the Americas segment are not included in this system, as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business of the individual country organizations, was secure at all times throughout 2012.

Financial headroom and net financial debt

Following the enlargement and extension of credit facilities, Klöckner & Co has facilities totaling around €2.3 billion at its disposal. The average remaining term of central financing instruments is currently around three years.

As shown below, drawings as of December 31, 2012 totaled approximately €1.0 billion, representing only 45% of the total facility amounts.

Financial volume *) *in € million*



*) Excluding foreign currency conversion effects

Including cash and cash equivalents, but excluding transaction costs, net financial debt totaled €422 million as of December 31, 2012 (2011: €471 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, 2012	December 31, 2011
Net financial debt	**422**	471
Gearing (Net financial debt/shareholders' equity*)	**28%**	29%

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

Gearing was 28% as of the fiscal year-end, well within the 150% limit under the syndicated loan.

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 the notes on financial instruments.

We safeguard liquidity both with rigorous inventory and receivables management and with internally defined indicators. The latter include a minimum limit for the equity ratio and a maximum limit for gearing. Financial risk management is governed by a Group-wide financial guideline. We use derivative financial instruments to hedge interest-rate and currency risk. Derivatives are used exclusively to hedge risks related to underlying transactions and do not serve any speculative purposes. Foreign currency exposure in Group companies is generally hedged against currency risk at corporate level, or, where applicable, via local forex trading lines with banks. We also centrally monitor and hedge interest-rate risk.

Cash flow analysis

The consolidated statement of cash flows shows the sources and uses of cash flows during the fiscal year. The full consolidated statement of cash flows is presented on page 79 as part of the consolidated financial statements. Cash and cash equivalents 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)	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011
Operating cash flow	**68**	212
Cash flow from operating activities	**101**	– 41
Cash flow from investing activities	**– 34**	– 483
Free cash flow	**67**	**– 524**
Cash flow from financing activities	**– 440**	589

*) In contrast to the previous year, interest payments are included in the cash flow from operating activities. The figures of the previous year were adjusted, correspondingly.

Operating cash flow – i.e. primarily before funds tied up in net working capital – was €68 million, below the prior-year figure of €212 million. After deducting €91 million for changes in net working capital and €– 58 million for changes in other operating assets and liabilities, interest paid and income taxes paid, cash flow from operating activities was €101 million in 2012, compared with a negative €41 million in the prior year.

Investing activities generated a cash outflow of €34 million in 2012, compared with €483 million in the prior year. Free cash flow came to €67 million, compared with a negative €524 million in the prior year. Whereas the prior year brought large cash outflows for the acquisitions of Macsteel and Frefer (€444 million), the figure in the year under review includes €23 million in proceeds from the sale of assets and the sale of the Eastern European activities. Payments for capital expenditure amounted to €57 million, slightly higher than the prior-year figure of €56 million.

Cash flow from financing activities – a cash outflow of €440 million (2011: Cash inflow of €589 million) – includes the repayment of the 2007 convertible bond with a principal amount of €325 million.

4.3 FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet

(€ million)	December 31, 2012	December 31, 2011
Long-term assets	**1,132**	1,295
Current assets		
Inventories	**1,254**	1,362
Trade receivables	**787**	922
Other current assets	**122**	140
Liquid funds	**610**	987
Total assets	**3,905**	**4,706**
Equity	**1,635**	1,843
Non-current liabilities and provisions		
Financial liabilities	**914**	1,068
Other non-current liabilities and provisions	**362**	458
Current liabilities		
Financial liabilities	**110**	377
Trade payables	**634**	750
Other current liabilities and provisions	**250**	210
Total equity and liabilities	**3,905**	**4,706**

Total assets came to €3,905 million as of December 31, 2012. This represented a 17.0% decrease on the prior-year figure of €4,706 million.

The main balance sheet variances are driven by lower non-current assets, lower cash balances and a reduction of net working capital. Non-current assets decreased from €1,295 million to €1,132 million (down 13%) as of December 31, 2012. The €163 million decrease is reflected in reductions in intangible assets (€– 99 million) and property, plant and equipment (€– 33 million). €55 million of the decrease is accounted for by impairment of goodwill and property, plant and equipment.

Equity decreased as a result of the net loss in the year under review from €1,843 million to €1,635 million. Reflecting the lower figure for total assets, the equity ratio was a sound 42% at the end of the reporting year, compared with 39% in the prior year.

The equity-to-fixed-assets ratio stood at 151.7% as of December 31, 2012 (2011: 152.3%). Adding in non-current liabilities, the excess of equity and non-current liabilities over non-current assets amounted to €1,779 million, compared with €2,074 million in 2011.

Net working capital developed as follows:

Net working capital

(€ million)	December 31, 2012	December 31, 2011
Inventories	1,254	1,362
Trade receivables	787	922
Trade payables	– 634	– 750
Net working capital	**1,407**	**1,534**

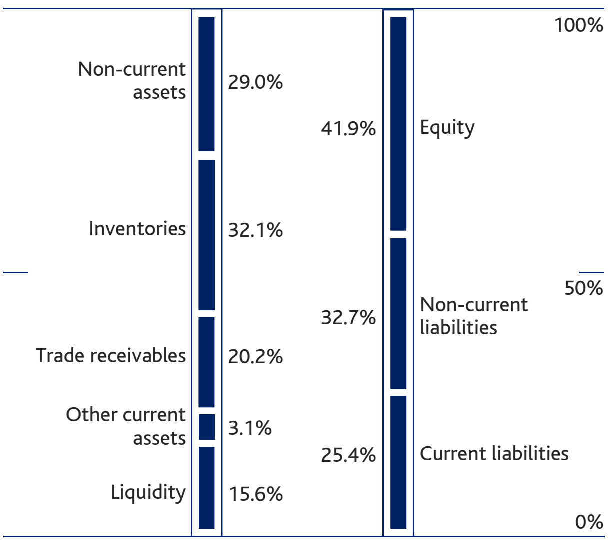
Net working capital, at €1,407 million, was lower than the €1,534 million at the end of the 2011 fiscal year as a result of active working capital management.

Following repayment of the 2007 convertible bond, cash and cash equivalents still totaled €610 million (2011: €987 million).

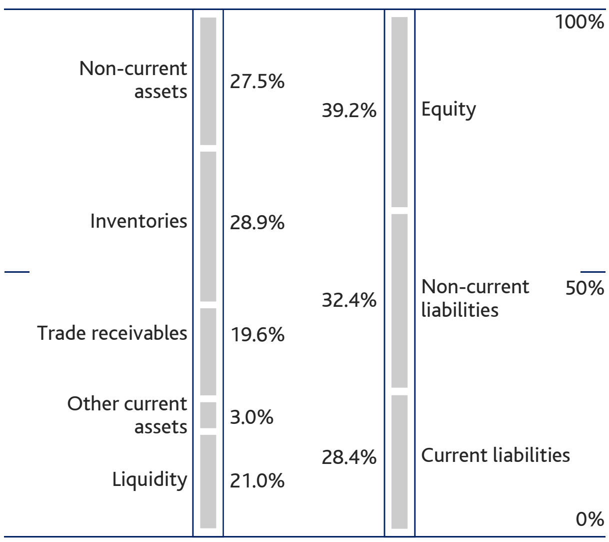
Largely due to the repayment of the convertible bond, financial liabilities in the consolidated statement of financial position decreased from €1,445 million in the prior year to €1,024 million in 2012. Deducting cash and cash equivalents and transaction costs, net financial debt came to €422 million.

Provisions for pension obligations totaling €177 million (2011: €183 million) were largely unchanged due to the use of the corridor method of accounting, which continues to apply for the time being; the funded status (the amount by which pension obligations exceed plan assets) nonetheless increased substantially from €268 million to €320 million. This mainly results from actuarial losses due to the significantly lower discount rate compared with the prior year.

Balance sheet total 2012: €3,905m



Balance sheet total 2011: €4,706m



5. INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

5.1 NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

As the parent company of the Klöckner & Co Group, Klöckner & Co SE is in charge of the Group's operating management. It coordinates central Group financing and directly holds the ownership interests in most management companies heading the Group's national and international country organizations and in individual country operating organizations themselves.

Balance sheet of Klöckner & Co SE (condensed)

(€ thousand)	December 31, 2012	December 31, 2011
Intangible assets and property, plant & equipment	9,812	8,903
Financial assets	1,284,685	1,282,619
Fixed assets	**1,294,497**	**1,291,522**
Receivables from affiliated companies	545,024	511,341
Other receivables	6,557	14,343
Liquid funds	440,880	844,238
Current assets	**992,461**	**1,369,922**
Prepaid expenses	30,890	51,827
Total assets	**2,317,848**	**2,713,271**
Equity	1,290,817	1,283,555
Provisions for pensions and similar obligations	93,776	95,183
Other provisions	51,298	46,323
Bonds	284,100	609,100
Liabilities to affiliated companies	84,310	95,414
Liabilities to banks	510,212	575,532
Other liabilities	3,335	8,164
Total equity and liabilities	**2,317,848**	**2,713,271**

The annual financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

Klöckner & Co SE's financial position reflects its holding company character and its function as the Group's central financing company. The Group's risks mainly affect accounting in relation to the carrying amounts of investments in subsidiaries. Fixed assets therefore consist almost entirely of financial assets. These mostly comprise the investments in management companies heading the Group's national and international country organizations and in individual country operating organizations themselves, and long-term loans to those companies.

In the year under review, €23 million was paid into capital reserves at the Netherlands country organization, Klöckner Netherlands Holdings B.V., to strengthen its capital base.

Other major items in the balance sheet relate to the convertible bond issues and liabilities to banks, which include drawings on the syndicated loan and the promissory notes. The change in bonds relates to the repayment on schedule of the 2007 convertible bond for €325 million in July 2012.

Due to the significant reduction in total assets, Klöckner & Co SE's equity ratio rose to 55.7% as of December 31, 2012 (2011: 47.3%).

Income statement of Klöckner & Co SE (condensed)

(€ thousand)	2012	2011
Income from investments	75,726	183,239
Impairment of investments	-	– 89,944
Interest income, net	– 31,882	– 38,671
Other income and expenses, net	– 34,731	– 38,616
Result from ordinary activities	**9,113**	**16,008**
Extraordinary result	-	925
Taxes	– 1,851	– 3,449
Net income	**7,262**	**13,484**
Unappropriated profits carried forward	13,484	47,352
Dividends	-	– 19,950
Appropriation to other revenue reserves	– 13,484	– 27,402
Unappropriated profits	**7,262**	**13,484**

The income from investments consists of profit distributions and profit transfers from subsidiaries:

(€ thousand)	2012	2011
Income from profit transfer agreements	46,826	72,079
Dividends received from affiliated companies	28,900	111,160
	75,726	**183,239**

The dividends consist of dividend income from Debrunner Koenig Holding AG, St. Gallen, Switzerland. The income under profit transfer agreements relates to agreements with Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner Global Sourcing GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg, and Becker Besitz GmbH, Duisburg, Germany.

The negative balance on other income and expenses, net, narrowed from €38.6 million in 2011 to €34.7 million in 2012. It should be noted that the prior-year figure included approximately €11.5 million in expenditure relating to the rights issue. The balance for the year under review includes €5 million in bad debt expenses from the sale of Klöckner Metalsnab AD, Sofia, Bulgaria, in connection with the sale of the Eastern European activities.

Net income came to €7.3 million in 2012, compared with €13.5 million in 2011. We will be proposing at the Annual General Meeting to allocate net income available for distribution for fiscal year 2012 in its entirety to other revenue reserves.

Partly in view of the potential for distribution of retained profits at subsidiaries, we expect that net income will once again be positive in 2013 and 2014.

The complete annual financial statements including the auditor's unqualified opinion are published by Klöckner & Co SE in the company register. Interested parties can obtain the annual financial statements at the Company's headquarters and on the Internet at www.kloeckner.com.

5.2 LEGAL INFORMATION RELATING TO TAKEOVERS

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

Structure of share capital

As of December 31, 2012, Klöckner & Co SE's subscribed share capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares have the same rights and obligations. Each share has one vote.

Restrictions on voting rights and the transfer of shares

The Management Board is not aware of any restrictions on voting rights or the transfer of shares, including any agreements between shareholders.

Interests in share capital exceeding 10% of voting rights

As of December 31, 2012, 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 control rights

There are no shares with special control rights.

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 replacement 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 replaced by the Supervisory Board (Article 9 (1) c, Article 39 (2) and Article 46 of the the EC Regulation on the European Company (SE); Sections 84, 85 of the German Stock Corporation Act; Section 6 of the Articles of Association). Under Article 59 (1) of the the EC Regulation on the European Company (SE), amendments to the Articles of Association always require a two-thirds majority of votes cast, unless the German Stock Corporations Act requires or permits a greater majority. Under Article 59 (2) of the the EC Regulation on the European Company (SE) and Section 51, sentence 1 of the German SE Implementation Act (SEAG), read in conjunction with Section 19 (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 one 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 larger majority representing capital is mandatorily required by law. For resolutions that require a three-fourths majority of capital 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 itself as and when required.

Powers of the Management Board to issue and repurchase shares

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

The Management Board is authorized, subject to approval from the Supervisory Board, by May 24, 2017 to increase the Company's share capital by up to a total of €124,687,500 by issuing, on one or more occasions, up to 49,875,000 new no-par-value registered shares against cash or non-cash contributions. For further details see Section 4 (3) of the Articles of Association.

The Management Board has been authorized to issue warrant-linked and/or convertible bonds or combinations of such instruments at any time prior to May 19, 2016, on one or more occasions, in one or more separate tranches, and to grant holders option or conversion rights on up to 13,300,000 no-par-value registered shares in the Company with a proportionate amount of the share capital of up to €33,250,000.

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 authorization by the Annual General Meeting on May 26, 2009 or under authorization by the Annual General Meeting on May 26, 2010, or will be issued under authorization by the Annual General Meeting on May 20, 2011. For further details see Section 4 (4), Section 4 (5), and Section 4 (6) of the Articles of Association.

The convertible bonds issued in 2007 under authorization by the Annual General Meeting on June 20, 2007 were repaid in full in July 2012. With the repayment in full of the principal amount, all bondholder/creditor claims are settled. Conversion rights can no longer be exercised. The Conditional Capital 2007 is consequently obsolete and Section 4 (2) of the Articles of Association (Conditional Capital 2007) are consequently deleted.

Under Section 71 (1) No. 8 of the German Stock Corporations Act, and in accordance with the resolution of the Annual General Meeting on May 25, 2012, the Company is also authorized to acquire treasury stock of up to 10% of the Company's share capital of €249,375,000 in issue at the time of the resolution of the Annual General Meeting. This authorization is valid until May 24, 2017.

Significant agreements to which the Company is party and which are conditional on a change of control following a takeover bid

The terms and conditions of the convertible bonds issued in June 2009 and December 2010 totaling €97.9 million and €186.2 million, respectively, allow for early redemption by the holder at par value plus accrued interest in the event of a change of control. 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 beneficial ownership of more than 50% of the voting rights in the Company. Bondholders are also each entitled to exercise their conversion rights at an adjusted conversion price. Under largely the same conditions, lenders under the €500 million multi-currency revolving credit facility agreed in May 2010 and modified in March 2011 may each demand repayment of any loan outstanding they have disbursed. The same provision applies to holders of various promissory notes issued by Group companies totaling €343 million. Other material loan agreements and the Group's ABS programs contain customary change-of-control clauses. In addition, virtual stock options granted to Group managers include a provision under which the options may be exercised immediately if a threshold of 30% of voting rights is exceeded.

Agreements between the Company and members of the Management Board or employees providing for compensation in the event of a takeover bid

If a threshold of 30% of voting rights is exceeded, members of the Management Board have the right to early termination of their service contracts. If they exercise this right, they will be entitled to payment of their budgeted salary (fixed component plus budgeted bonus) up to the end of the contract term, capped at three times their total compensation received in the last full fiscal year before termination of their service contracts. In addition, all virtual stock options not yet granted up to that date are then deemed granted and may be exercised at the end of the contractual vesting period or three months from the grant date, whichever is sooner. The lock-up periods of the own investment are cancelled.

5.3 DIVIDEND PLANNING

For fiscal year 2012, in view of the large consolidated net loss, the Management Board and the Supervisory Board propose to the Annual General Meeting on May 24, 2013 the appropriation of net income available for distribution to other revenue reserves, and in light of the uncertain economic environment, not to pay out a dividend in order to preserve liquidity. In general, Klöckner & Co SE follows a dividend policy of distributing 30% of net income before special items. The Company plans to return to this normal dividend policy in the future subject to the appropriate earnings situation in the Group.

6. SUBSEQUENT EVENTS

Effective January 1, 2013, Mr. Marcus A. Ketter assumed the post of Chief Financial Officer of Klöckner & Co SE. Mr. Ketter is responsible for Finance & Accounting, Corporate Controlling and Corporate Taxes as well as Corporate IT.

Effective February 1, 2013, Mr. Karsten Lork was appointed a member of the Management Board in charge of the European and Asian operations. This completes the expansion of the Management Board announced some time ago. The Management Board now consists of four members.

On February 18, 2013, Interfer Holding GmbH notified that it acquired 7.82% of shares of Klöckner & Co SE. In a subsequent press release, Knauf Interfer SE, a subsidiary of Interfer Holding also operating in the steel distribution business, indicated a strategic interest in Klöckner & Co SE without further specification. At this stage, the Management Board of Klöckner & Co is not in a position to assess Interfer Holding's intentions and their potential impact.

7. RESPONSIBILITY

Due to its size and international presence, Klöckner & Co's business activities impact a number of stakeholders inside and outside the Company. With these, we will continue to build responsible, long-term relationships that reflect the interests of all sides and, for this purpose, have established a Group-wide sustainability management system. At Klöckner & Co, sustainable steel distribution involves optimum working conditions for employees, the efficient use of resources, social responsibility throughout the value chain, and active corporate citizenship in the regional vicinity of the Company's sites.

2012 saw Klöckner & Co make further progress in expanding its sustainability management activities. Firstly, information on the four focal points of these activities, namely its employees, the environment, the value chain, and corporate citizenship, is brought together on Klöckner & Co's website and interested members of the public are regularly updated on new activities and projects at the country organizations and the holding company.

Selecting the topics for the website and coordinating the conceptual implementation of sustainability activities is the responsibility of the Sustainability Committee. Group decision makers discuss the overall thrust and consult with the Management Board on recommendations from the departments and country organizations.

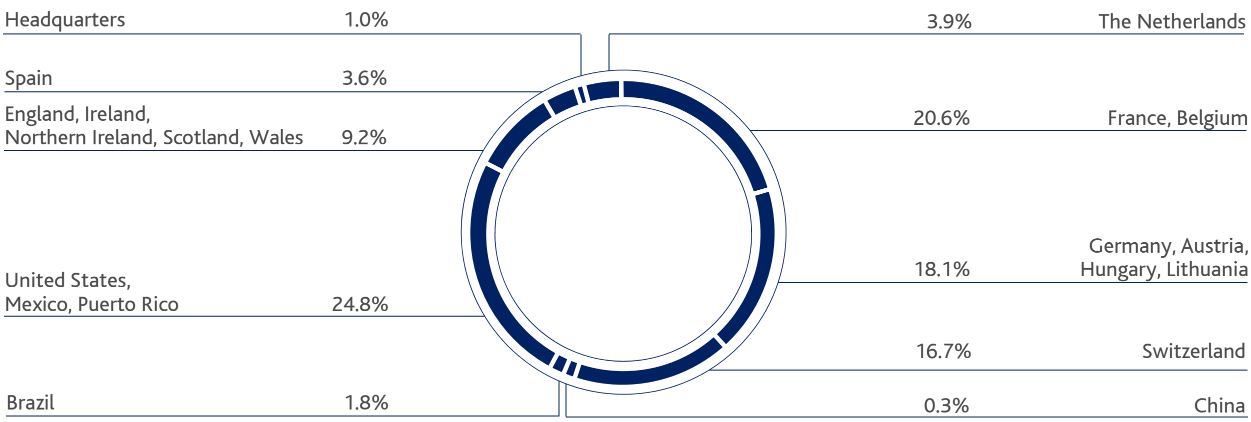
We play an active part in the social debate on values and corporate responsibility. In 2012, for example, we once again participated in the working group set up by the signatory companies to the "Leitbild der deutschen Wirtschaft", a vision statement on the German economy, and visited a university to hold discussions with international students about their expectations with regard to corporate responsibility. The vision statement is an initiative launched by large German businesses with the aim of boosting people's confidence in industry through transparency and positive examples. In addition, the Chairman of the Management Board is involved in the Senate of the National Academy of Science and Engineering, or acatech for short, which supports the transfer of knowledge between academia and industry, promotes new talents in the technical sciences, and advocates sustainable growth through innovation. In 2012, Klöckner & Co also supported the work of Transparency International Deutschland, thereby setting an example in the fight against corruption.

As an international steel and metal distributor, we offer our customers the highest quality and optimum service. Through our Quality, Health, Safety, and Environment (QHSE) initiative, we define our high standards of quality and service and what we mean by good, safe working conditions, optimum processes, and sustainable corporate governance. We have set out our guiding principles in a Group-wide policy from which a central committee that meets regularly at European level develops action options.

Employees

Every day, some 10,600 employees at what currently number 255 locations in 19 countries apply their skills and enthusiasm for their work to meeting the wishes and requirements of our more than 160,000 customers. Over 70% of our workforce is employed in Europe and over a quarter now in the Americas.

Employees international



Although the far-reaching restructuring measures are having a considerable impact on our employees, we fulfill our responsibility toward them unreservedly. In 2012, for example, employee representatives and the Group's Management Board jointly adopted a set of Company-wide principles that highlighted and explained social responsibility in labor relations with employees within Klöckner & Co SE and its subsidiaries. Our principles are based on the general obligation of all economic operators to recognize the fundamental rights at work as set out in the International Labour Organization conventions, the United Nations Universal Declaration of Human Rights, and the OECD Guidelines for Multinational Enterprises.

Our employees and their motivation and expertise are the key factors determining our success as a service provider. Our customers and we ourselves expect our service to be the best possible. With a view to fulfilling that expectation, we firmly established the aim of having "best in class employees" as one of the four pillars of our "Klöckner & Co 2020" strategy and, in April of the reporting period, introduced a Group-wide human resources strategy. This encompasses a range of issues such as management and corporate culture, systematic performance, talent and succession management, improvements to make us a more attractive employer, and occupational health and safety initiatives.

The first projects in 2012 included introducing a feedback process for managerial staff below the Group's Management Board, further expansion of the management development interviews introduced in 2011, and a global recruitment process.

For us, "best in class" also means selecting the best employees solely on the basis of performance and ability, irrespective of demographic aspects. We are therefore particularly keen to actively foster and increase diversity within our workforce. Our initial focus here is on the percentage of female employees. We believe that steel distribution, traditionally a male-dominated industry, can benefit to a particularly high degree from having a greater percentage of women in the workforce and at management level. By specifically nurturing female technical and managerial talent, we aim to add to the management's skill set. Our aim is to significantly increase the percentage of women by 2020, particularly among our senior and middle management – from the current 10% to 20%. The Group-wide "GenderDiversity@Klöckner" initiative is an important measure supporting us in our aim to encourage networking among our female executives and to join with them in launching specific projects such as the Klöckner mentoring program introduced in 2012.

With a view to keeping our employees' knowledge up to date, developing their skills, and nurturing new talent within our own ranks, Klöckner & Co places considerable emphasis on continuing professional development. Since 2009, we have been offering dual courses of study in Germany, with comparable courses also running in other European country organizations. For external students, Klöckner & Co offers internships and working student positions, where they can apply content from their studies to real business situations. Since this year, we have been participating in the "FAIR Company Initiative" and pledged to uphold the seven points that make for a fair company from an intern's perspective.

In addition, our employees have access to job-specific, in-house training sessions, language courses, and personal support to assist them with their own continuing education plans. In the reporting period, our UK subsidiary was named the Yorkshire and Humber Regional Winner at the National Training Awards, confirming that our training and professional development offering meets the highest standards.

As a steel distributor with a high percentage of wage earners employed in the warehouses, we attach particular importance to occupational health and safety. We are therefore an official partner supporting the Healthy Workplaces Campaign 2012-2013 "Working together for risk prevention". The occupational safety management system introduced by our QHSE committee is intended to methodically lower accident risk, thereby reducing the number of days employees are absent from work due to accidents. To this end, accident statistics are systematically recorded. Our French country organization garnered a safety award for introducing this system.

The world-leading British occupational health and safety standard BS OHSAS 18001 has been implemented at our Swiss country organization for three years already and, in the reporting period, was rolled out at other branches of the Group. It is planned to implement certification at other international locations in the coming years.

In the year under review, our employees at almost all country organizations were once again offered health protection and preventative services, including voluntary medical consultations and annual flu vaccinations. For the first time, Klöckner & Co also organized and assumed the cost of an intestinal cancer prevention service at all sites across Germany. These measures help us keep the illness rate at the European and American country organizations comparatively low.

Environment
By using efficient, responsibly designed processes, Klöckner & Co aims to minimize the impact of its business activities on the environment and thus preserve resources for future generations. Quality, occupational safety, and the environment are given equal consideration as part of this integrated approach.

International working groups of logistics and quality managers meet regularly to exchange transnational best-practice solutions in these areas and pursue joint projects.

At several European country organizations, our sites have been certified to environmental standard ISO 4001 and, at the US country organization, a number of sites already have an environmental management system. Our UK country organization in particular was able to identify various improvement measures in obtaining recertification to ISO 14001. For instance, it will use LED lighting and better light management systems in its warehouses in future and has switched its energy supply contracts to receive a significantly higher proportion from renewable energy sources. Thanks not least to these measures, we were even able to reduce the carbon footprint of our European organizations in the reporting period.

In order to achieve a sustained improvement in our carbon footprint, we regularly record data in a transparent manner for the purposes of calculating CO_2 emissions at the main European organizations and, in the reporting period, did so for the first time for the American and Brazilian country organizations, too. These data are evaluated internally so as to identify any potential for improvement and also reported to the Carbon Disclosure Project, in which Klöckner & Co participated for the fourth time in 2012. The CDP was initiated by institutional investors and enterprises with the aim of evaluating long-term opportunities and risks at the participating enterprises and supporting the development of measures to reduce CO_2 emissions in a sustainable manner. We will continue to support this project going forward and make our contribution to greater transparency in the reporting of CO_2 emissions.

Corporate citizenship

Klöckner & Co is active as a multi metal distributor in 19 countries worldwide and at the same time sees itself as part of the community in the immediate vicinity of the Company's sites. Our aim is therefore to permanently combine both an international and regional focus in a sustainable manner. We strive to fulfill this particular corporate responsibility through active involvement in the direct neighborhood of our headquarters and the branches.

For us, assuming responsibility also involves making the process of selecting social projects, donations, and sponsorship contracts transparent and assessing all requests according to the same criteria. A uniform process with clear decision-making criteria helps us ensure that funds are allocated in an independent and transparent manner. Our philanthropy committee meets regularly to examine the requests and ensure that no conflicts of interest arise. It does so based on the Klöckner & Co Code of Conduct.

Besides selected scientific, sports, art, and cultural initiatives, the focus of our activities since 2009 has been on supporting education projects and meeting the basic needs of socially disadvantaged children in Duisburg, where our headquarters are located. In the Marxloh neighborhood, which has a large immigrant population, Klöckner & Co is helping schools and a youth center to provide healthy meals. Together with “Initiativkreis Ruhr”, we have also developed a program to foster children’s musical and artistic development at different types of schools and implemented it for the first time with two schools in 2012. The successful collaboration is set to continue.

Our country organizations know the individual requirements in their regions best and therefore carry out their donation and sponsorship activities independently. They do so within Group-wide guidelines; at the end of the year, they report to the Group’s headquarters on their activities. We thus ensure that, while our activities have a common thrust, they are at the same time tailored to our markets. Our subsidiary in Austria, for example, supported mentally handicapped people in their sporting activities as part of the Special Olympics Austria 2012.

In the university sector, too, Klöckner & Co supports education and dialogue between academia and business. In Germany, for example, a partnership has been in place for several years with the European Business School in Oestrich-Winkel and the University of Duisburg-Essen. In 2012, Chairman of the Management Board Gisbert Rühl held discussions with students at the European Business School about corporate responsibility. For several years, we have also been offering selected students internships at our Company, during which they can apply content from their studies to real business situations. For some years, we have been supporting the “Deutschlandstipendium” scholarship program together with the German Federal Ministry of Education and Research. This program notably assists talented and high-performing students and gives consideration to all nationalities as well as specific family and social circumstances. Our aim here is to encourage students to excel academically, at home and socially.

Value chain

Klöckner & Co regards sustainability as a 360-degree concept spanning the Group's entire value chain as well as adjacent links in the value chain. From procurement through warehousing and numerous services to distribution, our number one priority is to improve workflows and results in the interests of our customers.

Continuous improvements in service and product quality are key to sustained customer satisfaction. A committee set up at European level therefore meets regularly to discuss quality management issues and initiate Group-wide measures. Our quality management activities center on process optimization, occupational safety, and the environment.

Projects to optimize the internal value chain are carried out in cooperation with the country organizations. In 2012, for instance, the "10 Commandments of Operations" introduced at the European warehouses in 2011 were also implemented at the American country organization. They set a uniform standard aimed at promoting efficiency, transparency, good organization, and safety. This includes optimum use of warehouse space, improved servicing and maintenance of plant and machinery, and issues related to employee management and retention. The common goal of our activities is to increase the efficiency of our logistics processes and supply our customers even more reliably.

We make the successful results of our measures visible externally as well. For several years, many of our country organizations have been certified to the global quality standard ISO 9001. In addition, most sites with strong ties to the automotive industry have also introduced the automotive standard ISO TS 16949.

As an international corporation with business activities in 19 countries and numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity both within the Company and in its interactions with partners outside the Company and to build responsible relationships with contractual partners outside the Company. The Code of Conduct that applies to all country organizations throughout the Group and numerous internal procedural instructions serve as a reference and guide for our employees.

All employees receive our Code of Conduct and confirm in writing that they have understood and will abide by its content. In addition, line managers have a responsibility to explain the principles of the Code of Conduct and lead by example. On-site and e-learning programs familiarize new employees with the content of the Code of Conduct and raise their awareness of compliance-related issues such as anti-trust law and corruption risks. We also conduct refresher training sessions at regular intervals to keep their knowledge up to date and address specific issues arising from their day-to-day activities. Around 1,500 employees have already attended an on-site training course and 4,000 have completed the e-learning program. If they ever have any questions about the correct form of conduct in a business situation, employees can approach a contact within our compliance organization at the holding company or locally at their country organization. In addition, the compliance organization conducts ongoing compliance audits and risk analyses of compliance issues at our country organizations in cooperation with the Internal Audit Department, thereby checking compliance with statutory provisions and our in-house rules and regulations. We also expect our contractual partners outside the Company to endorse the principles and standards in our Code of Conduct and implement them in their organization.

In challenging economic times of great change, clear rules offer our employees unambiguous instructions and guidance. Additional guidelines and directives were developed in 2012, some of which have already been introduced. To prevent corruption risks, we have established strict rules on hiring third-party brokers and review these external partners before entering into any new contract. To increase legal security and achieve a uniform level of data protection throughout the Group, a Group-wide guideline on protecting personal data has been drawn up and is due to be implemented in the coming fiscal year.

8. REMUNERATION REPORT

The Remuneration Report summarizes the salient features of the compensation systems for the Management Board and the Supervisory Board and explains the structure and the amount of compensation. The Remuneration Report takes into account the recommendations of the German Corporate Governance Code.

Management Board compensation

The compensation system applicable thus far was presented at the Annual General Meeting 2011 and approved by 89.3% of votes cast. The bonus provisions, which are geared toward the sustainable onward development of the company, were revised in the course of 2012. The resulting modified compensation system will be presented to the 2013 Annual General Meeting for approval ("say on pay").

In fiscal 2012, the previous compensation system still applied to Mr. Rühl and Mr. Becker, and the modified system already applied to Mr. Partalis. Since January 1, 2013, the modified compensation system has applied to all members of the Management Board and therefore to Marcus A. Ketter and Karsten Lork, who became Management Board members in 2013.

Compensation for Management Board members consists of non-performance-linked and performance-linked components. The non-performance-linked components comprise a basic (fixed) salary and ancillary benefits together with pension benefits. The performance-linked components of Management Board compensation previously consisted of a variable annual bonus, a medium- to long-term virtual stock option (VSO) program, and a variable three-year bonus.

The variable three-year bonus provided for under the previous compensation system as a performance-linked component was based on the achievement of specified long-term targets. Given the extreme volatility of the economic environment, however, setting long-term targets has not proven effective. Now only an annual bonus will be granted rather than dividing the bonus into an annual bonus and a three-year bonus dependent on the achievement of long-term targets. Only half of the annual bonus will be paid out, however. The other half will be converted to a personal investment in Company shares by the Management Board member in question, and is to such extent linked to the sustained success of the Company. Due to the loss of the previous long-term bonus, the amount of the annual target bonus was increased accordingly such that the total compensation in the previous and the modified compensation systems remains unchanged when taking the target bonus as a basis. The performance-linked components thus mainly give long-term performance incentives, gearing the compensation structure toward the sustained onward development of the Company.

In the past fiscal year, the annual fixed salary for ordinary members of the Management Board amounted to €480,000, and the total annual compensation (fixed salary plus variable annual bonus) came to €840,000 subject to 100% target attainment. The compensation paid to the CEO is equal to one-and-one-half times these amounts. Virtual stock options and ancillary benefits are provided in addition. The ancillary benefits primarily consist of insurance premiums and private use of company cars, in some cases with a driver. Alongside the compensation components set out above, Management Board members have defined-benefit pension plans in accordance with the rules of Essener Verband or, in the case of Management Board member William A. Partalis, a comparable pension plan commensurate with the arrangements applicable to him at the US subsidiary prior to his appointment to the Management Board.

Bonuses

a) Previous compensation system

Alongside a variable annual bonus, Management Board members receive a variable three-year bonus. The variable annual bonus is paid if the 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 were set for the reporting year based on the Group's budget. The annual bonus for ordinary members of the Management Board subject to 100% target attainment is €180,000. The annual bonus for the CEO is one-and-one-half times that amount. The targets for the variable three-year bonus from 2010 to 2012 reflected the Group's strategy and included growth targets (50% weighting), targets relating to business optimization (30% weighting), and targets relating to improvements in personnel and management development (20% weighting). Annual advance payments were made on the three-year bonus subject to later repayment if the criteria were ultimately not met. The decision as to whether the targets have been met is made after the end of the third year, i.e. in March 2013. At 100% target attainment, the three-year bonus corresponds to three times the annual bonus. This applies to both ordinary Management Board members and to the CEO.

b) Modified compensation system

The modified compensation system provides only for an annual bonus, half of which the Management Board member must use for a personal investment in company shares with a vesting period of three years. With respect to the annual bonus – as in the previous compensation system – target figures for EBITDA and cash flow from operating activities were set for the reporting year based on the Group's budget. The annual bonus for ordinary members of the Management Board subject to 100% target attainment is €360,000 or a maximum of €720,000. The annual bonus for the CEO is one-and-one-half times those amounts. Under the Management Board members' contracts – in both the previous and the modified compensation systems – the Supervisory Board has discretionary power to award special bonuses to individual Management Board members for exceptional performance or exceptional accomplishment.

VIRTUAL STOCK OPTIONS (VSOs)

The Management Board members also receive virtual stock options. The VSOs entitle them to a cash payment from the Company commensurate with the rise in the price of Klöckner & Co shares between the date of issue and the date of exercise. 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 vesting period for the first third of the tranche is three years, for the second third of the tranche four years, and for the last third 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 for the last 30 trading days (Xetra trading, Deutsche Börse AG, Frankfurt am Main) prior to the exercise of the option and the underlying strike price, but is capped at €25 per option. Mr. Becker and Mr. Partalis each receive 60,000 VSOs annually, and Mr. Rühl receives 120,900 VSOs annually. The VSO program ensures that through this compensation component Management Board members participate in the long-term development of the Company. For further information refer to Note 22 (Share-based payment) of the notes to the consolidated financial statements.

Other arrangements

Management Board contracts provide for compensation on early termination of office other than for cause. Such compensation is capped at two years' annual compensation subject to the remaining contract term. Under a change-of-control provision, the Company's Management Board members have a special right of termination if the threshold of 30% of the voting rights is exceeded. On exercising this right, they are entitled to payment of their target income until the end of their contract term, capped at three times the total compensation they received in the last fiscal year ended prior to the termination date. In addition, all virtual stock options not yet granted up to that date are then deemed granted and may also be exercised prior the end of the contractual vesting period. The Company has D&O insurance, including for members of the Management Board. Management Board members have a deductible of 10% of any claim, subject to a maximum of one-and-a-half times their fixed annual compensation.

Mr. Partalis, who is in charge of the Americas segment, is normally resident in the United States. His contract, which provides for compensation in euros, therefore includes an anti-devaluation clause to limit the impact of exchange rate changes.

Appropriateness

Criteria determining 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. Both positive and negative developments are taken into account in the performance-linked compensation components. Compensation levels are set overall to be internationally competitive and to give incentives geared to the sustained onward development of the Company and sustained growth in value in a dynamic environment. To aid the Supervisory Board in setting and regularly reviewing the fixed and variable components in Management Board contracts, a horizontal comparative survey of compensation is carried out based, among other things, on an independently compiled study of regular management board member and CEO compensation at other German MDAX® companies. Due to the lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies are included in the analysis. Horizontal comparison of the Management Board compensation with other companies showed Klöckner & Co to be in the normal range regarding the amount and structure of compensation. A vertical comparison is also made. In the context of the most recent instance in which compensation was set and reviewed, the Supervisory Board determined that the structure and amount of the total compensation for Management Board members is commensurate with their duties and performance as well as with the situation of the Company, is geared to the Company's sustained onward development, and does not exceed normal levels.

Compensation for 2012

The table below shows the individual compensation entitlements of Management Board members for 2012 (prior-year figures in brackets).

(€ thousand)	Fixed com-ponents	Short-term bonus	Long-term bonus**)	Other remuner-ations	Total excluding share based compen-sation	Share-based payment***)	Total	Issued VSO tranche (number of rights)	Expense from VSO****)	Present value of benefit obligation	Change in benefit obligation
Gisbert Rühl	720	132	706	33	1,591	449	**2,040**	120,900	– 210	2,650	807
	(720)	(281)	(270)	(34)	(1,305)	(839)	**(2,144)**	(120,900)	(-380)	(1,843)	(225)
Ulrich Becker*)	360	29	135	38	562	226	**788**	60,000	20	-	-
	(480)	(206)	(180)	(51)	(917)	(357)	**(1,274)**	(60,000)	(-440)	(595)	(209)
William A. Partalis	480	136	137	17	770	241	**1,011**	60,000	110	4,189	882
	(120)	(90)	–	(5)	(215)	–	**(215)**	–	–	(3,307)	(215)
Total	**1,560**	**297**	**978**	**88**	**2,923**	**916**	**3,839**	**240,900**	**– 80**	**6,839**	**1,689**
	(1,320)	**(577)**	**(450)**	**(90)**	**(2,437)**	**(1,196)**	**(3,633)**	**(180,900)**	**(-820)**	**(5,745)**	**(649)**

*) Until September 30, 2012.
**) For Mr. William A. Partalis, the medium-term incentive arises from having to invest half of his bonus in shares of Klöckner & Co SE with a three-year vesting period (modified compensation system).
***) Fair value on the grant date of each VSO tranche.
****) The expense (+) or income (–) results from the adjustment to provisions necessary under IFRS, due among other things to the change in fair value of the underlying shares in Klöckner & Co.

No VSOs were exercised and consequently no amounts paid out in the year under review or in the previous fiscal year. The accounting disclosure of total Management Board compensation in the separate financial statements and the consolidated financial statements of Klöckner & Co SE, in accordance with Section 285 (9) and Section 314 (1) No. 6 of the German Commercial Code (HGB), is provided in Note 32 of the Notes. Other remuneration paid to Mr. Becker, who left the Management Board effective as of the end of September 30, 2012, amounted to €422 thousand. The fair value of the VSOs allocated to Mr. Becker in January 2013 amounted to €173 thousand. No pension benefit obligations were incurred for former Management Board members or their surviving dependents.

Supervisory Board

The structure and amount of compensation paid to the Supervisory Board are laid down in Section 14 of the Articles of Association available on the Company's website. Compensation consists of fixed and variable components allocated pro rata temporis in the event of personnel changes during the fiscal year. Members also receive an attendance fee and are reimbursed reasonable out-of-pocket expenses and value-added tax. The fixed basic compensation per fiscal year is €17,000. A variable compensation component of €150 is paid for each full €1 million by which consolidated net income 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 is not permitted to exceed total fixed remuneration by more than 100%. The attendance allowance is €2,000 per meeting. The Chairman of the Supervisory Board and any Chairman of a Supervisory Board committee each receive three times this amount and their deputies twice this amount. Pursuant to Section 314 (1) No. 6 of the German Commercial Code (consolidated financial statements) and Section 85 No. 9 of the German Commercial Code (separate financial statements), Supervisory Board remuneration totaled €338 thousand in 2012 (2011: €344 thousand). The table below shows the individual compensation entitlements of Supervisory Board members for 2012 pursuant to Section 5.4.6 sentence 6 of the German Corporate Governance Code. All payments are due after the end of the Annual General Meeting in 2013. No compensation or benefits were granted for personally rendered services, including for consulting and intermediary services.

(in €)	Fixed remuneration	Variable remuneration	Basic compensation	Total
Prof. Dr. Dieter H. Vogel (Chaitman)	51,000	-	66,000	**117,000**
Dr. Michael Rogowski (Deputy Chairman)	34,000	-	40,000	**74,000**
Robert J. Koehler	17,000	-	8,000	**25,000**
Ulrich Grillo (from May 25, 2012)	11,333	-	4,000	**15,333**
Dr. Jochen Melchior (until May 25, 2012)	7,083	-	4,000	**11,083**
Hauke Stars	17,000	-	8,000	**25,000**
Dr. Hans-Georg Vater	17,000	-	54,000	**71,000**
	154,416	**-**	**184,000**	**338,416**

9. MACROECONOMIC OUTLOOK INCLUDING KEY OPPORTUNITIES AND RISKS

9.1 EXPECTED GLOBAL ECONOMIC GROWTH

The risks to global economic growth stemming from the sovereign debt crisis in Europe will not be overcome in 2013 either. Although market confidence in Europe improved last year after the European Central Bank (ECB) said that it would, if necessary, buy up unlimited amounts of sovereign bonds issued by countries within the eurozone, a sustained recovery is not yet in sight. For 2013, the second year in succession, the forecast for Europe is therefore for recession, but with a gradual improvement over the quarters turning to slight growth in the final quarter and a slight overall recovery not expected until 2014. The USA, on the other hand, is expected to see further economic growth in the coming years despite the uncertainties. The threat of the fiscal cliff at the end of 2012 was averted at the last minute, but has not yet been fully resolved. If a sustainable solution that also allows the debt ceiling to be lifted cannot be found in spring 2013, there is a risk that renewed uncertainty will weaken economic momentum in the further course of the year.

In China, leading indicators point to continued robust growth around the 8% mark. Chinese growth should receive a boost from the domestic economy. Alongside government investment in infrastructure, social housing construction is also expected to make a significant contribution.

Our core market in South America, Brazil, is likely to have seen the worst of the economic doldrums. Due to the country's solid finances and rising foreign investment, experts anticipate that economic output will increase sharply in 2013. In addition, initial steps have been taken to boost competitiveness through initiatives aimed at lowering unit wage costs. Brazil is also set to benefit from the major events to be held in the years ahead, namely the World Cup soccer tournament taking place in 2014 and the Olympic Games planned for 2016, which will result in a considerable amount of new capital spending.

Expected development of GDP in our core countries (in percent)	2013	2014
Europe	**– 0.2**	**1.0**
Germany	0.6	1.4
United Kingdom	1.0	1.9
France	0.3	0.9
Spain	– 1.5	0.8
Switzerland	1.1	1.6
China	**8.2**	**8.5**
Americas		
United States	2.0	3.0
Brazil	3.5	4.0

Source: IMF, Bloomberg.

Expected sector trend

In its October projection, the World Steel Association predicts that global steel consumption will grow by 3.2% in 2013. For the European Union, the association expects an increase of 2.4%, while the North American Free Trade Agreement (NAFTA) region is anticipated to grow by 3.6%, South and Central America by 6.3%, and China by 3.1%. This would still put European steel consumption almost 30% down on its 2007 level, compared with a rise of over 61% in consumption in China. The most dynamic growth in steel consumption since the low point in 2009 is the increase of over 63% in the NAFTA region, even if current projections still place consumption about 5% short of its pre-crisis level.

Due to economic uncertainties, the World Steel Association declined to issue a forecast for 2014.

9.2 EXPECTED TREND IN OUR CORE CUSTOMER SECTORS

Automotive industry

The German Association of the Automotive Industry (VDA) projects that – despite the slight weakness in the European automotive market – the global automotive market will continue its growth trend, expanding by 3% in 2013. The VDA also expects growth to continue in 2014, albeit at a slower pace. For Europe, the VDA forecasts a drop in demand of around 3% in the current fiscal year due to the continued uncertainty resulting from the sovereign debt crisis. It does not expect any noteworthy recovery in demand in 2014. Outside Europe, the VDA sees a very dynamic automotive industry, supported by the USA and China. In the USA, experts anticipate an approximately 5% rise in turnover in 2013 due to strong replacement demand and lower energy costs, especially as turnover has not yet returned to pre-crisis levels. Growth is also projected to continue at a high level in 2014. It is estimated that the Chinese market will grow by 7% in 2013 and also keep up a fast pace of growth in 2014. For Brazil, experts forecast growth of around 4% in 2013.

Machinery and mechanical engineering

The German Engineering Federation (VDMA) projects a 3% increase for global machinery sales in 2013. Further growth is also forecast for 2014, although momentum is expected to decline. In Europe, on the other hand, Eurofer expects turnover in the current year to be no more than stable (with a decrease of 0.2%). Germany will continue to lead the way, with growth expected to reach 2%. For 2014, Eurofer again forecasts growth of 3.4% in Europe. In the USA, growth in machinery and mechanical engineering remains very robust, with the VDMA projecting a 4% increase for the current fiscal year. In China, further growth of 5% is expected in 2013. Government economic stimulus packages should also boost growth in Brazil.

Construction industry

In Europe, Euroconstruct expects construction activity to contract by 1.6% this year because of the continued uncertainty and subdued public-sector demand resulting from the ongoing sovereign debt crisis. For 2014, the association again forecasts slight growth of 1.0% due to a rise in residential construction. By contrast, it is estimated that the construction industry in the USA will expand by 6%. The main growth driver here is residential construction, which is expanding again after many years of stagnation, although growth is also expected in commercial construction. In China, government investment in infrastructure projects and social housing construction should ensure that growth remains in the high single digits.

9.3 OPPORTUNITIES AND RISKS

Risks are frequently unavoidable in our business activities if we are to leverage market opportunities. Our aim is therefore to optimize rather than minimize the Company's risk position, as otherwise opportunities fail to be given consideration. As a result, we only make business decisions after first conducting risk analysis.

Our risk management system once again proved highly efficient in fiscal 2012. The primary challenges in the reporting period were the sustained fall in demand from our main customer industries, the decline in market prices from the end of the first through to the middle of the fourth quarter, and the continuing uncertainty due mainly to the ongoing sovereign debt crisis in Europe.

Early identification of specific, material risks enables us to appropriately manage our risk position. From a current perspective, all risks are limited and manageable. The Company's ability to continue as a going concern is thus assured.

Risk policy

On the basis of central authority to issue guidelines, a uniform understanding of risk has been established and developed within the Group. Our risk management system is a flexible system subject to continuous improvement which meets the company-specific requirements of an internationally operating steel and metal distribution group. Both our Risk Management System (RMS) and our Internal Control System (ICS) are based on recognized standards, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for enterprise risk management. It should be noted, however, that even with an appropriate and properly functioning system in place, there can be no absolute guarantee that risks will be fully identified and managed and their potential negative impact entirely averted.

Risk management

The primary objectives of the RMS are to identify and assess opportunities and risks and to eliminate going concern risk. Identified risks are continually monitored in our risk management system, enabling us to prevent or limit their potential negative impact. Specific quantifiable risks with a potential impact of more than €1 million are transferred provided it is possible and cost-effective to insure the risk in question. In addition, legal disputes involving amounts of €100,000 or more must be reported to corporate headquarters and are subject to centralized intra-Group monitoring.

The management of each country organization decides what ranks as a material or going concern risk in close consultation and coordination with Corporate Headquarters and, to the extent the entire Group is affected, in consultation with the Management Board and the relevant Corporate Headquarter Departments. When evaluating risks, we also consider the nature and scope of existing lines of business.

Of the significant types of risk in international metal distribution, strategic and direct operational risks are the responsibility of the full Management Board and/or the management of the country organizations. Further significant risks fall within the responsibilities of the Corporate Headquarters Departments. In addition to Group financing and Group accounting, these also indirectly support the country organizations' operating responsibilities. Cross-border risks are managed centrally so as to protect the overall interests of the Group.

The quarterly report on opportunities and risks documents identified opportunities and risks and is one of our key risk management tools. It is supplemented as and when necessary by ad hoc reporting on any material and/or going concern risks emerging at short notice. The report addresses opportunities and risks stemming from the economic environment, price trends, changes in inventories and receivables, and procurement. The integration status of acquisitions and the status of material legal disputes are also documented. In addition to tax risks, the report examines issues relating to financing and borrowing, including compliance with credit facility covenants, and provides information on existing pension obligations. Insurance issues, IT systems, and IT projects are also continually monitored.

The CFO of Klöckner & Co regularly reports on changes in significant opportunities and risks at meetings of the Supervisory Board's Audit Committee. In addition, at the regular monthly meeting, the Chairman of the Supervisory Board receives a detailed overview of the Company's results of operations and cash flows as well as the related opportunities and risks.

On January 1, 2013, responsibility for risk management was consolidated in a dedicated department within the Corporate Internal Audit Department. The aim is to improve the existing RMS with a view to using refined methods, regulations, and instruments to generate additional added value and thus positively impact the Company's success.

Internal control system

The objective of the ICS is to use the controls that have been implemented to obtain reasonable assurance that risks can be monitored and managed, thereby enabling the Company to guarantee that its objectives will be met. One key element of the internal monitoring system consists of the process-oriented monitoring measures. These comprise organizational safeguards such as the stipulation of guiding principles, clearly defined responsibilities and application of the dual control principle, under which no significant transaction is entered into by Klöckner & Co without further cross-checking. In addition, the ICS promotes the separation of functions between execution and recording duties.

As part of its process-oriented monitoring measures, Klöckner & Co has implemented a series of control processes. It is essential that control mechanisms in operational workflows on the one hand and performance-related controls on the other interact. Such controls are performed by the country organizations' and the holding company's controlling departments. The country organizations' controlling departments produce monthly reports, which Corporate Controlling aggregates segment by segment into the Group Board Report. At regular meetings between the management of the country organizations and the Management Board, participants discuss all significant and quantifiable factors that impact results at country level.

Monitoring measures that are not tied to a process are carried out by the Corporate Internal Audit Department, which regularly examines the organizational structures and processes, thereby supplementing the system of process-integrated monitoring measures. The purpose of these audits is to ensure that our internal controls are functioning properly. At the end of 2010 – and in February 2012 by way of a follow-up assessment – a quality assessment carried out by a certified, independent external auditor confirmed our compliance with international quality standards for internal auditing promulgated by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision e.V. [DIIR]).

Business risks in international metal distribution

STRATEGIC RISK

Our main strategic risk lies in the acquisition of target companies. We see further significant strategic risks stemming from a slump in demand or demand being much weaker than we anticipated in countries where we operate, in key customer industries, and for products that make up a significant proportion of the product portfolio we offer.

In valuing the acquisition targets dating back to previous fiscal years, assumptions were made about future economic developments. Alongside integration risk, there is a risk that actual developments may differ from these assumptions. Negative divergences may, for example, make it necessary to recognize impairment losses on intangible assets recognized in purchase price allocation. In this context in 2012, for example, we wrote down the goodwill of our majority interest in Brazil (see also the Notes to the Consolidated Financial Statements), thereby reflecting all identifiable risks in relation to this cash-generating unit (CGU). In the event of divergences between the assumptions underlying corporate planning and actual developments, it may be necessary in future to recognize writedowns for the North America CGU, which has grown considerably due to acquisitions.

Like all M&A activities, these past acquisitions are governed by a comprehensive M&A policy, compliance with which we monitor centrally. In selecting acquisition targets, we do not enter into any going concern risk. All acquisitions undergo thorough due diligence prior to purchase. No later than three years after an acquisition, the Corporate Internal Audit Department carries out an investment review. In an ongoing process, we also identify new risks emerging from past acquisitions so that we can respond to those risks quickly and appropriately. Nevertheless, we are unable to eliminate risks entirely.

We counter strategic risks related to individual countries in which we are present, key customer industries, and our product portfolio by broadly diversifying our international presence, expanding our customer base while at the same time reducing our dependence on individual customer industries and putting in place a broad product portfolio.

MARKET AND ENVIRONMENT-RELATED RISK

For Klöckner & Co as a stockholding multi metal distributor, market risk is mostly determined by demand and price trends, non-uniform economic trends, and the competitive environment. Risk also results from the current mood of uncertainty on financial markets in the face of high sovereign debt levels in a number of European countries and the USA, potentially resulting in liquidity shortfalls and increased borrowing costs for customer industries, combined with a decrease in capital investment.

While we are not able to actively influence the economic trends in our market environment, analyzing trends and leading indicators along with available forecasts nevertheless enables us to respond to market change as quickly as possible, for instance, by taking specific measures in inventory management. One important element of our quarterly opportunity and risk reporting is therefore to quantify market- and environment-related risks. Based on our findings, we make stipulations day by day for local inventory management.

Our market risk is determined to a particularly large extent by the competitive landscape. For example, excess inventories may prompt individual competitors to introduce special offers, leading to price pressure in the market, which may have a negative impact on earnings. We therefore monitor our competitive environment very closely.

PRICE AND INVENTORY RISK

In addition to trends in demand, price trends also entail significant risk as we sell most products at spot market prices. The time span of up to several months between procurement price setting and sales invoicing means we are constantly exposed to inventory and valuation risk. Excessive inventory values can have a negative impact on current earnings (negative windfall effect). When preparing the financial statements, it may also be necessary to write down inventories with effect on profit or loss.

Price and inventory risk management is based on a comprehensive set of tools and very close, continual monitoring of price trends in regional, national, and international markets. We collect price information using a price information database system tailored to our needs and exchange it online within the Group. Procurement is coordinated internationally by the Corporate International Product Management & Global Sourcing Department, enabling us to respond quickly to changed situations in the procurement market. In this way, we are able to manage our portfolio of suppliers and obtain preferential prices, quantities, and terms. Procurement coordination is supported by a centralized monitoring function for inventories and orders in the Group. The same function also regularly identifies price trends, based on which the risk of write-downs on individual products is determined. This information is incorporated into the quarterly inventory valuation. An inventory and product range policy tailored to demand and the specialty and central warehouses that have been introduced also reduce price risk. Although some capacity has been mothballed, we anticipate that prices will continue to be affected in 2013 by the structural imbalance between production capacity and actual demand. Our Group therefore continues to place special emphasis on price and inventory risk management.

Inventory management and valuation are central elements of the monthly reporting process. In accordance with IFRS, we measure our inventories at the lower of purchase or production costs, or at the net realizable value. Net realizable value is calculated under a reverse method by taking the estimated selling price and subtracting sales reductions, the estimated costs of completion, and the estimated costs necessary to make the sale. The valuation allowances required to reduce inventories to net realizable value amounted to €44.0 million at December 31, 2012.

Our reporting system allows us to quickly detect major discrepancies and immediately initiate the necessary countermeasures. In addition, the Corporate Internal Audit Department regularly reviews our inventories according to risk considerations.

Inventory and valuation risk is classed as low at December 31, 2012. Following a mostly downward trend in procurement and sales prices during the second and third quarters, prices in almost all product categories were rising by the end of the fourth quarter. We expect this trend to continue in the first quarter of 2013, but with prices rising at a more moderate pace. Due to the economic uncertainties, however, there is a risk that prices will fall again.

FINANCIAL RISK

Group financing is generally centrally managed. Klöckner & Co ensures the liquidity of Group companies through central and bilateral credit facilities. Financial risk management is governed by a Group-wide financial guideline. This stipulates the scope of action, responsibilities, and the necessary controls. During the past fiscal year, we continued to fine-tune Group financing from a risk perspective. In doing so, we improved the maturity structure and further optimized the flexibility of our financing instruments.

RATING

Klöckner & Co SE is currently rated by the two leading rating agencies, Moody's and Standard & Poor's. In light of the critical assessment of the steel sector, particularly in Europe, and the Group's weaker earnings, our creditworthiness is presently rated Ba3 (outlook stable) by Moody's and BB- (outlook negative) by Standard & Poor's. Our convertible bond issue was rated B+.

No financing instrument in the form of a covenant is currently linked to our rating. However, downgrades to the ratings assigned by the agencies usually lead to higher refinancing costs when raising future funding, while upgrades generally have a positive impact.

LIQUIDITY RISK

As part of the annual Group planning process, we compile a three-year financial plan. On a weekly basis, we also update a rolling cash budget with a time horizon of five weeks in line with our business model. The cash budget includes all Group companies requiring financing. Group financing is flexibly managed using a diversified credit portfolio consisting of capital market instruments, ABS programs, a syndicated credit facility, an asset-based lending facility, and bilateral credit facilities. As a result of the financial crisis, we also continue to hold substantial reserves of cash and cash equivalents. We have invested these short-term with the Group's prime-rated core banks, which generally belong to a deposit insurance fund. We can transfer our liquidity reserves to operating companies as and when necessary. We use a cross-border cash pooling system for intra-Group settlements and for liquidity management. Banks' creditworthiness is regularly reviewed by monitoring spreads on credit default swaps.

In July of the past fiscal year, the convertible bond placed in 2007 was repaid out of cash as scheduled. As our liquidity reserves remain substantial, no follow-on financing was raised.

In the second quarter, the term of the European ABS program was extended by one year until May 2014. At the same time, the volume was reduced by €60 million to €360 million.

To finance the increased requirement for working capital in the USA due to the growth, the American credit facilities were increased by USD 150 million to a total of USD 600 million. At the same time, the maturity profile was improved by extending the term until the end of 2017.

Continuous monitoring of contractual obligations and key performance indicators limit financial risk.

CREDIT RISK/DEFAULT RISK

A deterioration in a customer's creditworthiness could cause us to incur higher bad debt losses and lead to a shortfall in demand. It could then also become more difficult and costly to cover goods transactions through credit insurers, which is common practice in the industry. This would have a negative impact on turnover and earnings.

We identify and monitor operations-related credit risk locally as part of the country organizations' receivables management. Receivables and default risk are continuously monitored in the process. We set credit limits, which help to further reduce risk. At most country organizations, we use commercial credit insurance. In addition, the Corporate Finance & Accounting Department is involved in monitoring the decentralized management of receivables and payables, where the focus is on monitoring the solvency of large customers.

In the reporting period, the net expense incurred by the Group for bad debt losses amounted to 0.2% of total sales.

CURRENCY RISK

At Group level, currency risk results from financing, internal dividend payments, acquisitions, and operating activities. Translation risks resulting from the translation of balance sheet items are not addressed in the course of currency risk management activities. Although translation risks impact net income, they do not affect cash flows. Nor do they have any influence on margins, as both earnings and sales are affected by these risks. Transaction risks, on the other hand, impact fully on earnings and margins and therefore need to be hedged.

Klöckner & Co operates a centralized foreign currency management system. The domestic and foreign companies are required to identify foreign currency risks, which they must hedge through the Corporate Finance & Accounting Department or individually through banks within specified limits. We hedge currency risks using derivative financial instruments. At December 31, 2012, the nominal value of forward exchange transactions for short-term financing across the Klöckner & Co Group as a whole was approximately €183 million. €122 million of these transactions were entered into in US dollars and €61 million in pounds sterling. Short-term forward exchange transactions entered into to hedge risks arising from operating activities amounted to €24 million at year-end. These primarily relate to procurement risks.

Cross-currency swaps amounting to approximately €435 million have been entered into to hedge foreign currency risk arising from long-term US dollar-denominated financing arrangements (net investments). These hedging instruments are designated as net investment hedges and used to hedge interest payments and capital repayments related to the intra-Group financing of acquisitions in the USA.

INTEREST RATE RISK

In the Klöckner & Co Group, interest rate risk stems primarily from variable-rate financial liabilities as well as from investing cash and cash equivalents with banks. Our Group is exposed to interest rate fluctuations mainly in the eurozone and the USA. The Corporate Finance & Accounting Department operates a centralized interest rate management system on the basis of the financial guideline. In doing so, it monitors and manages interest rate risk using interest rate derivatives.

Liquidity, currency, and interest rate risk are considered in audit engagements of our Corporate Internal Audit Department.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

We hedge the above-mentioned financial risks arising from foreign currencies and changes in interest rates using over-the-counter derivative financial instruments, primarily forward transactions and swaps. In doing so, we use only sufficiently liquid, marketable instruments. Hedges cover currency risk on booked and pending business.

Derivative financial instruments are entered into and settled in accordance with the financial guideline. Another key task of the Corporate Finance & Accounting Department is to manage and coordinate the use of derivative financial instruments. We only enter into transactions with prime-rated counterparties, using such instruments solely to hedge risks associated with underlying transactions. We use standard software commonly found in the market to record and measure the hedges that are entered into.

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

RISKS RELATED TO THE EURO CRISIS

The decentralized structure of our organization gives the Group a considerable amount of flexibility. At the same time, potential currency exposure is extremely low due to an almost complete absence of cross-border business. The percentage of sales generated by the Americas segment increases to more than 40% in 2013, reducing our dependence on the economic performance of the eurozone.

Due to regulatory measures and the further impact of the euro crisis on the banking sector, however, there is a risk of a noticeable reduction in the financing options available. This would result in an increase in financing costs and greater dependence on the performance of the capital markets.

RISKS ARISING FROM PENSION OBLIGATIONS

The Group recognizes pension provisions for current and future benefits to eligible current and former employees. Defined benefit or defined contribution plans have been put in place depending on the legal, economic, and tax environment in each country.

The risk associated with defined benefit pension obligations corresponds to the size of the obligation. These are calculated on the basis of actuarial assumptions and also require the use of estimates. Benefit costs may increase or – in the case of funded plans – additional contributions to fund assets may be necessary due to tighter legal requirements.

In the case of funded pension obligations, such as in the USA, the UK, and the Netherlands, the fund assets set aside to cover benefits are exposed to capital market risk. As part of our risk analysis, we regularly commission independent experts to produce asset/liability studies and, where necessary, adapt our investment policy accordingly. Worldwide, decisions on the allocation of funds to pension schemes are made centrally by the Klöckner Global Retirement Benefits Committee. These decisions require the approval of the Group’s Management Board.

New commitments are on a defined contribution basis only and covered through external reinsurance so as to minimize the financial risk arising from pension commitments.

We see occupational pension schemes as a component in our human resources strategy. Rising life expectancy, falling birth rates, longer periods spent in education, and declining confidence in statutory pension insurance systems demand distinct solutions that enable us to attract employees to Klöckner & Co, retain them over the long term, and motivate them. We therefore believe it is a forward-looking approach to continue offering the occupational pension scheme with the option of almost all methods of provision for both direct obligations and deferred compensation.

Additional business risks

PERSONNEL RISK

As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees.

In the industry and regions in which we operate, competition for eager, dedicated, and highly qualified employees and executives remains fierce. Our future success partly depends on the extent to which we are able to retain best-in-class executives, engineers, and specialists over the long term. Our HR tools take account of such existing personnel risks, help us to safeguard new talent and existing expertise, and at the same time ensure transparency over our resources.

In light of demographic change, our remuneration systems are designed to retain and motivate employees, as are our personnel development programs and measures. The same applies when integrating newly acquired companies, most of all with regard to employees in key positions. We are also preparing for the changes resulting from an ageing workforce and a lack of qualified specialists and executives; we believe we are taking an excellent approach to this by offering a targeted health management program and flexitime models.

Beyond the measures mentioned, we regularly identify potential personnel risks through our internal monitoring process.

LEGAL AND COMPLIANCE RISK

Our aim is to promptly address potential risks arising from the many civil, tax, environmental, antitrust, and other regulations and laws. We therefore ensure strict compliance with such legislation and make use of the comprehensive legal advice provided by both our own experts and qualified external specialists.

Significant legal disputes at our country organizations and at Klöckner & Co SE itself are subject to continuous monitoring as part of the quarterly risk reporting. Ongoing legal disputes upward of a specific amount must be reported at Group level. Legal matters and their significance for our Group are closely monitored.

Subsidiaries of Klöckner & Co SE are directly or indirectly affected by ongoing investigations by the French and Spanish competition authorities. Should those investigations uncover any violations of applicable antitrust laws, this could lead, for example, to fines that would have a negative impact on our financial position, cash flows, and results of operations. Given the nature of the charges under investigation, the Management Board currently foresees only a minor financial risk that does not require separate recognition in the financial statements.

Our Group-wide compliance management system (CMS) stresses value-driven management based on ethical and law-abiding conduct. Our clear goal is to ensure that conduct toward employees, customers, and suppliers is responsible and respectful. We have set up an online whistleblower system on our website that makes it easier for both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. The implementation and effectiveness of our CMS is continuously reviewed by the Corporate Internal Audit Department.

We expect to prevent compliance violations to a greater extent with the aid of the CMS. Our focus here is on prevention through information within a corporate culture of trust. Despite the extensive measures taken, however, we cannot rule out the possibility that isolated violations will occur or have occurred. Any suspicions will be fully investigated by the Corporate Compliance Office wherever possible and the necessary action taken.

In the reporting period, we continued to carry out training in order to raise employee awareness of compliance-related issues and thus prevent any kind of violation. In addition to classroom training, the measures primarily include an e-learning tool that is mandatory throughout the Group. The Group-wide introduction of our Code of Conduct and other compliance-related Group guidelines, in particular regarding measures to combat corruption and on antitrust law, is a key element of our CMS. Our aim here is to maintain a clear, unambiguous stance on ethical, law-abiding conduct both internally and externally, which, among other things, will help to prevent risk.

It is our experience that the CMS also helps to realize business opportunities. Large customers in particular require companies like Klöckner & Co to operate a professional CMS. This demands and promotes fair conduct toward our business partners, which in turn helps to build and cement trust and foster our business success.

ENVIRONMENTAL PROTECTION/OCCUPATIONAL SAFETY RISKS

Environmental risks may arise primarily at Group locations where we operate equipment that produces emissions, such as sandblasting and painting equipment. Cutting and sawing equipment may also pose environmental risks. Our equipment meets the relevant technical requirements. It is inspected by external experts at prescribed intervals in order to prevent environmental risks. There are no other significant environmental protection risks.

The environmental management standard ISO 14001 is currently being introduced at selected European Klöckner & Co organizations, ensuring that environmental aspects are managed even more systematically.

In 2012, the reporting processes for occupational accidents continued to be fine-tuned. The improved analyses allow more detailed conclusions to be drawn about the causes and thus help to promptly identify and continuously reduce risks. A European "Quality, Health, Safety & Environment" committee meets on a regular basis to discuss current accidents and draw up risk prevention measures.

One opportunity to improve our awareness of occupational safety comes from the measures launched across the Group with the aim of increasing employee involvement and having managerial staff assume longer-term responsibility for occupational safety-related issues. Since 2011, we have been an official partner to the European occupational safety campaign "Working together for risk prevention", which addresses precisely these priority measures.

TAX RISKS

Tax risks arise in connection with acquisitions, restructuring, and financing. Tax authorities in different jurisdictions sometimes vary in their understanding of the law, and the tax environment may also change as a result of changes in legislation and rulings. Under guidelines and directives in force, our Corporate Tax Department is involved in the legal assessment of such matters. The same applies for official tax audits in the countries we operate in. This allows us to promptly identify any risks arising from such audits and, if necessary, take suitable measures to minimize the risks and recognize provisions as appropriate.

Both tax risks and potential tax benefits also arise in connection with existing loss carryforwards. Changes in legislation or country-specific changes in tax rates that restrict the use of losses pose risks to the recoverability of recognized deferred tax assets. Changes in ownership structure may also result in the partial or complete loss of tax loss carryforwards. Tax benefits in the form of actual tax savings may be realized if earnings improve and increased use can be made of loss carryforwards in the future.

RISK TRANSFER

If we are to be able to capitalize on opportunities, there will always be risks in our business activities. We insure risks which we do not wish and/or are unable to bear ourselves and which are transferable. In addition to going concern risk and significant default risks, we also insure outstanding receivables through the country organizations' credit insurance. Other transferable risks insured Group-wide include cross-border risks arising from damage to property, interruptions to business, and industrial liability. In addition, we have Group-wide D&O protection and employer liability insurance to cover potential compensation claims from employees for discrimination and other matters.

A Group-wide insurance guideline sets out the risk considerations that determine whether further risks must be covered locally. In addition, since 2005, we have maintained a central database that allows us to fully track claims management for insurable risks worldwide.

INFORMATION SECURITY RISKS

Our business processes depend heavily on installed IT systems. In addition to our administrative systems, these primarily include the systems in procurement, sales, and logistics. In Europe, we have already successfully migrated all significant applications with a few exceptions to SAP ERP 6.0.

As SAP ERP 6.0 becomes more widely used, country-level risk and control structures are being standardized. Based on the knowledge of these structures, they can be selectively fine-tuned. These projects are coordinated by the Corporate IT Department in cooperation with the country IT officers. The guidelines required for this purpose provide for the further development and operation of the SAP system. IT security is governed by a Group-wide IT security guideline. We have implemented a security plan that will quickly restore system availability in the event of disaster.

Opportunities and opportunity management

A secure financial structure, steadily increasing efficiency, and effective procurement and inventory management provide the basis for us to leverage opportunities. Growth in all regions of the world weakened again in 2012 amid increasing uncertainty due to the prevailing global risks. Europe was particularly hard hit, becoming the only region worldwide to record zero growth. This made it necessary to adapt our "Klöckner & Co 2020" growth strategy. The current focus is on cost reduction and organic growth.

At the holding company, the coordination and control side of opportunity management is primarily the responsibility of the Corporate Controlling & Development/M&A Department. Financing and implementation of the strategic direction laid down by the Management Board are supported by Corporate Headquarters and the country-level management teams. Strategic projects are managed and monitored at country level together with the holding company management.

STRATEGIC OPPORTUNITIES

Although we are holding to our long-term growth strategy, "Klöckner & Co 2020", we also needed to respond promptly and flexibly to the constant changes in economic conditions. The current market situation is marked by a further decline in demand in steel distribution and a continuing weak economic outlook in Europe.

As a result, we plan to make no further acquisitions until the restructuring measures have been fully completed. Our current focus is therefore on the three other pillars of our strategy. Alongside business optimization – currently with the emphasis on cost reduction, primarily in Europe – and the continuation of personnel and management development, organic growth is now front and center, particularly in the USA. With the integration of Macsteel completed, all companies in the USA are operating under the umbrella brand Kloeckner Metals US. This is therefore the only market player in the USA to offer the entire range of carbon steels under one roof from coast to coast.

The exploration of shale gas and oil in particular currently provides opportunities for growth in the USA, where hydraulic fracturing of rock formations (fracking) to extract gas and oil is already in widespread use. As a result, the USA is already among the countries with the lowest energy costs, which will also lead to greater reindustrialization. It is also aiming to become independent in supplying itself with energy. This will require billions in investment in infrastructure and new industrial facilities, from which we intend to benefit by selectively expanding our product range.

OPERATIONAL OPPORTUNITIES

Above and beyond the European restructuring program, further measures have been initiated to improve productivity in warehousing, reduce overhead and logistics costs, and optimize and gradually expand the core business with an eye toward higher and more stable margins, in the latter case by partially expanding prefabrication services and selectively extending our product range. The expansion of our prefabrication services is geared mainly to existing customers where demand has been identified. We are being selective in making the related investments.

Workflows and structures in internal logistics, prefabrication, and transport logistics are being improved on a lasting basis by a system rolled out extensively across Europe called the "10 Commandments" of Operations. This harmonizes processes, exchanges best practice across borders, and ensures a continuous improvement process. Implementation of the measures is monitored in the course of assessments of the individual operations carried out by headquarters, while improvements in performance are supported using a uniform key indicator system. Systematically maintaining the "10 Commandments" of Operations system improves supplier performance, efficiency, and occupational safety. We are also working to implement paperless processes in our operations. In Germany, a scanner-based solution introduced in 2012 is improving the traceability of material flows. Preparations are under way to extend this system to all internal logistics processes and roll it out at other country organizations.

Key features of the internal control and risk management system in relation to the financial reporting process, in accordance with Section 289 (5) and section 315 (2) no. 5 of the German Commercial Code (HGB)

ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

Our internal management and control system is primarily the responsibility of the Corporate Finance & Accounting, Corporate Controlling and Corporate Internal Audit Departments, assisted by the Corporate Legal and Corporate Tax Departments. The Group's Supervisory Board, in particular as represented by the Audit Committee, is also an integral part of our control system. The objective of the internal control and risk management system in relation to the financial reporting process is to prepare consolidated financial statements that comply with IFRS and single-entity financial statements that comply with the requirements of the German Commercial Code (HGB) in spite of the potential risks.

The controls in our Group take place both as part of an integrated process and on a case-by-case basis. In addition to system-based (IT-based) controls, we also use manual controls such as application of the dual control principle. The existing segregation of duties of administrative, execution, invoicing, and approval functions is reducing the possibility of fraudulent acts.

FINANCIAL REPORTING RISKS

Specific financial reporting risks include complex and/or non-routine accounting issues such as the presentation of changes in the composition of the consolidated Group (business combinations and disposals) and new Group financing measures. The application of management judgment in financial statement preparation, such as in annual impairment testing, harbors increased potential for errors. Potential risks from derivative financial instruments are presented in detail in the notes to the consolidated financial statements.

IT SYSTEMS IN FINANCIAL REPORTING

Financial accounting for the subsidiaries included in the consolidated financial statements and Klöckner & Co SE is carried out mainly through the standardized use of SAP software. We continue to use SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. The local financial accounting data are entered into BOFC and supplemented with additional reporting data. All eliminations in the course of the consolidation process are prepared, entered, and documented in the central consolidation software. These include consolidation of investments, elimination of inter-company payables and receivables, elimination of inter-company revenue and expense, and elimination of inter-company profit and loss.

Access restrictions and defined user profiles protect both the original financial accounting data and the consolidation software from unauthorized access, and prevent inappropriate read and/or write access to the systems.

CONTROL ACTIVITIES TO ENSURE COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Our control activities aimed at ensuring reliability and compliance with generally accepted accounting principles make sure that we present transactions in full, reliably, and in a timely manner. Transactions are recorded in the Group's accounts and the single-entity financial statements in accordance with legal requirements. The accounts of the entities included in the Group are kept correctly and in full, and in compliance with generally accepted accounting principles. Information on inventories and fixed assets is systematically verified by stocktaking. Other assets and liabilities are recognized and presented correctly and measured appropriately in the financial statements. Each quarter, we use a centrally managed, standardized procedure to verify the accuracy of intra-Group financial and trading balances for the Group companies concerned.

Appropriate control mechanisms are in place to reduce the probability of errors in working procedures and detect any errors that do occur. Selected items are examined for this purpose using analytical methods such as ratio analyses. Our Corporate Internal Audit Department and the external Group auditor promptly review the migration of IT systems and the effects of other changes in the Company, such as from business activities, restructurings and changes in the economic or legal environment.

We prepare Klöckner & Co SE's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In doing so, the Group accounting guidelines that are continuously updated by the Corporate Finance & Accounting Department ensure that the IFRS are applied uniformly throughout the Group. All accounting guidelines that are binding on every Group company are made available to the employees involved at the relevant reporting units through an Internet portal. The guidelines are supplemented by a standardized Group chart of accounts, which is maintained and updated exclusively by Klöckner & Co SE's Corporate Finance & Accounting Department. A standardized Group reporting package is used for all subsidiaries to ensure the completeness and uniformity of the necessary additional information published in the notes to the consolidated financial statements. We use IFRS checklists to verify the disclosures in the consolidated financial statements.

At the level of the reporting units, plausibility checks integrated into the SAP consolidation software validate the formal consistency of data in all Group reporting packages transferred to the Group accounting software. In addition to this automated quality assurance procedure, the Corporate Finance & Accounting Department carries out substantive checks and arranges for any necessary corrections to be made, or makes corrections centrally. In doing so, it also considers the audit opinions of local auditors.

The Corporate Finance & Accounting and Corporate Controlling Departments carry out annual goodwill impairment tests under IAS 36 on a centralized basis. We thus ensure that the cash-generating units are measured and management judgment is used uniformly. Share-based payment is also determined centrally, with the assistance of an external expert. Pension obligations are computed locally with the assistance of actuarial experts. The calculation parameters are approved by the Corporate Finance & Accounting Department. An additional actuary coordinates the overall process of presenting pension obligations for overall assurance with regard to the quality of the complex calculations and disclosures.

The effectiveness of financial reporting control and management systems is constrained by management judgment and the possibility of mistakes in checking and deliberate criminal circumvention. Through the processes and controls we have put in place, we obtain reasonable assurance that both the process of preparing the consolidated financial statements and the process of preparing the single-entity financial statements are carried out in accordance with IFRS, the German Commercial Code (HGB), and other financial reporting-related rules and pronouncements. There can, of course, be no absolute guarantee that all items will be fully and correctly included in the consolidated financial statements.

Overall statement on the risk situation of the Group

The Management Board believes that Klöckner & Co has recognized sufficient provisions to cover all risks required to be accounted for when preparing the financial statements.

The Management Board also believes that the Group is sufficiently protected by the measures already implemented and those projected, as well as by the business systems outlined to cushion the market risks described. Due to the ongoing economic uncertainty as a result of the sovereign debt crisis in Europe and the USA, however, the market risks are high. Because of the measures that have been taken and planned, particularly to ensure liquidity, there are no identifiable risks that raise doubt about the Company's ability to continue as a going concern.

10. FORECAST

Following the significant drop in European steel consumption in the past fiscal year due to ongoing economic uncertainty, we are anticipating an additional slight softening in demand for steel of 1% to 2% for 2013 from a current perspective, in contrast with the projections by the World Steel Association. As in the past year, a north/south divide appears likely in Europe. Whereas forecasts call for Germany to see slight growth, further declines are anticipated for Southern and Eastern Europe. Steel consumption is expected to stabilize for the most part in the other main European countries. While the first half of the year will remain tentative, a slight recovery is anticipated for the second half driven by steel demand in the machinery and mechanical engineering sector and a continued increase in construction activity in certain countries. The automotive industry will tend toward a continued overall decline, however. All in all, we expect turnover in the Europe segment to decrease, in part due to the cuts in our European network structure and the corresponding loss of turnover.

By contrast, a further increase in steel demand is expected for the United States once the fiscal cliff issue has been settled for good and the debt ceiling lifted so that growth is no longer hampered. The United States is moreover likely to benefit from the sustained boom in shale gas and the resulting infrastructure growth, and subsequently from locational advantages relating to energy-intensive industries. Klöckner & Co is optimally positioned to leverage above-average benefits from this new growth phase thanks to the takeover of Macsteel Service Centers USA and the nationwide network coverage thereby gained in the United States. We anticipate total growth in steel demand of between 3% and 4% in the United States. Growth will be additionally driven by budding commercial construction and further expansion in the automotive industry, for which we have positioned ourselves by opening a new service center in Alabama. Our objective is to again grow twice as fast as the market in 2013.

On the whole, we expect the decline in turnover in Europe to be compensated by above-average growth in the United States. Based on our assumption of steel prices at approximately the prior-year level on an annual basis, sales in 2013 will also hover at around the 2012 levels with turnover remaining about the same. However, increased dependency on the US business means that sales will be significantly impacted by exchange rates for the US dollar.

Our heightened presence in the United States based on the acquisition of Macsteel in combination with organic growth perspectives will lead to another shift in our market share from Europe to the Americas. In 2013, we will already be generating well more than 40% of our turnover in the Americas segment.

For operating income (EBITDA), we anticipate a significant increase from €139 million in the past fiscal year (before restructuring expenses) to approximately €200 million, mainly due to the cost savings effect of the Group-wide restructuring initiative, which is expected to contribute €60 million to EBITDA in the current fiscal year. Despite the restructuring expenditure with a cash-flow impact arising this year, we once again expect free cash flow to be positive.

This projection is based on the assumptions that economic growth in Europe will be more or less balanced and no new uncertainty factors, such as an escalation of European sovereign debt, will negatively impact steel consumption. For the United States, however, we expect the economy to grow by approximately 2%, assuming the fiscal cliff crisis is resolved and the negotiations set to take place in May on lifting the government debt ceiling will result in reliable, long-term results as opposed to even more uncertainty on the future economic trend in the United States.

Depreciation and amortization are well in excess of capital expenditure due to the acquisitions made and the related purchase price allocation. We anticipate depreciation and amortization of approximately €110 million in the current fiscal year. The investment budget will account for just under two thirds of that amount. Investments will be made primarily in projects to increase prefabrication in the United States and Switzerland.

Net interest income will remain at approximately the prior-year level, with no significant financing instruments falling due in the current fiscal year. The anticipated free cash flow from operating activities will additionally reduce debt, however, meaning that net debt at year-end is not expected to exceed 2.5-times EBITDA. The equity ratio is expected to stay at a high level.

Income before taxes and net income will also benefit from the significant improvement in operating performance. We believe that we will again generate net income in 2013, due among other things to the fact that most of the restructuring costs were already taken into account in the 2012 financial statements. For 2014, we anticipate from today's perspective that we will increase turnover, sales, and income versus the previous year and again reduce debt. Additional growth in the United States also means that sales would be split approximately equally between the Americas and the Europe segments in 2014. Assuming the economic climate continues to stabilize, we will return to our strategy of external, acquisition-based growth by focusing in particular on prefabrication-intensive and thus higher-margin companies that would optimally complement our core business.

Duisburg, February 22, 2013

The Management Board

FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

GROUP FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

KLÖCKNER & CO SE

Consolidated statement of income for the 12-month period ending December 31, 2012

(€ thousand)	Notes	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011
Sales	7	**7,388,015**	7,095,361
Other operating income	8	**31,626**	52,189
Change in inventory		**– 11,194**	3,887
Own work capitalized		**15**	10
Cost of materials	9	**– 6,089,224**	– 5,784,590
Personnel expenses	10	**– 657,268**	– 588,223
Depreciation and amortization		**– 164,508**	– 105,373
thereof impairment losses	*15*	***– 55,474***	*– 3,422*
Other operating expenses	11	**– 600,456**	– 562,114
Operating result		**– 102,994**	**111,147**
Income from investments		**125**	**-**
Finance income		**20,835**	16,390
Finance expenses		**– 96,485**	– 100,631
Financial result	**12**	**– 75,650**	**– 84,241**
Income before taxes		**– 178,519**	**26,906**
Income taxes	13	**– 19,060**	– 16,539
Net income		**– 197,579**	**10,367**
thereof attributable to			
– shareholders of Klöckner & Co SE		***– 194,876***	*11,585*
– non-controlling interests		***– 2,703***	*– 1,218*
Earnings per share (€/share)	**14**		
– basic		**– 1.95**	**0.14**
– diluted		**– 1.95**	**0.14**

KLÖCKNER & CO SE

Statement of comprehensive income for the 12-month period ending December 31, 2012

(€ thousand)	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011
Net income	**– 197,579**	**10,367**
Other comprehensive income		
Foreign currency translation	**– 18,445**	63,171
Gain/loss from net investment hedges	**5,430**	– 13,851
Gain/loss from cash flow hedges	**2,568**	1,947
Reclassification of cash flow hedges to profit and loss	**1,767**	-
Related income tax	**– 244**	– 5,186
Reclassification to profit and loss due to sale of foreign subsidiaries	**– 239**	-
Other comprehensive income	**– 9,163**	**46,081**
Total comprehensive income	**– 206,742**	**56,448**
thereof attributable to		
– shareholders of Klöckner & Co SE	***– 202,581***	*58,663*
– non-controlling interests	***– 4,161***	*– 2,215*

KLÖCKNER & CO SE

Consolidated statement of financial position as of December 31, 2012

Assets

(€ thousand)	Notes	December 31, 2012	December 31, 2011
Long-term assets			
Intangible assets	15 a	461,237	559,874
Property, plant and equipment	15 b	605,773	639,481
Investment property	15 c	10,486	10,486
Financial assets		2,415	2,664
Other assets	18	40,717	37,955
Deferred tax assets	13	11,415	44,092
Total non-current assets		1,132,043	1,294,552
Current assets			
Inventories	16	1,253,989	1,362,191
Trade receivables	17	786,504	921,758
Current income tax receivable	13	11,466	31,899
Other assets	18	97,535	105,203
Cash & Cash equivalents	19	610,215	986,632
Assets held for sale	20	13,462	3,610
Total current assets		2,773,171	3,411,293
Total assets		3,905,214	4,705,845

Equity and liabilities

(€ thousand)	Notes	December 31, 2012	December 31, 2011
Equity			
Subscribed capital		249,375	249,375
Capital reserves		900,759	900,759
Retained earnings		373,508	568,803
Accumulated other comprehensive income		88,116	95,799
Equity attributable to shareholders of Klöckner & Co SE		**1,611,758**	**1,814,736**
Non-controlling interests		23,012	28,503
Total equity	**21**	**1,634,770**	**1,843,239**
Non-current liabilities and provisions			
Provisions for pensions and similar obligations	23	176,699	182,745
Other provisions and accrued liabilities	24	29,769	29,060
Financial liabilities	25	913,762	1,067,862
Other liabilities	27	47,221	85,077
Deferred tax liabilities	13	108,697	160,500
Total non-current liabilities		**1,276,148**	**1,525,244**
Current liabilities			
Other provisions and accrued liabilities	24	140,378	114,091
Income tax liabilities	13	29,999	19,014
Financial liabilities	25	110,284	377,327
Trade payables	26	633,523	749,816
Other liabilities	27	76,314	77,114
Liabilities associated with assets held for sale	20	3,798	-
Total current liabilities		**994,296**	**1,337,362**
Total liabilities		**2,270,444**	**2,862,606**
Total equity and liabilities		**3,905,214**	**4,705,845**

KLÖCKNER & CO SE

Consolidated statement of cash flows 2012

(€ thousand)	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011
Net income	– 197,579	10,367
Income taxes	19,060	16,539
Financial result	75,650	84,241
Depreciation and amortization	164,508	105,373
Other non-cash expenses/income	3,763	4,510
Gain on disposal of non-current assets	2,802	– 8,747
Operating cash flow	**68,204**	**212,283**
Change in provisions	– 16,273	11,234
Change in net working capital		
Inventories	80,963	– 124,396
Trade receivables	117,186	– 43,326
Trade payables	– 106,754	40,377
Change in other operating assets and liabilities	16,500	– 53,327
Interest paid	– 63,903	– 61,589
Interest received	10,125	14,423
Income taxes paid	– 5,066	– 36,648
Cash flow from operating activities	**100,982**	**– 40,969**
Proceeds from the sale of non-current assets and assets held for sale	7,323	12,833
Proceeds from the sale of consolidated subsidiaries	15,206	4,820
Payments for intangible assets, property, plant and equipment	– 56,761	– 55,953
Acquisition of subsidiaries	-	– 444,417
Cash flow from investing activities	**– 34,232**	**– 482,717**
Capital increase		
– issuance of new shares of Klöckner & Co SE	-	516,103
– non-controlling interests	-	51
Dividends paid to		
– shareholders of Klöckner & Co SE	-	– 19,950
– non-controlling interests	– 1,307	– 2,102
Borrowings	213,032	646,258
Repayment of financial liabilities	– 652,164	– 355,396
Repayment of financial liabilities in connection with business combinations	-	– 195,672
Cash flow from financing activities	**– 440,439**	**589,292**
Changes in cash and cash equivalents	**– 373,689**	**65,606**
Effect of foreign exchange rates on cash and cash equivalents	– 1,753	– 13,929
Cash and cash equivalents at the beginning of the period	986,632	934,955
Cash and cash equivalents at the end of the period	**611,190**	**986,632**
thereof included in "Assets held for sale"	– 975	-
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**610,215**	**986,632**

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, 2011	**166,250**	**464,243**	**596,162**
Other comprehensive income			
Foreign currency translation			
Gain/loss from net investment hedges			
Gain/loss from cash flow hedges			
Related income tax			
Other comprehensive income			
Net income			11,585
Total comprehensive income			
Change in scope of consolidation*)			– 18,723
Capital increase by issuance of new shares	83,125	436,516	35
Change of non-controlling interests			– 306
Dividends			– 19,950
Balance as of December 31, 2011	**249,375**	**900,759**	**568,803**
Balance as of January 1, 2012	**249,375**	**900,759**	**568,803**
Other comprehensive income			
Foreign currency translation			
Gain/loss from net investment hedges			
Gain/loss from cash flow hedges			
Reclassification of cash flow hedges to profit and loss			
Related income tax			
Reclassification to profit and loss due to sale of foreign subsidiaries			
Other comprehensive income			
Net income			-194.876
Total comprehensive income			
Change of non-controlling interests			– 419
Dividends			
Balance as of December 31, 2012	**249,375**	**900,759**	**373,508**

*) Including put option for the non-controlling interests of the Frefer Group (see Note 5)

	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
	84,717	**– 35,996**	**1,275,376**	**15,118**	**1,290,494**
	64,168		64,168	– 997	**63,171**
		– 13,851	– 13,851		**– 13,851**
		1,947	1,947		**1,947**
	– 8,840	3,654	– 5,186		**– 5,186**
			47,078	**– 997**	**46,081**
			11,585	– 1,218	**10,367**
			58,663	**– 2,215**	**56,448**
			– 18,723	17,381	**– 1,342**
			519,676	15	**519,691**
			– 306	306	**-**
			– 19,950	– 2,102	**– 22,052**
	140,045	**– 44,246**	**1,814,736**	**28,503**	**1,843,239**
	140,045	**– 44,246**	**1,814,736**	**28,503**	**1,843,239**
	– 16,987		– 16,987	– 1,458	**– 18,445**
		5,430	5,430		**5,430**
		2,568	2,568		**2,568**
		1,767	1,767		**1,767**
	8,024	– 8,268	– 244		**– 244**
	– 239		– 239		**– 239**
			– 7,705	**– 1,458**	**– 9,163**
			– 194,876	– 2,703	**– 197,579**
			– 202,581	**– 4,161**	**– 206,742**
	22		– 397	– 23	**– 420**
				– 1,307	**– 1,307**
	130,865	**– 42,749**	**1,611,758**	**23,012**	**1,634,770**

KLÖCKNER & CO SE

Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg as of December 31, 2012

(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" or "Group") were authorized for issuance to the Supervisory Board by way of resolution of the Management Board on February 22, 2013. 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 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, 2012 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, 2012 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, 2012, 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, if 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 five special-purpose entities exist. None of the Group companies holds an equity interest in four of these 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 currently dormant special-purpose entity of the European program as well as an additional special-purpose entity that 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.

Intercompany receivables, liabilities and intercompany results as well as intercompany 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:

	2012	2011
Consolidated entities at the beginning of the financial year*)	102	96
+ business combinations	-	9
+ newly formed/consolidated companies	1	3
– mergers	– 4	– 5
– disposals and liquidations	– 17	– 1
Consolidated entities at the end of the financial year	**82**	**102**
thereof domestic entities including Klöckner & Co SE) *	*12*	*12*

*) Including consolidated special-purpose entities.

3 (2011: 5) subsidiaries that do not have a significant impact on the Group's net assets, financial results and results of operations are not consolidated. Net income of these entities represents only – 0.01% (2011: 0.06%) of consolidated net income. The impact on the Group's equity amounts to – 0.86% (2011: – 0.76%). Such subsidiaries are accounted for as financial assets at cost as their fair values cannot be determined reliably.

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 consideration transferred for 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 consideration transferred for the acquired business 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. Non-controlling interests are measured at their proportional share of the fair values of the acquired net assets, i.e., 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 (excluding foreign currency translation of foreign net investments) 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, 2012	December 31, 2011	2012	2011
Brazilian Real (BRL)	**2.7036**	2.4159	**2.5085**	2.3265
Pound Sterling (GBP)	**0.8161**	0.8353	**0.8109**	0.8679
Swiss Franc (CHF)	**1.2072**	1.2156	**1.2053**	1.2326
US Dollar (USD)	**1.3194**	1.2939	**1.2848**	1.3920

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 legally 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, 2012	December 31, 2011
Risk-free rate of return	0.0– 1.2	0.0– 1.6
Expected volatility	37.0	57.0

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 only 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 taxes 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 (temporary differences) and from consolidation entries. Such deferred taxes 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 profits 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 and 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 profits 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 result 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 or in other comprehensive income. In such cases, they are also charged or credited to equity or other comprehensive income.

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. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rates between four 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 – 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 only capitalized to the extent that 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 Klöckner & Co Group 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 for future lease payments 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, if shorter, the term of the underlying lease.

For operating lease arrangements, in which the Group is lessee lease payments are recognized as straight-line expense 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 applied to 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 case no recoverable amount for the specific asset can be estimated the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. Where an impairment loss subsequently reverses (unless related to goodwill), 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 as income.

Goodwill arising in business combinations 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 (BSS) the national sub-consolidation groups represent the cash-generating units. The annual impairment test for goodwill is performed in the fourth quarter of each financial year – or more frequently in case of 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 three-year business plan, based on management's estimates for the respective business unit. For one cash-generating unit the estimated cash flows are derived from a five-year business plan. 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, if it is reasonably assured that the Company complies with the conditions 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 from 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 the period 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 production-related depreciation are reflected in the manufacturing costs (e.g. certain coil inventory). 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, including 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 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 in place. The carrying amounts of financial assets are assessed for impairment, if there is objective material 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 non-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", which 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 liabilities at 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 generally measured at amortized cost using the effective interest method.

An exchange of debt instruments with substantially different terms between Klöckner & Co and a lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Taking qualitative aspects into consideration, terms are deemed to be materially different, if the discounted present value of the future cash flows under the new terms differs from the discounted present value of the future cash flows under the original terms by more than 10%.

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 caps. 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, or hedge of a foreign net investment 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 depending 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 of the balance sheet date, and exchange rate differences arising due to 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 at 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 changes in the fair values are recognized in the income statement for the current reporting period provided that no hedge accounting is applied.

Derivative financial instruments designated in hedging transactions are classified as non-current assets or liabilities, if the remaining term of the hedging relationship exceeds 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 or hedge of a foreign net investment.

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 or the net investment. 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 other comprehensive income can be derived from the statement of changes in equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment 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 in profit and loss 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 a 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 parties involved.

Provisions for onerous contracts are recognized, if unavoidable expenses from the contract exceed the expected benefit.

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 those representing 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 as well as liabilities realized within twelve months of the reporting date will be settled within one year of the reporting date and are classified as current.

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

Presentation of interest paid and received in the cash flow statement

Contrary to the previous year, interest paid and received is now included in cash flow from operating activities to improve the information of the cash flow statement. Prior year presentation was adjusted accordingly.

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 the period of the revision and subsequent periods, if more than one period is affected.

For intangible assets and property, plant and equipment, estimates are in particular required for assets arising from business combinations under IFRS 3. In these instances, management is required to estimate fair values and expected useful economic lives of such assets. For material business combinations the Company usually obtains actuarial advice. The estimates are accompanied by management's forecasts of the future benefits for the respective assets, which are also reflected in the projections of future cash inflows from the assets.

For each reporting date management is required to assess, for tangible and intangible assets as well as for investment property, whether triggering events that could give rise for an impairment loss exist. If triggering events are identified the recoverable amount must be estimated. For goodwill an impairment test is required at least on an annual basis regardless of the existence of triggering events. The recoverable amount is usually determined using discounted cash flows. The projected cash inflows largely depend on the expected future gross profit margins and turnover under consideration of the general economic development as well as on the assessment of the appropriate discount rates including future growth rates. The discount rates are based on the Capital Asset Pricing Model (CAPM). Its main inputs are the risk-free rate of return, the beta factor of the Klöckner & Co share and assumptions with regard to leverage and the market risk premium.

Inventories are to be reported at the lower of cost or net realizable value. In order to calculate the net realizable value management is in particular required to estimate sales prices and future costs to be incurred to make the sale.

The Group operates in various countries. The Group's income is therefore subject to various tax jurisdictions. For each taxable subject tax assets and tax liabilities, as well as temporary differences and tax losses and the resulting deferred taxes, must be calculated individually. Management is required to make estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their actual utilization is probable. The utilization of deferred taxes is in particular dependent on sufficient future taxable profits in the respective tax jurisdiction and tax type. In assessing if sufficient future taxable profits exist, management among other things considers historical earnings, budgets, loss carryforward restrictions and tax planning strategies. If the actual results vary from these projections or if estimates must be revised in future periods, negative implications on the Company's results of operations, financial positions and net assets may arise.

Post employment benefits are accounted for using actuarial methods. The actuarial assumptions include discount rates, mortality rates and, if applicable, expected returns on plan assets. The actual amounts of such assumptions may differ significantly from the projected amounts due to changes in the economies and stock markets and may therefore have a material impact on the benefit obligation and future benefit costs.

Accounting for other provisions embodies assessment of the facts and circumstances, raised claims and estimates of the range of potential settlement amounts, and the probability of occurrence.

New accounting standards and interpretations

In 2012, the Group initially applied the amendments to IFRS 7 issued in October 2010. The amendments allow users of financial statements to improve their understanding of transfer of financial assets (e.g. securisations), including understanding of possible effects of any risks that may remain with the entity that transferred the assets.

The International Accounting Standards Board (IASB) issued the following standards and interpretations applicable for the Group in 2012, but for which application is not yet mandatory in the reporting period. The Group does not early adopt accounting pronouncements. In addition to the new standards and interpretations listed below, which can have a material influence on the Group financial statements, further standards and interpretations were published, which however, are not expected to have an essential influence on the Group financial statements.

The fourth omnibus standard "Improvements to IFRSs" issued in June 2012 comprised minor adjustments and editorial changes to five standards.

In June 2012, the IASB published two amendments (Transition Guidance and Investment Entities) to IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements) and IFRS 12 (Disclosure of Interests in Other Entities) as well as IAS 27 (Separate Financial Statements). They include simplifying exemptions in the initial application of these standards.
Applicable note disclosure is only required for the current period of the initial application and the comparable prior year period. The notes to the non-consolidated structured enterprises are only applicable for the current period of the initial application. The changes on financial statements must be applied beginning on or after January 1, 2013 or January 1, 2014 respectively. Klöckner & Co is currently evaluating the impacts of the first-time adoption of the amendments.

By amending IAS 19 (Employee Benefits) – already published in June 2011 – the option to defer the recognition of gains and losses, known as the "corridor method," was eliminated. Under the revised standard changes in assets and liabilities arising from defined benefit plans, including the requirement of remeasurements to be presented in other comprehensive income. Annual expenses for funded plans will include net interest expense or income calculated by applying the discount rate to the net defined benefit asset or liability. Asset returns may therefore no longer be based on expected returns. The revised standard will also increase disclosure requirements for defined benefit plans. Klöckner & Co has to apply the revised IAS 19 starting on January 1, 2013. Management expects that the application of the revised IAS 19 as of January 1, 2013 will result in an increase of the provision for pensions and similar obligations by €141 million. The plan assets to defined benefit plans presented up to now will probably be reduced by €29 million. Due to the mandatory recognition of actuarial gains and losses, the Group's equity as of January 1, 2013 is expected to decrease by €133 million. Interest expenses from the accreation of the obligation as well as returns on plan assets will be calculated applying the discount rate of the obligation on the net liability or asset and will be presented in the financial result. Due to the full recognition of actuarial gains and losses pension expense will be relieved from amortisation expenses for such gains and losses. Including deferred tax effects Klöckner & Co expects that the application of the revised standard will lead to a negative single digit million euro impact on net income.

In March 2012, the IASB issued an amendment (Government Loans) to IFRS 1 (First-time Adaption of International Financial Reporting Standards). This amendment rules the treatment of government loans regarding the first-time adoption of IFRS. The regulation must be applied on reporting periods beginning on or after January 1, 2013 and will have no impact on the Klöckner & Co Group.

The following overview summarizes all issued standards and interpretations, which have not yet been applied in the Klöckner & Co Group:

Standard/Interpretation	Mandatory application*)
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	2013
Government Loans (Amendments to IFRS 1)	2013
IFRS 10 Consolidated Financial Statements	2013
IFRS 11 Joint Arrangements	2013
IFRS 12 Disclosure of Interests in Other Entities	2013
IFRS 13 Fair Value Measurements	2013
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	2013
IAS 19 Employee Benefits (2011)	2013
IAS 27 Separate Financial Statements (2011)	2013
IAS 28 Investments in Associates and Joint Ventures (2011)	2013
Annual Improvements to IFRSs – 2009-2011 cycle – various Standards	2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	2014
IFRS 9 Financial Instruments (2010)	2015

*) Related to the financial year of Klöckner & Co SE. The EU endorsement is partly outstanding.

(5) ACQUISITION AND DISPOSALS

The Group structure changed as a result of the following acquisitions and disposals during the financial years 2012 and 2011.

Acquisitions 2012

No businesses were acquired in 2012.

Acquisitions 2011

Macsteel Service Centers USA Inc.

At the end of April, the acquisition of 100% of Macsteel Service Centers USA, Inc. (“MSCUSA”) was closed. MSCUSA had 30 locations and was one of the leading metal service center companies in the USA. In 2010, MSCUSA generated sales of approximately USD 1.3 billion and had 1,200 employees. Klöckner & Co strengthened its market position by more than doubling its sales in the USA and expanded its product and service range through expansion of its high value-adding steel service center business. The final purchase price was set to USD 600 million (approximately €404 million). MSCUSA was initially consolidated on May 1, 2011.

Frefer

At the end of May 2011, Klöckner & Co started its planned entry into emerging markets by acquiring a 70% share of the third-largest independent steel and metal distributor in Brazil as part of its “Klöckner & Co 2020” strategy. The Frefer Group is a flat steel-focused distribution and service center company with approximately 360 employees at 14 locations in Brazil and 2010 sales of approximately BRL 340 million (approximately €150 million). The initial consolidation was carried out on June 1, 2011. For a subsequent transfer of minority interest, put and call options were negotiated, their value is relative to the future benefit development. The put option constitutes a financial liability and is subsequently to be measured at fair value through profit and loss.

The transactions are deemed to be material business combinations under IFRS 3. The calculation of the fair values of the acquired assets and assumed liabilities was as follows:

(€ million)	Fair values MSCUSA	Frefer
Assets		
Goodwill	103.1	40.2
Other intangible assets	158.1	29.4
thereof customer relationships	*129.5*	*27.1*
thereof trade names	*7.8*	*2.0*
Property, plant and equipment	110.7	2.2
Other non-current assets	9.1	3.1
Inventories	276.6	19.3
Trade receivables	137.7	12.5
Other current assets	21.4	1.7
Cash and cash equivalents*)	8.3	32.4
Total acquired assets	**825.0**	**140.8**
Liabilities and provisions		
Non-current financial liabilities	10.4	15.8
Other non-current liabilities and provisions	12.2	-
Deferred tax liabilities	82.9	9.9
Trade payables	99.9	4.1
Current financial liabilities	198.9	10.7
Other current liabilities and provisions	16.2	2.3
Total assumed liabilities	**420.5**	**42.8**
Acquired net assets	**404.5**	**98.0**
Non-controlling interests	-	17.4
Consideration*)	**404.5**	**80.6**
thereof paid in cash and cash equivalents	*404.5*	*80.6*
Reconciliation transaction volume		
Assumed financial liabilities	209.3	26.5
Acquired cash and cash equivalents*)	– 8.3	– 32.4
Transaction volume	**605.5**	**74.7**

*) Including capital increase at Frefer.

Goodwill primarily represented future earnings potential and synergies.

The non-controlling interests of the Frefer Group were measured at their share of the fair values of identifiable assets and liabilities (net assets), i.e., the full goodwill method was not applied.

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

2012

By contract dated November 19, 2012, ODS B.V., Barendrecht, the Netherlands increased its interest in ODS do Brazil Sistemas de Medicao Ltda., Campinas, São Paulo, Brazil from previously 80 to 100 percent. The purchase price amounted to €0.4 million.

2011

By agreement dated May 2, 2011, the Spanish subsidiary Comercial de Laminados S.A., Barcelona acquired the 15% interest in Cortichapa S.A., Valencia, Spain from Hierros Turia S.A. Valencia, Spain, a company in which a third party is holding a 20% non-controlling interest. Since this transaction Cortichapa S.A. has been fully owned by Klöckner & Co.

Disposals

2012

Effective February 1, 2012, Klöckner Stahl- und Metallhandel GmbH, Duisburg sold Edelstahlservice Frankfurt in form of an asset deal as well as the interest in its subsidiary Edelstahlservice Mágocs Nemesacélfeldolgozó Kft., Mágocs, Hungary. The sales price was approximately set to the transferred net assets of €3.4 million.

On November 30, 2012, a contract was signed for the sale of interest in the companies Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland, UAB Klöckner Baltija, Klaipeda, Lithuania, Klöckner Romania S.R.L., Bucharest, Romania, Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic ("Signing"). The sale of Klöckner Romania S.R.L. Bucharest, Romania and Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic was closed on December 20, 2012 ("Closing"). The consideration less cost to sell amounted to €4.8 million. The result of this transaction was a disposal loss of €3.5 million net financial liabilities as well as an impairment of fixed assets in the amount of €1.0 million.

By agreement dated December 4, 2012 the interests in Klöckner Metalsnab AD, Sofia, Bulgaria were sold. The purchase price amounted to €6.8 million and corresponds to the disposed assets and liabilities. In connection with this transaction impairments on non-current assets of €3.5 million were recorded.

The closing for Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland and UAB Klöckner Baltija, Klaipeda, Lithuania is expected for the first quarter of 2013. The assets and liabilities of the companies are recorded under assets held for sale. Further information can be taken from Note 20 (Non-current assets held for sale and disposal groups).

Based on the carrying amounts as of the disposal date the transactions had the following impact on the Group's statement of financial position:

(€ million)	
Assets	
Property, plant and equipment	– 5.3
Inventories	– 10.5
Trade receivables	– 8.5
Cash & Cash equivalents	– 0.2
Assets disposed	– 24.5
Liabilities and provisions	
Other non-current liabilities and provisions	– 0.3
Deferred tax liabilities	– 0.6
Trade payables	– 4.3
Other current liabilities and provisions	– 0.8
Liabilities disposed	– 6.0
Net assets disposed	– 18.5

2011

In August 2011, the 100% interest in the subsidiary Teuling Staal B.V., Barendrecht, the Netherlands was disposed. As part of the transaction assets and liabilities totaling €8 million and €3 million, i.e., net assets of €5 million were transferred. The agreed purchase price was set to the amount of net assets disposed.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(6) SPECIAL ITEMS IN RESULT

The 2012 result was burdened by restructuring expenses and impairments.

Restructuring measures including expenses in connection with the sale of the East European activities

The restructuring expenses including impairments from the disposal of Eastern European activities of €93 million mainly relate to European country organizations.

The measures relate to the close-down of unprofitable locations, personnel redundancies and adjustments in administrative areas. In the Spanish country organization eight locations were closed during 2012 and the personnel was reduced by about 180 employees. In addition, material changes took place in Germany, France and the United Kingdom with a close-down of about 20 locations and a reduction of approximately 550 employees. The expenses relate to stock devaluations with €8 million, personnel reduction expenses with €41 million and with €18 million to other expenses.

In connection with the disposal of Eastern European activities impairments on intangible assets and property, plant and equipment of the Eastern European companies amounting to €11 million were incurred. Since the contracted sales prices were or will be lower than the net assets disposed the result was burdened by further expenses of €7 million, which are included in other operating expenses together with the loss from final consolidation of €3 million.

The 2011 restructuring expenses (personnel expenses) burdened the EBITDA with €10 million.

Impairment Brazil including reversal of put liability

The constantly declining economic environment in Brazil and the related negative impact on the earnings power of our Brazilian subsidiary Frefer Metal Plus S.A., São Paulo, Brazil triggered a goodwill impairment test. The revised business plan resulted in a goodwill impairment of €36,396 thousand, which was recorded in the segment Americas. The carrying amount of the put liability relating to the acquisition, which depends on future income of the company, was reduced accordingly. The resulting income of €16,804 thousand was reported in the financial result.

Net income was burdened as follows:

(€ million)	Jan. 1 - Dec. 31, 2012
Stock write-downs	– 7,727
Personnel expenses	– 41,324
Other restructuring expenses	– 17,693
Loss on sale of consolidated subsidiaries	– 10,237
EBITDA burden*)	– 76,981
Asset impairments	
- Eastern Europe	– 10,816
- Spain, Germany, United Kingdom	– 5,665
Goodwill Impairments	
- Brazil	– 36,396
- France	– 2,597
Negative impact on operating result	– 132,455
Reversal put option	16,804
Tax effects	922
Total impact on net income	– 114,729

*) For definition of EBITDA please see Note 34 (Segment reporting).

(7) SALES

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

(€ thousand)	2012	2011
Germany	1,522,649	1,688,542
EC excluding Germany	2,093,656	2,327,024
Rest of Europe	904,307	922,268
North America	2,650,821	1,940,801
Central and South America	115,214	130,964
Asia/Australia	26,351	20,182
Africa	75,017	65,580
Sales	**7,388,015**	**7,095,361**

(8) OTHER OPERATING INCOME

(€ thousand)	2012	2011
Reversal of provisions	7,121	11,640
Foreign currency exchange gains	4,853	7,491
Income from written-off receivables	4,585	6,494
Rental income	4,297	5,004
Gain on sale of non-current assets and assets held for sale	1,559	9,083
Gain on sale of consolidated subsidiaries	171	-
Other income	9,040	12,477
Other operating income	**31,626**	**52,189**

Other income comprises €1,570 thousand (2011: €1,567 thousand) excess customer payments for which the statute of limitation is exceeded or credits that 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.

(9) COST OF MATERIALS

(€ thousand)	2012	2011
Cost of materials, supplies and purchased merchandise	6,081,882	5,776,726
Cost of purchased services	7,342	7,864
Cost of materials	**6,089,224**	**5,784,590**

(10) PERSONNEL EXPENSES

(€ thousand)	2012	2011
Wages and salaries	530,169	473,118
Social security contributions (including welfare benefits)	109,640	98,052
Retirement benefit cost	17,459	17,053
Personnel expenses	**657,268**	**588,223**

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.

Wages and salaries also include expenses for social plans in connection with the restructuring measures described in Note 6 (Special items in result).

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.

In 2012, the following average staff was employed by Klöckner & Co Group in accordance with Section 314 para 1 no. 4 HGB:

	2012	2011
Salaried employees	5,920	6,098
Wage earners	4,819	4,689
Apprentices	273	262
Employees	**11,012**	**11,049**

(11) OTHER OPERATING EXPENSES

(€ thousand)	2012	2011
Forwarding cost	154,858	142,388
Rental and leasing expenses	81,324	75,589
Third-party services	81,499	86,234
Supplies	59,351	53,899
Repair and maintenance	44,404	44,021
Other taxes	26,023	23,629
Travel expenses	19,210	18,685
Audit fees and consulting	17,511	24,028
Restructuring expenses	17,693	-
Postal charges and telecommunication	11,415	10,684
Bad debt expenses	13,170	11,134
Other insurance	9,746	9,645
Credit insurance	8,586	10,198
Advertising and representation expenses	7,669	8,737
Impairments on non-current assets held for sale	7,114	-
Foreign currency exchange losses	4,975	11,629
Loss on sale of consolidated subsidiaries	3,493	-
Other expenses	32,415	31,614
Other operating expenses	**600,456**	**562,114**

Further information regarding the restructuring expenses, the loss on sale of consolidated subsidiaries and the impairment on non-current assets held for sale is provided in Note 5 (Acquisitions and disposals) and in Note 6 (Special items in result).

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

(12) FINANCIAL RESULT

(€ thousand)	2012	2011
Income from long-term loans	13	230
Other interest and similar income	20,822	16,160
Interest and similar expenses	– 89,707	– 93,668
Interest cost for post-employment benefits	– 6,778	– 6,963
Financial result	**– 75,650**	**– 84,241**

Interest income includes an amount of €16,804 thousand resulting from the fair value adjustment of the put liability assumed in the acquisition of the Frefer Group, which was made in the course of the impairment Brazil.

In addition, the decrease in net financial expenses is driven by lower average net financial debt throughout the fiscal year. Included in the financial result are €– 68,635 thousand (2011: €– 77,553 thousand) net interest accounted for under the effective interest method.

(13) INCOME TAXES

Income taxes in the income statement

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

(€ thousand)	2012	2011
Current income tax expense (+)/benefit (-)	**37,486**	**16,000**
thereof related to prior periods	*4,187*	*– 2,974*
Domestic	3,517	1,866
Foreign	33,969	14,134
Deferred tax expense (+)/benefit (-)	**– 18,426**	**539**
Domestic	21,398	10,097
Foreign	– 39,824	– 9,558
Income tax expense/benefit	**19,060**	**16,539**

Due to changes in the German fiscal unity, the combined income tax rate now amounts to 32.3% (2011: 30.7%) due to changes in the composition in the tax consolidated groups, comprising the corporate income tax (including solidarity surcharge) of 15.8% (2011: 15.8%) and trade tax of 16.5% (2011: 14.9%). Foreign tax rates vary between 10.0% and 40.0%.

Irrespectively the negative income before taxes, current tax expenses of €37,486 thousand (€16,000 thoursand) occurred. However, it has to be considered that the cross-border offsetting of tax income and tax losses is not possible. Especially, negative tax results of some European countries cannot be offset against tax profits in some other European countries or in the USA. Furthermore, amortization of intangible assets from business combinations, which are not deductible in the calculation of current tax expense as well as reversals of temporary differences from inventory valuation lead to current tax expense.

Corresponding deferred tax income is contrary to the above mentioned effects from amortization and inventory valuation. In contrast to that, necessary valuation allowances on deferred tax assets on loss carrryforwards lead to deferred tax expense. The non-recognition of deferred tax assets on losses of the year under review did not result in deferrred tax income.

Deferred tax expenses or benefits, respectively, include the following components:

(€ thousand)	2012	2011
Deferred tax expense (+)/benefit (-)	**– 18,426**	**539**
thereof from		
- temporary differences	*– 38,890*	*– 948*
- loss carryforwards (including interest carryforward)	*20,464*	*– 2,050*

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

(€ thousand)	2012	2011
Expected tax rate	**32.3%**	**30.7%**
Income before taxes	**– 178,519**	**26,906**
Expected tax expense/benefit at domestic tax rate	– 57,662	8,260
Foreign tax rate differential	– 4,216	– 6,122
Tax rate changes	– 801	– 159
Reduced tax rate	– 392	-
Tax reduction due to tax free income	– 3,045	– 3,978
Tax increase due to non-deductible expenses	9,527	5,964
Current income tax levied or refunded for prior periods	4,187	– 2,974
Goodwill impairment charges*)	9,230	-
Tax reduction due to first-time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	-	– 7,910
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 788	– 910
Tax increase due to non-capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	63,264	23,547
Other tax effects	– 244	821
Effective income tax benefit/expense	**19,060**	**16,539**
Effective tax rate	**– 10.7%**	**61.5%**

*) Including divergent effects resulting from the put liability of the Frefer Metal Plus S.A., São Paulo, Brazil acquisition. Further information is to be found in Note 6 (Special items in result).

The 2012 tax rate is largely impacted by a non-deductible impairment of deferred taxes on tax loss carry forwards as well as non-recognition of deferred tax assets on operating losses mainly due to the weak economic development in some European countries.

The effects of goodwill and intangible assets almost exclusively relate to the Frefer Metal Plus S.A., São Paulo, Brazil impairment net of tax effects resulting from the reversal of a put liability of the acquisition. Further information is provided in Note 6 (Special items in result).

Taxation of non-deductible tax effects also includes non-deductible tax losses in connection with the disposal of the Eastern Europe activities.

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 for taxes arising from a transaction or event that is recognized, in the same or a different period, directly in equity.

(€ thousand)	December 31, 2012	December 31, 2011
Change in deferred tax assets and liablities (net), not affecting net income	**– 244**	**– 5,186**
thereof reported		
- in other comprehensive income	*– 244*	*– 5,186*

Deferred taxes on the changes in the fair values of derivative financial instruments designated in hedge accounting and on net investment hedges are reported in other comprehensive income.

Deferred tax assets and liabilities

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

(€ thousand)	December 31, 2012	December 31, 2011
Deferred tax assets	11,415	44,092
Deferred tax liabilities	108,697	160,500
Deferred taxes, net	**– 97,282**	**– 116,408**

Deferred tax assets and liabilities arise from the following:

Deferred tax assets

(€ thousand)	December 31, 2012	December 31, 2011
from temporary differences and consolidations		
Intangible assets	16,148	11,759
Property, plant and equipment	10,255	8,836
Financial assets	907	-
Inventories	17,955	9,743
Receivables and other current assets	10,398	10,964
Provisions for pensions and similar obligations	42,657	40,996
Other provisions and accrued liabilities	13,690	9,418
Liabilities	18,514	23,068
Gross amount	130,524	**114,784**
Valuation allowance	– 27,917	– 15,786
Net amount	102,607	**98,998**
Tax loss carryforwards*)	13,780	34,244
Offsetting	– 104,972	– 89,150
Deferred tax assets	11,415	**44,092**

*) Including interest carryforward.

Deferred tax liabilities

(€ thousand)	December 31, 2012	December 31, 2011
from temporary differences and consolidations		
Intangible assets	61,601	76,177
Property, plant and equipment	73,158	73,996
Financial assets	11	-
Inventories	24,787	40,024
Receivables and other current assets	16,274	19,160
Provisions for pensions and similar obligations	19,808	17,318
Other provisions and accrued liabilities	10,830	10,957
Other liabilities	7,200	12,018
Gross amount	213,669	**249,650**
Offsetting	– 104,972	– 89,150
Deferred tax liabilities	108,697	**160,500**

Deferred tax assets on unused tax loss carryforwards and deductible temporary differences were not recognized because their realization cannot be reliably guaranteed:

(€ million)	December 31, 2012	December 31, 2011
Unrecognized tax losses		
- Corporate income tax	522.6	292.7
- Trade tax and similar taxes	242.7	95.1
- Interest carryforward	-	115.1
Temporary differences	87.4	51.9

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 unrecognized loss carryforwards do expire, this will largely occur according to the following overview:

(€ million)	December 31, 2012	December 31, 2011
until December 31, 2016	-	11.6
until December 31, 2030	80.7	60.0
after December 31, 2030	26.1	34.3

Current tax receivables and liabilities

The following current tax receivables and current tax liabilities are reported in the statement of financial position:

(€ thousand)	December 31, 2012	December 31, 2011
Current income tax receivable	11,466	31,899
Income tax liabilities	29,999	19,014

(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, 16,253 thousand (2011: 18,447 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, 2012	Jan. 1 - Dec. 31, 2011
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	– 194,876	11,585
Weighted average number of shares	(thousands of shares)	99,750	85,357
Basic earnings per share	**(€/share)**	**– 1.95**	**0.14**
Diluted earnings per share	**(€/share)**	**– 1.95**	**0.14**

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, 2011	214,608	20,540	118,248	353,396
Accumulated amortization and impairments	– 101,620	– 16,540	– 7,913	– 126,073
As of January 1, 2011	**112,988**	**4,000**	**110,335**	**227,323**
Exchange rate differences	19,811	2,355	16,143	38,309
Additions from business combinations	171,081	16,392	143,233	330,706
Additions	293	10,479	48	10,820
Disposals	– 534	– 8	-	– 542
Depreciation, amortization and impairments	– 40,977	– 5,765	-	– 46,742
Transfers	– 12	12	-	-
As of December 31, 2011	**262,650**	**27,465**	**269,759**	**559,874**
Cost as of December 31, 2011	396,119	55,083	277,696	728,898
Accumulated amortization and impairments	– 133,469	– 27,618	– 7,937	– 169,024
Balance as of January 1, 2012	**262,650**	**27,465**	**269,759**	**559,874**
Exchange rate differences	– 5,774	– 135	– 5,314	– 11,223
Additions	99	4,216	35	4,350
Disposals	– 23	– 26	-	– 49
Depreciation, amortization and impairments	– 39,774	– 12,948	– 38,993	– 91,715
Transfers	– 164	164	-	-
Balance as of December 31, 2012	**217,014**	**18,736**	**225,487**	**461,237**
Cost as of December 31, 2012	382,047	53,420	269,809	705,276
Accumulated amortization and impairments	– 165,033	– 34,684	– 44,322	– 244,039

The following CGU carry material goodwill (i.e., more than 10% of total goodwill):

(€ thousand)	December 31, 2012	December 31, 2011
Americas Segment		
CGU North America	**210,173**	214,280
CGU Brazil	**-**	37,791

Trigger-based and annual impairment test performed on cash-generating units (CGU) in the fourth quarter of the financial year led to impairment losses of €38,993 thousand. €36,396 thousand are related to the goodwill impairment of Frefer Metal Plus S.A., São Paulo, Brazil due to the continued decline of the economic environment. In addition, the goodwill of the French country organization was impaired by €2,597 thousand due to lowered earnings expectations.

The recoverable amount of a CGU is performed by calculaton of a value in use using a discounted cash flow method, which is based on a ‘bottom-up' planning approved by the corporate bodies in the fourth quarter. The planning period generally covers a three-year period. For Brazil the planning period was extended to five years to account for the regional market specifics. The last year of the detailed planning period is used to extrapolate the sustainable future cash flows into perpetuity.

Klöckner & Co utilizes a uniform planning model with similar input parameters for all CGUs. Input parameters include among other things macroeconomic data such as expected GDP growth and expected inflation as well as salary trends. The planning also makes reference to expected demand for our products. These references are derived from macroeconomic and sector studies and CGU-specific modified. A further main driver for profitability is the expected gross profit per ton. This is projected based on normalized gross profit per ton.

In the planning period, an increase of EBITDA and turnover above the market growth is planned for the CGU North America under consideration of increased market share achieved since the acquisition of Macsteel. For the CGU North America, to which goodwill of €210 million is allocated, the recoverable amount exceeds the carrying amount of the net assets by more than €100 million. A reduction of the EBITDA in the perpetual annuity up to 10%, an increase of the discount rate by 50 bp or a reduction of the average growth up to 30% in the planning period would not have resulted in a recoverable amount lying below the net assets of the CGU North America.

For the reporting period, pre-tax discount rates between 8.81% and 16.90% (2011: 9.28% to 17.19%), depending on the respective CGU, were used. The pre-tax discount rate was in the lower third of the range. To calculate sustainable future growth a general growth rate of 1% is used. Only for our activities in Brazil, the growth rate was set to 2.5% as in the preceeding year.

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, 2011	736,979	283,656	243,990	6,176	1,270,801
Accumulated amortization and impairments	– 356,496	– 200,078	– 190,058	-	– 746,632
Balance as of January 1, 2011	**380,483**	**83,578**	**53,932**	**6,176**	**524,169**
Exchange rate differences	13,363	5,949	2,489	399	22,200
Additions from business combinations	59,363	40,283	11,616	1,691	112,953
Additions	1,620	12,942	14,906	15,652	45,120
Disposals	– 1,936	– 149	– 516	– 371	– 2,972
Depreciation, amortization and impairments	– 18,979	– 22,960	– 16,692	-	– 58,631
Transfers	1,505	1,859	6,468	– 9,832	-
Reclassification to assets held for sale	– 3,330	– 28	-	-	– 3,358
Balance as of December 31, 2011	**432,089**	**121,474**	**72,203**	**13,715**	**639,481**
Cost as of December 31, 2011	806,629	338,868	279,264	13,715	1,438,476
Accumulated amortization and impairments	– 374,540	– 217,394	– 207,061	-	– 798,995
Balance as of January 1, 2012	**432,089**	**121,474**	**72,203**	**13,715**	**639,481**
Exchange rate differences	– 415	– 721	– 27	– 149	– 1,312
Additions	8,640	12,857	12,985	16,876	51,358
Disposals	– 7,503	– 2,609	– 786	– 63	– 10,961
Depreciation, amortization and impairments	– 31,000	– 23,010	– 18,562	– 221	– 72,793
Transfers	5,078	7,111	2,487	– 14,676	-
Balance as of December 31, 2012	**406,889**	**115,102**	**68,300**	**15,482**	**605,773**
Cost as of December 31, 2012	792,745	342,758	286,353	15,482	1,437,338
Accumulated amortization and impairments	– 385,856	– 227,656	– 218,053	-	– 831,565

Property, plant and equipment with a carrying amount of €72,578 thousand (2011: €91,905 thousand) was used as collateral to secure borrowings of the Group, denominated at €24,526 thousand (2011: €27,373 thousand).

In 2012, impairment losses of €16,476 thousand were incurred (2011: €2,034 thousand), of which €5,665 thousand relate to the closure and resizing of a location in Germany, Spain and the United Kingdom. Further impairments of €10,811 thousand were incurred in the context of the exit from the Eastern Europe activities.

Impairments of €12,169 thousand relate to land and buildings.

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, 2012	December 31, 2011
Real estate		
Spain (Valencia, Catalayud, Épila)	**10,453**	10,693
Austria		
- Vienna	**-**	740
Technical equipment and machinery	**236**	280
Vehicles	**-**	45
Total	**10,689**	**11,758**

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 a Valencia premise. An official permit to now use the property for other than only industrial use was obtained. The appraised fair value of the premise amounts to €21.2 million and is based on a third-party appraisal. There was no rental income due to the fact that the building was demolished in 2010. The disclosed cost exclusively relates to land. Operating expenses attributable to the premises were neither incurred in 2012, nor in 2011.

(16) INVENTORIES

(€ thousand)	December 31, 2012	December 31, 2011
Raw materials and supplies	**335,353**	324,930
Work in progress	**1,912**	5,401
Finished goods and merchandise	**911,331**	1,026,269
Advance payments	**5,393**	5,591
Inventories	**1,253,989**	**1,362,191**

Raw materials and supplies also include coils of steel service centers.

Of the inventories recognized as of December 31, 2012, €445,841 thousand (2011: €363,702 thousand) is stated at net realizable values. Allowances for write-downs to the net realizable value amount to €43,964 thousand (2011: €56,639 thousand). The amount expensed for inventory is equivalent to the cost of materials.

In addition to customary reservations of title, inventories with a carrying amount of €523,449 thousand (2011: €517,298 thousand) serve as collateral for financial liabilities as of December 31, 2012 of €47,946 thousand (2011: €52,875 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 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 risks inherent to these receivables reside with Klöckner & Co.

The refinancing of the purchased receivables by the SPEs is therefore reported in the consolidated financial statements as loans from the conduits.

The carrying amount of the receivables of the Group companies participating in the ABS programs as of December 31, 2012 amounts to €516 million (2011: €596 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

		Of which overdue by days as of the reporting date						
(€ thousand)	Of which not overdue 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, 2012								
807,755	598,309	150,233	25,416	8,525	8,021	17,251	– 21,251	**786,504**
December 31, 2011								
959,058	730,974	147,640	32,808	9,545	5,875	32,216	– 37,300	**921,758**

As of December 31, 2012, trade receivables in the amount of €5,344 thousand (2011: €5,698 thousand) of entities that do not participate in the Group's ABS programs were used as collateral for bank loans.

(18) OTHER ASSETS

(€ thousand)	December 31, 2012 Current	December 31, 2012 Non-current	December 31, 2011 Current	December 31, 2011 Non-current
Other financial assets				
Fair value of derivative financial instruments	919	-	164	-
Other non-financial assets				
Receivables from insurance companies	4,676	293	4,862	299
Commission claims	52,368	-	49,369	-
Reinsurance claims for pension obligations	-	4,205	-	4,315
Prepaid pension cost	-	29,037	-	24,207
Claims for other taxes	19,021	-	23,991	-
Prepaid expenses	9,698	56	11,618	77
Miscellaneous other assets	10,853	7,126	15,199	9,057
Other assets	**97,535**	**40,717**	**105,203**	**37,955**

Commission claims are primarily due to refunds and discounts from suppliers of inventory.

Miscellaneous other current assets include, among other things, debit balances in accounts payable of €1,274 thousand (2011: €4,522 thousand).

(19) CASH AND CASH EQUIVALENTS

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

(20) NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

As discussed in Note 5 (Acquisitions and disposals), the Group entered into an agreement to dispose, among other things, its subsidiaries Klöckner Stal i Metal Polska Sp.z o.o., Poznań, Poland and UAB Klöckner Baltija, Klaipeda, Lithuania in December 2012, which are expected to close in the first quarter of 2013. The transaction meets the criteria of IFRS 5.4 for the presentation as disposal group. The impairment test performed in the course of the valuation of the disposal group at fair value lead to an impairment of €6,744 thousand.

Assets and liabilites of the disposal groups are as follows:

(€ thousand)	2012
Long-term assets	534
Inventories	4,914
Trade receivables	3,724
Cash & cash equivalents	975
Other assets	291
Assets within disposal group	10,438
Current liabilities/provisions	3,798
- thereof financial liabilities	*165*
- thereof trade payables	*2,943*
Liabilities within disposal group	3,798

In addition, non-current assets held for sale include assets no longer used in operations.

The allocation of assets held for sale, disposal groups and connected liabilities to the segments is as follows:

(€ thousand)	Disposal group Eastern Europe*)	other assets and liabilities	December 31, 2012	December 31, 2011
Europe Segment				
Land and buildings	-	1,129	1,129	1,677
Other non-current assets	534	-	534	1
Current assets	9,904	-	9,904	-
Total assets	**10,438**	**1,129**	**11,567**	**1,678**
- thereof cash and cash equivalents	*975*	-	*975*	-
Current liabilities/provisions	3,798	-	3,798	-
Total liabilities	**3,798**	**-**	**3,798**	**-**
- thereof financial liabilities	*165*	-	*165*	-
Net Assets	**6,640**	**1,129**	**7,769**	**1,678**
Americas Segment				
Land, buildings and machines	-	1,895	1,895	1,932

*) The disposal group comprises of Klöckner Stal i Metal Polska Sp.z o.o., Poznań, Poland and UAB Klöckner Baltija, Klaipeda, Lithuania.

Land and buildings of the Europe segment with a net profit of €269 thousand (2011: Segment Americas: €3,199 thousand) were sold. In addition, impairments on land and buildings of €370 thousand are included in the result.

(21) EQUITY AND NON-CONTROLLING INTERESTS

a) Subscribed capital

The subscribed capital of Klöckner & Co SE remains unchanged to prior year at €249,375,000 and is divided into 99,750,000 no-par-value shares with the pro rata amount of €2.50 each of the share capital.

Acquisition of treasury stock

By resolution of the 2010 Annual General Meeting, the Management Board was 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. This permission was modified by resolution at the Annual General Meeting on May 25, 2012 in so far that the volume was based on the share capital as of the date of the resolution. Accordingly, the capital increase 2011 is now included in the 10% permission to acquire own shares. In addition, the Management Board was empowered to acquire own shares also by use of derivative financial instruments (put options, call options or futures). Also, the term of the permission was modified. It can now be exercised until May 24, 2017. 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 an additional source of financing to react quickly and flexibly. No use of this permission has yet been made.

Conditional capital

Based on the resolution of the Annual General Meetings in 2007 to 2012, the Company's share capital was conditionally increased as follows, whereby the conditional capital established by the Annual General Meeting 2008 was revoked by resolution of the Annual General Meeting held on May 26, 2010:

Conditional capital 2007

The conditional capital 2007 originally established by the Annual General Meeting held on June 20, 2007 and modified by resolution at the General Meeting on May 26, 2010, has become unnecessary due to repayment of the convertible bond in 2012. The corresponding condition will not come into effect. Section 4, para. 2 of the statutes was deleted by resolution of the Supervisory Board on September 20, 2012. The change of the statutes was recorded in the companies' register on January 25, 2013.

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 on May 26, 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 no-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 no-par-value shares. By resolution of the Annual General Meeting on May 20, 2011, Klöckner & Co's conditional share capital 2010 was modified so that the conditional increase was only up to €16,625,000 by issuance of up to 6,650,000 newly registered no-par-value shares.

Conditional capital 2011

The Annual General Meeting on May 20, 2011 also resolved that the share capital was conditionally increased up to €33,250,000 by issuance of up to 13,300,000 newly registered no-par-value shares.

The new no-par-value shares are entitled to profits from the beginning of the business year in which they are issued. The conditional capitals serve or served 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

The authorized capital of €83,125,000 previously in Section 4 para 3 of the statutes was fully utilized by the increase of the subscribed capital in 2011. By resolution of the Annual General Meeting on May, 25, 2012, the Management Board was authorized until May 27, 2017 to increase the share capital in one or more occasions by €124,687,500 against cash or non-cash contributions by issuance of 49.875.000 no-par-value shares. The corresponding provisions in the statutes are to be found in Section 4 para 3 (Authorized capital 2012).

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 as per notifications received in accordance with Sections 21 para 1, 22 para 1 Securities Trading Act (WpHG):

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
Interfer Holding GmbH	Dortmund, Germany	7.82	February 18, 2013
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	4.985*)	January 4, 2013
Dimensional Holdings, Inc.	Austin, Texas, USA	3.064*)	February 2, 2012
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	3.040*)	December 29, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH	Frankfurt am Main	3.016*)	January 26, 2012

*) 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, 2012 the capital reserves amount unchanged to €900,759 thousand.

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 as well as net investments hedges in 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) Profit allocation
The Management Board and Supervisory Board propose to the Shareholder's Meeting to allocate the 2012 unappropriated profit of €7 million calculated in accordance with the German Commercial Code (HGB) in total to other revenue reserves.

The development of the individual components of controlling and non-controlling interests for the period from January 1, 2011 to December 31, 2012 is presented in the summary of changes in equity.

(22) SHARE-BASED PAYMENTS

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

Management Board program

The Management Board program for virtual stock options ("VSO") is classified in three variants:

Variant I (VSO I) introduced in 2006 originally covered five annual tranches. The strike price for the first tranche was set to the IPO price in June 2006 of €16/share. The strike price for each subsequent tranche is generally 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. After modification to comply with the regulations of the Act on the Appropriateness of Management Board Remuneration (VorstAG) in 2011, VSO I also contains waiting periods for the initial third of a tranche of three years, the second and the remaining third of a tranche of 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 a maximum amount of €37 per option.

Variant II (VSO II) also initially covered five annual tranches, which have been allocated annually since January 1, 2009. The virtual stock options of the first two tranches 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. The VSOs of variant II allotted on or after January 1, 2011 (tranches three to five) also contain waiting periods of three to five years and are therefore identical to VSO III. 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 the tranches 3 to 5 of VSO II and is including waiting periods of 3 to 5 years. The additional VSOs issued due to the first step of enlargement of the Management Board generally correspond to variant III. In 2012, the excercise period of this member's options was extended by one year to harmonize this program to the remaining board programs. The additional virtual stock options agreed with the Members of Management who joined in 2013 are corresponding with variant III.

Senior management programs

In addition to the Management Board programs, 164,000 (2011: 151,500) virtual stock options for 2012 were granted and allotted to certain members of the senior management throughout the Group during the first half year of 2012. The conditions are largely identical to the Management Board program 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	**782,700**	**318,000**	**1,100,700**
Granted	-	164,000	**164,000**
Forfeited	-	– 24,500	**– 24,500**
Outstanding at the end of the reporting period	**782,700**	**457,500**	**1,240,200**
weighted average strike price (€/VSO)	*11.45*	*12.51*	***11.84***
thereof excercisable at the reporting date	*60,000*	*30,000*	***90,000***

*) Including options of Ulrich Becker (240,000 VSO) who left Klöckner & Co in 2012.

During the 2012 financial year no (2011: 21,500) virtual stock options were exercised. Accordingly, no payments for share-based compensation were made (2011: €161 thousand). The pro rata provision for share-based payments to the Management Board and senior management amounts to €1,340 thousand at the reporting date (2011: €1,540 thousand), the intrinsic value of the rights exercisable as of the reporting date amounted to €46 thousand. Due to the declining value of the underlying Klöckner & Co share price the reversal of the provision resulted in gains of €200 thousand (2011: €959 thousand).

(23) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Various types of pension schemes were 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 Group contributes funds to private or public pension institutions on the basis of statutory or contractual requirements. These payments discharge the Group from all further obligations. Defined contribution expenses in 2012 amounted to €7,428 thousand (2011: €3,933 thousand). Employers' contributions to the statutory pension schemes are not included. In Germany, these amount to €7,137 thousand (2011: €7,303 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:

2012

%	Germany	Austria	Switzerland	The Netherlands	United Kingdom	France	United States
Discount rate	3.00	3.00	2.00	3.00	4.70	3.00	3.34– 4.01
Salary trend	2.50	3.00	1.50	2.00	0.00– 2.50	2.00	0.00– 3.50
Pension trend	2.00	2.25	0.00	1.20	2.90	1.25*)	0.00
Expected return on plan assets	3.00	-	2.00	3.00	4.70	3.00	3.34– 4.01

2011

%	Germany	Austria	Switzer-land	The Nether-lands	United Kingdom	France	United States
Discount rate	4.50	4.50	2.50	4.50	4.90	4.50	3.76-4.47
Salary trend	2.50	3.00	1.50	2.00	3.10	2.00	0.00– 3.50
Pension trend	2.00	2.25	0.00	1.20	3.00	1.25*)	0.00
Expected return on plan assets	4.50	-	4.50	4.30	6.80– 7.00	4.00	6.50– 7.50

*) Depending on the respective pension plan.

Unchanged to the prior year, the Company uses Prof. Dr. Klaus Heubeck's 2005G 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, 2012	December 31, 2011
Defined benefit obligation of unfunded plans	195,742	174,085
Defined benefit obligation of fully or partly funded defined benefit plans	782,504	703,489
Fair value of plan assets	– 657,969	– 609,134
Unrecognized actuarial gains (+) and losses (-)	– 172,544	– 109,815
Unrecognized past service cost	– 71	– 87
Fair value of the reimbursement rights	– 4,205	– 4,315
Net amount recognized	**143,457**	**154,223**
thereof:		
– Other assets in connection with pension obligations*)	33,242	28,522
– Provisions for pensions and similar obligations	176,699	182,745

*) Also includes reimbursement rights recognized as assets.

The reconciliation of the defined benefit obligation is as follows:

(€ thousand)	2012	2011
Defined benefit obligation as of January 1	**877,574**	**735,609**
Service cost	16,317	16,715
Interest cost	31,442	30,589
Employee contributions	16,752	15,999
Actuarial gains and losses	89,443	46,633
Benefits paid	– 47,830	– 40,907
Past service cost	-	– 7,107
Curtailments and settlements	– 6,426	– 504
Change in scope of consolidation/other transfers	– 195	59,381
Foreign currency exchange rate differences	1,169	21,166
Defined benefit obligation as of December 31	**978,246**	**877,574**

The fair values of the plan assets developed as follows:

(€ thousand)	2012	2011
Fair value of plan assets as of January 1	**609,134**	**555,460**
Expected return	30,922	29,107
Employee contributions	16,752	15,999
Employer contributions	16,635	15,397
Actuarial gains and losses	20,351	– 39,316
Benefits paid	– 37,693	– 30,729
Change in scope of consolidation/other transfers	-	46,679
Foreign currency exchange rate differences	1,868	16,537
Fair value of plan assets as of December 31	**657,969**	**609,134**

The current allocation of plan assets is as follows:

(€ thousand)	December 31, 2012	December 31, 2011
Shares	248,580	221,849
Bonds	223,633	201,866
Real estate	135,267	131,668
Other assets	50,489	53,751
Fair value of plan assets as of December 31	**657,969**	**609,134**

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 €15,770 thousand (2011: €16,205 thousand).

Changes in reimbursement rights were as follows:

(€ thousand)	2012	2011
Reimbursement rights as of January 1	**4,315**	**4,420**
Expected return	189	194
Benefits paid	– 299	– 299
Reimbursement rights as of December 31	**4,205**	**4,315**

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)	2012	2011
Service cost	– 16,317	– 16,715
Interest cost for funded plans	– 24,664	– 23,626
Expected return on plan assets	30,922	29,107
Expected return on reimbursement rights	189	194
Amortization actuarial gains and losses	– 4,259	– 8,935
Past service cost	135	7,229
Curtailments and settlements	4,761	475
Interest cost for unfunded plans	– 6,778	– 6,963
Net periodic benefit expense for defined benefit plans	**– 16,011**	**– 19,234**

The actual gain on plan assets amounted to €51,273 thousand in 2012 (2011: €– 10,209 thousand). The actual return on reimbursement rights totaled €189 thousand (2011: €194 thousand).

The funded status of defined benefit plans is as follows:

(€ thousand)	2012	2011	2010	2009	2008*)
Defined benefit obligation	978,246	877,574	735,609	615,584	564,975
Fair value of plan assets	657,969	609,134	555,460	450,307	398,319
Funded status	**320,277**	**268,440**	**180,149**	**165,277**	**166,656**

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

During the reporting period and prior years, experience adjustments to the present value of pension rights and the fair values of plan assets were as follows:

(€ thousand)	2012	2011	2010	2009	2008*)
Defined benefit obligation	1,194	– 16,448	2,760	8,871	– 3,585
Fair value of plan assets	20,351	– 38,686	15,047	18,953	– 98,363

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

The employers' contributions to the plan assets for 2013 are expected to amount to €18,321thousand.

(24) OTHER PROVISIONS

The provisions developed as follows:

(€ thousand)	As of January 1, 2012	Additions	Accretion	Utili-zation	Reversals	Other changes*)	As of December 31, 2012
Other provisions							
Other taxes	2,408	3,224	-	– 908	– 33	– 26	4,665
Personnel-related obligations							
– early retirement schemes	3,913	904	-	– 2,601	-	– 39	2,177
– anniversary payments	10,623	210	270	– 383	– 48	24	10,696
– other	56	40	-	-	– 53	-	43
Onerous contracts	6,642	8,018	-	– 5,193	– 531	– 2	8,934
Restructuring expenses	6,325	39,386	-	– 4,716	– 8	598	41,585
Litigation and other risks	14,596	2,312	-	– 367	– 1,375	– 37	15,129
Miscellaneous provisions	14,482	8,820	135	– 2,186	– 2,242	– 140	18,869
	59,045	**62,914**	**405**	**– 16,354**	**– 4,290**	**378**	**102,098**
Other accrued liabilities							
Personnel-related obligations	57,031	27,576	-	– 34,649	– 1,291	479	49,146
Outstanding invoices	26,070	12,945	-	– 20,186	– 1,540	714	18,003
Miscellaneous accrued liabilities	1,005	245	-	– 334	-	– 16	900
	84,106	**40,766**	**-**	**– 55,169**	**– 2,831**	**1,177**	**68,049**
Other provisions and accrued liabilities	**143,151**	**103,680**	**405**	**– 71,523**	**– 7,121**	**1,555**	**170,147**

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

Breakdown by maturities:

(€ thousand)	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2011 Non-current	December 31, 2011 Current
Other provisions				
Other taxes	-	4,665	-	2,408
Personnel-related obligations				
– early retirement schemes	2,032	145	3,511	402
– anniversary payments	10,697	-	10,623	-
– other	-	43	-	56
Onerous contracts	1,158	7,776	550	6,092
Restructuring expenses	-	41,585	-	6,325
Litigation and other risks	10,528	4,601	9,475	5,121
Miscellaneous provisions	5,354	13,514	4,901	9,581
	29,769	72,329	29,060	29,985
Other accrued liabilities				
Personnel-related obligations	-	49,146	-	57,031
Outstanding invoices	-	18,003	-	26,070
Miscellaneous accrued liabilities	-	900	-	1,005
	-	68,049	-	84,106
Other provisions and accrued liabilities	29,769	140,378	29,060	114,091

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. Further information regarding restructuring measures can be found in Note 6 (Special items in result).

Miscellaneous provisions include an amount of €1,559 thousand (2011: €1,569 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 €29,801 thousand (2011: €37,594 thousand) and accrued vacation and accrued overtime of €16,314 thousand (2011: €16,646 thousand).

(25) FINANCIAL LIABILITIES

The details of financial liabilities are as follows:

(€ thousand)	December 31, 2012 up to 1 year	1– 5 years	Over five years	Total	December 31, 2011 up to 1 year	1– 5 years	Over five years	Total
Bonds	12,389	250,223	-	262,612	332,241	247,199	-	579,440
Liabilities to banks	16,846	234,524	885	252,255	36,769	301,924	2,394	341,087
Promissory notes	79,592	266,947	-	346,539	5,625	340,742	-	346,367
Liabilities under ABS programs	392	159,675	-	160,067	431	173,014	-	173,445
Finance lease liabilities	1,065	1,508	-	2,573	2,261	2,589	-	4,850
	110,284	912,877	885	1,024,046	377,327	1,065,468	2,394	1,445,189

Financial liabilities of €24,526 thousand (2011: €27,373 thousand) are secured by mortgages. Furthermore, inventories listed in Note 16 (Inventories) as well as trade receivables according to Note 17 (Trade receivables) serve as collateral.

Transaction costs directly attributable to the issue of financial liabilities in the amount of €8,898 thousand (2011: €12,839 thousand) were offset against the respective liabilities.

Bonds

In addition to the convertible bonds issued in 2009 and 2010, for which detailed information is provided in the following paragraphs, bonds also include so-called “Dêbentures” assumed in the 2011 Frefer acquisition. The convertible bond with a nominal value of €325 million issued in 2007 was repaid as scheduled on July 27, 2012 from existing cash balances.

Convertible bond 2010

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 USA only.

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 original conversion price was set at €28.00, which represented a premium of 35.07% above the reference price of €20.73. The conversion price was reduced to €25.10 as a result of the 2011 capital increase and a dividend payment.

Convertible bond 2009

In June 2009, Klöckner & Co issued a 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 initial conversion price was adjusted to €16.47 as a result of the subsequent capital increases and dividend payments. The bond cannot be called by the issuer within the first three years, and is callable thereafter, if Klöckner & Co's share price (over a certain period) exceeds 130% of the conversion price.

The obligor under the convertible bonds is Klöckner & Co Financial Services S.A., a wholly owned Luxembourg subsidiary. Payments under the bonds are guaranteed by Klöckner & Co SE. The bonds are convertible into existing or new shares of Klöckner & Co SE.

Liabilities due to banks

The syndicated loan with a volume of €500 million, provided by a syndicate of 13 banks, has a term until May 28, 2014. The covenants require that 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, if the covenants are again met. Throughout the fiscal year 2012, the Group consistently complied with all covenants.

The existing Asset Based Lending facilities in the USA were increased by USD 75 million to USD 325 million in light of the higher working capital funding needs and the maturity profile was optimized by extending the maturity until the end of 2017.

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

Promissory notes

The time to maturity of the promissory notes issued in 2010 and 2011 is ranging between 3 and 5 years. The terms are also based on balance sheet-oriented covenants. Throughout the fiscal year 2012, the Group consistently complied with all covenants. €123 million of the total volume have a fixed interest rate and €220 million have a variable interest rate.

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group operates a European ABS program. On April 25, 2012, the program with an original term until March 2013 was extended until May 2014. The volume of €420 million was reduced to €360 million. The European ABS program is also based on balance sheet-related covenants.

The maximum volume of the United States ABS program was extended in December 2012 by USD 75 million to USD 275 million (€208 million). It has a term until the end of 2017.

At the end of the reporting period, the utilization of the program amounts to €161 million including interest and breaks down as follows:

(€ million)	December 31, 2012	December 31, 2011
European program		
– utilization	25	20
– maximum volume	360	420
American program		
– utilization*)	136	155
– maximum volume*)	208	155

*) Translated at closing exchange rate.

The utilization of the programs is to be accounted for as secured borrowings 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, 2012	December 31, 2011
Due within one year	1,099	2,360
Due between one and five years	1,529	2,677
Future minimum lease payments	2,628	**5,037**
Due within one year	34	99
Due between one and five years	21	88
Interest included in future minimum lease payments	55	**187**
Due within one year	1,065	2,261
Due between one and five years	1,508	2,589
Total present value of future minimum lease payments	2,573	**4,850**

(26) TRADE PAYABLES

(€ thousand)	December 31, 2012	December 31, 2011
Advance payments received	902	2,241
Trade payables	632,621	747,482
Bills payable	-	93
Trade payables	633,523	**749,816**

(27) OTHER LIABILITIES

(€ thousand)	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2011 Non-current	December 31, 2011 Current
Other financial liabilities				
Negative fair value of derivative financial instruments	41,756	13,480	62,376	5,114
Put option from business combinations	3,091	-	19,137	-
Other non-financial liabilities				
Social security contributions	-	10,075	128	12,719
Customers with credit balances	-	9,798	-	11,143
Liabilities to employees	-	1,684	-	2,486
Value-added tax liabilities	-	24,771	-	32,634
Other tax liabilities	-	6,596	-	6,610
Contingent consideration for business combinations	-	14		14
Miscellaneous other liablities	2,374	9,896	3,436	6,394
Other liabilities	**47,221**	**76,314**	**85,077**	**77,114**

For a potential subsequent transfer of the minority interest in Frefer Metal Plus S.A., São Paulo, Brazil, put and call options were negotiated. The put option constitutes a financial liability and is subsequently to be measured at fair value through profit and loss.

Negative fair values of derivative financial instruments of €53,456 thousand (2011: €63,869 thousand) are attributable to cross-currency swaps designated as net investment hedges 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 financing at reasonable conditions.

Further information with regard to minimum equity capital requirements are provided in Note 25 (Financial liabilities).

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

(€ thousand)	December 31, 2012	December 31, 2011	Variance
Financial liabilities	1,024,046	1,445,189	– 421,143
Transaction costs	8,898	12,839	– 3,941
Liquid funds	– 610,215	– 986,632	376,417
Net financial debt of disposal groups*)	– 810	-	– 810
Net financial debt (before deduction of transaction cost)	**421,919**	**471,396**	**– 49,477**
Consolidated shareholders' equity	1,634,770	1,843,239	– 208,469
Non-controlling interests	– 23,012	– 28,503	5,491
Goodwill from business combinations subsequent to May 28, 2010	– 120,641	– 160,775	40,134
Adjusted shareholders equity	**1,491,117**	**1,653,961**	**– 162,844**
Gearing	**28%**	**29%**	

*) See Note 20 (Non-current assets held for sale and disposal groups).

(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, 2012

		Measurement in accordance with					
				IAS 39	IAS 17		
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial assets							
Financial assets	*2,415*	*2,415*	-	-	-	-	*2,415*
Loans and receivables	906	906	-	-	-	-	906
Financial assets available for sale	1,509	1,509	-	-	-	-	1,509
Other non-current assets	*40,717*	*7,474*	-	-	-	*33,243*	*7,474*
Loans and receivables	7,474	7,474	-	-	-	-	7,474
Not covered by the scope of IFRS 7	33,243	-	-	-	-	33,243	-
Current financial assets							
Trade receivables	*786,504*	*786,504*	-	-	-	-	*786,504*
Loans and receivables	786,504	786,504	-	-	-	-	786,504
Other current assets	*97,535*	*77,148*	*919*	-	-	*19,468*	*78,067*
Loans and receivables	77,148	77,148	-	-	-	-	77,148
Derivative financial instruments not designated in hedge accounting (held for trading)	919	-	919	-	-	-	919
Not covered by the scope of IFRS 7	19,468	-	-	-	-	19,468	-
Liquid funds	*610,215*	*610,215*	-	-	-	-	*610,215*
Loans and receivables	609,926	609,926	-	-	-	-	609,926
Financial assets available for sale	289	289	-	-	-	-	289
Total	**1,537,386**	**1,483,756**	**919**	**-**	**-**	**52,711**	**1,484,675**

Financial liabilities as of December 31, 2012

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial liabilities							
Non-current financial liabilities	*913,762*	*912,255*	-	-	*1,507*	-	*947,498*
Liabilities measured at amortized costs	912,255	912,255	-	-	-	-	945,991
Liabilities under finance leases	1,507	-	-	-	1,507	-	1,507
Other non-current liabilities	*47,221*	*2,373*	*3,479*	*41,369*	-	-	*47,221*
Liabilities measured at amortized costs	2,373	2,373	-	-	-	-	2,373
Derivative financial instruments not designated in hedge accounting (held for trading)	3,479	-	3,479	-	-	-	3,479
Derivative financial instruments designated in hedge accounting	41,369	-	-	41,369	-	-	41,369
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
Current financial liabilities							
Current financial liabilities	*110,284*	*109,218*	-	-	*1,066*	-	*110,284*
Liabilities measured at amortized costs	109,218	109,218	-	-	-	-	109,218
Liabilities under finance leases	1,066	-	-	-	1,066	-	1,066
Current trade liabilities	*633,523*	*633,523*	-	-	-	-	*633,523*
Liabilities measured at amortized costs	633,523	633,523	-	-	-	-	633,523
Other current liabilities	*76,314*	*21,378*	*1,392*	*12,087*	-	*41,457*	*34,857*
Liabilities measured at amortized costs	21,378	21,378	-	-	-	-	21,378
Derivative financial instruments not designated in hedge accounting (held for trading)	1,392	-	1,392	-	-	-	1,392
Derivative financial instruments designated in hedge accounting	12,087	-	-	12,087	-	-	12,087
Not covered by the scope of IFRS 7	41,457	-	-	-	-	41,457	-
Total	**1,781,104**	**1,678,747**	**4,871**	**53,456**	**2,573**	**41,457**	**1,773,383**

Financial assets
as of December 31, 2011

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial assets							
Financial assets	*2,664*	*2,664*	-	-	-	-	*2,664*
Loans and receivables	295	295	-	-	-	-	295
Financial assets available for sale	2,369	2,369	-	-	-	-	2,369
Other non-current assets	*37,955*	*9,433*	-	-	-	*28,522*	*9,433*
Loans and receivables	9,433	9,433	-	-	-	-	9,433
Not covered by the scope of IFRS 7	28,522	-	-	-	-	28,522	-
Current financial assets							
Trade receivables	*921,758*	*921,758*	-	-	-	-	*921,758*
Loans and receivables	921,758	921,758	-	-	-	-	921,758
Other current assets	*105,203*	*80,894*	*164*	-	-	*24,145*	*81,058*
Loans and receivables	80,894	80,894	-	-	-	-	80,894
Derivative financial instruments not designated in hedge accounting (held for trading)	164	-	164	-	-	-	164
Not covered by the scope of IFRS 7	24,145	-	-	-	-	24,145	-
Liquid funds	*986,632*	*986,632*	-	-	-	-	*986,632*
Loans and receivables	986,257	986,257	-	-	-	-	986,257
Financial assets available for sale	375	375	-	-	-	-	375
Total	**2,054,212**	**2,001,381**	**164**	**-**	**-**	**52,667**	**2,001,545**

Financial liabilities as of December 31, 2011

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial liabilities							
Non-current financial liabilities	*1,067,862*	*1,065,273*	-	-	*2,589*	-	*1,086,630*
Liabilities measured at amortized costs	1,065,273	1,065,273	-	-	-	-	1,084,041
Liabilities under finance leases	2,589	-	-	-	2,589	-	2,589
Other non-current liabilities	*85,077*	*3,436*	*19,548*	*61,965*	-	*128*	*84,949*
Liabilities measured at amortized costs	3,436	3,436	-	-	-	-	3,436
Derivative financial instruments not designated in hedge accounting (held for trading)	19,548	-	19,548	-	-	-	19,548
Derivative financial instruments designated in hedge accounting	61,965	-	-	61,965	-	-	61,965
Not covered by the scope of IFRS 7	128	-	-	-	-	128	-
Current financial liabilities							
Current financial liabilities	*377,327*	*375,066*	-	-	*2,261*	-	*381,203*
Liabilities measured at amortized costs	375,066	375,066	-	-	-	-	378,942
Liabilities under finance leases	2,261	-	-	-	2,261	-	2,261
Current trade liabilities	*749,816*	*749,816*	-	-	-	-	*749,816*
Liabilities measured at amortized costs	749,816	749,816	-	-	-	-	749,816
Other current liabilities	*77,114*	*20,024*	*3,210*	*1,905*	-	*51,975*	*25,139*
Liabilities measured at amortized costs	20,024	20,024	-	-	-	-	20,024
Derivative financial instruments not designated in hedge accounting (held for trading)	3,210	-	3,210	-	-	-	3,210
Derivative financial instruments designated in hedge accounting	1,905	-	-	1,905	-	-	1,905
Not covered by the scope of IFRS 7	51,975	-	-	-	-	51,975	-
Total	**2,357,196**	**2,213,615**	**22,758**	**63,870**	**4,850**	**52,103**	**2,327,737**

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, 2012 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, 2012	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	919	-	919	-
Total	**919**	**-**	**919**	**-**
Financial liabilities measured at fair value (derivative financial instruments)				
- not designated in hedge-accounting	4,871	-	1,780	3,091
- designated in hedge-accounting	53,456	-	53,456	-
Total	**58,327**	**-**	**55,236**	**3,091**

(€ thousand)	December 31, 2011	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	164	-	164	-
Total	**164**	**-**	**164**	**-**
Financial liabilities measured at fair value (derivative financial instruments)				
- not designated in hedge-accounting	22,758	-	3,621	19,137
- designated in hedge-accounting	63,870	-	63,870	-
Total	**86,628**	**-**	**67,491**	**19,137**

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. The put liability agreed in connection with the Frefer acquisition as in Note 5 (Acquisitions and disposals) is classified as a Level 3 financial instrument.

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 2012, a net loss of €16,962 thousand (2011: €13,787 thousand) was incurred.

Net income for “Other liabilities” consists of foreign currency exchange gains and losses. In financial year 2012, a net loss of €201 thousand (2011: €5,244 thousand) was incurred.

There were no impairment losses for non-current financial assets in 2012. The impairment loss for trade receivables in 2012 amounted to €10,192 thousand (2011: €8,709 thousand).

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. Klöckner & Co counters the credit risk with its own credit management and with credit insurance. In 2012, 56% (2011: 57%) 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

Klöckner & Co 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 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, promissory notes and the fixed rate bilateral credit arrangements as of December 31, 2012, approximately 41% or €432.6 million (2011: €759.5 million) 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 63%.

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 with sensitivity analyses in which parallel shifting of the euro and US dollar yield curves are assumed. The cash flow impact from the parallel shifting only refers to interest income and interest expense in the following reporting period.

If interest rate levels for the relevant foreign currencies as of December 31, 2012 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 €4.4 million. Likewise, the value of derivative financial instruments designated as cash flow hedges would have been positively increased by €3.0 million, if the market interest level had increased by 100 basis points. This would have been reflected in equity in the reserve for fair value adjustments of financial instruments.

With regard to the liquidity reserves, the inside potential results from increasing interest rates. A higher market interest level of 100 basis points and an assumed term of one year would have a positive effect in the amount of €5.4 million.

Information on foreign currency exchange risk

Klöckner & Co 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 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.

At the end of the reporting period no material foreign currency exchange risks from the operating business or acquisitions were identified.

Foreign exchange risk in financing arises from foreign currency loans and net investments of the holding companies. As part of the central Group financing, these loans denominated in pounds sterling and US dollars with a volume of €617.4 million (2011: €633.2 million) were granted to subsidiaries at year-end and were fully hedged.

Due to the volume three US dollar financing arrangements (net investments) were hedged using cross-currency swaps, designated as net investment hedge. The cross-currency swaps are designated as net investment hedges.

Loans granted predominantly in US dollars and 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 net investment 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 for the Klöckner & Co Group.

In July of the past business year, the convertible bond placed in 2007 was repaid according to plan in the nominal value of €325 million by use of liquid funds onhand. No refinancing was obtained given the Group's significant liquidity reserves.

In the second quarter of 2012, the European ABS program was extended for one year until May 2014. At the same time, its volume was reduced by €60 million to €360 million.

In December 2012, the American credit facilities were increased by USD 150 million to a total of USD 600 million to adjust to higher needs of working capital financing due to the development of the American subgroup. At the same time, the maturity profile was improved by extension of the term until the end of 2017.

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 €284 million (2011: €609 million), the promissory of €343 million (2011: € 343 million) and finance leasing of approximately €3 million (2011: €5 million) the Group has facilities of approximately €2.3 billion (2011: €2.7 billion). Financial liabilities before deduction of transaction costs amounted to €1,033 million, (2011: €1,458 million) representing 45% (2011: 55%) 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, 2012

		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	284,100	-	**284,100**
	Interest	10,500	15,184	-	**25,684**
	Total	**10,500**	**299,284**	**-**	**309,784**
Other bonds	Nominal values	8,877	-	-	**8,877**
	Interest	741	-	-	**741**
	Total	**9,618**	**-**	**-**	**9,618**
Promissory notes	Nominal values	74,500	268,500	-	**343,000**
	Interest	12,190	20,311	-	**32,501**
	Total	**86,690**	**288,811**	**-**	**375,501**
Bank loans	Nominal values	14,785	238,457	885	**254,127**
	Interest	5,736	4,570	18	**10,324**
	Total	**20,521**	**243,027**	**903**	**264,451**
ABS	Nominal values	-	160,932	-	**160,932**
	Interest	5,797	14,801	-	**20,598**
	Total	**5,797**	**175,733**	**-**	**181,530**
Finance lease liabilities	Nominal values	1,065	1,508	-	**2,573**
	Interest	34	21	-	**55**
	Total	**1,099**	**1,529**	**-**	**2,628**
Total financial liabilities		**134,225**	**1,008,384**	**903**	**1,143,512**
Cash outflows from derivative financial instruments designated in interest hedging relationships		8,529	7,065	3	**15,597**

December 31, 2011		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	325,000	284,100	-	609,100
	Interest	15,404	25,697	-	41,101
	Total	**340,404**	**309,797**	**-**	650,201
Other bonds	Nominal values	9,934	9,934	-	19,868
	Interest	2,457	1,023	-	3,480
	Total	**12,391**	**10,957**	**-**	23,348
Promissory notes	Nominal values	-	343,000	-	343,000
	Interest	15,604	39,616	-	55,220
	Total	**15,604**	**382,616**	**-**	398,220
Bank loans	Nominal values	34,861	307,724	2,394	344,979
	Interest	9,707	13,568	75	23,350
	Total	**44,568**	**321,292**	**2,469**	368,329
ABS	Nominal values	-	174,571	-	174,571
	Interest	3,769	13,389	-	17,158
	Total	**3,769**	**187,960**	**-**	191,729
Finance lease liabilities	Nominal values	2,261	2,589	-	4,850
	Interest	99	88	-	187
	Total	**2,360**	**2,677**	**-**	5,037
Total financial liabilities		**419,096**	**1,215,299**	**2,469**	1,636,864
Cash outflows from derivative financial instruments designated in interest hedging relationships		7,224	12,262	4	19,490

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 at 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, 2012 Not designated in hedge-accounting	December 31, 2012 Designated in hedge-accounting	December 31, 2011 Not designated in hedge-accounting	December 31, 2011 Designated in hedge-accounting
Nominal values				
Forward exchange transactions	206.3	-	198.2	-
Interest rate swaps	71.2	160.0	8.1	447.4
Other interest rate hedging instruments	-	-	15.0	-
Cross-currency swaps	-	435.0	-	435.0
Fair values				
Forward exchange transactions	0.7	-	– 3.0	-
Interest rate swaps	– 1.5	– 12.4	– 0.4	– 16.7
Other interest rate hedging instruments	-	-	-	-
Cross-currency swaps	-	– 41.0	-	– 47.1

The nominal values correspond to the gross amounts of the currency and interest rate portfolio.

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. The fair value calculation also considers the counterparty risk. If fair values exist they correspond to the amount third parties will 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 €206.3 million (2011: €198.2 million) have a remaining term of less than one year. To hedge its foreign currency exposure of net investments Klöckner & Co SE entered into cross-currency swaps maturing in June 2013, in December 2014 and in May 2016, respectively. With regard to the financing volume of USD 635 million, the principal swap at the beginning and at the end of the term as well as semi-annual or quarterly interest payments in US dollars, the interest rate was fixed at the inception of the swap agreement. Due to the compensation of foreign exchange risks of the net investments the cross-currency swaps qualify as a net investment hedge under IAS 39.

The interest rate swaps designated in a hedging relationship serve the purpose of defining a credit volume of a total of €160.0 million at an interest level of 4.6% p.a. The original term of these transactions covered a period of up to seven years. The interest rate swaps are used to hedge variable euro interest rate debt of the holding companies, which relates to refinancing 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 other comprehensive income. For the period ending December 31, 2012, these fair value changes amounted to €10.4 million (2011: €– 11.9 million). The effective fair value changes of net investment hedges included therein amounted to €6.1 million (2011: €– 13.9 million).

Due to the redemption of a credit tranche in the amount of €65 million there was no longer an underlying transaction for two interest rate swaps. Thus, hedge accounting could no longer be applied and the interest swaps' fair values were derecognized from the equity upon the end of the hedge relation and recognized in profit or loss. The interest rate swaps were not settled. Therefore, changes in the fair value until maturity of the interest rate swaps in June 2013 will impact profit and loss. Due to the termination of the hedge designation, these interest rate swaps will be disclosed as finance instruments without hedge accounting. Apart from these interest rate swaps, those without hedge accounting also include two additional interest rate swaps of Becker Besitz GmbH, Duisburg, in the total amount of €7.5 million. These hedging instruments serve to hedge bilateral credits with variable interest rates.

(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, however, it cannot be ruled out that isolated violations may arise or that there are yet undetected historic violations.

The liabilities on bills amount to €35 thousand (2011: €28 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, 2012	December 31, 2011
Due within one year	**55,634**	61,550
Due between one and five years	**126,912**	139,828
Due after five years	**53,438**	60,278
Future minimum lease payments (nominal amounts)	**235,984**	**261,656**

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €8,133 thousand as of December 31, 2012 (2011: €3,896 thousand).

(32) RELATED PARTY TRANSACTIONS

In the course of its ordinary business activities, the Klöckner & Co Group holds 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 regular 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 detail and individually 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 2012 amounted to:

(€ thousand)	2012	2011
Fixed components	1,560	1,320
Variable components	1,275	1,027
Other remunerations	88	90
Share-based payment	916	1,196
Total	**3,839**	**3,633**

The compensation for the finalization of the membership of one Management Board member disposed in 2012 amounted to €422 thousand. The fair value of the VSOs allocated to this Board member on January 1, 2013 amounts to €173 thousand.

The presentation of the VSOs including the previous year's amounts was adjusted to the presentation in the remuneration report.

Statutory pension provisions for former Management Board members amount to €2,125 thousand (2011: €1,432 thousand).

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

In the 2012 financial year, remuneration for the Supervisory Board amounted to €338 thousand (2011: €344 thousand).

A list of the members of the Management Board and the Supervisory Board is included on pages 6 and 7 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 €1,354 thousand (2011: €1,349 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

To improve the descriptive meaning, the interest paid and received in the cash-flow is presented from the operating point of view in contrast to the previous business year. The prior-year figure was adjusted accordingly.

Cash inflows from operating activities amounted to €101 million in the financial year 2012 (2011: €– 41 million). Especially the release of funds tied in net working capital as well as lower tax payments contributed to this fact.

Net working capital decreased net of foreign currency exchange effects and changes in the scope of consolidation as follows:

	Variance	
(€ thousand)	2012/2011	2011/2010
Inventories	– 80,963	124,396
Trade receivables	– 117,186	43,326
Trade payables	106,754	– 40,377
Net working capital	**– 91,395**	**127,345**

Cash flow from investing activities

Capital expenditure for property, plant and equipment and intangible assets of €57 million partly offset by cash inflows from the disposal of the Eastern European activities have led to a net outflow of €– 34 million compared to net outflows of €– 483 million in 2011, largely driven by business combinations.

Cash flow from financing activities

Cash flow from financing activities of €– 440 million (2011: cash inflows €589 million) is impacted by repayment of the 2007 convertible bond with a nominal value of €325 million. The prior year amount includes proceeds from a capital increase of €516 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 €610 million as of December 31, 2012. Cash and cash equivalents include bank balances of €20,802 thousand (2011: €13,322 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the European ABS program.

(34) SEGMENT REPORTING

	Europe		Americas		
(€ thousand)	2012	2011	2012	2011	
Sales	4,650,244	5,043,106	2,737,912	2,052,256	
– of which with third parties	4,650,103	5,043,105	2,737,912	2,052,256	
– of which with other segments	141	1	-	-	
Capital expenditure for intangible assets, property, plant and equipment	36,885	40,943	15,577	8,863	
Segment result (EBITDA)	16,939	166,645	74,794	80,694	
Earnings before interest and taxes (EBIT)	– 52,640	111,540	– 17,515	31,693	
Amortization and depreciation of intangible assets and property, plant and equipment	50,501	52,449	55,913	48,234	
Impairment losses for intangible assets and property, plant and equipment	19,078	2,655	36,396	767	
Other non-cash expenses/income	– 6,389	– 8	-	-	
Income taxes	– 14,274	– 10,383	9,989	– 1,426	

	Europe		Americas		
(€ thousand)	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	
Net working capital	825,513	957,700	579,128	576,710	
Net financial debt	328,713	378,073	742,502	768,668	
Employees at year-end (headcount)	7,672	8,236	2,815	3,019	

	Headquarters		Consolidation		Total	
	2012	2011	2012	2011	2012	2011
	3,843	29,880	– 3,984	– 29,881	7,388,015	7,095,361
	-	-	-	-	7,388,015	7,095,361
	3,843	29,880	– 3,984	– 29,881	-	-
	3,246	6,134	-	-	55,708	55,940
	– 30,094	– 30,819	-	-	61,639	216,520
	– 32,714	– 32,086	-	-	– 102,869	111,147
	2,620	1,268	-	-	109,034	101,951
	-	-	-	-	55,474	3,422
	2,626	– 4,502	-	-	– 3,763	– 4,510
	– 14,775	– 4,730	-	-	– 19,060	– 16,539

	Headquarters		Consolidation		Total	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	2,329	– 277	-	-	1,406,970	1,534,133
	– 648,976	– 675,345	– 320	-	421,919	471,396
	108	126	-	-	10,595	11,381

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

(€ thousand)	2012	2011
Earnings before interest and taxes (EBIT)	– 102,869	111,147
Financial result (Group)	– 75,650	– 84,241
Income before taxes (Group)	**– 178,519**	**26,906**

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. The internal reporting compiles information regarding the reportable segments Europe and Americas, 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 (especially profit distributions and impairments on consolidated affiliated companies), 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 – only deliveries from the central purchasing entity Klöckner Global Sourcing GmbH, Duisburg – are invoiced at arms' length. EBITDA as a 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.

Non-cash income and expenses mainly relate to changes in fair values of derivative financial instruments.

Non-current assets by regions

Intangible assets, property, plant and equipment, investment property and non-current investments and securities are broken down by regions as follows:

(€ thousand)	2012	2011
United States	550,077	603,511
Switzerland	193,872	189,933
Germany	125,311	139,829
Spain	54,378	58,968
France	53,644	58,743
Brazil	23,185	65,584
Other regions	79,444	95,937
Total	**1,079,911**	**1,212,505**

(35) SUBSEQUENT EVENTS

Effective January 1, 2013, Marcus A. Ketter took up the position as Chief Financial Officer (CFO) with Klöckner & Co SE. He is responsible for the finance and accounting department, controlling and tax department as well as the IT sector.

As of February 1, 2013, Karsten Lork was appointed as member of the Management Board for the segments Europe and Asia. This concluded the long-announced expansion of the Management Board. It will consist of four members in the future.

On February 18, 2013, Interfer Holding GmbH notified that it acquired 7.82% of shares of Klöckner & Co SE. In a subsequent press release, Knauf Interfer SE, a subsidiary of Interfer Holding also operating in the steel distribution business, indicated a strategic interest in Klöckner & Co SE without further specification. At this stage, the Management Board of Klöckner & Co is not in a position to assess Interfer Holding's intentions and their potential impact.

(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, Berlin, in the financial year:

(€ thousand)	2012	2011
Audit of financial statements	**843**	856
Other assurance services	**154**	413
Tax advisory services	**94**	130
Other services	**29**	411
	1,120	**1,810**

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, among others, reviews of interim financial statements.

The fees for tax advisory services relate to advice for individual matters and recurring consulting regarding tax returns as well as 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 264 B HGB

In 2012, the following domestic subsidiaries made use in part of the exemption clause included in Section 264 para 3 and Section 264 b of the German Commercial Code (HGB):

- Becker Besitz GmbH, Duisburg
- Becker Stahl-Service GmbH, Duisburg
- Becker Stahl GmbH, Bönen
- Becker Transport 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 4, 2012, 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 SE website.

Duisburg, February 22, 2013

Klöckner & Co SE

The Management Board

Gisbert Rühl
Chairman
of the Management Board

Marcus A. Ketter
Member
of the Management Board

Karsten Lork
Member
of the Management Board

William A. Partalis
Member
of the Management Board

Independent Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Klöckner & Co SE, Duisburg, and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2012.

Management's Responsibility for the Consolidated Financial Statements

The management of Klöckner & Co SE is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to Section 315 a para 1 HGB [Handelsgesetzbuch: German Commercial Code], to 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 company's management is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgement. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Pursuant to Section 322 para 3 sentence 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315 a para 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2012 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying Group management report of Klöckner & Co SE for the business year from January 1 to December 31, 2012. The management of Klöckner & Co SE is responsible for the preparation of the Group management report in compliance with the applicable requirements of German commercial law pursuant to Section 315 a para 1 HGB [Handelsgesetzbuch: German Commercial Code]. We are required to conduct our audit in accordance with Section 317 para 2 HGB and German generally accepted standards for the audit of the Group management report promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit of the Group management report to obtain reasonable assurance about whether the Group management report is consistent with the consolidated financial statements and the audit findings, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 para 3 sentence 1 HGB, we state that our audit of the Group management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and Group management report, 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 22, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai Christian Andrejewski
Wirtschaftsprüfer

Dr. Markus Zeimes
Wirtschaftsprüfer

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 22, 2013

The Management Board

Gisbert Rühl
Chairman
of the Management Board

Marcus A. Ketter
Member
of the Management Board

Karsten Lork
Member
of the Management Board

William A. Partalis
Member
of the Management Board

INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

KLÖCKNER & CO SE

Income statement
for the period from January 1 to December 31, 2012

(€ thousand)	2012	2011
Other operating income	31,436	34,608
Personnel expenses	– 19,197	– 19,587
Depreciation of intangible assets and property, plant and equipment	– 2,331	– 374
Other operating expenses	– 44,639	– 53,263
Income from participations	75,726	183,239
Income from long-term loans	18,779	12,652
Other interest and similar income	23,956	31,071
Impairment of investments	-	– 89,944
Interest and similar expenses	– 74,617	– 82,394
Result from ordinary activities	**9,113**	**16,008**
Extraordinary income	-	925
Extraordinary result	-	**925**
Income taxes	– 1,851	– 3,449
Net income	**7,262**	**13,484**
Unappropriated profits carried forward	13,484	47,352
Dividends	-	– 19,950
Appropriation to other revenue reserves	– 13,484	– 27,402
Unappropriated profits	**7,262**	**13,484**

KLÖCKNER & CO SE

Balance sheet as of December 31, 2012

Assets

(€ thousand)	December 31, 2012	December 31, 2011
Intangible assets	8,970	8,126
Property, plant and equipment	842	777
Financial assets	1,284,685	1,282,619
Fixed assets	**1,294,497**	**1,291,522**
Trade receivables	145	57
Receivables from affiliated companies	545,024	511,341
Other assets	6,412	14,286
Cash and cash equivalents	440,880	844,238
Current assets	**992,461**	**1,369,922**
Prepaid expenses	30,890	51,827
Total assets	**2,317,848**	**2,713,271**

Equity and liabilities

(€ thousand)	December 31, 2012	December 31, 2011
Equity		
Subscribed capital	249,375	249,375
Capital reserves	917,601	917,601
Other revenue reserves	116,579	103,095
Unappropriated profits	7,262	13,484
Equity	1,290,817	1,283,555
Provisions for pensions and similar obligations	93,776	95,183
Provisions for taxes	6,109	2,259
Other provisions	45,189	44,064
Bonds	284,100	609,100
Liabilities to banks	510,212	575,532
Trade payables	1,511	3,577
Liabilities to affiliated companies	84,310	95,414
Other liabilities	1,824	4,587
Total equity and liabilities	2,317,848	2,713,271

KLÖCKNER & CO SE

Movements in intangible assets, property, plant and equipment and non-current investments in 2012 (annex to the notes)

	Cost					
(€ thousand)	As of December 31, 2011	Additions	Disposals	Transfers	As of December 31, 2012	
I. Intangible assets						
1. Concessions, industrial rights and similar rights and licenses in such rights	8,770	2,977	– 32	164	**11,879**	
2. Prepayments	164	-	-	– 164	**-**	
II. Property, plant and equipment						
1. Buildings	276	-	– 17	-	**259**	
2. Other equipment, operating and office equipment	1,061	168	– 74	-	**1,155**	
3. Prepayments	-	98	-	-	**98**	
III. Non-current investments						
1. Investments in affiliated companies	1,042,281	24,700	– 16,577	-	**1,050,404**	
2. Loans to affiliated companies	330,275	366	– 23,000	-	**307,641**	
3. Investments	7	-	-	-	**7**	
	1,382,834	**28,309**	**– 39,700**	**-**	**1,371,443**	

	Accumulated amortization and depreciation				Carrying amounts	
	As of December 31, 2011	Current year amortization and depreciation	Disposals	As of December 31, 2012	Book value as of Dec. 31, 2011	Book value as of Dec. 31, 2012
	808	2,132	– 31	2,909	7,962	8,970
	-	-	-	-	164	-
	88	37	– 17	108	188	151
	472	162	– 72	562	589	593
	-	-	-	-	-	98
	89,944	-	– 16,577	73,367	952,337	977,037
	-	-	-	-	330,275	307,641
	-	-	-	-	7	7
	91,312	2,331	– 16,697	76,946	1,291,522	1,294,497

KLÖCKNER & CO SE, DUISBURG

Notes to the financial statements for the 12-month period ending December 31, 2012

1. GENERAL INFORMATION

Klöckner & Co SE (the "Company") is the parent company of the Klöckner & Co Group. It is the largest mill-independent distributor of steel and metal products and one of the leading operators of steel service centers in the combined European and American market. The distribution of steel and non-ferrous metals as well as the operation of steel service centers is the core business of the Klöckner & Co Group.

Klöckner & Co SE acts as the management company of operations of the Klöckner & Co Group. The Company directly controls the majority of the management companies of the domestic and foreign country operations and selected operating companies of the Group.

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.

The statutory and the consolidated financial statements will be published in the electronic Federal Gazette.

2. ACCOUNTING POLICIES

The financial statements for the financial year from January 1 to December 31, 2012 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 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. The option to capitalize internally developed intangible assets is not elected. Moveable property, plant and equipment subject to depreciation are amortized on a straight-line basis. Low-value assets are expensed on acquisition. Extraordinary depreciations are recognized, if the carrying amount exceeds the fair value. 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 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% (2011: 2.5%) for salary increase and 2.0% (2011: 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 at 5.05% (2011: 5.14%). Assets will be offset against the corresponding liability, if they are excluded from the access of creditors and are exclusively used to fulfill pension obligations.

Other provisions account for all identifiable and pending risks. They are recorded at their settlement 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 are 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.

Derivative financial instruments are accounted for at fair value, i.e., they are either based on quoted market prices obtained from banks or are calculated using financial models similar to those used by banks. To the extent market values are available they reflect the amount for which third parties would be willing to assume the obligations under the financial instruments. The fair values as of the reporting date do not take into consideration changes in the underlying instruments. Positive fair values are reported as other assets; negative fair values are included in other liabilities.

Financial instruments, which are accounted for as a valuation unit in accordance with Section 254 of the German Commercial Code (HGB) due to volume and timing compensate the risks of an underlying transaction.

Income statement

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

Interest cost on pensions is stated in net interest income.

3. FIXED ASSETS

The development of fixed assets in the reporting period is presented in the movement schedule.

By agreement dated December 4, 2012, the interest in Klöckner Metalsnab AD, Sofia, Bulgaria, which was completely written-off in 2011, was sold for a consideration of €10,000.

The loans to affiliated companies are granted to Klöckner USA Holding Inc., Wilmington, Delaware, USA, and to Klöckner Netherlands Holding B.V., Barendrecht, the Netherlands.

To strengthen the funding of the Dutch holding entity Klöckner Netherlands Holding B.V., Barendrecht, the Netherlands, a capital increase of €23 million was carried out by contribution of shareholder loans.

An additional capital increase was made in Klöckner Metals (Changshu), Co., Ltd., Changshu, China in the amount of €1,700 thousand.

A listing of all subsidiaries is presented in the appendix.

4. ACCOUNTS RECEIVABLE AND OTHER ASSETS

(€ thousand)	2012	2011
Trade receivables	**145**	57
Receivables from affiliated companies	**545,024**	511,341
Other assets	**6,412**	14,286
	551,581	**525,684**

Receivables from affiliated companies relate to the European cashpooling, profit transfer agreements, financial services as well as to the current clearing and current loans. In the course of the disposal of Klöckner Metalsnab AD, Sofia, Bulgaria, the existing receivables against this company were transferred to the acquirer with a loss of €5,097 thousand.

All receivables fall due in less than one year.

Other assets of €4,116 thousand (2011: €4,226 thousand) have a remaining maturity of more than one year and relate to reinsurance claims.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances.

6. PREPAID EXPENSES

The discounts on issuance of the convertible bonds of €124,394 thousand were capitalized as prepaid expenses and are amortized over the remaining maturity of the bonds. In 2012, amortization expenses included in interest expense amounted to €19,646 thousand (2011: €24,735 thousand). The remaining unamortized discounts stood at €28,579 thousand (2011: €48,225 thousand) at the end of the financial year 2012.

7. EQUITY

The Company's subscribed capital amounts unchanged to prior year to €249,375,000 and is divided into €99,750,000 shares. The calculated pro rata share of the capital stock amounts to €2.50 each.

The authorized capital of €124.687.500 which was completely used for the capital increase in 2011, was renewed per Section 4 para 3 of the Articles of Association of the Company, by approval of the Annual General Meeting on May 25, 2012.

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

The previous year's retained earnings of €13,484 thousand were allocated to the revenue reserves.

8. PROVISIONS FOR PENSIONS

The pension obligations of Klöckner & Co SE amounted to €102,927 thousand as of December 31, 2012 (2011: €102,258 thousand).

Plan assets exclusively consist of reinsurance claims for which the acquisition costs are equal to their fair values. They are measured at the asset value of the reinsurance policy and amount to €9,151 thousand. Plan assets accounted for at fair value are offset against the respective pension obligation (net presentation).

Expenses from the accretion of pension liabilities of €4,996 thousand (2011: €5,120 thousand) were offset against interest income from plan assets of €3 thousand (2011: €42 thousand).

9. OTHER PROVISIONS

Other provisions consist of:

(€ thousand)	2012	2011
Onerous contracts	13,918	17,668
Warranties	10,479	9,389
Personnel expenses	6,694	5,421
Outstanding invoices	1,252	1,694
Miscellaneous other provisions	12,846	9,892
	45,189	44,064

The provision for onerous contracts relates to currency and interest hedges. The provision for warranties relates to subsequent cost from the sale of the trading activities in 2000. Miscellaneous other provisions include an amount of €11,994 thousand with regard to a debtor warrant bond for Klöckner Stahl- und Metallhandel GmbH, Duisburg, as part of the ABS program.

10. LIABILITIES

		thereof falling due		
(€ thousand)	2012	Less than one year	1– 5 years	2011
Bonds	284,100	-	284,100	609,100
Liabilities to banks	510,212	81,712	428,500	575,532
Trade payables	1,511	1,511	-	3,577
Liabilities to affiliated companies	84,310	84,310	-	95,414
Other liabilities	1,824	1,824	-	4,587
	881,957	169,357	712,600	1,288,210

The convertible bond issued in July 2007 with a nominal volume of €325 million was repaid from existing liquid funds upon maturity.

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% per annum and – adjusted for the 2011 capital increase and subsequent dividend payments – a conversion price of €16.47. The bond carries 5,945,250 options for conversion.

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 USA only. This bond is also guaranteed by Klöckner & Co SE.

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 interests. Klöckner & Co 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 initially set to €28.00 representing a premium of 35.07%. The conversion price was subsequently adjusted for the 2011 capital increase and dividend payment to €25.10. The bond carries 7,419,199 options for conversion.

Liabilities to banks consist of €160,951 thousand (thereof with a maturity of less than one year: €951 thousand) of drawings under the syndicated loan (Multi Currency Revolving Credit Facility) falling due on May 28, 2014.

In 2010 and 2011, the Company issued promissory notes of €343 million in total. The terms and conditions are predominately identical and balance sheet oriented. The instruments' times to maturity range between three and five years.

Other liabilities include:

(€ thousand)	2012	2011
Tax liabilities	**1,714**	4,375
Social security contributions	**110**	110

11. DERIVATIVE FINANCIAL INSTRUMENTS

The nominal values and fair values of the derivative financial instruments as of December 31, 2012 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	183.3	0.7
Interest rate swaps	223.7	– 13.9
Cross-currency swaps	435.0	– 43.9

Klöckner & Co SE assumed the Group's financing activities. Klöckner & Co SE is exposed to foreign currency risks due to the use of the financial instruments. They result from loans in foreign currencies, lent to Group companies in the course of the central Group financing that are fully hedged. Therefore, derivative financial instruments were contracted.

Derivative financial instruments and the corresponding hedged transactions can be treated as a single valuation unit, if evidence of a clear hedge relationship can be provided. The clear relationship exists as mirco hedges for 15 forward exchange transactions as well as eight cross-currency swaps with a maturity up to 2016. In these cases the hedged transactions are recognized at the contractually agreed hedge rates and the derivative financial instruments are not recorded separately.

With regard to the financing volume of USD 635 million, the principal swap at the beginning and at the end of the term as well as semi-annual or quarterly interest payments in US dollars, the interest rate was fixed at the inception of the swap agreement. For the period ending December 31, 2012, these fair value changes amounted to €6.1 million (2011: €– 13.9 million).

The interest rate hedges do not meet the criteria to establish a valuation unit. In case of negative market values, a provision for onerous contracts will be recorded in the amount of the fair values. As of December 31, 2012, provisions of €– 13.9 million (2011: €– 17.7 million) were recorded.

Klöckner & Co SE only uses derivative financial instruments linked directly to hedged transactions.

The following methods are used to determine the fair value:

Foreign currency hedges
The fair value of foreign currency forward contracts is calculated on the basis of the average spot exchange rates applicable as at the financial statement date, adjusted for time-related premiums or discounts for the respective remaining term of the contract, compared to the contracted forward rate and adjusted for the counterparty risk.

Interest rate hedges and cross-currency swaps
The fair value of interest and cross-currency swaps is determined by discounting the future cash flows based on the interest rates applying for the remaining term of the contracts. In addition, the valuation of cross-currency swaps takes into consideration the exchange rates of the foreign currencies of the cash flows as well as the counterparty risk.

12. COMMITMENTS

Future minimum lease payments for long-term operating leases relate in the amount of €3,822 thousand (2011: €3,745 thousand) to 2013 and in the amount of €11,829 thousand (2011: €15,622 thousand) to financial years 2014 until 2017.

13. OTHER OPERATING INCOME

Other operating income contains income attributable to prior periods of €1,298 thousand (2011: €1,743 thousand).

14. PERSONNEL EXPENSES

(€ thousand)	2012	2011
Wages and salaries	15,067	16,750
Social securities	1,188	1,388
Retirement benefit cost	2,929	1,446
Welfare	13	3
	19,197	19,587

Average number of employees:

	2012	2011
Salaried employees	102	121
Wage earners	2	2
	104	123

The compensation model of the Management and Supervisory Boards is presented in detail and individually 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 2012 amounted to:

(€ thousand)	2012	2011
Fixed components	**1,560**	1,320
Variable components	**1,275**	1,027
Other remunerations	**88**	90
Share-based payment	**916**	1,196
Total	**3,839**	**3,633**

The compensation for termination of membership of a Management Board member amounted to €422 thousand.The fair value of the VSOs allocated to this Board member on January 1, 2013 amounts to €173 thousand.

The presentation of the VSOs including the previous year's amounts was adjusted to the presentation in the remuneration report.

The underlying share-based compensation in 2012 is based on 240,900 options (2011: 180,900 options).

Statutory pension provisions for former board members amount to €2,125 thousand (2011: €1,432 thousand).

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

The contracts with the members of the Management Board allow for an extraordinary termination right, if a change of ownership of more 30% of the voting rights is incurred. If exercised, the Management Board members are entitled to receive the annual target remuneration (including a target bonus) until the end of their contract term. The payment is limited to the triple annual compensation received in the year of termination.

15. OTHER OPERATING EXPENSES

In the 2012 financial year, remuneration for the Supervisory Board amounted to €338 thousand (2011: €344 thousand).

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

Other operating expenses of €74 thousand (2011: €507 thousand) relate to prior periods.

Losses from currency conversion amounted to €1,532 thousand (2011: €632 thousand).

16. INCOME FROM INVESTMENTS

(€ thousand)	2012	2011
Income from profit transfer agreements	**46,826**	72,079
Dividends received from affiliated companies	**28,900**	111,160
	75,726	**183,239**

Dividends from affiliated companies include dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland. The income from profit transfer agreements result from contracts with Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner Global Sourcing GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg and Becker Besitz GmbH, Duisburg.

17. INTEREST INCOME, NET

(€ thousand)	2012	2011
Income from long-term loans		
– affiliated companies	**18,779**	12,652
Other interest and similar income		
– affiliated companies	**14,253**	17,278
– other interest and similar income	**9,703**	13,793
Interest and similar expenses		
– affiliated companies	**– 14,353**	– 18,474
– interest on provisions	**– 4,993**	– 5,078
– other interest and similar expenses	**– 55,271**	– 58,842
	– 31,882	**– 38,671**

The increase in interest income from affiliated companies and income from long-term loans resulted from the take-over of the Group financing. The interest expense on provisions exclusively relates to pensions provisions.

18. EXTRAORDINARY RESULT

The 2011 extraordinary result exclusively related to the merger gain of the intermediate holding companies into Klöckner & Co SE.

19. TAXES

Taxes exclusively relate to taxes on income and burden the operating result in total.

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 deductible temporary differences amount to €20,041 thousand (2011: €16,236 thousand) and are only partly offset by taxable temporary differences of €246 thousand (2011: €168 thousand). In addition, tax loss carry forwards, which could give rise to deferred tax assets and excess deductible temporary differences over taxable temporary differences exist.

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. Taxable temporary differences predominately relate to provisions for early retirement programs.

The calculation is based on a combined tax rate for corporate income tax including solidarity surcharge and trade tax of 32.3% (2011: 30.7%).

20. CONTINGENT LIABILITIES

(€ thousand)	2012	2011
Liabilities from guarantees	13,480	12,974
Liabilities from warranty contracts	-	8,816
	13,480	21,790

The contingent liabilities from guarantees largely relate to loans of foreign subsidiaries as well as guarantees and credit support to finance Group companies.

It is expected that all Group companies effected will meet their obligations. As such, we do not expect that the guarantees will be called in.

21. OTHER INFORMATION

Information pursuant to Section 160 para1 No. 8 German Stock Corporations Act (AktG)

In accordance with Section 21, para 1 and Section 22, para 1 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			
Interfer Holding GmbH	Dortmund, Germany	7.82	February 18, 2013
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	4.985*)	January 4, 2013
Dimensional Holdings, Inc.	Austin, Texas, USA	3.064*)	February 2, 2012
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	3.040*)	December 29, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH	Frankfurt am Main	3.016*)	January 26, 2012

*) 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 an annex to the notes to the consolidated financial statements.

Corporate bodies

On September 30, 2012, Ulrich Becker left the Management Board of Klöckner & Co SE.

Effective January 1, 2013, Marcus A. Ketter took up the position as Chief Financial Officer (CFO) with Klöckner & Co SE. He is responsible for the finance and accounting department, controlling and tax department as well as the IT sector.

As of February 1, 2013, Karsten Lork was appointed as member of the Management Board for the segments Europe and Asia. This concluded the long-announced expansion of the Management Board. It will consist of four members in the future.

A listing of the members of the corporate bodies is attached as an appendix.

Declaration of compliance with the German Corporate Governance Code

On December 4, 2012, 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 website.

Profit distribution proposal

The Management Board and the Supervisory Board propose to the Annual General Meeting to fully allocate the 2012 unappropriated surplus of €7,262 thousand to the other revenue reserves.

Duisburg, February 22, 2013

Klöckner & Co SE

The Management Board

Gisbert Rühl
Chairman
of the Management Board

Marcus A. Ketter Member of the Management Board	Karsten Lork Member of the Management Board	William A. Partalis Member of the Management Board

Independent 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, 2012. 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 22, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai Christian Andrejewski
Wirtschaftsprüfer

Dr. Markus Zeimes
Wirtschaftsprüfer

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 22, 2013

The Management Board

Gisbert Rühl
Chairman
of the Management Board

Marcus A. Ketter
Member
of the Management Board

Karsten Lork
Member
of the Management Board

William A. Partalis
Member
of the Management Board

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	Klöckner & Co Financial Services S.A., Luxembourg	100.00	
3	Klöckner S.à r.l., Luxembourg	100.00	
4	Klöckner Investment SCA, Luxembourg	96.77	
		3.23	
5	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00	
6	Klöckner Global Sourcing GmbH, Duisburg, Germany	100.00	
7	Kloeckner Metals (Changshu) Co., Ltd., Changshu, China	100.00	
8	Klöckner Stahl- und Metallhandel GmbH, Duisburg, Germany	100.00	
9	Dobbertin Drahthandel GmbH, Hamburg, Germany	100.00	
10	Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland	99.99	
		0.01	
11	UAB Klöckner Baltija, Klaipeda, Lithuania	100.00	
12	Klöckner Stahl und Metall Ges.m.b.H., Vienna, Austria	100.00	
13	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00	
14	Becker Stahl-Service GmbH, Duisburg, Germany	100.00	
15	Becker Stahl GmbH, Bönen, Germany	100.00	
16	Becker Transport GmbH, Duisburg, Germany	100.00	
17	Becker Besitz GmbH, Duisburg, Germany	100.00	
18	Umformtechnik Stendal UTS GmbH & Co. KG, Stendal, Germany	100.00	
19	Umformtechnik Stendal UTS Verwaltung GmbH, Stendal, Germany	100.00	
20	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00	
21	Debrunner Acifer AG, St. Gallen, Switzerland	100.00	
22	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00	
23	Molok (Valais) SA, Siders, Switzerland	100.00	
24	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00	
25	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00	
26	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00	
27	Klöckner Stahl AG, St. Gallen, Switzerland	100.00	
28	Koenig Feinstahl AG, Dietikon, Switzerland	100.00	
29	Metall Service Menziken AG, Menziken, Switzerland	100.00	
30	Bläsi AG, Bern, Switzerland	100.00	
31	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00	
32	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00	
33	ODS B.V., Rotterdam, The Netherlands	100.00	
34	ODS Metals N.V., Antwerp, Belgium	100.00	

1) Profit and loss transfer agreement.

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	1	EUR	2,706,933.49	212,498.84		-
	1	EUR	12,500.00	-		-
	1	EUR	164,293.54	– 46,190.49		-
	3					
	1	EUR	160,025,000.00	-	1)	-
	1	EUR	69,889.06	-	1)	6,924,457.56
	1	CNY	12,244,112.90	– 15,625,033.71		63,399,403.69
	1	EUR	112,939,918.75	– 66,163,374.96		972,118,654.69
	8	EUR	39,718.32	– 2,558.98		-
	8	PLN	1,216,620.46	– 12,541,402.58		141,757,822.10
	9					
	8	LTL	3,663,071.25	1,251,894.25		47,542,835.00
	8	EUR	1,146,322.98	884,866.32		-
	12	EUR	10,020,884.22	3,687,237.34		73,392,336.84
	1	EUR	256,473,763.43	-	1)	720,117,068.17
	14	EUR	597,887.48	-	1)	-
	14	EUR	72,652.29	-	1)	920,751.46
	1	EUR	25,000.00	-	1)	-
	14	EUR	4,088,917.15	389,101.02		11,996,267.00
	18	EUR	29,227.71	1,625.03		-
	1	CHF	189,007,404.62	38,379,633.23		-
	20	CHF	119,082,867.68	20,516,735.22		645,231,634.18
	20	CHF	10,638,809.78	1,764,825.22		59,397,634.91
	22	CHF	390,530.01	2,373.55		-
	20	CHF	7,919,730.81	1,014,990.13		35,586,688.62
	20	CHF	30,516,456.71	4,932,964.80		194,021,807.41
	20	CHF	4,782,928.35	889,850.39		-
	20	CHF	113,410.20	1,497.03		-
	20	CHF	16,273,335.72	39,924.02		68,191,966.33
	20	CHF	11,912,272.33	2,933,608.80		88,411,266.25
	20	CHF	22,148,997.00	2,817,166.21		44,375,308.09
	1	EUR	53,335,927.02	– 54,612,000.00		-
	31	EUR	20,066,000.00	375,312.66		-
	31	EUR	34,473,000.00	1,405,000.00		204,634,000.00
	33	EUR	3,920,000.00	326,000.00		12,127,000.00

No.	Entity	Interest in percent	
35	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
36	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	100.00	
37	ODS METERING SYSTEMS ASIA Pacific PTE. LTE., Singapore, Singapore	100.00	
38	Kloeckner Burlington Limited, Burlington, Ontario, Canada	100.00	
39	Kloeckner Alberta Limited, Calgary, Alberta, Canada	100.00	
40	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00	
41	ASD Limited, Leeds, United Kingdom	100.00	
42	ASD metal services Ltd., Leeds, United Kingdom	100.00	
43	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
44	Klöckner Metal Services Ltd., Leeds, United Kingdom	100.00	
45	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
46	ASD Westok Limited, Leeds, United Kingdom	100.00	
47	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
48	John O. Holt & Sons Ltd., Leeds, United Kingdom	100.00	
49	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
50	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
51	Klöckner Distribution Industrielle S.A., Aubervilliers, France	96.77	
52	KDI S.A.S, Aubervilliers, France	100.00	
53	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
54	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
55	Prafer SNC, Woippy, France	100.00	
56	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
57	AT2T S.A.S., La Grand Croix, France	100.00	
58	KDI Authentic S.A.S., Aubervilliers, France	100.00	
59	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
60	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
61	Klöckner Participaciones S.A., Madrid, Spain	100.00	
62	Comercial de Laminados S.A., Barcelona, Spain	100.00	
63	Hierros Del Turia S.A., Valencia, Spain	80.00	
64	Perfiles Aragón S.A., Zaragoza, Spain	100.00	
65	Cortichapa S.A., Valencia, Spain	100.00	
66	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00	
67	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
68	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
69	Kloeckner Metals, Wilmington, Delaware, USA	100.00	

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	33	EUR	18,000.00	-		-
	33	BRL	7,275,602.91	3,548,522.92		21,923,842.58
	33	SGD	200,000.00	-		-
	31	CAD	-	-		-
	31	CAD	-	-		-
	1	GBP	32,368,737.00	4,391,024.73		-
	40	GBP	24,065,000.00	– 3,136,000.00		255,601,524.53
	41	GBP	17,000.00	2,000.00		29,000.00
	40	GBP	20,000.00	-		-
	40	GBP	-	-		-
	40	GBP	-	-		-
	40	GBP	11,219,000.00	929,000.00		13,407,416.18
	40	GBP	14,534,000.00	-		-
	47	GBP	232,100.00	-		-
	40	GBP	14,082,143.98	– 4,048,981.47		85,936,208.61
	47	GBP	2,000,000.00	-		-
	1	EUR	115,678,000.00	7,177,000.00		-
	51	EUR	39,662,082.00	– 51,917,786.00		739,814,416.00
	52	EUR	1,852,000.00	366,000.00		69,898,328.00
	52	EUR	72,358,000.00	5,884,000.00		13,932,000.00
	52	EUR	3,899,000.00	45,000.00		10,040,000.00
	52	EUR	5,070,607.91	445,325.84		24,514,000.00
	52	EUR	3,498,000.00	– 1,749,931.00		76,916,000.00
	52	EUR	8,416,437.27	– 59,874.89		156,400.00
	51	EUR	18,570,795.00	2,374,422.00		112,992,718.00
	51	EUR	14,501,006.97	560,083.11		44,896,271.61
	52					
	1	EUR	74,041,657.14	– 28,743.80		-
	61	EUR	18,747,534.97	– 15,277,011.18		169,686,055.61
	62	EUR	13,358,925.98	– 1,854,358.56		31,844,023.36
	62	EUR	4,636,667.00	– 1,412,891.43		21,081,372.32
	62	EUR	2,870,696.06	– 5,213,404.75		38,947,528.68
	62	EUR	3,006.00	-		-
	1	USD	285,958,000.00	– 3,712,000.00		-
	67	USD	280,906,000.00	15,275,000.00		-
	68	USD	739,334,000.00	29,629,000.00		3,442,580,264.48

No.	Entity	Interest in percent	
70	Lake Steel LTD, Amarillo, Texas, USA	100.00	
71	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
72	Macsteel Service Centers P.R. Inc., Wilmington, Delaware, USA	100.00	
73	California Steel & Tube LLC, Wilmington, Delaware, USA	100.00	
74	Macsteel Service Centers de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
75	Macsteel Productos de Acero S.A. de C.V., Apodaca, Mexico	100.00	
76	Frefer Metal Plus S.A., São Paulo, Brazil	70.00	
77	Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil	99.99	
78	Rede Metal Plus Assessoria e Gestao Empresarial Ltda., São Paulo, Brazil	99.90	
II.	Non-consolidated affiliated companies		
79	Sammi Klöckner International GmbH, Duisburg, Germany	100.00	
80	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00	
81	KDI Courtages SARL, Paris, France	100.00	
III.	Associates		
82	Birs-Stahl AG, Birsfelden, Switzerland*)	50.00	

*) Accounted for at amortized cost.

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	69	USD	47,331,000.00	1,137,000.00		56,439,259.00
	69	USD	2,315,000.00	5,000.00		-
	69	USD	1,001,000.00	– 122,000.00		9,108,000.00
	69	USD	5,574,000.00	346,000.00		29,836,144.00
	69	MXN	99,139,440.00	22,961,904.00		968,546,986.00
	69	MXN	1,777,246.43	332,204.43		-
	31	BRL	171,267,132.61	– 24,731,458.04		170,130,008.09
	76	BRL	– 1,741,579.38	– 272,753.52		1,025,324.65
	76	BRL	89,118.64	125,340.84		292,106.97
	1	EUR	– 14,129,180.57	-	2)	-
	18	EUR	106,814.60	15,716.78		49,246.08
	51	EUR	9,146.00	– 2,697.00		-
	21	CHF	972,590.19	217,020.01		1,647,679.20

2) Financial statements as of December 31, 2011.

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			
Interfer Holding GmbH	Dortmund, Germany	7.82	February 18, 2013
Allianz Global Investors Kapitalanlagegesellschaft mbH[1)]	Frankfurt am Main, Germany	3.016	January 26, 2012
Dimensional Holdings Inc.[1)]	Austin, Texas, USA	3.064	February 2, 2012
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	3.193	16. März 2012
UBS AG[1)]	Zurich, Switzerland	3.037	April 20, 2012
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	5.052	May 2, 2012
UBS AG[1)]	Zurich, Switzerland	3.006	May 18, 2012
Decrease below threshold			
Norges Bank (Central Bank of Norway)[2)]	Oslo, Norway	4.172	February 1, 2012
Norges Bank (Central Bank of Norway)[2)]	Oslo, Norway	2.871	February 21, 2012
UBS AG[1)]	Zurich, Switzerland	2.248	April 21, 2012
UBS AG[1)]	Zurich, Switzerland	2.378	May 21, 2012
Amundi S.A.[1)]	Paris, France	2.871	September 20, 2012
Franklin Templeton Investment Corp.	Toronto, Ontario, Canada	4.985	January 4, 2013

1) Partly attributed holding.
2) State of Norway.

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

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg (until February 4, 2013)
- Klöckner Participaciones S.A., Madrid/Spain (until February 13, 2013)
- Comercial de Laminados, Barcelona/Spain (until February 13, 2013)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland (until February 11, 2013)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (until February 12, 2013)
- Klöckner Investment S.C.A., Luxemburg/Luxemburg (until February 12, 2013)
- Klöckner USA Holding, Inc., Wilmington/USA
- Klöckner Namasco Holding Corporation, Wilmington/USA
- Macsteel Service Centers USA, Inc., Wilmington/USA (until June 30, 2012)
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China (until February 8, 2013)
- ODS B.V., Rotterdam/The Netherlands (until February 11, 2013)

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

- RWE Power AG, Essen, Member of the Supervisory Board

Marcus A. Ketter
Member of the Management Board, CFO (since January 1, 2013)

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

- Klöckner Investment S.C.A., Luxemburg/Luxemburg (since February 12, 2013)
- Klöckner Stahl- und Metallhandel GmbH, Duisburg (since February 5, 2013)
- Klöckner Participaciones S.A., Madrid/Spain (since February 13, 2013)
- Comercial de Laminados, Barcelona/Spain (since February 13, 2013)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (since February 20, 2013)
- ODS B.V., Rotterdam/The Netherlands (since February 11, 2013)
- Klöckner USA Holding Inc., Wilmington/USA (since January 1, 2013)

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

- BCN Technical Services, Inc., Hastings, Michigan/USA, Member of the Management Board (until January 8, 2013)

Karsten Lork
Member of the Management Board
(since February 1, 2013)

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg (since February 5, 2013)
- Klöckner Participaciones S.A., Madrid/Spain (since February 13, 2013)
- Comercial de Laminados, Barcelona/Spain (since February 13, 2013)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland (since February 14, 2013)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (since February 12, 2013)
- ODS B.V., Rotterdam/The Netherlands (since February 11, 2013)
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China (since February 8, 2013)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies
- None

William A. Partalis
Member of the Management Board

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

- None

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

- None

Ulrich Becker (until September 30, 2012)
Member of the Management Board

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

- Klöckner Stahl- und Metallhandel GmbH, Duisburg (until September 30, 2012)

  Klöckner Participaciones S.A., Madrid/Spain (until September 30, 2012)
- Comercial de Laminados S.A., Barcelona/Spain (until September 30, 2012)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland (until September 30, 2012)
- Klöckner Distribution Industrielle S.A., Aubervilliers/France (until September 30, 2012)
- ODS B.V., Rotterdam/The Netherlands (until September 30, 2012)
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China (until October 8, 2012)

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
Managing Partner Lindsay Goldberg Vogel GmbH, Düsseldorf

- Weener Plastik GmbH, Deputy Chairman of the Supervisory Board[1)] (since March 8, 2012)
- Plasticum B. V., Deputy Chairman of the Supervisory Board (since September 21, 2012)
- 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)]
- denkwerk GmbH, Member of the Advisory Board[2)]

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

- HDI V.a.G./Talanx AG, Member of the Supervisory Board[1)]
- Carl Zeiss AG, Member of the Supervisory Board[1)]
- Vattenfall GmbH, Member of the Supervisory Board[1)]
- Freudenberg & Co. KG, Deputy Chairman of the Shareholders' Committee[2)] (until June 30, 2012)
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board[2)]

Ulrich Grillo (since May 25, 2012)
Chairman of the Management Board Grillo-Werke AG, Duisburg

- Praktiker AG, Member of the Supervisory Board[1)] (until August 22, 2012)
- Baumarkt Praktiker Deutschland GmbH, Member of the Supervisory Board[1)] (until August 22, 2012)
- mateco AG, Member of the Supervisory Board[1)] (until December 31, 2012)
- IKB Deutsche Industriebank AG, Member of the Supervisory Board[1)]

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

- Heidelberger Druckmaschinen AG, Chairman of the Supervisory Board[1)]
- Lanxess AG, Member of the Supervisory Board[1)]
- Benteler International AG, Chairman of the Supervisory Board[2)]

Dr. Dr. h. c. Jochen Melchior (until May 25, 2012)
former Chairman of the Management Board of the former STEAG AG, Essen

- 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)]
- Schauenburg-Gruppe, Member of the Administrative Board[2)]

Hauke Stars
Member of the Management Board of Deutsche Börse AG, Frankfurt

- GfK SE, Member of the Supervisory Board[1)]

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

- Athens International Airport S.A., Member of the Board of Directors[2)]
- DEMATIC Group S.à r.l., Member of the Board of Directors[2)] (until December 28, 2012)
- Universitätsklinikum Essen AöR,[2)], Member of the Supervisory Board (until January 9, 2013)

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.

Asset-Based-Lending
Loan agreement under which the credit default risk is secured by the lender's assets (generally accounts receivable, inventory or property, plant and equipment).

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 that 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.

Counterparty risk
Counterparty risk is the risk that a professional market participant defaults, i.e., is not paying its obligation when they become due. In addition to the regular credit risk it also includes in particular default risks of derivative financial instruments.

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 that combines a spot foreign exchange transaction and a forward foreign exchange transaction.

Free Cashflow
Sum of cash inflows/outflows from operating activities and cash inflow/outflows from investing activities. Measure to assess financial funds generated to repay financial debt or pay dividends to shareholders.

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 that 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 their 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 that 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.

Net investment hedge
A net investment hedge is used to hedge a net investment including long-term loans in a foreign operation.

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
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Management Board:
– Gisbert Rühl (Chairman)
– Marcus A. Ketter
– Karsten Lork
– William A. Partalis

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– Dr. Oliver Falk

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– Dr. Thilo Theilen

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– Arjen de Jong

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– Nichola Skelton

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USA
Tel: +1 678 259 8800
Fax: +1 678 259 8873
Management:
– Bill Partalis
– Kirk A. Johnson

FINANCIAL CALENDAR 2013

March 6, 2013	Annual Financial Statements 2012 Financial statement press conference Analyst conference
May 8, 2013	Q1 interim report 2013 Conference Call with journalists Conference Call with analysts
May 24, 2013	Annual General Meeting 2013 Düsseldorf
August 7, 2013	Q2 interim report 2013 Conference Call with journalists Conference Call with analysts
November 6, 2013	Q3 interim report 2013 Conference Call with journalists Conference Call with analysts

Subject to subsequent changes

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www.kloeckner.com

DISCLAIMER

This report (particularly the "Forecast" section) contains forward-looking statements that are based on the current estimates of the Klöckner & Co SE management with respect to future developments. 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 legal obligations, 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 or HGB (Handelsgesetzbuch – German Commercial Code), 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 or HGB. Non-GAAP measures are not subject to IFRS or HGB or to other generally accepted accounting principles. Other companies may define these terms in different ways.

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

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.

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