Klöckner & Co SE

Annual General Meeting
on May 24, 2013

Speech to the Annual General Meeting

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CEO of Klöckner & Co SE

Check against delivery.
Blocked until 10.30 a.m. on May 24, 2013

Ladies and gentlemen,
dear shareholders,

I would like to extend a very warm welcome, also on behalf of the Management Board and our employees, to the seventh Annual General Meeting of Klöckner & Co SE here in Düsseldorf. I would also like to welcome the shareholder representatives, our guests, representatives of the media and the banks, as well as our employee representatives. A warm welcome also to all those following us online.

Slide: Steel market in 2012 dominated by weak demand in Europe and persistent price pressure in Europe and North America

I would like to begin my remarks with the last fiscal year, which was once again a highly challenging year for us just as it was for the steel industry as a whole. In Europe, demand dropped by a further 9% compared with the prior year. Demand is now down by around 30% compared with pre-crisis levels. In the United States, by contrast, there was a slight recovery in demand, although it is now falling again.

In addition to the weak demand, we had to contend with steadily dropping steel prices from the second quarter owing to the high levels of surplus supply. So last year, we were confronted with what is possibly our worst-case scenario: falling overall demand in Europe coupled with steadily declining prices from the second quarter.

Slide: Growth and balance sheet targets achieved, earnings forecast missed due to pressure on the steel markets

Against this backdrop we fell well short of our earnings target. In consequence, there will unfortunately once again be no dividend payment. We nonetheless attained all other targets. Thus despite the weak performance of the European market, our strong growth in the USA and our prior-year acquisitions made for increases of 6.1% in turnover and 4.1% in sales.

We also attained our goal of holding our balance sheet ratios at sound levels. Through stringent net working capital management, we further reduced net financial debt by €49 million to €422 million. Gearing, which is the ratio of net financial debt to equity, remained at a low level of 31%. The equity ratio also remained very solid at 39%.

There was also an encouraging trend in our free cash flow, which – despite negative earnings – was clearly positive. As mentioned, however, we fell distinctly short of our expectations for the earnings target. For operating income (EBITDA) before restructuring expenses for 2012, we had set the target of exceeding the prior-year level of €227 million.

Slide: Net income for 2012 heavily impacted by one-time expenses, but positive cash flow

With EBITDA of €139 million, we fell well short of this target. After restructuring measures, EBITDA stood at €62 million. Impairments in the amount of €55 million also placed a burden on earnings, resulting in an overall net loss of €198 million compared with a net income of €10 million in the prior year.

Despite the negative earnings, we increased the cash flow from operating activities to €101 million, after a negative €41 million in the prior year. Free cash flow was also positive again at €67 million, bolstered by cautious investment activity. Thus, despite the difficult situation, we generated cash and did not waste it.

Slide: Balance sheet remains strong despite net loss and impairments

Notwithstanding the net loss and adjustments from the first-time application of a new financial reporting standard, our balance sheet remains rock solid. With an equity ratio of 39% as of year-end 2012 – which is relatively high for our industry – we are well equipped to deal with future challenges. Overall, equity was substantially higher than non-current assets, and equity and non-current liabilities combined cover the total of non-current assets and inventories.

Slide: Balanced maturity profile ensures financial scope

The same strength shows through in our financing profile. The financing portfolio is widely diversified with sufficient scope. Overall, at the end of the first quarter, we had approved credit lines and facilities of some €2.3 billion, of which we have only used just under half.

Thanks to the recent extension of our European ABS program and the syndicated loan, each amounting to €360 million until May 2016, the average maturity of our credit facilities is once again more than three years. We are able to settle the liabilities due for repayment in the current and coming year from the available liquidity without difficulty.

Despite our strong balance sheet and financing structure, we were downgraded by the rating agency Standard & Poor's to B+ and by Moody's to B1, both with a stable outlook, following publication of our annual balance sheet for 2012. These downgradings – which were justified citing the weak earnings situation and the negative prospects for the steel industry as a whole – have no effect on our financing, since none of our lines or facilities are linked to ratings.

Slide: Share price performance unsatisfactory, but ultimately better than industry index

The difficult industry situation was also mirrored by the international stock markets, which meant that once again steel shares failed to profit from the general upward trend in 2012. Prices saw a brief recovery in the first quarter but then, in line with the weak steel market, fell substantially, only to settle down slightly toward the end of the year.

Our share performance followed largely along the same lines, until news broke of the acquisition of 7.82% of Klöckner's voting capital by Interfer Holding GmbH on February 18, after which the price moved upward. Our share price initially settled down at a relatively high level and reached its high for the year to date at €11.98 on

March 6. Subsequent to that, the price took a downward turn due to the increasingly gloomy outlook once again.

While our shares finished trading yesterday at €9.51, which was above the level of €8.97 at the start of the year, the performance is less than satisfactory overall.

Slide: Despite clear cost reductions and improved gross profit margin, earnings were down in the first quarter compared with the prior year due to the economic slowdown and weak demand

Before I come to our expectations for the second quarter and the full-year 2013, I would like to give you an overview of business performance to date this year. The main factors affecting our business were the ongoing difficult economic environment, the protracted winter and the effects from the streamlining of European activities. Accordingly, turnover dropped by 11.4% and sales, additionally curbed by lower prices, fell by 16.5%.

Due to the withdrawal from low-margin business in Europe as part of restructuring, the gross profit margin improved from 17.7% to 18.6%. Additionally buoyed by cost cuts totaling €26 million, we were able to at least partially offset the largely market-driven decline in gross profit of €41 million in total. There remained an operating income of €29 million in the first quarter compared with €44 million in the prior-year period.

Slide: Cautious outlook for the full year in light of the ongoing strained situation on the steel markets in Europe and North America

Like many others, we were more optimistic with regard to the full-year 2013 at the start of the year than we are today. After the commitment from the ECB president to buy up unlimited bonds from European crisis countries if necessary, the euro crisis seemed to let up and the US's fiscal problem similarly appeared to have been largely overcome. However, following elections in Italy and the situation in Cyprus, which is almost bankrupt, as well as the budget cuts in the United States, uncertainty began to rise again.

The consequences can already be seen in the market performance during the first quarter, and we are not much more optimistic about subsequent quarters. We therefore expect only a moderate seasonal increase in EBITDA for the second quarter to between €35 million and €45 million. Our restructuring program, which has now almost been fully implemented, will contribute to this once again.

Against this backdrop and the current outlook for the second half of the year, it now seems increasingly unrealistic that we will achieve our target of €200 million for full-year operating income. But we still expect to generate a positive free cash flow again this year and to reduce our net debt further through the restructuring program, despite liquidity outflows.

Slide: Steel demand in EU-27 still well below pre-crisis level

As I mentioned at the start of my speech, the European market in particular has still not yet recovered from the slump in demand in crisis year 2009. With demand around

30% lower than in 2007 before the crisis, the European steel industry is thus in the midst of a severe crisis that will doubtless continue for some time.

This means there will be a shakeout in the market, at least at distribution level. There are already signs of small and mid-size competitors that lack access to the capital market having problems in funding their net working capital. Credit insurers, too, will only be prepared to provide sufficient coverage moving forward to a very limited extent where credit ratings are poor.

In contrast, the recovery in North America is accelerating as we expected, such that in 2013 the shortfall in demand compared to 2007 will be a mere 5%.

In Brazil, demand already surpassed the pre-crisis level back in 2010. But since then, growth has been surprisingly weak. By contrast, steel demand in China has continued to grow, although lately the rate of growth has slowed. A problem here is the enormous amount of overcapacity that will interfere with supply and demand globally for some time to come.

Slide: Despite market distortions, basis for achieving EBITDA margin of 6% established through transformation of the Group's structure and cost cutting

In light of this, we have been making radical changes to the Group's structure since 2007. While six years ago we were still generating 70% of our sales from low-margin commodity products in Europe, this proportion is to be halved to 35% by 2015 by focusing on more promising core countries in Europe.

Conversely, we are going to further expand the percentage of higher-margin North American business to around 43%. We remain optimistic for this region, regardless of the current problems. And, bolstered by the lower energy prices, we expect a structurally better trend here than in Europe in the long run.

In Europe, our business in Switzerland as well as that of Becker Stahl-Service in Germany remains positive.

In order to attain the target of a 6% operating margin for our overall business, we do, of course, depend on the markets recovering to some extent. But even if they do not, the restructuring measures will still result in a tangible improvement in earnings.

Slide: Annual EBITDA contribution of €160 million from 2014 through restructuring program KCO 6.0

I already outlined our restructuring program to you at our last Annual General Meeting. Due to the ongoing trend of decline in the European steel industry, we have, as announced, since expanded the program, notably in France. In addition, following the completed integration of Macsteel in the United States, we will exploit further potential for optimization and synergies and adapt the site network accordingly.

Overall, some 70 sites will be closed or sold off and over 2,000 jobs will be cut. This is equivalent to a site reduction of 24% and a workforce reduction of 17%.

This is a tour de force for all of us, and especially for our employees and employee representatives. I would therefore like to take this opportunity – I hope also on your behalf – to thank all our employees and employee representatives for their extremely constructive cooperation in the smooth implementation of this program.

Having already delivered a sustainable contribution to operating income of €51 million in total in 2011 and 2012, another €65 million from the program is to be added this year, of which €18 million has already been realized. We then expect the full annual contribution to earnings of €160 million for the first time in 2014.

Slide: Implementation of the restructuring program KCO 6.0 on schedule

As of the end of the first quarter, 1,600 jobs had already been cut and 50 locations closed or sold. The only locations affected are those which would not generate sufficient contribution margins even if the market environment improved. With the exception of the Eastern European business, which was sold in full, the majority of customers at the closed locations can continue to be served by neighboring locations. In this way, between half and two thirds of sales at a closed location can generally be retained.

Slide: After restructuring, only a limited presence in peripheral EU economies

Once our restructuring measures have been implemented, we will generate 95% of our European sales in central European countries, which have been less severely affected by the sovereign debt crisis. Almost 60% of our sales in Europe will then be accounted for by Germany, Switzerland and Austria. By contrast, we have completely sold off or closed locations in the peripheral countries of Lithuania, Poland, the Czech Republic, Slovenia, Hungary, Romania, Bulgaria, Portugal and Ireland, and reduced the share of European sales attributable to Spain to 5%.

Slide: Following the merger of Namasco, Primary Steel and Macsteel into Klöckner Metals US, most regions of the United States with a high steel demand will be covered

Through acquisitions and organic growth, we have positioned ourselves as the third largest and, in terms of steel, even the second largest provider in the United States. On the distribution side, we can today offer a wide range of steel products in particular nationwide. This is why many customers who previously procured only part of their steel requirement from us now use us to meet their entire requirement. Today, we can even supply large customers who only award nationwide steel contracts. Our organic growth in North America in 2012 was consequently three times faster than the market.

We anticipate further growth from our entry into the automotive sector, which will take effect when we commission our service center at the ThyssenKrupp campus in Alabama. ThyssenKrupp's plans to sell the plant will have no effect on our business as our contract with the plant is unaffected by who owns it.

Slide: Major further potential after restructuring

Ladies and gentlemen, unless the markets take another large hit – and at the moment there is no sign of that happening – our restructuring will be complete by the end of 2013. Despite the current weakness of the markets, we are already in a stronger position moving forward. We are further expanding prefabrication and focusing on process improvements, primarily in distribution.

Alongside all of this, we are putting acquisitions back on the agenda, with the focus on mid-size companies that either have special prefabrication capabilities or high-end niche products.

In the future, though, we plan to go even further. Unlike many industries where innovations have turned business models and processes on their head, our sector has seen relatively little change. The way many things are done is still very traditional, and this means considerable inefficiencies right across the value chain.

An example is stockholding which, at least in part, is only a fudge for inefficiency because producers do not know exactly what customers need and customers are often very late to say. In this and other areas, we aim to question traditional business models and processes in order to innovate and further enhance customer loyalty. As a major player, we have both the financial and the human resources to achieve that.

Ladies and gentlemen, as I come to the end of my remarks today, I would like to reiterate clearly that our earnings performance and the consequent lack of a dividend is of course very unsatisfactory indeed both for you and for ourselves. The same incidentally applies, as I am aware from many internal meetings, for our workforce, who give their best every day in an extremely competitive climate without it showing through in our earnings performance.

I can assure you, however, that despite the difficult situation today, we look ahead with confidence. Unlike others who opted to wait and see in the hope that the market would fix things, we took action early. We have systematically and radically transformed our structures. And instead of sitting back now to reap the expected results of the Klöckner & Co 6.0 restructuring program, we are already hard at work on the next challenges. At the same time, we are pressing ahead with innovations that could revolutionize the traditional ways in which our industry does business.

We are highly motivated and will not let up. And, of course, there is nothing we want more than for you, our shareholders, to benefit from this soon. Thank you very much for listening.

I would like to finish by touching on a number of items on the agenda:

Slide: Explanatory remarks on agenda items 6-10

I will concentrate on items 6 to 10. These relate to renewal of the authorization to issue convertible bonds including the associated conditional capital, an amendment concerning Supervisory Board compensation, approval of the compensation system for the Management Board, and approval of the Control and Profit and Loss Transfer Agreement with Klöckner Stahl- und Metallhandel GmbH.

Slide: Items 6 and 7

The authorization to issue convertible bonds adopted at the Annual General Meeting in 2011 related to an amount corresponding at the time to 20% of the capital stock. No use has yet been made of that authorization. The authorization does not take into account the increase in capital stock due to the rights issue later in 2011. As a result, the amount now corresponds to only 13.3% of the capital stock. To give the Company the same flexibility in its financing options as it had before the 2011 rights issue, it is proposed that the existing authorization should be canceled and a new authorization granted for an amount corresponding to 20% of the capital stock. The same applies to the 10% limit on what is known as a simplified exclusion of subscription rights. The new authorization is identical in substance to that granted in 2011.

The conditional capital 2013 proposed in item 7 of the agenda corresponds with the authorization under item 6. It enables the Company to issue new shares as needed pursuant to that authorization.

Slide: Item 8

Item 8 proposes a modification to Supervisory Board compensation. Supervisory Board compensation currently consists of fixed compensation and performance-related compensation. The performance-related compensation is not linked to the sustained growth of the Company. This means it is no longer in line with the recommendation of the German Corporate Governance Code as modified in May 2012. The aim is to modify Supervisory Board compensation so that it accords with the new recommendation. To this end, it is proposed that the provision of performance-related compensation should be canceled and the fixed compensation increased accordingly. The increase in the fixed compensation is based on the five-year average of the previous performance-related compensation component and on supervisory board compensation at other companies in the MDAX index. The multiples for the Chairman and for the Deputy Chairman of the Supervisory Board are each to be reduced by 0.5. At the same time, compensation for the Chairman of the Audit Committee is to be adjusted upward by 25% in line with the increase in the level of responsibility and workload associated with that post over the last few years.

We believe that going over to fixed-only compensation will strengthen the Supervisory Board in its supervisory capacity.

Slide: Item 9

In item 9, we submit for your approval the compensation system for members of the Management Board.

As Professor Vogel just explained, the provisions on the long-term component have been revised to adopt a share price-based model in line with that applied by many other companies. Here, the three-year bonus is abolished and the annual bonus increased accordingly. For the long-term component, members of the Management Board must invest 50% of the annual bonus after deductions as a personal investment in Company shares, subject to a three-year lockup period. In all other respects, Management Board compensation remains unchanged.

Slide: Item 10

Item 10 relates to the Control and Profit and Loss Transfer Agreement with Klöckner Stahl- und Metallhandel GmbH. The main purpose of the Agreement is to establish a tax group whose benefit, among other things, is that profits and losses can in principle be transferred without restriction within the tax group. The Agreement also facilitates uniform management within the Group. Agreements of this kind are a very common means of structuring relationships in corporate groups. As Klöckner & Co SE holds all shares in Klöckner Stahl- und Metallhandel GmbH, the Agreement does not make any provision for compensation. For the same reason, there was no need for the Agreement to be reviewed by an independent expert.