ANNUAL REPORT 2015

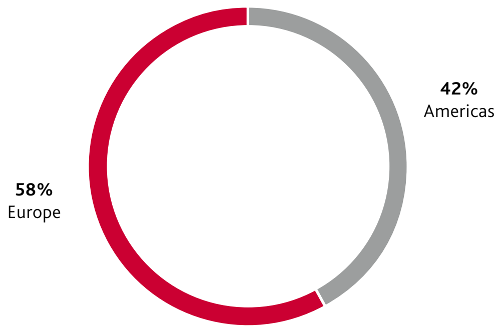
klöckner & co

Key figures
Klöckner & Co SE

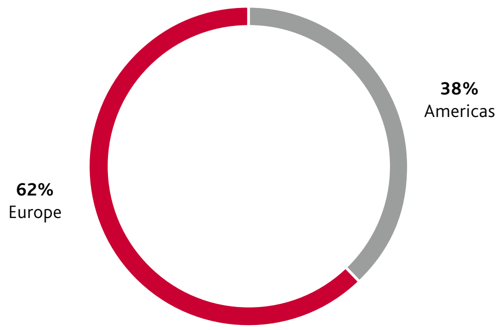
in € million		2015	2014	2013	2012	2011	Change in % 2015–2014
Shipments	Tto	6,476	6,598	6,445	7,068	6,661	–1.9%
Sales		6,444	6,504	6,378	7,388	7,095	–0.9%
EBITDA before restructuring		86	191	150	137	227	–54.7%
EBITDA		24	191	124	60	217	–87.5%
EBIT		–350	98	–6	–105	111	n. a.
EBT		–399	39	–79	–185	27	n. a.
EAT		–349	22	–90	–203	10	n. a.
Earnings per share (basic)	€	–3.48	+0.22	–0.85	–2.00	+0.14	n. a.
Earnings per share (diluted)	€	–3.48	+0.22	–0.85	–2.00	+0.14	n. a.
Cash flow from operating activites[*)]		276	68	143	101	–41	n. a.
Cash flow from investing activities		–85	–132	–36	–34	–483	–35.3%
Free cash flow		191	–64	107	67	–524	n. a.
Liquid funds		165	316	595	610	987	–47.9%
Net working capital		1,128	1,321	1,216	1,407	1,534	–14.6%
Net financial debt		385	472	325	422	471	–18.4%
Equity ratio	%	39.2	39.4	40.2	38.7	39.2	–0.2%p
Balance sheet total		2,841	3,629	3,595	3,880	4,706	–21.7%
Employees as of December, 31		9,592	9,740	9,591	10,595	11,381	–1.5%

[*)] Starting in 2014 cash flows from hedging transactions are presented in cash flows from financing activities (previously: operating activities).

SHIPMENTS BY SEGMENTS IN 2015



SALES BY SEGMENTS IN 2015



Content

€ **6,444** m
SALES

9,592
EMPLOYEES

€ **2,460** m
AMERICAS

€ **3,984** m
EUROPE

SALES BY SEGMENTS

DIGITALIZATION PIONEER OF THE STEEL INDUSTRY

14

COUNTRIES

6,476 Tt

SHIPMENTS

140,000

CUSTOMERS

200

LOCATIONS

Gisbert Rühl

CEO

Dear Shareholders,
Ladies and Gentlemen,

Admittedly, fiscal year 2015 was very disappointing, with a € 345 million Group net loss following restructuring expenses and goodwill impairments. It is also the case that our restructuring measures were again thwarted by sluggish demand and falling prices. In light of this, no dividend is to be distributed for fiscal year 2015. In addition, our share price lost some 10% in the course of year. Yet despite all of this, we are optimistic for the future of Klöckner & Co. Here, we are not pinning hopes on an upswing in the global steel markets, which are still flooded with Chinese steel. Instead, we plan to make it under our own power. And we trust that you, our shareholders, will stand by us every step of the way – and even if this tests your staying power. Our Group has huge potential even though the going is tough right now. So let's look ahead to the future together.

This unlocked potential is not to be found in our traditional distribution business, as global overcapacity – especially in China – will continue to choke world markets for years to come. Alongside the expansion of higher value-added products and services, our future lies first and foremost in the digital transformation of our business model to escape the grip of volatile prices and volumes.

Having taken pioneering steps in our industry by launching our digital transformation over two years ago, we are now garnering more and more interest in the topic from customers, suppliers and also competitors. This serves to corroborate the strategic direction we have chosen and we will continue to forge ahead with the digitalization of our supply chain going forward.

As in the past, we will not shy away from exploring unconventional avenues in pursuit of our goal. Not everything we come up with will work. But we have learned how to deal far better with false starts. While we have already accomplished a great deal along this path, we have plans for much, much more. Our sights remain firmly fixed on building a digital industry platform integrating suppliers, customers and competitors on the web. And we have already made great strides in this endeavor. After first designing customer-focused tools such as our contract platform and the new web shop, we have now set about incorporating these tools into a service platform where customers can choose what transactions they want to complete with us online. In a further step planned for next year, we are then going to open up the platform for competitors as well.

Key success factors in developing and delivering these systems are customer focus and time to market. We meet these needs through our Berlin-based subsidiary kloeckner.i, which is not just set up like a startup, but also recruits most of its staff from startups. With agile software development based on the lean startup approach, what we are shaping here is nothing less than the future of steel distribution.

At the same time, kloeckner.i is also the nucleus for a culture shift right across the Group. Ultimately, we aim to reconfigure our business model with a radical focus on customer benefit. Needless to say, this will only succeed by taking our workforce with us into tomorrow's world and counting on their support of the transformation process at all levels. One area of uncertainty is that we do not yet know what digitalization will ultimately mean in terms of jobs. The process will undoubtedly result in some rationalization while at the same time creating fresh opportunities. The key priority is securing a competitive edge through digitalization and getting back to growth. Though still uncertain from today's perspective, we may then even be able to keep our present workforce up to strength. These substantial shifts in our Company's landscape are naturally a talking point among our employees, not least because digitalization will affect or perhaps remove the need for simpler tasks. Right now, we are developing training packages to put all employees on the winning side of the exponential changes that lie ahead. This will make sure Klöckner employees have the necessary skills to hold their own in the digital world. We see this as part of our social responsibility.

With our workforce steadfastly behind us, we also have to win over customers. Many of our small and medium-sized business customers are becoming increasingly anxious as it is because they do not know how to tackle digitalization. This is fundamentally unproblematic for well-resourced big players, but still the question is where to start. Here, too, we have come up with an unconventional solution. At kloeckner.i, we are going to create the means for small to midsize enterprises to work hand in hand with us in preparing for digitalization. Before we launched kloeckner.i, we made our first tentative steps toward digital transformation in a coworking space for startups in Berlin. What we want to offer SMEs is a coworking space for established firms.

I hope that it is now clear to you, our shareholders, why we remain optimistic about the future despite the mixed prospects for the steel industry. The necessary restructuring measures we are in the process of completing do not stand in our way here.

While our focus remains clearly on the future, I would also like to touch upon two events that very much affected us – and also me personally – in 2015. In May, we lost our longstanding member of the Supervisory Board, Robert Koehler, who passed away after a severe illness. I always valued Robert Koehler's clear stance and unshakable loyalty. We will miss his counsel very much. Also, an employee of our French country organization lost his son in the November terror attacks in Paris. It was only after he had searched for his son until the evening of the following day that he learned he was among the victims. That touched us all very deeply.

Finally, I would like to thank you, our shareholders, for your confidence in and loyalty to your Company. I also wish to extend my sincere gratitude to our workforce for their outstanding efforts and dedication in times of great uncertainty.

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 the coordination of the Management Board and functionally responsible for the headquarter departments Corporate Development/M&A, Human Resources/Legal & Compliance, Investor Relations & Corporate Communications and Strategic Group HR. As part of his responsibility for Corporate Development Mr. Rühl is in charge for implementing the digitalization strategy.

Marcus A. Ketter

CHIEF FINANCIAL OFFICER (CFO)

Born in 1968. CFO since January 1, 2013, appointed until December 31, 2020. He is functionally responsible for the headquarter departments Corporate Accounting, Corporate Controlling, Corporate IT, Corporate Taxes, Corporate Treasury and Internal Audit.

Karsten Lork

MEMBER OF THE MANAGEMENT BOARD

Born in 1963. Member of the Management Board since February 1, 2013, appointed until January 31, 2021. He represents the European operations on the Management Board. He is functionally responsible for the divisions International Product Management & Global Sourcing and Supply Chain Development.

William A. Partalis

MEMBER OF THE MANAGEMENT BOARD

Born in 1953. Member of the Management Board since October 1, 2011, appointed until December 31, 2016. William A. Partalis represents the Americas segment on the Management Board. In addition, he is CEO of the US country organization.

Report of the Supervisory Board

The Supervisory Board performed with due care the tasks required of it under the law, the Articles of Association and the Rules of Procedure during year under review. The Supervisory Board regularly advised and continuously supervised the Management Board, and assured itself that the Management Board's decisions and actions were legally compliant, orderly and fit for purpose. Where appropriate, the Supervisory Board made use of external experts and relevant studies. The Supervisory Board adopted resolutions as required by law, the Articles of Association and the Rules of Procedure, in each instance after thorough and careful appraisal. This notably included legal transactions and measures for which the Articles of Association or the Rules of Procedure require the Management Board to gain Supervisory Board approval; after extensive consultation, the Supervisory Board granted the approval thus required in each case in the year under review.

The Supervisory Board was involved on a timely basis in all matters of fundamental importance. To this end, the Management Board provided the Supervisory Board with information on planning, the Company's business and financial situation, and all transactions of importance to the Company and the Group, both in and between Supervisory Board meetings. Topics reported on at all Supervisory Board meetings include the overall economic climate, the industry situation and the business performance of the Klöckner & Co Group and its segments, key performance indicators and the performance of the Klöckner & Co share price. Risk exposure, risk management, compliance and the changes in the shareholder structure are also regularly covered. One meeting was primarily dedicated to the Company's strategy and notably the digital transformation of its business model. The Supervisory Board is supplied with full and pertinent documentation in each case.

Both in plenary sessions and committee meetings, members of the Supervisory Board dealt with the Management Board's reports and planned actions in detail and added various suggestions. There was also a regular exchange of information between meetings. Also this year, the written Management Board reporting centered on the detailed monthly Board Reports. Furthermore, the CEO, in most cases together with another member of the Management Board, held monthly meetings with the Chairman of the Supervisory Board to report on, discuss and consult about current business developments, salient issues (such as the changes in the ownership structure) and upcoming decisions.

We are delighted that the most recent study by KompetenzCentrum für Unternehmensführung & Corporate Governance of the FOM University of Applied Sciences ranked the work of the Supervisory Board of Klöckner & Co among the MDAX® top five.

Organization of the work of the Supervisory Board
The six-member Supervisory Board is wholly made up of shareholder representatives. The Supervisory Board has established two committees to carry out its duties: an Executive Committee and an Audit Committee, each with three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Michael Rogowski (Deputy Chairman), Ulrich Grillo, Prof. Dr. Tobias Kollmann, Dr. Hans-Georg Vater and Hauke Stars. On July 14, 2015, the Duisburg Local Court appointed Prof. Dr. Kollmann as a member of the Supervisory Board to succeed Robert J. Koehler, who passed away on May 17, 2015. All Supervisory Board members have (in some cases longstanding) experience on the management and supervisory boards of various entities together with expertise optimally covering the full range of responsibilities called for in the Company. Without exception, the members of the Supervisory Board meet the criteria of independence as laid down in Section 5.4.2 of the German Corporate Governance Code. 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 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC). No members of the Supervisory Board are currently former members of the Company's Management Board or representatives of a stakeholder group.

The Executive Committee comprises Prof. Dr. Vogel (Chairman), Mr. Grillo and Dr. Rogowski. The Executive Committee also carries out the functions of a Personnel Committee, a Committee for Urgent Matters and a Nomination Committee. The Audit Committee is made up 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 carry out preparatory work in support of the Supervisory Board's responsibilities, agenda topics and resolutions. At the plenary meetings, the committee chairmen reported regularly and in-depth on the subject matter and outcomes of committee meetings. 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. Supervisory Board meetings are normally attended by the full Management Board; meetings of the Executive Committee are attended by the CEO, while those of the Audit Committee are attended by the CEO and the CFO.

Meeting Attendance

The Supervisory Board held a total of four plenary meetings in fiscal year 2015. On one occasion, the Supervisory Board also passed a resolution by the written procedure provided for in Section 5 (3) of the Rules of Procedure for the Supervisory Board. The Executive Committee held five meetings in the year under review. The Audit Committee met six times in fiscal year 2015, including three meetings with the CEO and CFO to discuss quarterly reports prior to publication. A detailed member-by-member overview of meeting attendance in the reporting period can be viewed on the corporate website (http://www.kloeckner.com/en/supervisory-board.html). For health reasons, Robert J. Koehler was unable to attend the Supervisory Board meeting that took place shortly before his death. Otherwise, each Supervisory Board member and each committee member attended all Supervisory Board or committee meetings in fiscal year 2015 (see Section 5.4.7 of the German Corporate Governance Code). Attendance at all Supervisory Board meetings, including committee meetings, was thus 94.7%.

Supervisory Board Meetings and Resolutions

In the past fiscal year, the Supervisory Board regularly dealt with the business situation, implementation of the corporate strategy and notably the digitalization strategy, as well as progress with the KCO WIN and KCO WIN+ action plans. Management Board matters and corporate governance issues were likewise on the agenda at several meetings. In the reporting period, the business situation was extremely difficult throughout the Group. The global steel market was awash with imports from China, resulting in constant price pressures and sluggish demand. Requests for penalty duties failed to have any impact in the period under review. Ultimately, these developments prompted the Company to issue a profit warning on October 6, 2015 and publish a further ad-hoc announcement on December 9, 2015. On the other hand, important steps have been taken and successes achieved in strategy implementation: This notably relates to the digitalization of processes with suppliers and customers, leading to the streamlining and boosting efficiency in the supply chain, enhancing a more closely customers proximity and thus securing a competitive edge. Significant headway was made here by introducing the contract platform in Germany and the USA, entering the attractive segment comprising online sales to tradespeople and private customers in Germany, and participating in an Industry 4.0 project to automate steel order placement by processing machinery. Playing an important role in this context is Klöckner & Co's Center of Competence for Digitalization, kloeckner.i GmbH in Berlin, where the Supervisory Board also held its September meeting. In the course of the meeting, the management of kloeckner.i GmbH presented current projects and potential next steps. Alongside digitalization, further progress has been made with enhancing the Company's differentiation and moving toward higher value-added products and services. This objective is underscored by the acquisition of American Fabricators Inc. in the USA as well as the initiation of substantially expanding the aluminum flat products range for the automotive industry in Europe. KCO WIN focused initially on efficiency-boosting measures with short-term earnings potential in sales and distribution, logistics and stockyard management. In light of the general business situation, the Company saw virtually no measurable benefit from this. Extended in the summer, the KCO WIN+ action plan then also focused on numerous restructuring measures (mainly site closures and reductions in the workforce).

Alongside these topics, notable issues addressed by the Supervisory Board included the following: At its meeting on March 2, 2015, the Supervisory Board approved the Company's annual financial statements for 2014, the consolidated financial statements and the Management Board's proposal on the appropriation of the results. Furthermore, the Supervisory Board adopted the motions for the 2015 Annual General Meeting. In this connection, the Supervisory Board approved the signing of the Control and Profit and Loss Transfer Agreement between the Company and kloeckner.i GmbH. Furthermore, the Supervisory Board resolved (on the recommendation of the Executive Committee) to reappoint Mr. Marcus A. Ketter and Mr. Karsten Lork as members of the Management Board, in each case for a term of five years, and to extend the service contracts accordingly. Finally, the Supervisory Board approved the renewal of the syndicated loan in the amount of €360 million for a further three years on much better terms. The Supervisory Board meeting of May 12, 2015 was largely devoted to preparing for the Company's Annual General Meeting taking place after the Supervisory Board meeting. At the Supervisory Board meeting of September 15, 2015, the main focus was on strategy. The Management Board presented the various impact directions of the digital transformation of steel distribution in detail. The management of kloeckner.i GmbH presented to the Supervisory Board current digitalization projects and potential next steps. Apart from dealing with the business and financial situation, the Supervisory Board also considered the setting of targets for the percentage of women on the Company's Supervisory Board and Management Board. In addition, the Supervisory Board approved the acquisition of American Fabricators, Inc. by Kloeckner Metals Corporation. Also on the agenda was a review of Management Board compensation. At the proposal of the Executive Committee, it was decided to discontinue the virtual stock option program ("VSO program") as a component of the Management Board's variable remuneration with effect from January 1, 2016. In return, the annual target bonus for the members of the Management Board was doubled (see page 31 Remuneration Report). Discontinuation of the VSO program also eliminated the need for the two previously declared departures from the recommendations of the German Corporate Governance Code (see page 22 Corporate Governance Report). The regular review of the efficiency of the Supervisory Board's activities was also carried out. No need for action was identified. Finally, the Supervisory Board resolved to adapt the Supervisory Board Rules of Procedure in line with the latest amendments to the German Corporate Governance Code and set a regular limit for terms on the Supervisory Board. At its meeting on December 15, 2015, the Supervisory Board notably dealt with the forecasts for the Company's key performance indicators at year-end as well as the budget for fiscal year 2016 and the two years beyond. In addition, the Supervisory Board discussed with the Management Board the Chief Compliance Officer's annual report. Finally, the Supervisory Board authorized the Management Board to sign a significant IT outsourcing agreement.

Reports from the Committees

Executive Committee:
The Executive Committee met a total of five times in 2015. All meetings were held in the presence of the Company's CEO. At its meeting on March 2, 2015, the Executive Committee addressed topics including bonuses for Management Board members in fiscal year 2014 and submitted proposals for bonus setting to the plenary

Supervisory Board. The Executive Committee also formulated targets for the Management Board bonuses for fiscal year 2015. At the meeting on June 29, 2015, the Executive Committee, in its capacity as Nomination Committee, adressed the plan for the application by the Chairman of the Supervisory Board for the appointment of Prof. Dr. Tobias Kollmann as a member of the Supervisory Board by the court of competent jurisdiction to succeed Robert J. Koehler, who passed away on May 17, 2015. The meeting on September 15, 2015 focused on the setting of targets for women on the Management and Supervisory Boards as well as the review of compensation for members of the Management Board. At the meeting on December 9, 2015, the Executive Committee, together with the Audit Committee, looked at the impairment of goodwill allocated to the USA cash-generating unit (CGU) and a related ad-hoc announcement made by the Company on the same date. A notable item in the meeting on December 15, 2015 was a preliminary consultation on the budget for 2016 with the CEO. Upcoming nomination issues were further points of discussion.

Audit Committee:
The Audit Committee met six times in all, including three meetings preceding publication of interim financial reports. Audit Committee meetings are generally held in the presence of the CEO and the CFO. The three meetings on the draft interim financial reports focused on the development of the Group's business and financial situation, which the committee discussed with the Management Board members in attendance on the basis of key performance indicators. The Audit Committee brought up points and suggestions that were incorporated in the final versions of the interim reports. Risk management and compliance topics were also regularly addressed in connection with interim financial reporting. At the two scheduled meetings in March and December 2015, the Audit Committee likewise discussed risk management and compliance issues with the CEO and the CFO. Discussions at the March meeting centered on the Company's annual and consolidated financial statements for 2014. At the same meeting, the Audit Committee went into the proposal for the election of the auditors for 2015 and prepared the groundwork for the plenary Supervisory Board to appoint them. In particular, the Audit Committee assessed the auditors' independence and fee offer. The Audit Committee saw no need to recommend to the Supervisory Board additional focal points for the auditors' activities beyond the statutory mandate. At its December meeting, it discussed a Group-wide survey held in summer on the quality of the audit conducted by the auditors. Key findings from Internal Audit were also discussed and the audit plan for fiscal year 2016 was adopted. As scheduled, the Company's Chief Compliance Officer gave his annual report at the December meeting. At the extraordinary meeting on December 9, 2015, the Audit Committee, together with the Executive Committee, looked at the impairment of goodwill allocated to the USA cash-generating unit (CGU) and a related ad-hoc announcement made by the Company on the same date.

Corporate Governance and declaration of Conformity

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 15, 2015, which is permanently available to shareholders on the Company's website. The Declaration of Conformity states that, since January 1, 2016, Klöckner & Co SE has complied in full with all recommendations of the German Corporate Governance Code (hereinafter for short the Code) in its current version. The Declaration of Conformity for the reporting period noted two exceptions. Further information on corporate governance can be found on pages 22 et seq. of this Annual Report. The Management Board and the Supervisory Board monitor any changes to Code recommendations and suggestions along with their implementation on an on-going basis.

Audit of the 2015 annual and consolidated financial statements

Klöckner & Co SE's annual financial statements for fiscal year 2015, consolidated financial statements and combined management report were audited and given an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditors 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 applicable in the the European Union. The audit reports and further documentation relating to the financial statements 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. The auditors took part in the discussions, reported on the material findings of their audit and answered questions. At the Supervisory Board meeting held on February 24, 2016 to approve the annual financial statements, the Chairman of the Audit Committee reported on the Audit Committee's consultations on the annual and consolidated financial statements and the combined management report. With regard to the risk detection system, the auditors stated that the Management Board had taken the measures required under Section 91 (2) of the German Stock Corporations Act in an appropriate manner – in particular for establishing a monitoring system – and that the monitoring system was capable of promptly identifying developments threatening 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, as well as in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on February 24, 2016, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted.

Changes on the Board

The composition of the Supervisory Board of Klöckner & Co SE changed as follows in fiscal year 2015: On July 14, 2015, the Duisburg Local Court appointed Prof. Dr. Tobias Kollmann, who holds the chair in e-business and e-entrepreneurship at the University of Duisburg-Essen, as a member of the Supervisory Board to succeed Robert J. Koehler, who passed away on May 17, 2015. In Robert J. Koehler, the Supervisory Board lost a colleague who was held in high regard by all members and for many years played with his broad experience and entrepreneurial thinking a key role in shaping the work of the Company's Supervisory Board.

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 in a very difficult market environment during the past fiscal year.

Duisburg, Germany, February 24, 2016

The Supervisory Board

Prof. Dr. Dieter H. Vogel
Chairman

Supervisory Board

Supervisory Board

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

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

Ulrich Grillo
Chairman of the Management Board, Grillo Werke AG,
Duisburg, Germany,
President of the Federation of German Industries (BDI)

Robert J. Koehler († May 17, 2015)
Former Chairman of the Management Board,
SGL CARBON SE, Wiesbaden, Germany
(Member until May 17, 2015)

Prof. Dr. Tobias Kollmann
Chair of E-Business and E-Entrepreneurship at the
University of Duisburg-Essen
(Member since July 14, 2015)

Hauke Stars
Member of the Management Board, Deutsche Börse AG,
Frankfurt/Main, Germany

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

Executive Committee

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

Prof. Dr. Dieter H. Vogel
Chairman

Dr. Michael Rogowski

Ulrich Grillo

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.

1. Klöckner & Co on the capital market

KLÖCKNER & CO SHARES

ISIN DE000KC01000 – German Securities Code (WKN) KC0100
Stock exchange symbol: KCO
Bloomberg: KCO GR
Reuters Xetra®: KCOGn.DE

€10.12

All-year high on February 24, 2015

SHARE PRICE PERFORMANCE

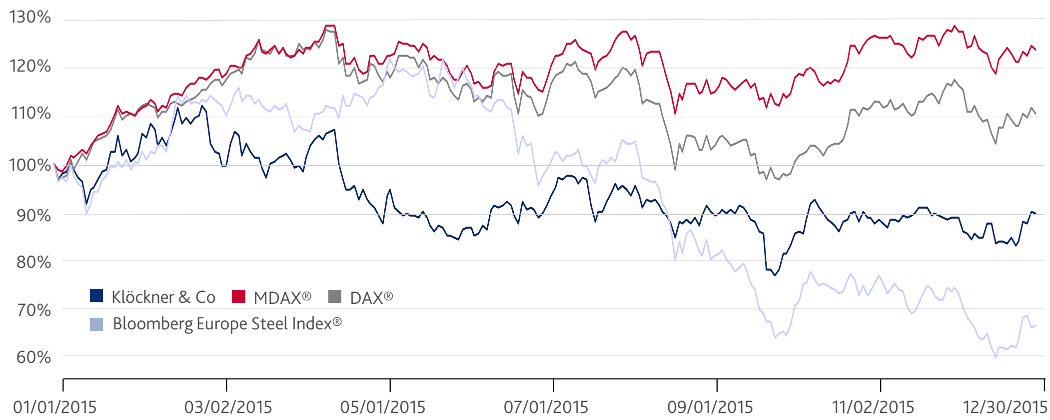
The Klöckner & Co share price initially rose at the beginning of 2015 to reach its high point for the reporting period at €10.12 on February 24. A sustained downward movement followed until the end of the third quarter, with the share price hitting its all-year low at €7.03 on September 28. After a recovery in the fourth quarter, the share price closed 2015 at €8.04. This is roughly 10% down on the share price compared to December 30, 2014.

KEY DATA – KLÖCKNER & CO SHARE

		2015	2014	2013	2012	2011
Share capital	€	249,375,000	249,375,000	249,375,000	249,375,000	249,375,000[1]
Number of shares	in shares	99,750,000	99,750,000	99,750,000	99,750,000	99,750,000[1]
Closing price (Xetra, Close)	€	8.04	8.96	9.95	8.97	9.92
Market capitalization	€ million	802	894	992	895	990
High (Xetra, Close)	€	10.12	12.66	11.50	12.02	23.42[1]
Low (Xetra, Close)	€	7.03	8.37	8.15	6.62	8.28[1]
Earnings per share (basic)	€	−3.48	0.22	−0.85	2.00[3]	0.14
Average daily trading volume	in shares	819,771	645,814	646,743	1,101,199	1,539,240[1]
Dividend per share[2]	€	-	0.20	-	-	-
Dividend yield based on closing stock price	%	-	2.2	-	-	-
Total dividend paid[2]	€ million	-	20.0	-	-	-

1) Adjusted in light of the capital increase on June 8, 2011.
2) For the respective fiscal year.
3) As restated for the initial application of IAS 19 (Employee benefits) rev. 2011.

PERFORMANCE OF KLÖCKNER & CO SHARES COMPARED WITH DAX®, MDAX® AND BLOOMBERG EUROPE STEEL INDEX® (VALUES INDEXED)

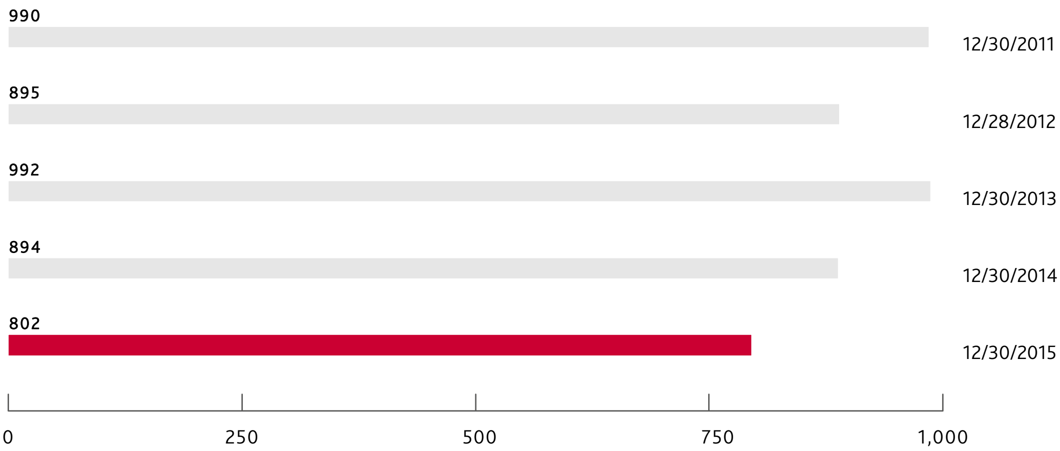


The Bloomberg Europe Steel Index often used as a benchmark for Klöckner & Co shares shed some 33% in the reporting period. In contrast, the MDAX® recorded a gain of around 23% in 2015 and the DAX® an increase of 10%. Klöckner & Co SE ranked 61st by free float market capitalization and 38th by trading volume in Deutsche Börse AG's ranking for MDAX® and SDAX® stocks in December 2015.

MARKET CAPITALIZATION

The market capitalization was approximately €802 million at the end of the reporting period, compared with €894 million as of December 30, 2014.

MARKET CAPITALIZATION
in €m



KLÖCKNER & CO CONVERTIBLE BOND: KEY DATA

	2010 Convertible Bond
German securities code	A1GKFA
ISIN	DE000A1GKFA1
Issue volume	€186.2 million
Issue date	December 22, 2010
Maturity date	December 22, 2017
Coupon p. a.	2.5%
Conversion price	€25.10[1)]
Standard & Poor's rating	B (Long–term rating)

1) Adjusted in light of 2011 dividend payment and 2011 capital increase.

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BOND

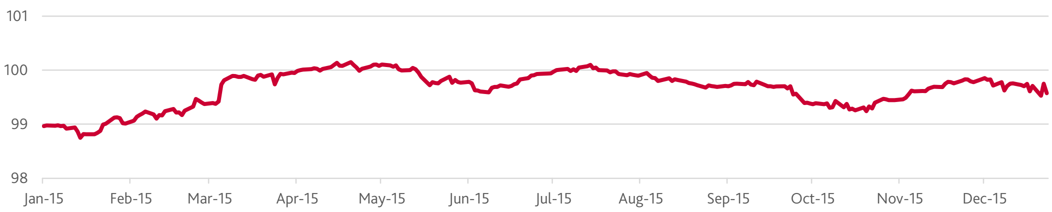
Right to early call via investor put

The 2010 convertible bond featured an investor put option. This gave each bondholder the right, subject to a minimum 20-day notice period, to call all or some of their bonds effective December 22, 2015. Bondholders exercised this right of early termination for more than 85% of the total bond issue, leaving less than 15% of the initial principal amount of the convertible bond outstanding after settlement of the investor put option.

Under the bond terms and conditions, this in turn gave the issuer the right to call the outstanding (i.e. unconverted and unredeemed) bonds in their entirety and to redeem them ahead of schedule at face value plus accumulated interest. We exercised this right on December 22, 2015 and effected the early redemption of the convertible bonds still outstanding on January 12, 2016.

As a result of the call announcement, the 2010 convertible bond traded just short of 100% as of December 31, 2015.

CONVERTIBLE BOND 2010



2015 ANNUAL GENERAL MEETING

The ninth Annual General Meeting of Klöckner & Co SE was held in Düsseldorf on May 12, 2015. Some 300 shareholders and shareholder representatives attended. In all, around 43% of the voting capital took part in voting. All resolutions tabled by the Supervisory Board and the Management Board were passed with large majorities.

Klöckner & Co once again made an online service available to shareholders in the run-up to the Annual General Meeting. Shareholders were thus able to register for the Annual General Meeting on our website, www.kloeckner.com. An online tool made it easy to order an admission ticket, submit authorizations and instructions for proxy holders and order postal voting documents. It also enabled shareholders to request e-mail delivery of the invitation for the Annual General Meeting. For registered users, this will replace the delivery by postal mail in future years.

Annual General Meeting attendance around 43%

GROUP OF ANALYSTS

The financial community continues to show strong interest in Klöckner & Co SE. At the end of 2015, 26 analysts covered and rated Klöckner & Co shares. In total, they published more than 170 research reports. At the end of 2015, seven securities houses gave a “buy” recommendation for Klöckner & Co shares, 12 gave a “hold” recommendation and seven a “sell” recommendation. You can find an up-to-date overview of investment recommendations on our website under “Investors/Shares/Analysts”.

26
analysts cover Klöckner & Co shares

Klöckner & Co shares were analyzed by the following banks and securities houses as of the end of 2015:

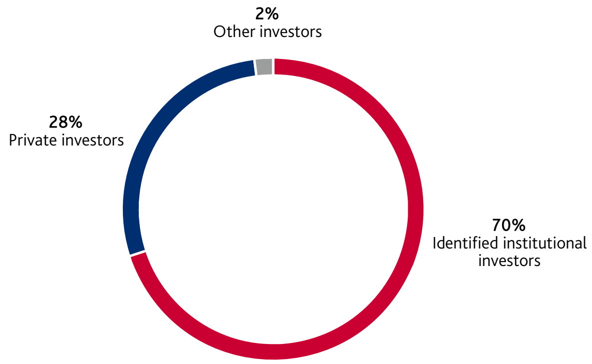
Baader Bank	HSBC Trinkaus & Burkhardt
Bankhaus Lampe	Independent Research
Bank of America Merrill Lynch	Jefferies International Equities
Berenberg Bank	Kepler Equities
BHF Bank	LBBW
Citigroup	Macquarie Capital Europe Ltd.
Commerzbank	Metzler Equity Research
Credit Suisse	M. M. Warburg
Deutsche Bank	Montega
DZ Bank	National Bank
Exane BNP Paribas	NordLB
Goldman Sachs International	Steubing
Hauck & Aufhäuser	UBS Equities

28%
of the share capital is held by private investors

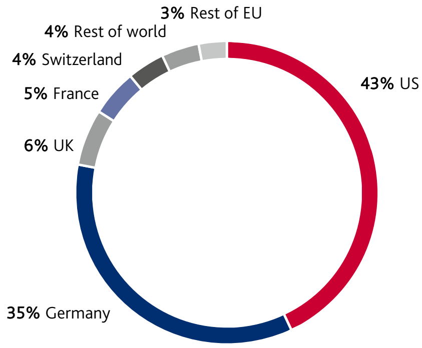
OWNERSHIP STRUCTURE

Regular analyses furnish Klöckner & Co SE with up-to-date overview of the regional distribution and structure of the shareholder base. The findings are an aid in targeting investor relations activities to specific groups as well as in effective roadshow and conference planning. It proved possible to identify some 98% of investors in February 2016. On this basis, 70% of the share capital was held by institutional investors and 28% by private investors.

SHAREHOLFER STRUCTURE OF KLÖCKNER & CO SE



GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



At the end of the year, our largest shareholders was SWOCTEM GmbH/Friedhelm Loh with a shareholding of between 20% and 25%, Federated Global Investment Management Corp. and Franklin Mutual Advisors with shareholdings of between 5% and 10% each. These were followed by Interfer Holding GmbH, BNY Mellon Service Kapitalanlage-Gesellschaft mbH, Franklin Mutual Series Funds and Dimensional Holdings Inc./Dimensional Fund Advisors LP with shareholdings of between 3% and 5% each. Our free float as defined by Deutsche Börse AG thus totaled 79.83% as of the year-end.

OPEN AND CONTINUOUS COMMUNICATIONS

At Klöckner & Co SE, investor relations is all about transparent and continuous communications with private and institutional investors. Once again in 2015, investors in Germany and internationally were informed about the Klöckner & Co Group's results and potential, both by members of the Management Board and by the IR team.

Intensive communications with institutional and private investors

Investors were able to find out about Klöckner & Co SE at the Annual General Meeting, at a total of five roadshows and thirteen conferences in all the major financial centers in Europe and America as well as at numerous additional individual meetings. Talks with investors primarily focused on the Klöckner & Co Group results, elements of and progress with the Company's digitalization strategy, and changes in ownership structure.

Klöckner & Co SE stepped up activities targeting private investors during the reporting period. At a number of events held by shareholder protection organizations, the CEO and the IR team engaged in dialogue with existing and potential Klöckner & Co shareholders that was open and constructive throughout.

Our website at www.kloeckner.com/en/investors.html has become a key part of our financial market communications. All relevant information about Klöckner & Co shares is clearly presented on the website for interested parties. Topics include financial reports, the financial calendar, information on corporate governance as well as current data on share performance. All details relating to our Annual General Meeting are also published on the website.

We keep shareholders and other interested parties abreast of current Group developments through our newsletter service. You are welcome to sign up for this newsletter via ir@kloeckner.com.

The Investor Relations team looks forward to your questions or suggestions. Please feel free to contact us at any time by telephone, e-mail or letter.

CONTACT

Investor Relations & Corporate Communications
Telephone: + 49 (0) 203 307 2290
Fax: + 49 (0) 203 307 5025
E-mail: ir@kloeckner.com

2. Corporate Governance

In this section, the Management Board reports – in its own capacity and on behalf of the Supervisory Board – on Corporate Governance at Klöckner & Co SE pursuant to Section 3.10 of the German Corporate Governance Code. The section also includes the Remuneration Report.

The entire Section 2, Corporate Governance, is an integral part of the Management Report.

2.1 Corporate Governance Report and Corporate Governance Statement

The Management Board and Supervisory Board of Klöckner & Co SE are required under Section 161 of the German Stock Corporations 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 and Consumer Protection 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, if applicable, the reasons why. In the year under review, the Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention to meeting the recommendations and the suggestions of the Code, in particular to the amendments adopted by the responsible Government Commission on May 5, 2015. The Chairman of the Supervisory Board and the Chairman of the Management Board actively took part in the related consultations. The last annual declaration was submitted in December 2015. 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.

2015 Joint Declaration of Conformity with the German Corporate Governance Code by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporations Act

The recommendations of the German Corporate Governance Code, as currently amended (hereinafter referred to as the "Code"), have been and continue to be complied with apart from the following exceptions:

1. 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.

Starting from the fiscal year 2016, the virtual stock option program (phantom stocks) for the Management Board will be discontinued. Therefore, from such date on, the recommendation of Article 4.2.3 sentence 8 of the Code will be complied with.

2. 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.

Starting from the fiscal year 2016, the virtual stock option program (phantom stocks) for the Management Board will be discontinued. Therefore, from such date on, the recommendation of Article 4.2.3 sentence 14 of the Code will be complied with.

Starting from the fiscal year 2016, therefore, all recommendations of the Code are complied with.

Duisburg, Germany, December 15, 2015

The Supervisory Board The Management Board

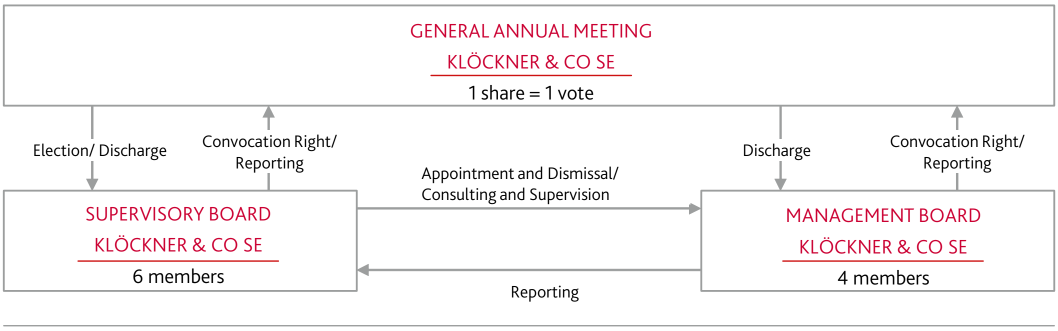
2.2 Application of the German Corporate Governance Code

Responsible corporate governance is given high priority at Klöckner & Co. Good corporate governance denotes responsible business management and control, geared to sustained value creation, by the Management Board and the Supervisory Board.

In the year under review, the Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention to meeting the recommendations and suggestions of the Code. In applying the recommendations and suggestions of the Code – as amended – as our guidance, we advance the Code's binding objective for German listed companies of promoting the confidence of international and national investors, customers, employees and the general public in the management and supervision of the Company. All recommendations of the Code as amended on May 5, 2015 are complied with from January 1, 2016. In general, the Management Board and Supervisory Board treat suggestions in the German Corporate Governance Code no differently from recommendations. With one exception, all suggestions in the Code as amended on May 5, 2015 have been complied with. Pursuant to Section 3.7 of the Code, in the case of a takeover offer, the Management Board should convene an extraordinary General Meeting at which shareholders discuss the takeover offer and may decide on corporate actions (former version of the Code: only "in appropriate cases"). Convening a General Meeting poses organizational challenges – even considering the reduced notification periods provided for in the Securities Acquisition and Takeover Act (WpÜG) – and ties up considerable personnel and financial resources. It appears questionable whether the expense involved would also be justified in those cases in which no such corporate actions are planned. For this reason, extraordinary General Meetings will continue to be convened in appropriate cases only.

GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

Klöckner & Co SE is a European Company under German 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 closely together to further the Company's interests. Intensive ongoing dialogue between the two decision-making bodies provides a sound basis for responsible and efficient corporate management.



As of: December 31, 2015.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE has full responsibility for management of the Group and the Group holding company. It sets the targets and the strategies for the Group, its segments as well as the country organizations and defines the guidelines and principles for the resulting corporate policy. The corporate strategy is developed by the Management Board in consultation with the Supervisory Board. The Management Board must act in accordance with the interests of the Company and work toward increasing enterprise value on a lasting basis. It discharges its management responsibility as a collegiate body with joint responsibility for management of the Company. 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 members of the Management Board keep each other informed with regard to important measures and developments in their portfolios. Responsibilities of the Management Board include preparing the Company's interim reports/disclosures, its annual financial statements and consolidated financial statements as well as the combined Management Report of Klöckner & Co SE and the Klöckner & Co Group. Moreover, the Management Board must ensure that all legal provisions, official regulations and corporate guidelines are adhered to and take steps to ensure that these are also adhered to by the Group companies (compliance).

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 European Companies Regulation, the German Stock Corporations Act (AktG) and the Articles of Association: Chief Executive Officer (CEO) Gisbert Rühl, Chief Financial Officer (CFO) Marcus A. Ketter, Karsten Lork, who is in charge of the operating business in Europe and Asia, and William A. Partalis, who is responsible for the operating business in North and South America.

The work of the Management Board is governed, among other things, by 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. Such approval is necessary for all significant, high-risk or unusual transactions as well as for decisions of fundamental importance to the Company. The Rules of Procedure require the Management Board in particular to hold meetings at least once a month, although the Management Board usually meets twice a month. At such meetings, the Management Board coordinates its work and makes joint decisions.

In addition to 20 meetings and seven resolutions by circulation in the year under review, members of the Management Board held coordinating discussions on numerous occasions and met or held telephone conferences with the management teams of the major segment country organizations.

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 approves the annual budget, the financing arrangements 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 Corporate Governance Statement and the Corporate Governance Report. The Supervisory Board is also involved in monitoring adherence to legal provisions, official regulations and corporate guidelines (compliance) by the Company. Moreover, the Supervisory Board is responsible for appointing the members of the Management Board and allocating their portfolios.

The Supervisory Board of Klöckner & Co SE comprises six members, all of whom represent shareholders and are generally 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 members of the Supervisory Board, possess the high level of professional expertise required to carry out their duties. Costs of external training for Supervisory Board members are met by the Company. All Supervisory Board members are independent within the meaning of Section 100 (para 5) of the German Stock Corporations Act (AktG) and Section 5.4.2 of the Code.

The Management Board and the Supervisory Board work closely together for the good of the Company. The Supervisory Board is directly involved in decisions of fundamental importance to the Company. It also consults with the Management Board on the Company's strategic positioning and regularly discusses with it the status of business strategy implementation. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings of the plenary Supervisory Board. The language of consultations in Supervisory Board meetings is English. The Supervisory Board maintains an ongoing, intensive dialogue with the Management Board to ensure that it stays abreast of business policy, corporate planning and strategy.

In addition, the Management Board's provides regular, timely and comprehensive written and verbal reporting to the Supervisory Board. Written reporting centers around the monthly Board Report. This provides information on the financial position, cash flows and results of operations of the Group and those of the Europe and Americas operating segments. The report also covers capital market developments, macroeconomic indicators relevant to Klöckner & Co SE, an assessment of the Company's situation compared with the rest of the industry as well as 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 Group and its operating segments as well as the price performance of Klöckner & Co shares 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.

Once a year, the Supervisory Board evaluates and reviews the efficiency of its own activities. The Supervisory Board does not consider any changes to be necessary in the preparation, running or agendas of its 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 (p. 10 et seq.).

COMMITTEES OF THE SUPERVISORY BOARD

The plenary work of the Supervisory Board is supplemented by its committees. The Supervisory Board has established two committees: a three-member Executive Committee and an Audit Committee, which also has three members. The Executive Committee additionally serves as the Nomination Committee, Personnel Committee and Committee for Urgent Matters. Additional committees have not been set up in view of the relatively small number of Supervisory Board members and the resulting high level of efficiency in plenary work. The committees' chairmen report regularly and comprehensively to the plenary Supervisory Board on the agendas and outcomes of committee meetings.

EXECUTIVE COMMITTEE

The Executive Committee is composed of the Chairman of the Supervisory Board as Committee Chairman, his 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, Deputy Chairman of the Supervisory Board and Mr. Ulrich Grillo.

In accordance with the Rules of Procedure, the Executive Committee also acts as 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. In addition, the Executive Committee acts with decision-making power as a Committee for Urgent Matters. It furthermore fulfills the function of a Nomination Committee. In this capacity, it proposes suitable Supervisory Board candidates to 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, the risk management system and the internal audit system, the audits of the financial statements – notably with regard to the independence of the auditor – the services additionally rendered by the auditor, the engagement of the auditor, the establishment of focal points for 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/disclosures with the Management Board ahead of publication. The Chairman of the Audit Committee, Dr. Hans-Georg Vater, is an independent financial expert within the meaning of Section 100 (para 5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the 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 systems. The Audit Committee meets at least five times a year, including three meetings held to discuss the interim reports/disclosures. Alongside Committee Chairman Dr. Vater, the other members of the Audit Committee are Chairman of the Supervisory Board Prof. Dr. Vogel and his deputy, Dr. Rogowski.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The plenary Supervisory Board holds at least four, and the Executive Committee at least three regular meetings per year. The Audit Committee holds at least five regular meetings per year. These bodies also hold meetings on an ad-hoc basis as needed. The Management Board always provides relevant documentation for the meetings of the Supervisory Board and its committees. The Supervisory Board held four meetings in the year under review, the Executive Committee five and the Audit Committee six.

GOALS FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND STATUS OF IMPLEMENTATION/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS

The Supervisory Board is to be composed in such a way 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, fundamental consideration must also be given to diversity in the composition of the Supervisory Board. Moreover, Supervisory Board members should not, as a rule, be appointed after the age of 75. The regular limit for terms on the Supervisory Board has been set at 15 years.

In addition, to avoid potential conflicts of interest, the Supervisory Board members should not be employed with major lenders, competitors, customers or suppliers unless such parties are controlling shareholders of the Company. Another objective laid out in the Rules of Procedure is that two-thirds of the members of the Supervisory Board be independent within the meaning of Section 5.4.2 of the Code. In assessing the independence of its members, 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]). Finally, the nomination must take into account that the Supervisory Board should have at least one financial expert to satisfy the requirements of Section 100 (para 5) of the German Stock Corporations Act (AktG). The current financial expert is Dr. Hans-Georg Vater.

Among other factors, the requirements for nomination as a member of the Supervisory Board depend on which of the above objectives and criteria require priority given the Supervisory Board's current composition. In the estimation of the Supervisory Board, the above objectives have largely been met based on the current composition of the Supervisory Board.

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

Pursuant to the German Act on Equal Participation of Women and Men in Leadership Positions, (i) the Supervisory Board was required to set the targets for women on the Supervisory Board and the Management Board and (ii) the Management Board to set the targets for women at the upper two leadership levels below the Management Board level. The Supervisory Board has set a target of 16.6% for women on the Supervisory Board and 0% for women on the Management Board. The Management Board has established the following targets for women at the upper two leadership levels below the Management Board level: 12.5% for level 1 and 25% for level 2. All targets must be met by June 30, 2017.

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 12, 2015. The next will likewise be held in Düsseldorf on May 13, 2016. 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 Code. We publish the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on our website. The opening of the Annual General Meeting by the Chairman of the Meeting, the CEO's speech and the report by the Supervisory Board are 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 a total of €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 saved in the company register. The reports are also available on the Company's website.

There were a total of five such transactions between January 1, 2015 and February 19, 2016.

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

Date	Name	Position	Instrument	Transaction	Quantity	Price per unit	Total price
04/01/2015	Gisbert Rühl	Management Board	Shares	Purchase	14,674	9.1613 €	134,432.92 €
04/01/2015	William A. Partalis	Management Board	Shares	Purchase	12,101	9.1613 €	110,860.89 €
04/01/2015	Marcus A. Ketter	Management Board	Shares	Purchase	9,782	9.1613 €	89,615.84 €
04/01/2015	Karsten Lork	Management Board	Shares	Purchase	9,782	9.1613 €	89,615.84 €
12/02/2015	Cassiopeia GmbH1)	Supervisory Board	Convertible Bond	Early redemption2)	5	50,000.00 €	250,000.00 €

1) Majority shareholder of Cassiopeia GmbH is Prof. Dr. Vogel.
2) Excercise of the Investor Put Option.

All transactions involving Management Board members during the period under review were share purchases relating to their obligation to invest in shares in the Company (see Remuneration Report – Section 2.3).

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 than 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. We also ensure that the provisions of the German Corporate Governance Code are adhered to with regard to auditor independence. The auditor and Group auditor appointed by the Annual General Meeting 2015 for the fiscal year 2015 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Prof. Dr. Kai Christian Andrejewski (from 2012, four signatures) and Dr. Markus Zeimes (from 2011, five signatures) are the key audit partners. KPMG AG, Berlin, (or its subsidiary, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been the auditor for Klöckner & Co SE (or its legal predecessor) since fiscal year 2005. It is planned that KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, will once again be nominated at the Annual General Meeting 2016 for election as auditor and Group auditor for the fiscal year 2016. The key audit partners are expected to be Mr. Helio Rodrigues (one signature) and Dr. Markus Zeimes (six signatures).

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 the management of opportunities and risks in the Klöckner & Co Group as Section 6.3 of the 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 and the Management Report as well as other statutory and voluntary disclosures. Other elements of reporting include the half-year financial report in August and the interim reports and disclosures published in May after the first quarter and in November after the third quarter of each year. A financial statements press conference as well as an analysts' and investors' phone conference are held on publication of the Annual Report. On publication of the quarterly and half-year reports, we hold conference calls for journalists, analysts and investors. In addition, we organize events and numerous consultations with financial analysts and investors in Germany and internationally, as well as with journalists. Regular dates and events relating to Klöckner & Co SE are listed in the financial calendar on our website. We use the Internet as our main channel of communication for providing shareholders and the public with equal access to timely, comprehensive information. Roadshow presentations for financial analysts and investors are made available to the general public on our website soon after each roadshow. We also publish press releases as needed. Specific information likely to have significant influence on the price of Klöckner & Co shares or other securities 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 external advice (particularly on legal issues) as needed.

FUNDAMENTAL CORPORATE PRACTICES AND COMPLIANCE

Ensuring adherence to international regulations and fair conduct toward our business partners and competitors is one of our Company's guiding principles. In following these principles, Klöckner & Co SE sees itself as bound not only to statutory and other legal provisions; obligations entered into voluntarily as well as ethical principles similarly constitute integral components of our corporate culture. Observance of such regulations by Group companies, their decision-making bodies and workforces is a fundamental management and supervisory responsibility at Klöckner & Co SE.

To this end, a compliance management system was set up as early as 2007 and today centers on antitrust law, anti-corruption policies, data protection and export control. The program is regularly reviewed, fine-tuned and supplemented. A compliance organization has been established to manage and implement the program and further its development. As part of this system, 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 whenever they arise. Classroom training is complemented by a Group-wide interactive e-learning program and kept up to date with regular refresher sessions addressing sector-specific compliance issues. Every employee is called upon to actively help implement the compliance program in their sphere of responsibility.

The Code of Conduct published on the Company website and elsewhere sets out basic rules and principles as a framework for our business activities and social engagement. The Code of Conduct is supplemented by a range of Group policies and procedural instructions. 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.

All employees and business partners have the means to report to the Company any potential compliance violations and instances of non-compliance with the Code of Conduct. A telephone and web-based whistleblower system is available for this purpose, and has been operated by an external service provider since the beginning of 2015. The platform can be accessed free of charge from anywhere in the world and can also be used anonymously.

In addition, we have adopted extensive measures to ensure adherence notably to antitrust and anti-corruption rules and regulations as well as to Group policies based on them. The Management Board of Klöckner & Co SE has unequivocally expressed its policy with regard to antitrust violations and corruption in "Tone from the top", published on the Company intranet and website. Antitrust violations and violations of provisions prohibiting corruption are not tolerated in any way and will result in sanctions against the offending decision-making bodies and/or employees. To prevent corruption risks, we have additionally established strict rules on hiring third-party brokers, whom we assess with the aid of an external service provider before entering into any contract. This review is repeated at regular intervals according to risk.

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 implemented. An external Group data protection officer coordinates and oversees all related activities.

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 dealings with information that could potentially impact the price of Company shares as well as transactions in Company securities by board members and employees. Individuals who have legitimate access to insider information as part of their work are registered on an insider list.

2.3 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 amount of the compensation. The Remuneration Report takes into account the recommendations of the German Corporate Governance Code.

Management Board compensation

The remuneration system for members of the Management Board of Klöckner & Co SE for the reporting period was approved at the Annual General Meeting on May 12, 2015 with a majority of 91.6% of votes cast.

Compensation for Management Board members consists of non-performance-related and performance-related components. The non-performance-related components comprise a basic (fixed) salary, ancillary benefits and pension benefits. The performance-related components of Management Board compensation in the reporting period consisted of a variable annual bonus and a virtual stock option (VSO) program. However, only half of the variable annual bonus is paid out. After deducting income tax at a fixed rate, the other half is converted into a personal investment in Company shares by the Management Board member in question for a term of at least three years and is therefore linked to the Company's sustainable growth. The performance-related components thus give mainly long-term performance incentives, gearing the compensation structure toward the Company's sustainable growth.

In the past fiscal year, the annual fixed salary for ordinary members of the Management Board was €480,000. Total annual compensation (fixed salary plus bonus) at 100% target attainment was €840,000. The fixed salary for the CEO in the past fiscal year was €860,000 and the total compensation (fixed salary plus bonus) at 100% target attainment was €1,500,000. 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 the case of the CEO with a driver. In addition to the compensation components set out above, Management Board members Mr. Rühl and Mr. Lork have defined-benefit pension plans in accordance with the rules of Essener Verband, which in this instance provide for a life-long pension with benefits for surviving dependants. Management Board member Mr. Partalis has a comparable pension plan commensurate with the arrangements applicable to him at the US subsidiary prior to his appointment to the Management Board, which likewise include a life-long pension. Instead of pension benefits, Management Board member Mr. Ketter receives a fixed amount each year that he must use to provide for his own retirement income (a defined contribution pension plan).

The Management Board members' compensation – fixed salary, bonus (plus any special bonus awarded at the Supervisory Board's discretion to reward exceptional performance or accomplishment) and virtual stock options – is subject to a cap. In the past fiscal year, it was capped at €2,700,000 for ordinary members of the Management Board and at €5,162,500 for Chairman of the Management Board Mr. Rühl.

Bonuses

The compensation system provides for an annual bonus that is calculated based on the achievement of targets set by the Supervisory Board at the beginning of each fiscal year. However, only half of the annual bonus is paid directly to each Management Board member. Management Board members must use the other half for a personal investment in Company shares with a vesting period of three years. In the reporting period, just as in previous years, target figures for EBITDA and cash flow from operating activities were set for the purposes of the annual bonus based on the Group's budget. For calculation purposes, each of these target figures accounts for 35%. The achievement and implementation of other targets and measures is factored into the bonus calculation at a total weighting of 30%. In the reporting period, this related primarily (i) to implementation of the KCO WIN optimization program and the expansion of higher value-added processing services, (ii) to measures to enhance differentiation from small and medium-sized competitors (including launch of the web shop, POW:R (paperless stockyard) and the CRM program in other country organizations), as well as (iii) to various growth measures.

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 €640,000, subject to a maximum of €1,280,000. The maximum amounts correspond in each case to 200% target attainment. Under the Management Board members' contracts, the Supervisory Board also has discretionary power to award a special bonus for exceptional performance or exceptional accomplishment. In total, however, the special bonus and annual bonus may not exceed the above-mentioned cap on the annual bonus. No special bonus was awarded for the year under review.

Virtual stock options (VSOs)

As in previous years, the Management Board members also received virtual stock options (VSOs). These 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 exercise date of the VSOs. The strike price is equal to the average Klöckner & Co share price over the last 30 trading days of the year before allocation of the respective tranche. The vesting period is three years from the date of issue for the first third of the tranche, four years for the second third and five years for the last third. 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. In the past fiscal year, the ordinary members of the Management Board each received 60,000 VSOs and the CEO received 120,900 VSOs. The VSO program and the use of 50% of the annual bonus for personal investment in Company shares ensure that, through these compensation components, Management Board members participate in the Company's long-term performance. 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. This compensation depends on the remaining term of the contract, but is capped at two years' annual compensation. 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 the term of their contract, capped at three times the total compensation they received in the last fiscal year ended prior to the termination date. The personal investment requirement is waived for the remaining term. Also, any personal investment shares still vesting are unlocked and released. The Management Board members are subject to a 24-month post-contractual non-competition covenant compensated for by payment of half of their final overall remuneration (fixed salary plus bonus at 100% target attainment) unless the Company waives the clause. The personal investment requirement is once again waived. The Company has directors and officers (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. Management Board member Mr. Partalis, who is in charge of the Americas segment, is normally resident in the USA. His employment contract, which provides for compensation in euros, includes an anti-devaluation clause to limit the impact of exchange rate changes.

Changes from January 1, 2016

As of fiscal year 2016, the virtual stock option (VSO) program is being discontinued as a performance-related component of the Management Board members' remuneration. Instead, the Management Board members' annual bonus is being doubled. Thus, the annual bonus for ordinary members of the Management Board, subject to 100% target attainment, is €720,000 or a maximum of €1,440,000, and the annual bonus for the CEO is €1,280,000 or a maximum of €2,560,000. Only 49% of the annual bonus is paid directly to each Management Board member. After deduction of income tax at a fixed rate, the remaining 51% must be used by Management Board members for a personal investment in Company shares with a vesting period of three years. In this context, the cap on the total remuneration of the individual Management Board members is reduced to €1,920,000 for ordinary members of the Management Board and to €3,420,000 for the CEO. This modified compensation system will be presented to the 2016 Annual General Meeting for approval.

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-related compensation components. Compensation levels are set overall to be internationally competitive as well as to give incentives geared to the Company's sustainable growth and a sustained increase in its value in a dynamic environment. To aid the Supervisory Board in setting and regularly reviewing the fixed and variable components of Management Board remuneration, 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 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 (also allowing for the changes effective from January 1, 2016) with other companies showed Klöckner & Co SE to be below the average of comparative figures regarding the amount and structure of compensation. In addition, a vertical comparison with the compensation for senior management and the Group workforce as a whole is carried out. In this case, the Supervisory Board determined that the structure and amount of the total compensation for Management Board members is commensurate with their duties and performance, remuneration structures in the Company and the situation of the Company, is geared to the Company's sustainable growth and does not exceed normal levels. These findings apply likewise to the changes effective from January 1, 2016.

Compensation for 2015

The tables below show the individual compensation entitlements of Management Board members for 2015 as provided for in the German Corporate Governance Code:

Granted compensation	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed compensation	720	860	860	860	420	480	480	480
Ancillary benefits[1]	35	41	41	41	127	127	127	127
Total	**755**	**901**	**901**	**901**	**547**	**607**	**607**	**607**
One year's variable compensation[2]	540	640	-	1,280	360	360	-	720
Multi-year variable compensation								
- Virtual stock option plan	496	397	-	3,023	147	180	-	1,500
Total	**1,791**	**1,939**	**901**	**5,204**	**1,054**	**1,147**	**607**	**2,827**
Postemployment benefits	466	677	677	677	-	-	-	-
Total compensation	**2,257**	**2,616**	**1,578**	**5,881**	**1,054**	**1,147**	**607**	**2,827**

Proceeds	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2014	2015			2014	2015		
Fixed compensation	720	860			420	480		
Ancillary benefits[1]	35	41			127	127		
Total	**755**	**901**			**547**	**607**		
One year's variable compensation[2]	539	812			360	457		
Multi-year variable compensation								
- Virtual stock option plan	-	-			-	-		
Total	**1,294**	**1,713**			**907**	**1,063**		
Postemployment benefits	466	677			-	-		
Total compensation	**1,760**	**2,390**			**907**	**1,063**		

1) Includes for Marcus A. Ketter €100,000 in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.

Granted compensation	Karsten Lork				William A. Partalis			
(€ thousand)	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed compensation	420	480	480	480	480	480	480	480
Ancillary benefits	27	29	29	29	17	30	30	30
Total	**447**	**509**	**509**	**509**	**497**	**510**	**510**	**510**
One year's variable compensation2)	360	360	-	720	442	459	-	919
Multi-year variable compensation								
- Virtual stock option plan	147	180	-	1,500	208	188	-	1,500
Total	**954**	**1,049**	**509**	**2,729**	**1,147**	**1,158**	**510**	**2,928**
Postemployment benefits	71	156	156	156	201	250	250	250
Total compensation	**1,025**	**1,205**	**665**	**2,885**	**1,347**	**1,407**	**760**	**3,178**

Proceeds	Karsten Lork				William A. Partalis			
(€ thousand)	2014	2015			2014	2015		
Fixed compensation	420	480			480	480		
Ancillary benefits	27	29			17	30		
Total	**447**	**509**			**497**	**510**		
One year's variable compensation2)	360	457			445	583		
Multi-year variable compensation								
- Virtual stock option plan	-	-			-	-		
Total	**807**	**965**			**942**	**1,092**		
Postemployment benefits	71	156			201	250		
Total compensation	**878**	**1,121**			**1,143**	**1,342**		

2) For William A. Partalis calculated under consideration of a value adjustment mechanism to limit effects of potential changes in the US Dollar exchange rate.

Supervisory Board

The structure and amount of compensation paid to the Supervisory Board are governed by Article 14 of the Articles of Association available on the Company's website.

Compensation consists mainly of fixed compensation allocated pro rata temporis in the event of personnel changes during the fiscal year. An attendance fee is also paid and reasonable out-of-pocket expenses and value added tax are reimbursed. Costs of external training for Supervisory Board members are met by the Company by way of expense account settlement. The fixed compensation per fiscal year is €40,000. The Chairman of the Supervisory Board receives two-and-a-half times, his or her deputy one-and-a-half times and the Chairman of the Audit Committee one-and-a-quarter times the fixed compensation.

The attendance allowance is €2,000 per meeting. The Chairman of the Supervisory Board and any Chairman of a Supervisory Board committee each receive two-and-a-half times this amount and their deputies one-and-a-half times this amount. Pursuant to Section 314 (para 1) no. 6 of the German Commercial Code (consolidated financial statements) and Section 285 no. 9 of the German Commercial Code (separate financial statements), Supervisory Board remuneration totaled €487,667 in 2015 (2014: €466,000). The table below shows the individual compensation entitlements of Supervisory Board members for 2015 in accordance with Section 5.4.6 sentence 6 of the German Corporate Governance Code. All payments are due after the close of the Annual General Meeting in 2016. No compensation or benefits were granted for services provided individually, in particular advisory and agency services.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	57,000	157,000
Dr. Michael Rogowski (Deputy Chairman)	60,000	34,000	94,000
Ulrich Grillo	40,000	18,000	58,000
Robert J. Koehler	16,667	2,000	18,667
Prof. Dr. Kollmann	20,000	4,000	24,000
Hauke Stars	40,000	8,000	48,000
Dr. Hans–Georg Vater	50,000	38,000	88,000
	326,667	**161,000**	**487,667**

Major progress achieved with digitalization of supply and value chain

Operating income down due to sluggish demand and falling prices

€ 191 m

Positive **Free Cashflow** compared with negative €64 million in prior year

Substantial net loss due to restructuring expenses and goodwill impairments

Very solid balance sheed maintained with

39 %

equity ratio

Significant **increase in operating income** (EBITDA) forecast for this year

Slightly positive net income expected in **2016**

GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report[1] for Fiscal Year 2015

[1] For the Remuneration Report and the Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (HGB), which are integral parts of the Group Management Report, please see the Corporate Governance section on pages 22–37 of this report.

1. Fundamental information about the Group

1.1 Group structure

Klöckner & Co SE is the parent and ultimate holding company of the Klöckner & Co Group. It controls the management companies of the Europe and Americas segments with their operational country organizations. The Group's legal and financial structure has changed as follows relative to the prior year: To expand our business with higher value-added products and services, we acquired American Fabricators in the USA and initiated substantial additions to the aluminum flat products range by establishing Becker Aluminium Service. We also launched kloeckner.v to invest in selected venture capital firms and, in the future, also for direct investment in startups that support our digitalization strategy with disruptive business models. Conversely, we have pulled out of China in light of the poor economic trend and dim prospects for the local steel market there.

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. Since the initial public offering at the end of June 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard).

1.2 Business activities/business model

200 distribution and service locations in 14 countries

Klöckner & Co is one of the world's largest producer-independent steel and metal distributors and one of the world's leading steel service center companies. 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 and wide range of national and international sourcing options spanning some 60 main suppliers worldwide. Our key competitive factors are economies of scale in global procurement, our broad product portfolio, customer access provided by an extensive logistics and distribution network, a diverse range of prefabrication services, and high product availability. Spanning 14 countries, our global network provides customers with local access to around 200 distribution and service locations. Our high product availability levels largely eliminate the need for customers to hold their own inventories. Concentrated mainly in the construction industry as well as the machinery and mechanical engineering industries, our customer base comprises around 140,000 mostly small to medium-sized steel and metal consumers. In addition, we supply intermediate products for the automotive, shipbuilding and consumer goods industries. We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes that we are increasingly migrating to digitalization.

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

1.3 Corporate strategy

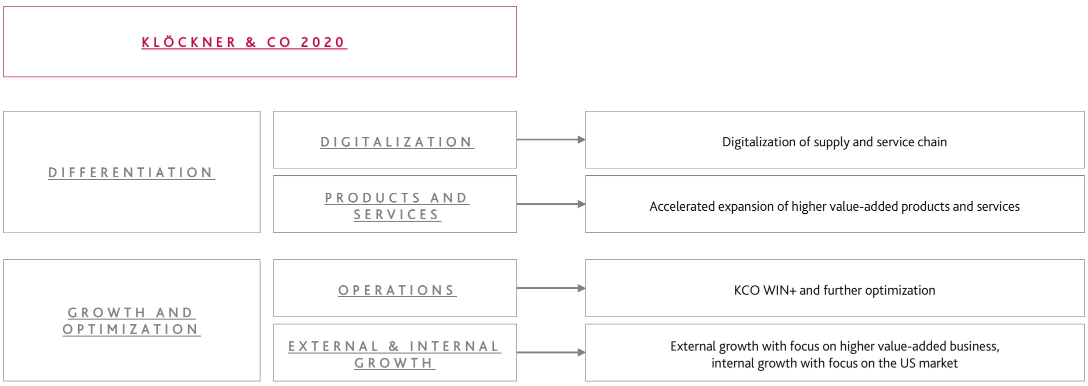
"Klöckner & Co 2020"

Digitalization and the related change in customer expectations are revolutionizing business models and industries with unprecedented speed: Real and virtual worlds are increasingly merging and paving the way for an end-to-end, digitally integrated industry. A company's competitive edge increasingly depends on their software and digital capabilities. Traditional products and services are taking a back seat. Changes are no longer linear, but rather exponential. In terms of the necessary transformation, speed is of the essence when it comes to profiting from the immense opportunities that digitalization brings.

Pioneer of digitalization

We recognized the potential early on and already began digitalizing our supply and value chain more than two years ago, thereby taking on a pioneering role in our industry. We see the successes we have already achieved in terms of digital transformation as well as the growing interest among customers, suppliers and competitors in the subject as confirmation that we are on the right track. Digitalization occupies a prominent position in our "Klöckner & Co 2020" growth strategy.

The second key component of our strategy is the expansion of our business in higher value-added products and processing services. In this way, we plan to increasingly break free from the environment of sector-wide overcapacity with constant pressure on steel prices. At the same time, we are stepping up our stronger focus on higher-margin business by planning further acquisitions in this area and, under our KCO WIN+ restructuring and optimization program, relinquishing activities that are insufficiently profitable.

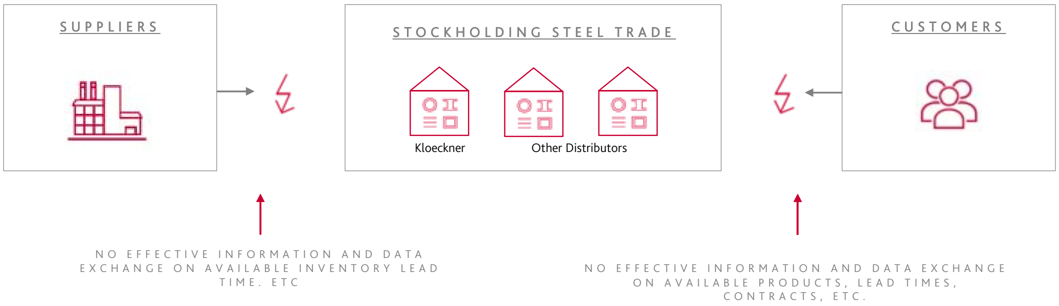


DIGITALIZATION

Our objective: to transform the industry

To this day, the steel industry's supply and value chain remains highly inefficient. Most customer orders are still placed by telephone, fax or e-mail. Placing orders with suppliers is similarly inefficient. There is no end-to-end digital order and production management. The upshot is not just high inventory levels at every link in the value chain, which tie up large amounts of capital, but also high process costs for all concerned. These inefficiencies also lengthen the time from production to delivery, meaning that additional earnings potential is lost. Our objective is to eliminate these inefficiencies by creating an end-to-end digital information flow from the producer to the customer – and thus ultimately to transform the industry.

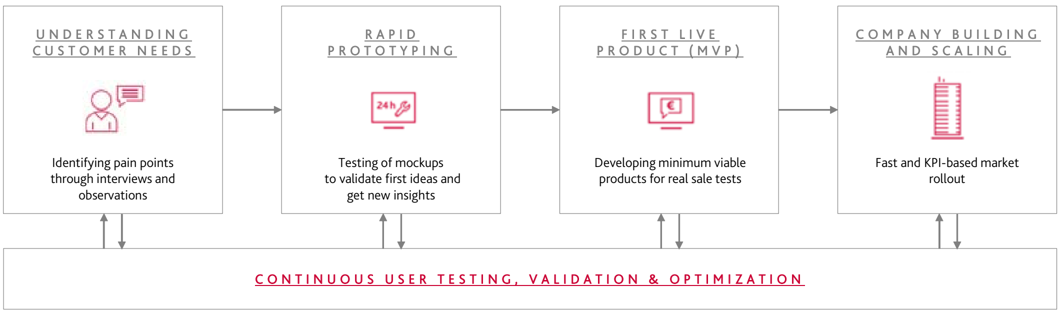
NO EFFECTIVE INFORMATION AND DATA EXCHANGE IN STEEL SUPPLY CHAIN



Our approach draws from the methods of successful startups

However, the transformation of our industry calls for not only new business models, but also a new approach. The traditional processes used in developing systems fail to meet the demands of the fourth industrial revolution. This is why, right from the start, we have adopted the working approach used by startups which, owing to limited resources, typically have to get their products and tools to market extremely quickly. Our modus operandi is to put customers and users right at the heart of our thinking when developing new digital solutions. We make intensive use of methods such as design thinking, agile product development, and the lean startup approach so as to establish effective digital solutions on the market for customers and partners in the shortest possible time. To this end, we first go directly to the customer's premises and evaluate on site how we can create added value. Based on these findings, we very rapidly develop simple prototypes that to begin with deliberately only cover the most important functions. Through constant testing and fine-tuning, we then check with our customers whether and to what extent the individual tool meets the given requirements – true to the motto "build, measure, learn". This ensures that only prototypes that have already been validated with customers are developed into solutions and rolled out worldwide.

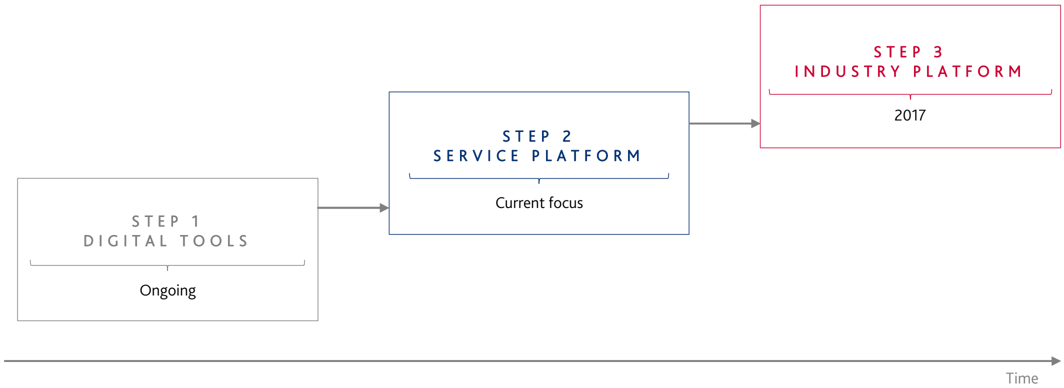
APPLICATION OF LEAN STARTUP-METHODS



Initial digital tools, including contract portals and web shops, are already being used successfully by customers. Another huge challenge is digitally integrating the tools with customer merchandise management systems via standard interfaces, for example, so as to avoid costly and error-prone double entries. In procurement, we have achieved integration with an initial number of wholesalers and major steel producers.

All tools will be integrated into Klöckner's service platform and gradually fine-tuned over the course of fiscal year 2016. This gives customers and partners a central access point for data, which they can use much more efficiently than before. In another step, we are planning to launch an industry platform from 2017 that will also be open to competitors. With it, we aim to additionally boost product diversity and enhance price transparency for our customers. At the same time, we will also be tapping into additional earnings potential by charging commission for transactions made on the platform.

BUSINESS MODEL TRANSFORMATION IN THREE STEPS



Alongside digitalization of processes throughout the Group, intelligent use of the data generated is increasingly gaining in importance. Better evaluation incorporating a wide variety of factors will make it possible to predict requirements with much greater accuracy as well as further boost the efficiency of the supply and value chain. At the same time, a more in-depth analysis of customer behavior will open up additional growth potential.

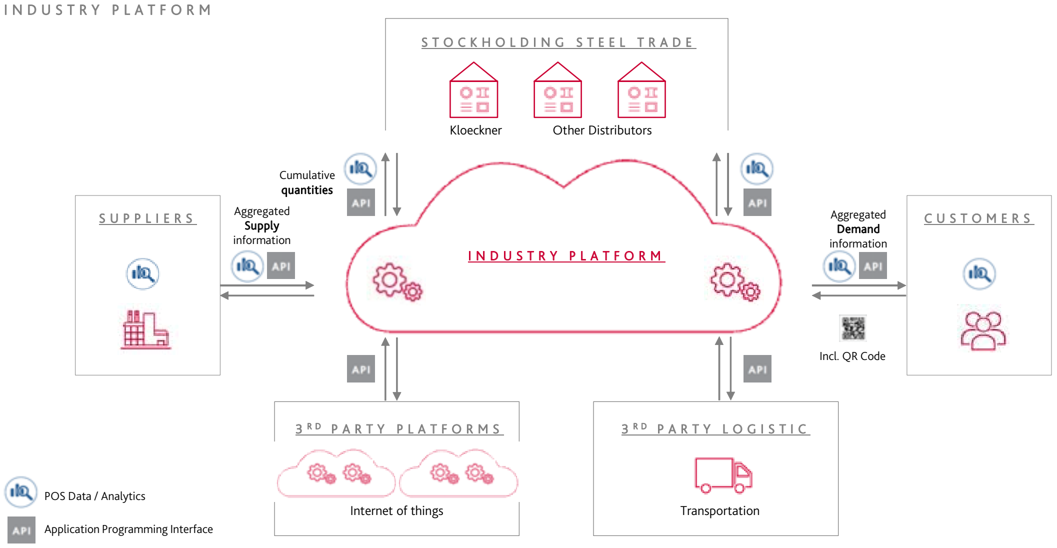
Thanks to our high level of digital expertise, we are now the partner of choice from the steel industry when it comes to cross-sectoral online trading and Industry 4.0 projects. Through a partnership with an online trading startup, for example, we are servicing the attractive business with tradespeople and private customers online. We are also the exclusive partner of an Industry 4.0 project by machinery manufacturer Trumpf, in which production machines will in the future order steel from us autonomously. The Klöckner & Co contract portal has been integrated into the customer solution's software user interface for the purpose.

Already more than 20 employees at kloeckner.i

All projects and initiatives relating to digitalization and digital integration are being driven forward by kloeckner.i, our Group Center of Competence for Digitalization, from the heart of the German startup scene in Berlin. More than 20 employees recruited from the Berlin startup scene are now working at kloeckner.i in the fields of product innovation and development, online marketing and business analytics. Free from the usual constraints of Group conventions, the online experts, who live and breathe agile software development, push ahead with all their projects at tremendous speed. kloeckner.i additionally furnishes a platform for in-house knowledge transfer. By the end of 2016, we will at least double the workforce at our digitalization subsidiary.

While kloeckner.i operates like an internal startup, it is through our venture capital company kloeckner.v that we establish links with external startups. This company invests through selected venture capital firms and will in the future also invest directly in startups that support our digitalization strategy with disruptive approaches. We joined Deutsche Börse's Venture Network in the first quarter of 2016 with a view to improving our access to attractive direct investments in this segment.

INDUSTRY PLATFORM



For the ongoing implementation of our digitalization strategy, we have set ourselves the ambitious goal of generating more than half of Group sales online by as early as 2019.

Profound cultural shift initiated

Our digitalization strategy also goes hand in hand with a profound cultural shift within our Company. The innovative working methods from the startup scene, for example, are being used more and more throughout the Group with a view to also boosting efficiency and speed here. These efforts are supplemented by in-depth dialogue between our digitalization subsidiary kloeckner.i and employees from other divisions at all country organizations. Training is also being offered – for instance, in design thinking – to get the workforce in shape for the digital age. This lends employees support in developing new ideas, which they can discuss and fine-tune with all colleagues in a non-hierarchical atmosphere across national and divisional borders using innovative channels of communication, such as Yammer, the Group's internal social network. We foster an open error culture so as to turn the lessons learned from mistakes into value for our Company as well as to strengthen employees' creativity. The Management Board sets an example by actively embracing the standards and values of our new corporate culture. These are passed on and consolidated throughout the organization by means of intensive internal CEO communications.

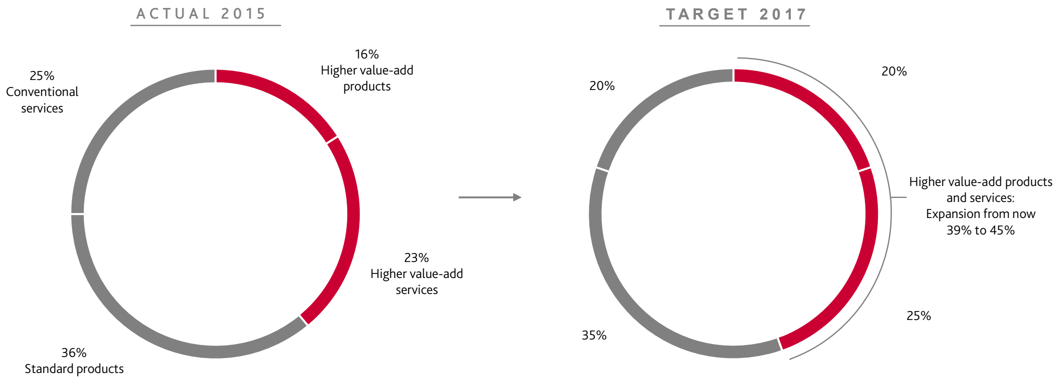
ACCELERATING THE SHIFT TO HIGHER VALUE-ADDED PRODUCTS AND PROCESSING SERVICES

Business with higher value-added products and processing services is being further expanded

Alongside digitalization, our second strategic blueprint for setting ourselves apart from competitors is to increase the proportion of higher value-added products and processing services. There is huge market potential here as many of our customers are highly vertically integrated and still carry out tasks we could perform more efficiently by consolidating orders. A good example is our investment in 3D lasers, which we can use to combine several conventional customer tasks such as drilling, sawing and slotting at an attractive price and with significant gains in precision. We will also be undertaking a major expansion of higher-margin business with higher value-added products. At our Bönen location in North Rhine Westfalia, for example, we are building a service center to process aluminum flat products for the European automotive and manufacturing industries.

In total, we plan to further increase the percentage of sales accounted for by higher value-added products and processing services to 45% by 2017, having already increased it from 34% to 39% in the reporting period. We intend to generate the lion's share of sales with higher-margin products and services by 2020.

SHARE OF SALES



KCO WIN+ PROGRAM

Thanks to a range of measures designed to improve workflows and processes in our business operations, we already achieved an incremental EBITDA contribution of €26 million in 2014 and 2015 under the KCO WIN+ program. We have expanded the program considerably by including additional restructuring and improvement measures, primarily in France but also in other European countries such as Spain and the Great Britain. The extended program is expected to have an added annual impact on EBITDA of some €30 million from 2017, most of which will be realized this year. This boosts the annual contribution from the program to as much as €60 million from 2017.

€26 million

EBITDA from KCO WIN+ in 2014 and 2015

It is expected that the cash outflows resulting from the additional restructuring and optimization measures will be more than offset by the amount of working capital freed up as well as by income from the disposal of production sites that are no longer required.

The additional restructuring measures in France became necessary largely due to the further deterioration in the situation of the French construction industry, which represents by far our most important customer group in this region. And, in the coming years, we expect only a moderate improvement in the market there at best. This is why we are streamlining the country headquarters, downsizing the network by eleven locations and significantly reducing notably the low-margin key account business with standard merchandise. In the course of these measures, the workforce will be further reduced by around 310.

At the same time, structural improvements will be implemented at other European country organizations. These include downsizing the country organizations' headquarters as well as closing persistently unprofitable locations and non-core activities. A total of four further locations will be closed and the number of employees reduced by around 285 as part of the measures. Due to the poor economic trend and the subdued outlook for the local steel market, we have also closed our service center in China, which originally had a headcount of 35.

This is expected to bring the total number of locations closed under KCO WIN+ by the end of the first quarter of 2016 to 16 and the total reduction in the workforce to around 630.

RETURN TO GROWTH PATH THROUGH EXTERNAL AND ORGANIC GROWTH

The key organic growth drivers are the expansion of our business in higher value-added products and processing services as well as digitalization.

USA as most attractive market in the medium and long term

In terms of regional growth opportunities, we see the USA as our most attractive market over the medium and long term, despite the slump in steel prices last year. This market is made especially attractive for us because of the far better match between steel demand and local supply compared with Europe, coupled with the strict separation of producers and distributors. We aim to increase the US share of shipments from 41% in 2015 to more than 50% in the medium term.

When it comes to strengthening higher-margin business, we target a mix of organic and external growth. Consequently, alongside a marked increase in capital expenditure in this area – and following the acquisition of American Fabricators, Inc. in the USA and Riedo in Switzerland – we are planning further acquisitions of companies that offer a wide range of higher value-added products and processing services.

1.4 Control system

Financial performance indicators

The most significant key performance indicators (KPIs) used in the management of Klöckner & Co's business are sales, gross profit (and gross profit margin), operating income (EBITDA – earnings before interest, taxes, and depreciation and amortization including impairments and impairment reversals on intangible assets and property, plant and equipment) and the EBITDA margin, net working capital, and net financial debt. These central KPIs are reported and monitored at the level of the Group as a whole as well as at segmental level.

Sales is the key driver of the KPIs that follow it – gross profit and the gross profit margin. Gross profit is sales less cost of goods sold and is thus an important indicator of the Company's profitability. Considering the time lag between the setting of procurement and selling prices, we support our analysis by keeping a close watch on price trends in procurement markets. Windfall effects have a notable impact on the gross profit margin (gross profit as a percentage of sales). In the medium term, our strategy of marketing higher value-added products and prefabrication services is geared to boosting our gross profit margin to a higher level with smaller fluctuations. The most significant KPI for results of operations is operating income (EBITDA), or, if major restructuring is in progress, EBITDA before restructuring measures. This takes into account all costs subject to short-term influence. Based on this, the EBITDA margin – EBITDA as a percentage of sales – is an important indicator in steel distribution and in the capital markets, as well as a crucial element in our management incentive system.

In addition to these primary key performance indicators, we also monitor other important KPIs relating to the use of capital in the business. Fixed asset intensity ratios tend to be low in steel distribution, while current asset intensity tends to be very high. We therefore keep a close eye on net working capital. In the Klöckner & Co Group, net working capital is defined as inventories plus trade receivables less trade payables. From a risk perspective, we therefore place special emphasis on trade receivables while fine-tuning inventories less trade payables.

Just-in-time procurement by customers calls for high-level availability in our merchandise inventories. This means that high stockholding levels are closely tied to shipments and our results of operations. For this reason, we also keep a constant watch on net working capital in light of changes in EBITDA. The second KPI for the use of capital in the business is net financial debt, which in turn is substantially influenced by changes in net working capital. Net financial debt (financial liabilities less cash and cash equivalents) is an important indicator in corporate finance management. Changes in net financial debt also reflect cash generated by the business. However, the capital markets, too, look to net financial debt in determining the value of our stock.

These key performance indicators are the basis of management processes and decision making at strategic and operating level, including for purposes such as investment and acquisition decisions. Changes in the key performance indicators are reported on in the "Results of operations, financial position and net assets" section.

Non-financial performance indicators

We believe that non-financial objectives are likewise critical to the company's success. This is why we give high priority to health and safety in the workplace. Initiatives we have adopted to this end include the Group-wide "Safety 1st" program, under which measures are geared to ensuring safe working conditions as well as to reducing accidents at work and the costs they entail. Our key performance indicator for this purpose is the lost time injury frequency (LTIF). This is defined as the number of accidents / number of hours worked x 1,000,000. We are targeting a reduction here to reach an LTIF value of below ten in all subsidiaries. This target is integrated as a variable component in the compensation system for European management.

2. Economic report

2.1 Macroeconomic conditions

Economic environment

MACROECONOMIC SITUATION

The global economy grew by 3.1% in 2015. Reduced costs as a result of falling oil prices drove both consumption and capital spending, but the economic situation in China and its associated impact on the global economy, along with geopolitical crises, meant that initial growth expectations were not met.

Throughout the year, the eurozone economy benefited above all from the expansive monetary policy of the European Central Bank (ECB) and the weak euro, which boosted exports from the eurozone. However, these measures by the ECB fell short of producing sustained growth. GDP in the region grew by 1.5% overall in 2015 compared with the prior year.

The USA saw a continuation of the economic upturn. A robust labor market and low energy costs led to increased consumer spending. The construction sector generated positive impetus, contributing to a 2.5% expansion of the US economy year-on-year.

In China, GDP grew by 6.9% in 2015, continuing the downward trend in growth rates. Brazil was mired in recession once again in 2015, with rising inflation and a high base rate doing nothing to ease the economic situation. As a result, GDP dropped 3.8% relative to the prior year.

Development of GDP (in percent)	2015 vs. 2014
Europe*)	**1.5**
Germany	1.5
Great Britain	2.2
France	1.1
Spain	3.2
Switzerland	0.8
China	**6.9**
Americas	
United States	2.5
Brazil	–3.8

Source: International Monetary Fund, estimates (in some cases provisional).
*) Eurozone.

Industry-specific situation

Worldwide steel production declined by 2.8%

The market environment in the steel industry remains challenging despite the favorable overall economic situation. Worldwide raw steel production declined by 2.8% in 2015, settling at 1,623 billion tons of raw steel. According to the World Steel Association, the production volume decreased by some 2% in the European Union and by around 9% in North America. In contrast, China saw only a minimal drop in production of about 2%. Eurometal reports that shipments in Europe fell by 3% during the period under review. The decline in the USA was roughly 7.5%, according to the Metals Service Center Institute (MSCI).

The steel industry in China and Europe still faces the problem of surplus capacity, resulting in structural underutilization at the current level of demand. At the end of December 2015, steel producers in Europe and the USA were operating at only 59% and 61% of capacity, respectively. There is considerable surplus capacity also at distribution level, fueling sustained fierce competition as a result.

STEEL PRODUCTION

(in million tons)	2015	2014	Variance
France	14.9	16.1	−7.2%
Germany	42.7	42.9	−0.6%
Spain	14.9	14.2	4.4%
Great Britain	10.9	12.1	−10.4%
EU−28, total	**166.2**	**169.3**	**−1.8%**
Rest of Europe	34.0	36.2	−6.1%
C.I.S.	101.3	105.9	−4.3%
United States	78.9	88.2	−10.6%
Rest of North America	31.8	33.0	−3.6%
North America, total	**110.7**	**121.2**	**−8.6%**
South America, total	**43.9**	**45.0**	**−2.5%**
Africa	14.0	14.2	−1.8%
Middle East	27.4	28.0	−2.4%
China	803.8	822.8	−2.3%
Rest of Asia	292.5	299.1	−2.2%
Asia, total	**1,096.3**	**1,121.9**	**−2.3%**
Oceania, total	**5.7**	**5.5**	**4.6%**
Other countries	23.3	23.0	1.3%
Total	**1,622.8**	**1,670.2**	**−2.8%**

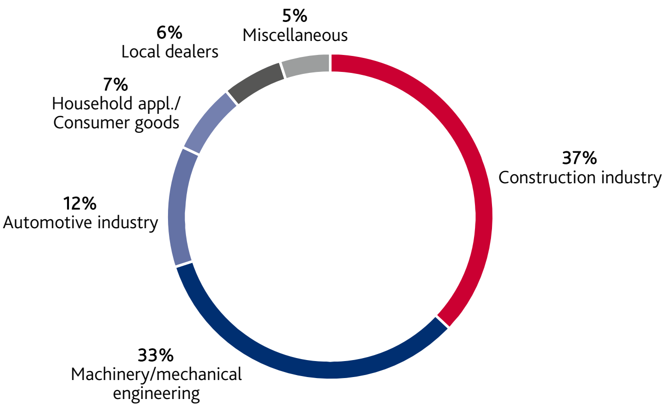
Source: World Steel Association (as of January 2016).

2.2 Sector environment

CUSTOMER SECTORS OF KLÖCKNER & CO SE (BY SALES)

In the past fiscal year, the construction industry was Klöckner & Co's highest revenue customer sector accounting for 37% of sales, followed by machinery and mechanical engineering (33%) and the automotive industry with 12% of sales.

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

As the largest processor of steel worldwide, the construction industry plays a key role in determining steel demand. According to estimates by steel industry association EUROFER, after a weak first quarter due to weather conditions, European construction activity picked up in the subsequent quarters, such that an increase of 1.8% was recorded for the full year. In the USA, the construction industry primarily benefited from growing demand in the residential construction segment. There was likewise an increase in construction of commercial buildings and large-scale infrastructure projects. All told, the US Census Bureau reports that construction spending increased 11% compared with the prior-year period.

Machinery and mechanical engineering

Demand in machinery and mechanical engineering revealed a mixed picture in 2015. Eurofer statistics indicate that sales in Europe decreased slightly by 0.4% against the previous year due to a lack of investments as well as lower demand from China and Russia. The US, on the other hand, saw moderate growth of 1.5%, driven by rising demand in machine tools and construction machinery.

Automotive industry

The economic situation in the international automotive industry was largely positive in 2015. Globally, demand increased by around 1% year-on-year, according to the German Association of the Automotive Industry (VDA). In Western Europe, shipments rose 7%, while growth of around 5% was observed in the USA. Brazil, Russia and Japan, on the other hand, reported sharp declines.

2.4 Comparison of the Group's actual business performance with the forecast from the prior year

Our projections for the reporting period in the Annual Report 2014 were based on the assumption that steel demand would grow by between 1% and 2% in Europe and between 3% and 4% in the USA. Actual demand in both regions was down.

As demand was lower than forecast overall and prices fell much more sharply than expected, sales decreased from €6.5 billion to €6.4 billion, despite positive currency effects and contrary to our original target of a slight increase. Gross profit fell from €1,261 million to €1,237 million and the gross profit margin from 19.4% to 19.2%. This means the anticipated marginal increase in these two measures failed to materialize, mainly due to the sharp drop in prices.

On account of the surprisingly weak market trend, EBITDA before restructuring expenses, at €86 million (2014: €191 million), and the EBITDA margin, at 1.3% (2014: 2.9%), likewise did not meet the forecast of a significant increase. Accordingly, net income similarly failed to achieve the expected substantial increase, falling instead from €22 million to a net loss of €349 million, further impacted by restructuring expenses of €63 million and goodwill impairments of €267 million in the USA.

The restructuring measures mainly relate to France and other European country organizations where the market trend has fallen short of projections.

The goodwill impairment on the North America cash-generating unit (CGU) became necessary after the market environment in the USA developed less favorably than expected in 2015 and budgeted earnings had to be adjusted accordingly.

Contrary to our cautious expectations of a slight increase and despite offsetting exchange rate effects, we managed to reduce net working capital from €1,321 million to €1,128 million, due to the lower price level and less inventory.

As a consequence of the lower level of resources tied up in net working capital, net debt, which was originally forecast to be slightly higher, also fell from €472 million to €385 million. The decrease was prevented from being even larger by exchange rate changes and payment of the purchase price for American Fabricators, Inc. (€33 million) in the USA.

2.5 Results of operations, financial position and net assets

The most significant key performance indicators for the results of operations, financial position and net assets for fiscal 2015 – as presented under “Control system” on page 47 – are set out in the following. The consolidated financial statements are prepared in euros. Discrepancies may arise relative to the unrounded figures.

MOST SIGNIFICANT KEY PERFORMANCE INDICATORS ACCORDING TO GAS 20

(€ million)	2015	2014	Variance	
Sales	6,444	6,504	–60	–0.9%
Gross profit	1,237	1,261	–24	–1.9%
Gross profit margin	19.2 %	19.4 %		–0.2%p
EBITDA before restructuring expenses	86	191	–105	–54.7%
EBITDA margin before restructuring	1.3 %	2.9 %		–1.6p
Net Working Capital (NWC)	1,128	1,321	–193	–14.6%
Net financial debt	385	472	–87	–18.4%

OTHER KEY PERFORMANCE INDICATORS

	2015	2014	Variance	
Shipments (Tto)	6,476	6,598	–122	–1.9%
EBITDA	24	191	–167	–87.5%
EBITDA margin	0.4 %	2.9 %		–2.6%p
Gearing (Net financial debt/shareholders' equity*))	36 %	34 %		+1.7%p
Leverage (Net financial debt/EBITDA**))	4.5x	2.5x		2.0x

*) Consolidated shareholders’ equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2013.
**) In 2015: before restructuring expenses.

Shipments and sales

Group shipments in fiscal 2015 totaled 6.5 million tons. Shipments were thus 1.9% down on the prior year (6.6 million tons). Performance in our two operating segments, Europe and Americas, was disappointing.

Shipments down due to tough market environment

In the Europe segment, shipments fell by 0.6% relative to fiscal year 2014. Shipments increased solely in Germany – mainly thanks to Becker Stahl-Service GmbH (BSS) – and in Switzerland as a result of the Riedo acquisition. All other European country organizations recorded a sharp drop in shipments due to the ongoing difficult market environment. In addition, the closure of unprofitable businesses, notably in the Great Britain, was already beginning to have an effect.

Shipments in the Americas segment decreased by 3.6% year-on-year. The reduction reflected a decline in the USA due to our customers’ buying restraint in expectation of further falls in prices. In Brazil, shipments increased slightly for the first time again, despite the persistently weak market environment.

SALES BY SEGMENTS

	2015	2014	Variance Total	Variance Currency effects	Variance Net of currency effects	
Europe	3,984	4,101	–117	160	–277	–6.8%
Americas	2,460	2,403	57	397	–340	–14.1%
Group sales	**6,444**	**6,504**	**–60**	**557**	**–617**	**–9.5%**

Decrease in sales due to exchange rate effects less pronounced than decrease in shipments

The 0.9% reduction in sales to €6.4 billion was less pronounced than the fall in shipments due to rising exchange rates, notably for the US dollar and the Swiss franc against the euro. Despite the positive exchange rate movements and the inclusion of Riedo, sales in the Europe segment declined by 2.9% over the reporting period due to low price levels. At constant exchange rates, the decrease in sales was 6.8%. While prices likewise fell in the Americas segment, above all in the flat steel business that is important to Klöckner, this was more than offset by the sharp rise in the US dollar exchange rate. In total, the segment saw sales gain by 2.4%; based on the exchange rate in the prior-year period, sales were 14.1% down on the 2014 figure.

NET INCOME

(€ million)	2015	2014	Variance Total	Variance Currency effects	Variance Net of currency effects	
Sales	6,444	6,504	–60	557	–617	–9.5%
Gross profit	1,237	1,261	–24	109	–133	–10.5%
Gross profit margin	19.2%	19.4%	–0.2%p			
OPEX*)	–1,213	–1,070	–143	–99	–44	–4.1%
EBITDA	24	191	–167	10	–177	–92.5%
EBITDA before restructuring expenses	86	191	–105	12	–117	–62.2%
EBIT	–350	98	–448	–1	–447	n.a.
EBT	–399	39	–438	–9	–429	n.a.
Net income	–349	22	–371	1	–372	n.a.

*) OPEX: Other operating income less personnel expenses less other operating expenses.

Due to the fall in prices, especially in the US, coupled with strong price pressure in Switzerland as a result of the appreciation of the Swiss franc, the gross profit margin dropped from 19.4% in the previous year to 19.2%. Impacted by restructuring expenses of €5 million, the gross profit of €1,237 million was slightly down on the prior year in absolute terms (2014: €1,261 million). Without the €109 million positive impact of exchange rate movements mentioned above, however, the decrease would have been 10.5%.

Other operating income and expenses (OPEX) changed as follows:

OPEX

(€ million)	2015	2014	Variance			
			Total	Currency effects	Net of currency effects	
Other operating income	33	37	–4	1	–5	–13.6%
Personnel expenses	–677	–590	–87	–57	–30	–5.1%
Other operating expenses	–570	–517	–53	–42	–10	–1.9%
OPEX	**–1,213**	**–1,070**	**–143**	**–99**	**–44**	**–4.1%**

OPEX increased due to exchange rate changes and restructuring; operating improvement

The €143 million increase in OPEX from €1,070 million is accounted for in the amount of €99 million by exchange rate changes and includes restructuring expenses of €57 million. Inclusion of Riedo for the full year additionally had an impact of €4 million.

At €33 million, other operating income was slightly down on the prior-year figure of €37 million.

The rise in personnel expenses by €87 million relates to exchange rate changes in the amount of €57 million and includes restructuring expenses of €33 million. Including Riedo for the entire reporting period contributed a further €3 million to the increase.

The change in other operating expenses is likewise distorted by restructuring expenses (€25 million) and exchange rate effects (€42 million). In operating terms, there was an improvement of €14 million.

Taking into account the effects mentioned, EBITDA came to just €24 million, compared with €191 million in the prior year. Adjusted for €63 million in restructuring expenses, EBITDA stood at €86 million.

EBITDA BEFORE RESTRUCTURING COSTS BY SEGMENTS

(€ million)	Q4 2015	Q4 2014*),**)	2015	2014**)
Europe	12	18	69	109
Americas	3	20	37	100
Headquarters	–4	–5	–20	–18
Klöckner & Co Group	**11**	**33**	**86**	**191**

*) Prior year figures adjusted due to initial application of IFRIC 21 (Levies).
**) Prior year figures adjusted due to a change in segment allocation of Klöckner European Operations GmbH, Duisburg.

Unsatisfactory EBITDA performance in Europe segment

EBITDA before restructuring expenses in the Europe segment decreased significantly to €69 million in 2015 compared with €109 million a year earlier. With the exception of BSS and the Netherlands, earnings performance at all country organizations was unsatisfactory. The most severe impact on earnings came from the price pressure (euro discount) induced by the removal of the cap on the Swiss franc exchange rate early in the year as well as from the very weak business situation in France and the Great Britain. While the end of the euro discount effect and a seasonal recovery in the further course of the reporting period made for a marked recovery in operating income in Switzerland, the operating environment remained difficult, notably in France and the Great Britain.

Americas segment EBITDA dragged down by customers' reluctance to buy

The price- and volume-related fall in gross profit meant that EBITDA before restructuring expenses in the Americas segment, at €37 million, was likewise well under the €100 million prior-year comparative figure. In particular, the significantly lower market prices for flat steel, including heavy plate, resulted in inventory effects and pressure on margins, whereas the first quarter of the prior year saw prices rising. The negative price trend flattened out in the course of the year but there was as yet no sign of any appreciable recovery.

Headquarters' EBITDA was a negative €20 million (2014: €18 million).

RECONCILIATION TO NET INCOME

(€ million)	2015	2014	Variance	
EBITDA	**24**	**191**	**–167**	**–87.5%**
Depreciation, amortization and impairments	–374	–93	–281	n.a.
EBIT	**–350**	**98**	**–448**	**n.a.**
Financial result	–49	–59	10	+17.6%
EBT	**–399**	**39**	**–438**	**n.a.**
Income taxes	50	–17	67	n.a.
Net income	**–349**	**22**	**–371**	**n.a.**

EBIT impacted by goodwill impairment in North America

With the market environment for steel and metal products in the USA developing less favorably than generally expected in 2015, prompting a corresponding adjustment to budgeted earnings, it was necessary to recognize impairment charges of €267 million on the goodwill of the cash-generating unit (CGU). In connection with the winding-up of the Chinese activities, site closures and the required impairment tests on assets in European activities, impairments of €8 million were recognized on property, plant and equipment and of €2 million on investment property. Of this, €3 million are in connection with restructuring measures. Depreciation, amortization and impairments increased accordingly from €93 million to €374 million.

In consequence, EBIT was a negative €350 million, compared with a positive €98 million in the prior-year period.

Further improvement in financial result

Conversely, the financial result improved significantly, from a negative €59 million to a negative €49 million. The main alleviating factor here lay in interest expense following the redemption of promissory notes and convertible bonds in the prior year. EBT was a negative €399 million as against €39 million a year earlier.

An income item of €50 million was recognized under income tax for 2015 (2014: income tax expense of €17 million). Based on the €399 million pretax loss for this period and 31.6% effective Group tax rate, the expected figure for the income item would be €126 million. The discrepancy is due to the bar on offsetting profits and losses internationally, limitations on the recognition of deferred tax assets on current losses in the year under review, and the fact that the goodwill impairment on the North America CGU was largely tax-neutral.

Large net loss partly due to one-off items

Overall – including the one-off items set out above – the Group incurred a consolidated net loss of €349 million, versus a consolidated net profit of €22 million in the prior year.

Basic earnings per share came to a negative €3.48, compared with a positive €0.22 in the prior year.

Cash flows, financing, and liquidity

Financing and financial management

Group financing is centrally managed through Klöckner & Co SE. We secure the liquidity of our Group companies in intra-Group liquidity equalization arrangements with central and bilateral credit facilities, using an international cash pooling system in the euro area. 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 secured on a highly flexible and diversified basis using a portfolio of funding instruments comprising ABS programs, a syndicated loan, an asset-based lending facility, promissory notes and bilateral loan agreements.

Syndicated loan

Syndicated loan prolonged by one year to May 2018 in amend and extend transaction

A central component of our Group financing is the syndicated loan (a revolving credit facility) with a facility amount of €360 million and a three-year term. In April, our syndicated loan was prolonged ahead of term by one year to May 2018 in an amend and extend process, while maintaining the loan amount unchanged. In addition, some of the loan terms were amended in Klöckner & Co's favor effective May 2015. Klöckner & Co therefore succeeded in negotiating more favorable financing terms while improving the maturity profile.

Key substantive changes also include the accession of our US subsidiary Kloeckner Metals Corporation as a borrower and the ability to draw up to 50% of the facility amount in US dollars. This gives Klöckner & Co added financial flexibility. Subject to the banks' approval, the new loan documentation once again includes the option to extend the loan term in two stages up to May 2020. The size of the banking syndicate was reduced from eleven banks to ten. Under the covenants, net financial debt must not exceed adjusted equity (equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 23, 2013) by more than a factor of 1.5. In addition, adjusted equity must be at least €800 million. By way of virtual collateral, the scope for drawings on the syndicated loan is also tied to the current totals for unrestricted receivables and inventories less merchandise payables.

All covenants were complied with throughout the reporting period.

PROMISSORY NOTES

Promissory note issue repayments continued to plan

The promissory notes were reduced by way of scheduled redemptions in 2015 by €52 million, from €185 million to €133 million. Of the outstanding amount of the promissory notes, which were issued in 2011, €33 million is fixed-interest-bearing and €100 million has variable interest rates. All promissory notes mature in April 2016.

ASSET-BACKED SECURITIZATION PROGRAMS

Volume of European ABS program adjusted

Group working capital funding is additionally secured through a centrally managed, €360 million European Asset-Backed Securitization (ABS) program launched in 2005. As of August 10, 2015, the facility amount for the European ABS program was reduced by €60 million to €300 million due to the decrease in receivables requiring funding.

A further ABS program is in place for our country organization in the USA. The principal amount on that program is USD 275 million, with a term to the end of 2017.

Utilization under the two programs totaled €266 million as of the reporting date. The covenants on both the European and the US ABS programs were complied with throughout the reporting period.

Investor put exercised on convertible bond and bond redeemed early

Convertible bonds

The convertible bonds were issued in December 2010 with a total principal amount of €186 million and a seven-year term. The bonds featured an investor put option. This gave each bondholder the right to call all or some of their bonds effective December 22, 2015. Bondholders exercised this right for some 86% (€161 million) of the total bond issue.

This left less than 15% of the initial principal amount of the convertible bond outstanding after settlement of the investor put option. Under the bond terms and conditions, this in turn gave the issuer the right to call the outstanding bonds (€25 million) in their entirety at any time and to redeem them ahead of schedule at face value plus accumulated interest. We exercised this right on December 22, 2015 and effected the early redemption of the convertible bonds still outstanding on January 12, 2016.

This full redemption of the convertible bonds was carried out using available cash resources of Klöckner & Co SE.

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

The bilateral credit facilities for a total of approximately €608 million were 20% drawn at the end of 2015. This includes a USD 325 million asset-based lending facility at our American country organizations that expires at the end of 2017.

LIQUIDITY MANAGEMENT AND INTERCOMPANY SETTLEMENTS

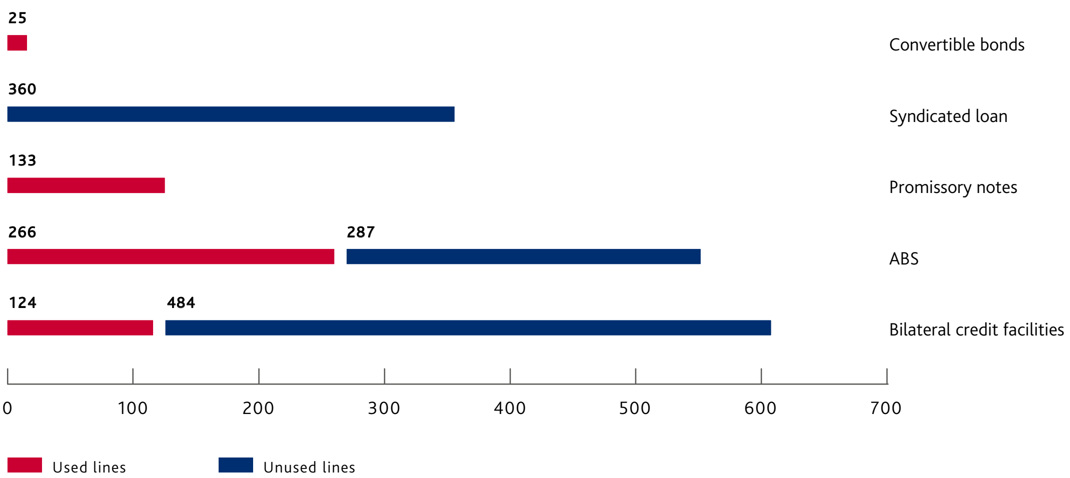
The Group uses an international cash pooling system to handle intercompany settlements and cash management. Our country organizations in Switzerland and the Americas segment are not included in this system, as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2015.

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Ample financial headroom retained, at €1.7 billion

Following redemption of the convertible bond issue, Klöckner & Co has credit facilities at its disposal for a total amount of some €1.7 billion. As set out in the following, drawings on these facilities totaled only around €0.5 billion as of December 31, 2015.

FINANCIAL VOLUME
in € million



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

NET FINANCIAL DEBT

(€ million)	December 31, 2015	December 31, 2014	Variance	
Net financial debt	385	472	–87	–18.4%
Gearing (Net financial debt/shareholders' equity*))	36%	34%		+1.7%p
Leverage (Net financial debt/EBITDA**))	4.5x	2.5x		2.0x

*) Consolidated shareholders' equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2013.
**) In 2015: before restructuring expenses.

Net financial debt significantly reduced through reduction in NWC

Net financial debt, at €385 million, was significantly down on the prior-year figure (€472 million). This primarily reflects the strong positive free cash flow resulting from the significant reduction in net working capital. That reduction is partly offset by €48 million in currency translation effects and proceeds from hedging as part of the Group headquarters financing arrangement, meaning that there has been a substantial decrease on an operating basis.

Gearing was 36% as of the fiscal year-end, well within the 150% limit under the syndicated loan. Despite the reduction in net financial debt, the current earnings situation meant that leverage stood at 4.5x.

Klöckner & Co's operating business entails interest-rate, currency and credit risks. The instruments used to hedge and manage these risks and their potential impact 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 by adhering to internally defined indicators. 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 risk related to underlying transactions and do not serve any speculative purpose. 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 101 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)	2015	2014**)	Variance	
Cash flow from operating activities	276	68	208	n.a.
Cash flow from investing activities	–85	–132	47	–35.3%
Free cash flow	**191**	**–64**	**255**	**n.a.**
Cash flow from financing activities	–350	–222	–128	57.4%

Highly positive cash flow from operating activities due to lower NWC

Cash flow from operating activities was €276 million, compared with €68 million in the prior year. This was due to the resources released out of working capital (€281 million).

Investing activities generated a cash outflow of €85 million in fiscal year 2015 (2014: €132 million) and include payments for the American Fabricators, Inc. acquisition in the amount of €33 million. The remaining payments for intangible assets, property, plant and equipment came to €99 million (2014: €71 million), countered by €47 million (2014: €16 million) in proceeds from divestments. Of the capital expenditure, €66 million were incurred in the Europe segment and €28 million in the Americas segment. Free cash flow was consequently €191 million, compared with a negative €64 million in the prior year.

Cash flow from financing activities – a cash outflow of €–350 million (2014: €–222 million) – includes a total of €–313 million comprising redemptions of promissory notes and the convertible bond issue together with re-payments against the syndicated loan.

FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet			Variance		
(€ million)	December 31, 2015	December 31, 2014	Total	Currency effects	Net of currency effects
Non-current assets	945	1,103	–158	90	–248
Current assets					
Inventories	961	1,318	–357	88	–445
Trade receivables	656	746	–90	45	–135
Other current assets	114	146	–32	9	–41
Liquid funds	165	316	–151	7	–158
Total assets	**2,841**	**3,629**	**–788**	**238**	**–1,026**
Equity	1,113	1,429	–316	135	–451
Non-current liabilities					
Financial liabilities	337	522	–185	28	–214
Other non–current liabilities	469	479	–10	18	–28
Current liabilities					
Financial liabilities	208	259	–51	1	–52
Trade payables	489	743	–254	48	–302
Other current liabilities	225	197	28	7	21
Total equity and liabilities	**2,841**	**3,629**	**–788**	**238**	**–1,026**

Balance sheet changes shaped by exchange rate effects, reduction in NWC and goodwill impairment

Total assets stood at €2,841 million as of December 31, 2015. This was substantially above the prior-year figure. Major items affecting the balance sheet comprised the goodwill impairment on the North America CGU, the decrease in net working capital and the reduction in financial debt out of available cash resources. It should also be taken into account in the analysis that changes in balance sheet items include a positive €238 million in currency translation effects, mostly relating to our American country organization.

Despite €90 million in positive currency translation effects, non-current assets decreased from €1,103 million to €945 million (down 14%). The reduction in the amount of €214 million related to a decline in intangible assets, while property, plant and equipment increased by €50 million, mainly driven by exchange rate changes. The drop in intangible assets is due to the goodwill impairment on the North America CGU (€267 million).

Equity decreased due to the consolidated net loss, from €1,429 million to €1,113 million. The reduction was alleviated by the positive amount recognized in other comprehensive income for foreign currency translation differences on the equity of international subsidiaries.

Reflecting the reduction in total assets, the equity ratio remains a solid 39% (2014: 39%).

Equity position remains solid at 39%

The equity-to-fixed-assets ratio stood at approximately 122% as of December 31, 2015 (2014: 132%). Adding in non-current liabilities, the excess of equity and non-current liabilities over non-current assets amounted to €974 million, compared with €1,327 million in 2014.

Net working capital developed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2015	December 31, 2014	Variance Total	Variance Currency effects	Variance Net of currency effects
Inventories	961	1,318	–357	88	–445
Trade receivables	656	746	–90	45	–135
Trade payables	–489	–743	254	–48	302
Net working capital	**1,128**	**1,321**	**–193**	**85**	**–278**

Despite €85 million in positive exchange rate effects, net working capital, at €1,128 million, was significantly down on the 2014 financial year-end figure (€1,321 million).

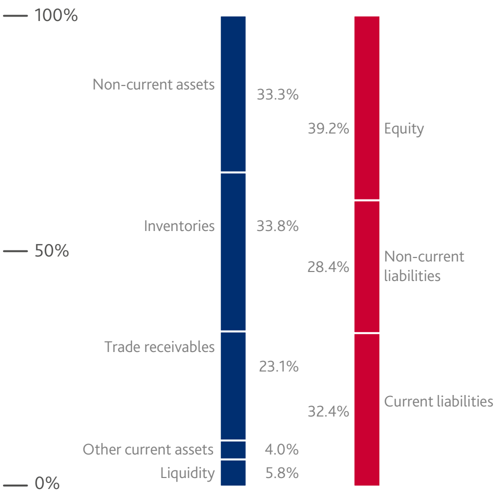
Largely due to the partial redemption of promissory notes, repayments against the syndicated loan and the redemption of the 2010 convertible bond issue, cash and cash equivalents decreased to €165 million (2014: €316 million).

Financial liabilities in the consolidated statement of financial position consequently decreased from €781 million as of the prior year-end to €545 million in the reporting year. Deducting cash and cash equivalents as well as transaction costs, net financial debt came to €385 million, compared with €472 million in the prior year. The currency translation effect in net financial debt came to €23 million. The decrease in net financial debt primarily relates to the resources released through the reduction in net working capital.

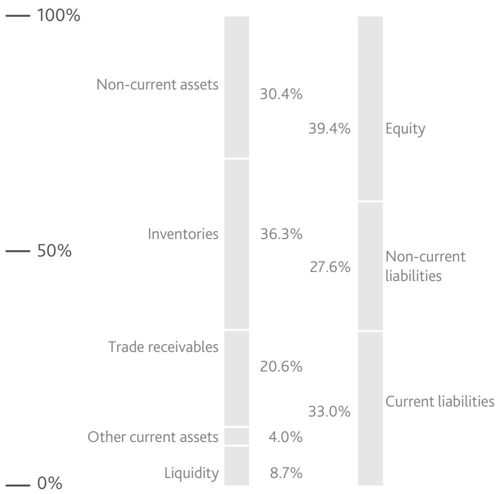
Significant decrease of net financial debt by reduction in NWC

Pension provisions went up from €328 million in the prior year to €340 million.

BALACE SHEET TOTAL 2015: 2,841
in €m



BALANCE SHEET TOTAL 2014: 3,629
In €m



2.6 Overall assessment of the business situation

Operating income in the Klöckner & Co Group developed disappointingly in fiscal year 2015, mainly due to slow overall demand and sharply falling steel prices. In the USA, for example, prices for hot-rolled coil (HRC) dropped by some 32% in 2015. To a substantial degree, the market pressures more than offset the positive impact on earnings from the KCO WIN+ program.

Taking into account expenses for the restructuring program in Europe and the impairment charges on the entire goodwill of our North American activities, a significant net loss was recorded.

We continue to regard our finances as very stable. By reducing net working capital through location closures and additional improvements, we achieved a clearly positive free cash flow coupled with a sharp decline in our net financial debt. As before, our Group finances are based on a broadly diversified portfolio comprising a range of financing instruments. The equity ratio has held very solid at 39% as of the 2015 year-end.

3. Individual financial statements of Klöckner & Co SE

3.1 Notes to the annual financial statements of Klöckner & Co SE

As holding company, Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group. It coordinates central Group financing and directly holds the ownership interests in most management companies heading the national and international country organizations as well as the ownership interests in individual country operating organizations. The financial statements are prepared in euros. Discrepancies may arise relative to the unrounded figures.

BALANCE SHEET OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	December 31, 2015	December 31, 2014	Variance	
Intangible assets and property, plant & equipment	1	1	-	–12.8%
Non-current investments	1,178	1,295	–118	–9.1%
Fixed assets	**1,178**	**1,296**	**–118**	**–9.1%**
Receivables from affiliated companies	222	528	–306	–58.0%
Other receivables	5	5	-	5.6%
Securities	-	50	–50	–100.0%
Cash and cash equivalents	94	148	–53	–36.1%
Current assets	**321**	**730**	**–409**	**–56.0%**
Prepaid expenses	3	11	–8	–73.7%
Total assets	**1,502**	**2,037**	**–535**	**–26.3%**
Equity	**1,005**	**1,261**	**–257**	**–20.3%**
Provisions for pensions and similar obligations	101	101	1	0.6%
Other provisions	32	31	1	3.6%
Bonds	25	186	–161	–86.7%
Liabilities to affiliated companies	202	165	37	22.3%
Liabilities to banks	135	287	–152	–53.0%
Other current liabilities	3	6	–3	–54.5%
Total equity and liabilities	**1,502**	**2,037**	**–535**	**–26.3%**

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 nature as a holding company and its function as the Group's central financing company. Its opportunities and risks correspond to those of the Group and primarily impact the carrying amounts of investments and the future scope for dividend distributions. The Company's fixed assets consist almost entirely of financial assets. These mostly comprise the investments in management companies heading the Group's national and international country organizations, the investments in individual country operating organizations, and long-term loans to those companies.

Convertible bond redeemed early

Other major items in the balance sheet relate to financial liabilities, comprising liabilities to banks and promissory notes. The decrease in liabilities relates to redemption of the 2010 convertible bond issue in the amount of €161 million (86%) as well as repayments against promissory notes and syndicated loans. A clean-up call in January 2016 redeemed the remaining amount of the bond issue. This means the convertible bond issue has now been redeemed in full.

In line with the smaller figure for total assets, Klöckner & Co SE's equity ratio went up to 66.9% as of December 31, 2015 (2014: 61.9%).

We consider the most significant key performance indicator within the meaning of German Accounting Standard 20 (GAS 20) to be net income.

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2015	2014	Variance	
Income from investments	41	78	–37	–47.4%
Impairment of investments	–259	–96	–163	n.a.
Interest income, net	12	–6	17	n.a.
Other income and expenses, net	–30	–21	–9	–43.3%
Result from ordinary activities	**–236**	**–44**	**–191**	**n.a.**
Taxes	–1	–1	1	39.6%
Net income	**–237**	**–46**	**–191**	**n.a.**
Retained profit prior year	20	16	4	23.5%
Dividends	–20	-	–20	-
Withdrawal from capital reserves	237	-	237	-
Appropriation to other revenue reserves	-	–16	16	100.0%
Withdrawal from other revenue reserves	-	66	–66	–100.0%
Unappropriated profits	**0**	**20**	**–20**	**n.a.**

Klöckner & Co SE's income from investments consists of profit distributions and profit transfers from subsidiaries.

The income from participations comprises dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland. The income from profit transfer agreements is mostly from Becker Besitz GmbH, Duisburg, and Becker Stahl-Service GmbH, Duisburg. The expense from loss absorption mainly relates to Klöckner & Co Deutschland GmbH, Duisburg.

German Commercial Code (HGB)-basis earnings affected by impairments on carrying amounts of investments in Group companies

To strengthen the capital base, we made payments into capital at our subsidiaries in France (€56 million), the Great Britain (€39 million) and Spain (€20 million), on which impairments were recognized due to the companies' sustained negative earnings performance.

With the market environment for steel and metal products in the USA developing less favorably than generally expected in the year under review, prompting a corresponding readjustment of budgeted earnings, it was necessary to recognize impairment charges of €143 million on the carrying amount of Klöckner USA Holding Inc., Wilmington, Delaware, USA.

The improvement in net interest income is a result of the prior-year corporate restructuring in relation to companies in the American country organization. Ahead of this, loans granted by an intermediate holding company were transferred to Klöckner & Co SE, resulting in a positive effect on net interest income.

Net interest income improved

The negative balance of other operating expenses and income widened from €21 million in the prior year to €30 million in the year under review, reflecting a year-on-year rise in both personnel expenses and other operating expenses. The increase in other operating expenses is accounted for in the amount of €4 million to receivables waived on the liquidation of Kloeckner Metals (Changshu) Co., Ltd., Changshu, China.

The net loss for the year came to €237 million (2014: €46 million), largely due to impairments of financial assets. As a holding company, the performance of Klöckner & Co SE is materially determined by the performance and dividend policies of its holdings. In light of the potential for distribution of reinvested profits at subsidiaries and the profit transfer agreements we have in place, we expect, after the net loss in 2015, to be comfortably back in positive figures with net income in 2016.

Earnings expected to be comfortably back into positive figures in 2016 after large net loss in 2015

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.

3.2 Takeover disclosures

REPORT PURSUANT TO SECTION 289 (para 4) AND SECTION 315 (para 4) OF THE GERMAN COMMERCIAL CODE READ IN CONJUNCTION WITH SECTION 176 (para 1), SENTENCE 1 OF THE GERMAN STOCK CORPORATIONS ACT AND ARTICLE 52 OF THE EUROPEAN COMPANY REGULATION

STRUCTURE OF SHARE CAPITAL

As of December 31, 2015, 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, 2015, direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of voting rights were reported to the Company as follows: SWOCTEM GmbH (Mr. Friedhelm Loh), Haiger, 20.17% as of December 3, 2015 (reported on December 9, 2015). This interest was further increased to 25.25% until February 2, 2016).

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 comprises one or more members who are appointed and replaced by the Supervisory Board (Article 9 (para 1) c, Article 39 (para 2) and Article 46 of the European Company Regulation; Sections 84, 85 of the German Stock Corporations Act; Section 6 of the Articles of Association). Under Article 59 (para 1) of the European Company Regulation, 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 (para 2) of the European Company Regulation and Section 51, sentence 1 of the German SE Implementation Act (SEAG), read in conjunction with Section 19 (para 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. Section 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 Corporations 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:

Subject to approval from the Supervisory Board, the Management Board is authorized to increase the Company's share capital by May 24, 2017 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 (para 3) of the Articles of Association (Authorized Capital 2012).

The Management Board has been authorized to issue warrant-linked and/or convertible bonds or combinations of such instruments at any time up to May 23, 2018, on one or more occasions, in one or more separate tranches, and to grant holders option or conversion rights on up to 19,950,000 no-par-value registered shares in the Company with a proportionate amount of the share capital of up to €49,875,000. To such extent, there is an authorization for a contingent capital increase in the amount of €49,875,000, 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 24, 2013. For further details, see Section 4 (para 6) of the Articles of Association.

In addition, pursuant to the Articles of Association there is an authorization for a contingent capital increase in the amount of €16,625,000, which, however can de facto no longer be carried out since 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, 2010 either no longer exist or can no longer be exercised. For further details, see Section 4 (para 5) of the Articles of Association.

Under Section 71 (para 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 in issue at the time of the resolution of the Annual General Meeting of May 25, 2012 or, if lower, the Company's share capital in issue at the time the authorization is exercised. The Management Board is additionally authorized to acquire treasury stock using derivatives (put options, call options, or forward contracts). This authorization may be utilized in whole or in part, on one or more occasions, by the Company or by affiliates of the Company or by third parties acting on the Company's account or on the account of affiliates of the Company. The 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

If a person or persons acting in concert directly or indirectly obtain(s) legal or beneficial ownership of more than 50% of the voting rights in the Company, lenders under the €360 million syndicated revolving credit facility agreed in May 2013 and extended in May 2015 may each demand repayment of any loan outstanding they have disbursed. The same provision applies to holders of various promissory notes issued by the Company totaling €133 million. Other material loan agreements and the Group's European ABS program also 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. Should 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. The personal investment requirement is waived. Any personal investment shares still vesting are unlocked and released to the Management Board member in question. In addition, all virtual stock options not yet granted are deemed granted and may be exercised at the end of the contractual vesting period or three months from the issue date, whichever is sooner.

3.3 Dividend planning

In general, Klöckner & Co follows a dividend policy of distributing 30% of consolidated net income before one-time items. In view of the consolidated net loss of €349 million, no dividend is to be distributed for 2015.

4. Responsibility

Klöckner & Co's business activities impact a wide range of stakeholders both inside and outside the Company. With this in mind, we work to build responsible, long-term relationships that reflect the interests of all sides. At Klöckner & Co, sustainability in steel distribution encompasses optimum working conditions for employees, the efficient use of resources, social responsibility at every link in the value chain, and active corporate citizenship in the regional vicinity of the Company's sites.

4

Focus topics: Employees, environment, value chain and corporate citizenship

We concentrate our sustainability activities and the information we publish in that regard on four focal points, namely employees, the environment, the value chain and corporate citizenship. We also take an active part in the social discourse on values and corporate responsibility. Management responsibility for these issues lies – in line with their portfolios – with Gisbert Rühl, CEO, and Karsten Lork, the Member of the Management Board in charge of the European business.

Employees

Every day, some 9,600 employees at currently some 200 locations in 14 countries apply their skills and enthusiasm to meeting the needs and wishes of some 140,000 customers. Around 70% of our workforce is employed in Europe and 30% in the Americas.

Our dedicated and qualified employees are a key factor in our success as a service provider. In everything we do, we aim to meet the highest standards of quality at all times. This is underpinned by our Group-wide human resources strategy based on the pillars of management and corporate culture, systematic performance, talent and succession management, improvements to make us an even more attractive employer as well as occupational health and safety initiatives.

In the year under review, we pursued the development and performance feedback process implemented for upper and middle management some years ago as a standard instrument on an annual cycle and also applied that process to additional target groups. In the current year, review and development interviews will be used for a broader cross-section of the workforce in virtually all country organizations. At the same time, we will make greater use of in-house talent development programs such as our Emerging Leaders Program for the branch managers of tomorrow. The program refreshes and trains skills needed for future-focused branch management. Topics range from contemporary business administration knowledge and sales training to leadership skills and design thinking methods as an effective toolkit for innovative and customer-centric business practices in the context of our digital transformation. The first Emerging Leaders have already been successfully established in positions as branch managers. The program will run for the second time in 2016.

In addition, we conducted a global employee survey during the reporting year. The aim of the survey was to form a picture of current opinions about communications, leadership behavior and working at Klöckner & Co. A gratifyingly high response rate of around 60% in combination with the generally positive echo tell us that our employees are keenly interested in the Group and its strategic direction. An especially encouraging finding for us was that our strategy is well established in the Group. Over 80% of our workforce support the end-to-end digitalization of our supply and value chain together with the expansion of higher valued-added products and processing services. The findings additionally indicate high levels of employee commitment and satisfaction, among other things with over 80% of our workforce saying that teamwork is good in their team and they like working at Klöckner & Co. Some 84% of employees also say that they are treated with respect by their direct superior. Examples of areas where we identified scope for improvement include feedback, where 35% of our staff would like to receive more performance feedback from their direct superior. In 2016, working in close consultation with the heads of HR in the various country organizations, we will follow up with processes such as enhancement of the annual feedback and review interviews.

Targets for female executives
Targets for women in management

Under the German Act on Equal Participation of Women and Men in Leadership Positions, the Supervisory Board was given the responsibility of setting targets for the percentage of women in the Supervisory Board and Management Board, and the Management Board was assigned the task of setting such targets for the two management layers below it at Klöckner & Co SE.

The Supervisory Board set targets of 16.6% for the percentage of women in the Supervisory Board and 0% for the percentage of women in the Management Board. The Management Board set targets as follows for the two management levels below the Management Board of Klöckner & Co SE: 12.5% for level 1 and 25% for level 2. All targets are to be attained or adhered to by June 30, 2017.

We have additionally set further, more long-term targets – on a voluntary basis – for the Klöckner & Co Group as a whole. The percentage of women in Management level 1 to 3 below the Management Board was thus increased from 8% in 2010 to 14% in 2015. There are plans to increase the percentage of women in management to 20% by 2020.

The findings of Frauen-Karriere-Index (Women Career Index) 2015 demonstrate that our approach for promoting women in managerial positions is accepted. In this annual external survey based on objective corporate data on the promotion of women in management positions, we were singled out as one of the top ten companies out of over 100 participants.

Our efforts are not, however, limited to advancing female staff. In general, we strive to increase diversity in our workforce as well as foster creativity and an innovative spirit in the Company with employees of differing cultural backgrounds, lifestyles and values. Serving our approximately 140,000 customers day in, day out in 14 countries at some 200 locations around the world takes a strong global team with a high level of diversity. In total, we employ people from some 70 different nationalities in our Group.

Klöckner & Co places considerable emphasis on keeping employees' qualifications up to date, developing their skills and nurturing talent within our own ranks. To this end, our employees have access to job-specific, in-house training sessions and language courses. They are also given selective support to assist them with their own continuing education plans. In addition, individual wishes and training courses are incorporated as part of target agreements in annual performance appraisals. Klöckner & Co offers students internships and working student positions, where they can apply and consolidate content from their studies in real-life business situations.

Both occupational safety and health protection at work are key issues for us as a steel distributor with a high percentage of wage earners employed at our stockyards. The "Safety 1st" occupational safety management system developed by our international Quality, Health, Safety and Environment (QHSE) committee is designed to methodically lower accident risk and the number of working days lost due to accidents.

Klöckner & Co aims to reduce the Group-wide lost time injury frequency (LTIF) rate from 13.4 in 2015 to below 10 by 2018. To achieve this, we have developed a comprehensive package of measures giving greater accountability to management staff and closely involving employees in occupational health and safety.

British Standard BS OHSAS 18001 is an internationally recognized occupational health and safety certification that has been adopted in most European country organizations and helps enhance awareness of health and safety issues. Implementation of the standard at additional locations is planned for 2016.

In the year under review, our employees at nearly all country organizations were once again offered health protection and preventative services, including voluntary medical consultations, cancer screening, skin screening, eye examinations and annual flu vaccinations. We will continue to step up these activities and offer regular checkups in collaboration with the various health insurance funds. In this way, we aim to further reduce what is already a comparatively low illness rate. Our healthcare benefits are rounded out with the option of taking out additional health insurance through Klöckner & Co.

Environment

By using efficient, responsibly designed processes, Klöckner & Co aims to minimize adverse impacts 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 engage in a cross-border exchange of best-practice solutions in those areas as well as to develop and systematically pursue joint projects. Successful projects from various country organizations are reviewed with regard to feasibility in other countries and implemented there if found suitable.

Certification to ISO 14001

At several European country organizations, our sites have been certified to environmental standard ISO 14001 and, at the US country organization, a number of sites already have an environmental management system in place as well.

We once again participated in the Carbon Disclosure Project (CDP) in 2015 and plan to continue doing so. The objective of the CDP is to evaluate long-term opportunities and risks at participating enterprises and support the development of measures to achieve lasting cuts in CO_2 emissions.

Corporate citizenship

Active, local community engagement

Klöckner & Co operates in 14 countries around the world and is mindful of its associated responsibilities as a corporate citizen. We aim for a sustainable blend of international and regional focus that lets us embrace our corporate responsibility by becoming actively involved in the immediate vicinity of our headquarters and branches. The funding we provide is intended to benefit those who really need it.

Alongside selected scientific, sports, art and cultural initiatives, an ongoing focus of our activities for several years has been on supporting education projects and meeting the basic needs of socially disadvantaged children in Duisburg, Germany, where our headquarters are located. In Duisburg's Marxloh neighborhood, Klöckner & Co helps schools and a youth center – for example, by providing healthy meals. Klöckner & Co also supports such amenities in carrying out essential building and renovation work. In one instance in the year under review, a youth center was renovated in cooperation with the City of Duisburg.

Joining forces with the Ruhr Piano Festival Foundation, we have created a program to foster children's musical and artistic development at different types of schools. This was implemented for the first time with two schools in 2012. It is a successful partnership which has existed ever since and was continued in the reporting year.

The various country organizations are best able to assess the eligibility of projects for support in each region. For this reason, donation and sponsoring activities are carried out largely independently by the country organizations, which report to Group headquarters about major projects in this field. A Group-wide procedure provides our country organizations with a framework for these activities. In this way, we ensure that our activities have a common thrust while being tailored to individual market conditions.

For some years, we have supported the Germany Scholarship together with the German Federal Ministry of Education and Research. Primarily directed at talented and high-achieving college students, the scholarship gives consideration to specific family and social circumstances. Our aim here is to provide support so that students can excel both academically and socially as well as within the family.

Since 2013, we have additionally supported the German National Scholarship awarded by Roland Berger Foundation. This program promotes gifted children with a strong will to learn who come from socially disadvantaged families, with the aim of guaranteeing them the best possible education opportunities and enabling them to complete upper secondary education or go on to university. It is our way of helping to remove barriers to equal opportunities among people of different social backgrounds.

Value chain

Klöckner & Co regards sustainability as a 360-degree concept that integrates every link in the Group's value chain as well as adjacent value creation levels. From procurement and stockholding across an array of services right through to distribution, we attach great importance to steadily improving both processes and outcomes in our customers' interests. Long-lasting customer satisfaction is ensured by continuously enhancing service and product quality. This is why our quality management activities center on process optimization, occupational safety and the environment. Projects geared to optimizing the internal value chain are carried out in close harness with the various country organizations. We publish the successful outcomes of our initiatives for the benefit of the outside world. For some years, numerous branches of our country organizations have been certified to the global quality standard ISO 9001. Frequently, sites with strong ties to the automotive industry are additionally certified to the automotive standard ISO TS 16949. Many of our locations that fabricate structural steel components have obtained certification for their factory production control systems, which opens the way for the production of selected products pursuant to EN 1090.

Compliance

As an international group with numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity and responsibility both within the Company and in its interactions with external partners outside it, as well as to establish responsible relationships with external contractual partners. Our employees are provided with a frame of reference and guidance in the form of our Code of Conduct, which applies Group-wide to all country organizations, together with internal compliance guidelines and procedural instructions. We also supply extensive training for our employees and the intermediaries working for us.

Code of conduct a central element

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 training courses 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, corruption risks and fraud as well as data protection and the prevention of money laundering. We conduct refresher e-learning sessions throughout the Group to keep our employees up to date at all times, and address specific compliance-related issues with examples from their day-to-day work. If they ever have any questions about the correct form of conduct in a business situation, employees can turn to their national compliance office or the Corporate Compliance Office at the holding company. To evaluate existing compliance risks, the Corporate Compliance Office conducts compliance risk assessments together with the management at the operating units at regular intervals, applying a risk-based approach. In addition, with the help of a review program coordinated with the Corporate Compliance Office, the Corporate Internal Audit Department reviews employee awareness of our compliance management system as well as their adherence to the guidelines and procedural instructions relevant to compliance as part of ICS audits. We also expect external contractual partners to comply with the principles and standards enshrined in our Code of Conduct or a comparable code of conduct, and to implement them in their organization.

All employees and business partners have the means to report any instances of non-compliance with our Code of Conduct. A telephone and web-based whistleblower system is available for this purpose, and has been operated by an external service provider since the beginning of 2015.

Clear rules offer our employees unambiguous instructions and guidance in times of major change. To prevent corruption, we have established strict rules on hiring third-party brokers, whom we assess with the aid of an external service provider before entering into any contract. This review is repeated at set intervals according to risk. To enhance legal certainty and achieve a uniform level of data protection, a Group-wide guideline on protecting personal data has been drawn up and implemented. Additional priority areas in the compliance management system are export controls and sanction list screenings. In 2015, extensive IT processes were implemented for this purpose. Those processes are intended to ensure that all internal processes are secured by systematic controls such that no violations can occur. Klöckner & Co continued to support the work of Transparency International Deutschland e. V. in 2015, thus setting an example in the fight against corruption.

5. Subsequent events

According to a mandatory announcement pursuant to Sections 21 and 22 of the German Securities Trading Act (WpHG), SWOCTEM GmbH (Friedhelm Loh) has increased its share of voting rights to over 25%. On February 2, 2016, SWOCTEM held 25.25% of the voting rights in Klöckner & Co SE. The announcement states that the investment serves the implementation of financial and strategic objectives.

Under Section 8c of the Corporation Tax Act (KStG), the increase in the shareholding above the 25% threshold means that tax loss carryforwards recognized so far for Group companies in Germany are forfeited in proportion to the size of the SWOCTEM shareholding.

This does not currently have any impact on the consolidated financial statements as deferred tax assets have only been recognized on tax loss carryforwards of German companies to a minor extent.

6. Macroeconomic outlook including key opportunities and risks

6.1 Expected global economic growth

The International Monetary Fund (IMF) estimates a growth of 3.4% for the world economy in 2016. However, the economic slowdown in China and in the emerging markets, an overly hasty abandonment of highly expansionary monetary policy in the USA and the drastic slump in oil prices could prove to be factors that place pressure on the global economy.

Economic growth in the eurozone is mainly being driven by consumer spending. The weak euro gives a boost to international competitiveness, which is likely to benefit Germany's export-driven economy in particular. Overall, the IMF expects GDP growth of 1.7% for the eurozone in 2016.

The IMF is forecasting significantly higher economic growth of 2.6% for the USA, buoyed chiefly by the construction sector and private consumption.

In China, the IMF expects economic growth to slow to 6.3%. Weaker foreign trade and industrial overcapacity are adversely affecting the export-driven country. Growth is also being depressed by China's shift from an industrial to a service economy.

The situation in Brazil remains fraught. Despite the planned government stimulus programs, the IMF expects GDP to decline further by 3.5% in 2016.

Expected development of GDP (in percent)	2016e
Europe*)	**1.7**
Germany	1.7
Great Britain	2.2
France	1.3
Spain	2.7
Switzerland	1.2
China	**6.3**
Americas	
United States	2.6
Brazil	–3.5

Source: IMF, Bloomberg.
*) Eurozone.

Expected steel sector trend

The World Steel Association predicts that global steel consumption will grow by 0.7% in 2016. For the European Union, the association expects an increase of 2.2%, while the North American Free Trade Agreement (NAFTA) region is anticipated to grow by 2.1%, South and Central America by 2%. China is forecast to decline by 2%.

6.2 Expected trend in our core customer sectors

Construction industry

According to Euroconstruct estimates, the European construction industry will grow by some 3% in 2016 thanks to continued stronger residential construction. An increase of some 7% is expected for the USA, with the anticipated sectoral expansion mainly driven by commercial construction. Additional support for growth is likely to come from government infrastructure projects. Growth of around 3% is expected in China. Infrastructure spending will stimulate growth in the region, while demand in residential construction is expected to lose momentum.

Machinery and mechanical engineering

The 2016 outlook for the machinery and mechanical engineering sector is only moderately positive. In Europe, the weak euro and the low financing costs are expected to marginally boost demand and generate sector growth of around 1%. For the USA, the sector is anticipated to gain no ground on prior-year levels due to the low oil prices and strong U.S. dollar. Zero growth is similarly expected in China, the world's largest machinery producer by far.

Automotive industry

The German Association of the Automotive Industry (VDA) anticipates continued global growth of around 2% in 2016. Marginal growth of 1% is forecast for both Western Europe and the USA. China is expected to record slightly higher growth of 2%.

6.3 Risks and opportunities

Overall, our key sales markets of Europe and North America saw no more than sluggish demand for steel despite growth in the macroeconomy. Steel prices even fell significantly in both regions last year, mainly due to the slump in commodity prices and import pressure, especially from China. The market environment was also negatively impacted by the uncertainty surrounding future economic developments in China and in the emerging economies as well as increasingly by geopolitical risks.

Risk policy

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. This makes risk and opportunity management an integral part of our management process. Our Risk Management System (RMS) is supplemented by our Group-wide Internal Control System (ICS) and our Compliance Management System (CMS).

The Group has a well-established, shared understanding of risk based on a central authority to issue guidelines, a Group-wide risk management guideline and a fundamental update of the risk inventory every year at both country and corporate department level. Our risk management system is a comprehensive system that supports structured risk analysis across the entire Group. Flexible architecture allows adaptation to changing company requirements along with continuous improvement of the system. Both our RMS and our ICS are based on generally accepted standards, including the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the additions to said framework, COSO ERM (Enterprise Risk Management), for Group-wide 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 system

The primary objectives of the RMS are to identify and assess material risks and to eliminate going concern risk. Any significant risks identified are continually monitored in our risk management system, enabling us to prevent or limit their potential negative impact.

Our central risk management function is performed by the Corporate Risk Management Department within the Corporate Internal Audit Department. The implemented Group-wide RMS is supported by web-based risk management software for greater ease of use and efficiency in data collection and data updating as well as for improved documentation. The RMS is continuously revised to further enhance risk transparency and information quality.

Risk management structure

SUPERVISORY BOARD

Monitoring of effectiveness of Risk Management System
Assessment of risk reporting

AUDIT COMMITTEE

Evaluation of Risk Management System regarding legality, apropriateness and cost effectiveness as well as report to entire Supervisory Board

MANAGEMENT BOARD

Responsible for appropriate group risk management

RISK COMMITTEE

Supervision and consulting

CORPORATE RISK MANAGEMENT

Risk evaluation and control, reporting to Management Board and Supervisory Board

RISK MANAGEMENT FUNCTIONS

Risk owner respectively country risk manager:
Identification and assessment respectively control and reporting

The structure of our RMS is geared toward promoting risk awareness throughout the Group and ensuring the effectiveness and efficiency of the RMS. Overall responsibility for the RMS lies with the Management Board, while the Supervisory Board monitors its effectiveness. The Audit Committee is involved in the process via regular reporting and also makes assessments of the risk strategy and the RMS. The Corporate Risk Management Department reviews, validates and evaluates the risks identified and assessed by the risk owners from the perspective of the Company as a whole and prepares reports for the Management Board and Supervisory Board.

Of the significant types of risk in our Group, 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 Management Board members in charge of the respective corporate departments. In addition to Group financing and Group accounting, these departments 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 basis of consolidation for Group risk consolidation purposes is the Group as a whole. By and large, the primary risks relating to the steel distribution and steel service center business are identical in both the Europe and the Americas segments. Presentation of risk management information by segment is therefore not meaningful.

Risk management process

The risk management process mainly involves the following four components:

1. Risk identification – A risk field matrix showing the key risk fields along pre-defined risk categories is used to identify material risks in a structured manner as well as to enable risk to be recorded systematically and uniformly at both a country and corporate department level. Risks are analyzed with regard to their impact in a one-year period and, particularly in the case of going concern risks and all material risks, their long-term impact. The result of this process is a risk inventory, which is updated at regular intervals.
2. Risk assessment – The relevance of each risk is assessed using a five-level scale. Relevance represents the overall significance of a risk for the Group as a whole and thus combines various aspects such as expected value, realistic maximum loss, and risk duration. Relevance classifies risks identified and shows their potential impact on earnings before interest, taxes, depreciation and amortization (EBITDA) – this being one of our key performance indicators – at the time of risk analysis and before risk mitigation measures (gross analysis):

RELEVANCE SCALE

Relevance	Degree of influence	Definition	Potential impact (€m)
1	Insignificant risk	Insignificant risks that could cause barely noticeable deviations from the operating result.	< 6
2	Intermediate risk	Intermediate risks which could cause significant deviations from the operating result.	≥ 6
3	Significant risk	Significant risks that could greatly affect the operating result or have long-term effects.	≥ 18
4	Serious risk	Serious risks which could lead to very large deviations from the operating result or have substantial long-term significant impact.	≥ 60
5	Critical risk	Critical risks that could potentially jeopardize the continued existence of the Company (threat to going concern).	≥ 180

Given the differences in individual companies' size and financial capacity, various relevance scales are employed across the Group. Aggregation for the Group as a whole is done on the basis of the individual risks identified and assessed at country and Corporate department level, which are combined into risk groups and further into main risks in accordance with the underlying reference target (EBITDA).
Individual risks identified are analyzed with regard to both their impact on the relevant main risk items and to interdependencies among them.

3. Risk management and control – Local risk managers and the Corporate Risk Management Department at Group level share responsibility for managing and controlling risks classified as "significant", "serious" or "critical".
4. Internal monitoring – Twice annually from this fiscal year onward, in parallel with compilation of the risk report, the above processes are monitored internally by the Group-wide risk committee. The committee comprises representatives from the corporate departments as well as the operating units and is headed by the CFO of Klöckner & Co SE. In addition, the Supervisory Board as governing body monitors the RMS and examines risk reporting.

Risk reporting

Each half year, a risk report documents risks identified. The Corporate Risk Management Department supplements this report as and when necessary by ad hoc reporting on any material risks emerging at short notice and any changes in risks already identified. Intended primarily for the Management Board and the Supervisory Board, the report addresses risks at the overall Group level as well as at the level of the individual country organizations.

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

Internal control system

The Internal Control System (ICS) encompasses the principles, processes and measures applied to ensure the effectiveness and profitability of business operations, compliance of the accounting system with generally accepted principles, accounting system reliability, and adherence to the applicable legal provisions. 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.

A key element of the internal monitoring system comprises process-integrated monitoring measures. These constitute 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. The ICS ensures the separation of approval, execution, administrative and invoicing functions. System-based (IT-based) controls also form a key component of process-integrated monitoring.

In addition, process-integrated monitoring measures are ensured by specific Group functions such as Corporate Legal & Compliance and Corporate Controlling. For instance, the country organizations' control units produce monthly reports, which Corporate Controlling aggregates at Group level. All notable and quantifiable factors impacting results at the country level are discussed at regular meetings of the country organizations' management with the Management Board of Klöckner & Co SE.

Monitoring measures 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. 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]) is regularly confirmed in quality assessments carried out by a certified, independent external auditor.

The Supervisory Board's Audit Committee reviews the effectiveness of the internal control system once a year and additionally on an ad-hoc basis as needed. At the same time, the external auditor assesses the internal control system in relation to the financial reporting process as part of audit activities.

Compliance management system

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 a telephone and web-based whistleblower system that makes it easier for both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. We also expect our contractual partners outside the Company to implement and comply with the principles and standards enshrined in our Code of Conduct or a comparable code of conduct. The Corporate Internal Audit Department continuously reviews our CMS with regard to implementation and effectiveness.

We expect to prevent large-scale compliance violations 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 are fully investigated by the Corporate Compliance Office wherever possible and the necessary action is taken by the Management Board or by the management of country organizations.

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. Alongside classroom training, the measures primarily include an e-learning tool that is mandatory throughout the Group. A key element of our CMS is the Group-wide introduction of our Code of Conduct and other compliance-related Group guidelines, which are published on the Internet and elsewhere and relate in particular to measures geared to combating corruption, to antitrust law and data protection, as well as the systematic business partner check for intermediaries engaged by us and the export control integrated in the system. Our aim here is to maintain a clear, unambiguous stance on ethical, law-abiding conduct both internally and externally, among other things to help prevent risk. The CMS has been regularly reviewed, fine-tuned and supplemented since the system was introduced.

The Management Board of Klöckner & Co SE has unequivocally expressed its policy of zero tolerance toward antitrust violations and corruption in its "Tone from the top" on the Group's intranet as well as online. In the event of any antitrust violation, Klöckner & Co will take action against the employees involved under labor law and may hold them personally liable for any loss (such as fines) incurred. We notify employees that anyone involved in bribery or other corruption may even be subject to criminal prosecution. All employees are called upon to work actively toward implementing the CMS in their spheres of responsibility.

Presentation of individual risks

As part of the RMS, we have identified material risks, classified them by risk category and assessed their relevance. On the whole, our primary risks fall into the categories of strategic risk and market risk. These types of risk are described in more detail below. We subsequently discuss the most significant risks in each risk category.

Relevance	4	3	2
Risk category	Serious risk (≥ €60 million)	Significant risk (≥ €18 million)	Intermediate risk (≥ €6 million)
Strategic risk	Traditional steel distribution business model not profitable over long term		
	Regional dependence on European steel market		
	Dependence on construction industry and commodity products		
	New financial crisis		
		Success of acquisitions	
		Excessive sovereign debt as a trigger for sovereign debt and/or liquidity crisis	
Market risk	Economic situation / downturn in target markets		
	Diminishing economies of scale with significant decline in turnover		
		Demand and price development	
		Competitive environment	
Financial risk	Impairment losses[1]		
		Long-term weak profitability	
			Liquidity risk from exchange rate fluctuations[2]
			Pension obligations
Legal / Compliance risks		Antitrust violations	
			Unfavorable terms and conditions in loan agreements, e.g. financing terms
			Changes in tax legislation or administrative interpretation of tax matters
IT risk		Cyber risk	
			Project risks
Personnel risk			Loss of key employees
Risks arising from management processes			Structural adjustments threaten to sustain existing business model
			Intensified competition and margin pressure through digitization

1) Does not impact the key performance indicator EBITDA, but does impact net income.
2) Does not impact the key performance indicator EBITDA, but does impact liquidity.

Strategic risk

Our serious strategic risks relate to a potential loss of the long-term profitability of our traditional steel distribution business model, our regional dependence on the European steel market, our dependence on the construction industry and on commodity products, as well as another financial crisis. The success of acquisitions and excessive sovereign debt in a number of industrial countries, which could lead to a sovereign debt and/or liquidity crisis and additionally burden the economies in our sales markets, represent further, significant risks.

We are gradually moving away from the traditional steel distribution business model, which is potentially no longer sustainable, by digitalizing our supply and value chain as well as by stepping up efforts to increase the percentage of sales from higher value-added products and processing services.

Over the medium term, we aim to reduce our regional dependence on the European steel market by increasing the share of shipments generated in the USA.

We counter our dependence on the construction industry by diversifying our international presence, targeting other customer sectors such as machinery and mechanical engineering and the automotive supplier industry, streamlining our portfolio in the low-margin construction business, and implementing additional restructuring measures, notably in France. By expanding services and increasing sales of higher value-added products, we are reducing our proportion of commodity products. In addition, we are quickly and effectively devising new digital services together with customers to create added value for customers and set ourselves apart from the competition.

We counter the risk of potential upheaval on the financial and capital markets and the consequences of this for our Company by means of solid balance sheet ratios and a diversified financing portfolio. This is demonstrated by our stable equity base (39% equity ratio) and our comparatively low net financial debt in relation to equity (36% gearing). Our available working capital facilities ensure that we can at all times finance our operating activities and meet our liquidity requirements. The main tools are the European ABS program (€300 million) and the syndicated holding credit facility (€360 million), which mature in May 2017 and May 2018, respectively, as well as a syndicated ABS/ABL facility in the USA totaling USD 600 million, which matures in December 2017. We also hold a commensurate amount of cash and cash equivalents (€165 million). We have invested these with the Group's prime-rated core banks, which generally belong to a deposit insurance fund. Banks' creditworthiness is regularly reviewed by monitoring spreads on credit default swaps.

As with all M&A activities, acquisitions are governed by a comprehensive M&A policy. We monitor compliance with this policy centrally. In the selection of 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 quickly and appropriately. Nevertheless, we are unable to entirely prevent negative developments from occurring, as the business situation of acquirees is subject to the same strategic risks as our own other activities.

To improve our resilience to negative market influences, our efforts to optimize workflows and processes in our business operations are ongoing. To that end, we significantly expanded the KCO WIN+ program during the reporting period to include additional restructuring and optimization measures.

Market risk

A serious market risk to Klöckner & Co ensues from the economic situation, as we are highly dependent on the economic cycle due to our large share of commodity products and the structure of our customer sectors. Given the importance of the USA as a growth market, an economic slowdown there in particular represents a market risk. In France – an important European market – structural weaknesses are a major obstacle to a long-term recovery of the economy. Another serious market risk relates to a potential decrease in economies of scale following a significant decline in shipment volumes. Above and beyond this, the significant market risks for Klöckner & Co result from trends in demand and prices as well as, to a large extent, the highly competitive situation.

Cyclical risk results from the sustained mood of uncertainty on financial markets primarily on account of the concerns about the health of the Chinese economy, the US Federal Reserve's monetary policy, as well as continued high sovereign debt levels in a number of European countries and the USA, which could lead to a decrease in capital investment and hence to a decline in demand for steel. Growing geopolitical risks such as the Islamic State, the refugee crisis, tensions in the Near East as well as the ongoing Ukraine crisis are a source of additional uncertainty.

The optimization of our site network and portfolio streamlining measures under KCO WIN+ result in lower shipments. A significant decline in shipments over and above that planned could lead to a situation in which we are no longer able to leverage planned economies of scale in procurement. Our strategies for countering this risk include concentrating on a small number of suppliers, strengthening relationships with key suppliers and renegotiating contract terms, as well as by expanding our business in higher value-added products and processing services, for example, by launching Becker Aluminium Service and acquiring American Fabricators.

Demand continues to involve high risk in our core sectoral markets due to their predominantly cyclical nature; these include the construction industry, machinery and mechanical engineering, and the automotive industry. With regard to the construction industry, the customer sector accounting for the lion's share of shipments, we are very dependent on public sector spending.

We sell most of our products at spot market prices. The time lag of up to several months between the setting of procurement prices and the point at which we invoice sales means that we are constantly exposed to margin 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 recognize inventory writedowns, which impact earnings. Given the global surplus capacity in steel production, especially in China, there continues to be a threat of price collapse, which would have a negative impact on earnings performance each time. Imports from Asia to Europe and from Asia and Europe to America create interdependencies between price trends on the different markets. In particular, the growing volume of steel imports from China at dumping prices are keeping the price of steel down. A depreciation of the yuan and any further decrease in commodity prices could make the situation even worse. With the exception of the Great Britain, no large-scale capacity adjustment is currently anticipated, so the structural imbalance between production capacity and actual demand will persist for the time being. This is especially the case in Europe, where only moderate demand growth is expected in the years ahead and, unlike in the USA, there is no strict separation between production and sales to make for greater price discipline among manufacturers. Consequently, prices and margins can come under pressure time and again.

Existing and projected anti-dumping measures are having a significant impact on the flow of goods and the situation in the regions. If the European Union (EU) is more reluctant to take action than the protectionist USA, this could potentially shift import volumes from the USA to the EU, exacerbating the situation in Europe.

There is also overcapacity in steel distribution, which has led to keener competition. Excess inventories or downward trends in prices, for example, may prompt individual competitors to introduce special offers, leading to additional price pressure in the market, which can have a negative impact on earnings. We therefore monitor our competitive environment very closely.

Analyzing trends and leading indicators along with available forecasts enables us to respond to market change as swiftly as possible, for instance, by taking specific measures in inventory management. Price trends in scrap, iron ore and coking coal as well as the inventory available on the market are the main early warning indicators for the price of steel.

We adjust to market circumstances in the short and medium term by focusing on improving sales effectiveness and reducing costs. One of the primary challenges here is adapting our existing organizational structure to make it leaner and more effective so that we can better compete with small to medium-sized enterprises. This is the basis for our ever greater differentiation from competitors, which is instrumental in minimizing market risk. The two core elements in this connection are, firstly, digitalizing the supply and value chain and, secondly, driving forward our business in higher value-added products and processing services. We will also be more rigorous in obtaining the margins available in the market for our products and services by fine-tuning pricing – a core feature of KCO WIN+.

Our Group continues to place special emphasis on price and inventory risk management 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 system and exchange it online within the Group. Procurement is coordinated internationally, enabling us to respond rapidly to changing situations in the procurement market. In this way, we are able to manage our portfolio of suppliers and use pooled procurement to obtain preferential prices, quantities and terms. Procurement coordination is supported by our centralized monitoring function for inventories and orders. Price trends are also identified regularly in order to determine the risk of write-downs on individual products. This information is incorporated into the quarterly inventory valuation. Price risk is also reduced by our inventory and product range policy, which is tailored to demand and logistically optimized.

Inventory management and valuation are also central elements of the monthly reporting process. Our reporting system allows us to quickly detect major discrepancies and immediately initiate the necessary countermeasures.

Financial risk

The Corporate Treasury Department manages the financial risk of Klöckner & Co and ensures the liquidity of the Group companies. Financial risk management is governed by a Group-wide financial guideline that stipulates the scope of action, responsibilities and the necessary controls. In the following, we present the risks classified as serious, significant and intermediate.

On the basis of Klöckner & Co's growth strategy, we acquired several target companies in recent years. In measuring the value of those companies, we made assumptions regarding future business performance. There is a significant risk of actual developments diverging from these assumptions. After the market environment for steel and metal products in the USA performed less favorably than generally expected in fiscal year 2015, we recognized impairment charges on the entire goodwill of Klöckner & Co SE's North American activities. As a result, value in use now corresponds to the carrying amount of the assets. Any further reduction in value in use would lead to additional impairment of non-current assets. Even though it does not affect our key performance indicator EBITDA, this is rated a serious risk overall as it has a major impact on net income. A notable countermeasure is our KCO WIN+ program targeting lasting improvements in the earnings situation across the entire Group.

Operating earning power is a key criterion in the assessment of our creditworthiness by banks. Weak profitability over the long term would therefore limit our future scope for refinancing. We regard long-term weak profitability as a significant risk. Among the measures we deploy to counter this risk is the KCO WIN+ optimization program geared to achieving lasting improvements in profitability.

Klöckner & Co SE uses cross-currency swaps and forward exchange transactions to hedge financing within the Group. The appreciation or depreciation of foreign currencies against the euro can lead to positive or negative liquidity effects when hedges are renewed on the basis of current exchange rates. Even though it does not affect our key performance indicator EBITDA, we class this liquidity risk as an intermediate risk based on the volume of hedges. We counter this risk by making greater use of external financing sources. For further information on liquidity risk, credit risk or price fluctuation risk, such as interest rate and currency risk, please refer to Note (29) "Additional information on financial instruments" or Note (30) "Derivative financial instruments" in the notes to the consolidated financial statements of Klöckner & Co SE.

The Group recognizes pension provisions for current and future benefits to eligible current and former employees. Defined benefit or defined contribution plans are in place depending on the legal, economic and tax environment in each country. The risk associated with defined benefit pension obligations corresponds to the expenditure necessary to meet the obligation. This is calculated on the basis of actuarial assumptions and also requires 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 and the UK, plan assets are exposed to capital market risk. On the whole, we consider this risk to be intermediate.

As part of our risk analysis, we regularly commission independent experts to produce asset/liability studies and, where necessary, we 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 so as to minimize the financial risk arising from pension commitments.

At the end of 2015, we decided to cancel the rating agreements then in place with the two rating agencies Standard & Poor's (S&P) and Moody's Investors Service (Moody's). Klöckner & Co SE was rated B (outlook stable) by S&P and B1 (outlook negative) by Moody's at the time. Cancellation of the rating agreements has no impact on the existing financing portfolio. Following the redemption of the convertible bond in the amount of €186.2 million, Klöckner & Co had financial instruments totaling €1.7 billion, which were only drawn down by a third as of the year-end. Going forward, we intend to continue to employ a diversified portfolio of financial instruments so that we can respond to changes in capital requirements with great flexibility.

Legal, tax and compliance risks

We regard the risk of antitrust violations as significant, particularly the risk of collusion with competitors – for instance, involving price fixing, market allocation or agreeing on production, procurement and supply quantities. With regard to the measures to reduce such risk, please refer to the information on our compliance management system.

Steel distribution is a sector in which legal risk generally tends to be lower than in many other sectors. One intermediate legal risk we have identified is unfavorable terms and conditions – such as financing terms – in loan agreements, which could lead to substantial additional costs or even premature termination of agreements. We counter this risk through close cooperation among our own experts in the various corporate departments and, where necessary, seek legal advice from qualified external specialists.

In the area of taxes, the risk of changes in tax legislation or the administrative interpretation of tax matters poses an intermediate risk. Based on the guidelines and directives in force, our Corporate Taxes Department is involved in the legal assessment of such matters in Germany and abroad. We constantly monitor the situation to detect any changes early on. This allows us to take suitable measures to minimize risk and recognize provisions as appropriate.

IT risk

Our business processes depend heavily on the IT systems installed. In addition to our administrative systems, these primarily include the systems in procurement, sales and logistics.

We consider our IT systems to be exposed to cyber risk due to the general increase in outside attacks on IT systems and notably also in light of our e-commerce initiatives and the increasing digitalization of our supply and value chain. By cyber risk, we mean risks of adverse modification to, loss or misuse of or interruption to the availability of data or IT systems, and data breaches. We regard the threat of viruses, targeted hacking, carelessness, deliberate data falsification or modification and IT system failure as a significant risk. To counter the threat from cyber risks, we create additional resources and know-how in Klöckner Group IT (Klöckner Shared Services GmbH) and deploy various preventive measures against system failure and employee carelessness as well as specific protection from cyber attacks.

Project risks may arise when implementing IT projects. For instance, integrating new solutions within the scope of digitalization projects can increase the complexity of the existing system. This also has the potential to disrupt regular operations. We counter this intermediate risk through strict project monitoring to identify and avoid project risks early on and, if necessary, make adjustments to the scope of the project.

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. The loss of employees in key positions, particularly when integrating newly acquired companies and subsidiaries with specialty activities, therefore poses an intermediate risk.

We have designed our remuneration systems to motivate and retain employees; the same applies to our personnel development programs and measures. Our HR tools help us to safeguard existing expertise and new talent. At the same time, these ensure that our resources are transparent. In addition, we regularly identify potential personnel risks through our internal monitoring process. We conducted a Group-wide employee survey in 2015. The high response rate of around 60% and the positive overall feedback tell us that our employees are keenly interested in the Group and its strategic direction. The findings additionally indicate high levels of employee commitment. Working in close consultation with the relevant heads of HR, we will follow up in those areas where we have identified potential for improvement in 2016.

Risks arising from management processes

In addition to ongoing process adjustments, the huge decline in the market and in shipments in Europe of over 25% since 2011 has already necessitated massive structural adjustments. It is of critical importance for our future success that our structures and processes meet market and customer demands in the best possible manner.

There is thus an intermediate risk that if demand declines further, it might become necessary to make additional structural adjustments that would no longer allow our existing business model and our respective market position to be sustained without restriction in some countries. It would only be possible to adjust costs in proportion to quantities to a limited extent in most countries due to the substantial proportion of fixed costs and the widespread trend toward small production volumes. In addition, significant adjustments to the structure of our site networks also impact inventory management and valuation. This means we will continue to monitor market trends very closely so that we can make fast, systematic decisions on the structure of our site networks and take account of their impacts.

Alongside numerous opportunities, digitalization also harbors risks. Notably when this goes beyond digitalization of the existing business model to entail change in the business model itself, there is the medium-term possibility that competition will further intensify and the pressure on prices will become even greater. This could cancel out the operating benefits of digitalization. We counter this intermediate risk by addressing the opportunities and risks of digitalization at an early stage, rapidly pressing ahead with digitalization of the supply and value chain, generating competitive advantages with pioneering approaches, and keeping a close watch on market developments and the competition.

Opportunities and opportunity management

At the holding company, the systematic identification as well as the coordination and control sides of opportunity management are 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 the corporate departments and the country-level management teams. Strategic projects are managed and monitored at country level together with the holding company management.

A secure financial structure, steadily increasing efficiency, effective procurement and inventory management, optimized sales processes as well as human resources management that promotes innovation potential provide the basis for us to leverage opportunities.

Strategic opportunities

A key step toward sustainably boosting profitability as part of our "Klöckner & Co 2020" growth strategy is expanding the share of sales we generate with higher value-added products and processing services. In addition to acquiring companies such as American Fabricators, we also aim to grow more and more organically in this higher-margin segment. Our regional focus here is on the United States due to its significantly better growth prospects. For enduring success, however, it is necessary to increase the proportion of higher value-added products and services across all countries. This is why we have made it our goal to boost the share of Group sales in this field from 39% today to 45% in 2017. Steps we have taken toward achieving this goal include initiating construction of a service center for processing aluminum flat products at our site in Bönen, Germany, last year.

Alongside growth in the areas mentioned, the main focus of our strategy is on optimizing operating processes and above all the digitalization of our entire supply and value chain as another aspect of setting ourselves apart from competitors. As regards digitalization, we are at the forefront of our industry.

Operational opportunities

The "Klöckner & Co 2020" growth strategy also brings with it numerous opportunities from operational-level changes. Such opportunities are provided above all by digitalization as well as by the accelerated expansion of our range of higher value-added products and processing services. In addition, our KCO WIN+ program, which is an integral part of the optimization strategy, consolidates all measures and projects designed to improve workflows and processes in our business operations. Alongside other measures geared to boosting effectiveness and efficiency in sales, such as better sales control, a major focus here is on differentiated pricing. As our chief competitors comprise a host of small and medium-sized enterprises, we are exploiting our economies of scale to delineate ourselves more distinctly than ever from that competition. Our activities in this regard spotlight two core areas: products and processing services, and digitalization.

To achieve greater differentiation from competitors, we plan to maintain our broad product portfolio as well as increasingly offer customers higher value-added products and services. The prime focus here is on customers whose strong vertical integration provides greater scope for successfully and profitably selling such services. More and more, we also supply customers from our network rather than solely from individual locations. This enables us to offer a broader range of steel and metal products, especially in comparison with smaller and mid-size competitors, without adding to inventories. In procurement, we plan to better leverage the economies of scale we have over many of our competitors by extending centrally controlled procurement activities to additional product ranges. We anticipate more appreciable economies of scale by stepping up pooled procurement from suppliers who grant commensurate terms and by making greater use of global procurement options.

Digitalization is not just about streamlining our entire supply and value chain from supplier to customer. We also use the methods and tools of business start-ups to be faster and more effective as well as to create added value for customers. Based on digital solutions and working jointly with suppliers and, in particular, customers, we are committed to making all processes simpler and more efficient. To this end, we launched a dedicated Group Center of Competence for Digitalization in Berlin in 2015 to develop, test and roll out digital solutions across the Group. The company, kloeckner.i, additionally furnishes a platform for in-house knowledge transfer, has forged a network with the start-up scene and oversees online marketing activities. As part of this, kloeckner.i operates an innovation lab at the Regensburg location of KCD, our German country organization. The lab has teamed up with a partner to develop innovative tools. Customers are brought in from an early stage to test functionality and customer benefit directly step by step.

Initial digital tools, including contract portals and web shops, are already successfully being used by customers. In procurement, we now have full digital integration with wholesalers and major steel producers. All tools and data are gradually being brought together on the Klöckner service platform. In this way, customers and partners have a central access point for data, which they can leverage profitably. Another step will be to open up the service platform to competitors starting in 2017. This projected industry platform will further boost product diversity and enhance price transparency for our customers. At the same time, we will unlock additional earnings potential by generating commission from transactions completed by our competition using the industry platform.

While kloeckner.i operates just like an internal startup, we link up with external startups through our venture capital company, kloeckner.v, which was likewise launched in 2015. Here, we invest in startups through selected venture capital firms and, in the future, will invest directly in startups that support our digitalization strategy with disruptive approaches.

We see great potential in digitalization for making major improvements at every link in what is an inefficient traditional steel and metal distribution chain. End-to-end data flow with the aid of digitalized processes makes it possible to produce to demand, removes the need for stock transfers and shortens time to delivery from the shop floor. Fewer inefficiencies also enable us to keep less inventory.

Exploiting process optimization opportunities is another key step toward sustainably improving the earnings situation. This is why various projects geared to optimizing processes in sales and distribution, logistics and prefabrication are underway in a number of countries as well as transnationally. They hold substantial potential for leveraging opportunities to boost service quality, efficiency and effectiveness. Examples of transnational projects in Europe include the introduction of a CRM system (KliCC), the rollout of semi-automated pricing and the launch of paperless processes (POW:R) in warehouses. In addition, we have launched a medium-term project to introduce dynamic pricing. Its aim is to use algorithms to draw lessons from customer behavior with the help of software and to leverage this knowledge in pricing.

In logistics/prefabrication, we have initiated a new project to professionalize prefabrication (Pro2). The goal here is to optimize production planning at production units experiencing bottlenecks. In pursuit of our strategy of offering higher value-added products and services, we are also increasingly using different machines by a variety of manufacturers. This calls for flexible software for compiling machine data coupled with a computer-aided design and computer-aided manufacturing (CAD CAM) solution that can process these various machines' data. Only in this way can we maximize automation of our customer processes and utilize our plant capacity to optimum effect.

Additional projects are underway in logistics and warehouse management. These include lasting improvements to workflows and structures in internal logistics, prefabrication and transportation logistics using a system rolled out on a large scale known as the 10 Commandments of Operations. The system acts to harmonize processes, exchange best practices across borders and ensure a continuous improvement process. Implementation of the measures is monitored by way of audits of each individual operation carried out by Headquarters, which foster performance improvements using a uniform key indicator system. Continued application of the 10 Commandments of Operations system tangibly enhances supply performance, efficiency and occupational safety.

Ultimately, we also set ourselves apart from our competitors through our state-of-the-art technologies and systems, which we fine-tune on an ongoing basis. As previously mentioned, we use these, for instance, to take customer analysis and service to even higher professional standards. In-house, we harness global collaboration solutions to improve the exchange of information as well as raise the efficiency and effectiveness of collaboration. Furthermore, we ensure continuous improvement of our management potential via a structured management review process.

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 THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

Our internal management and control system is primarily the responsibility of the Corporate Accounting, Finance, Controlling and Internal Audit Departments, assisted by the Corporate Legal and Taxes 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 identify and appropriately quantify all risks in the context of consolidated financial statements that comply with IFRS and single-entity financial statements that comply with the requirements of the German Commercial Code (HGB).

In our Group, the controls take place both as part of an integrated process and on an ad hoc basis. In addition to system-based (IT-based) controls, we also use manual controls such as application of the dual-control principle. Administrative, execution, invoicing and approval functions are separated, 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 use SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. Local financial accounting data is 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 as well as 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 as well as in compliance with generally accepted accounting principles. Information on inventories and 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 analysis. Our Corporate Internal Audit Department and the external Group auditor promptly review the proper 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) as endorsed by the EU. In doing so, the Group accounting guidelines, continuously updated by the Corporate Accounting Department, ensure that the IFRS are applied uniformly throughout the Group. All accounting guidelines, which 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 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 fed into the Group accounting software. In addition to this automated quality assurance procedure, the Corporate 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 Accounting and 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, while pension obligations are computed locally with the assistance of actuarial experts. The calculation parameters are approved by the Corporate 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, 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

In a still difficult market environment, newly emerging risks were identified at an early stage and suitable measures implemented to counter them wherever necessary or economically expedient. The Management Board is confident that our risk management system is effective.

Moreover, 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. Based on the measures taken and planned, in particular to ensure liquidity, the Management Board is not presently aware of any risks that, either individually or taken as a whole, cast doubt upon the Company’s ability to continue as a going concern.

7. Group forecast

Like most economic research institutes, we expect GDP growth of 2% and 3% this year for our key sales markets of Europe and the USA, respectively. This should also give a slight boost to real steel demand in these two regions.

In the Americas segment, we expect sales to edge up slightly in 2016, despite the low steel prices due to the anticipated pickup in demand. In Europe, on the other hand, sales should decline moderately on account of the restructuring measures. This means that, at overall Group level, a slight decline in sales is expected.

By contrast, we anticipate a marginal increase in gross profit and a moderate rise in the gross profit margin at Group level. However, the picture will vary here between the segments. While gross profit and the gross profit margin are set to gain substantially in the Americas segment in light of the positive market outlook, in the Europe segment, we expect a marginal decline in gross profit due to restructuring, although the gross profit margin should increase slightly.

Thanks also to cost optimizations, operating income (EBITDA) and the EBITDA margin ought to rise substantially in both segments, and thus also at Group level, relative to the 2015 figures adjusted for restructuring expenses.

We do not expect any further expense from write-downs on goodwill. Additional alleviating factors will arise from a lower interest expense due to reductions in financial liabilities. For this reason, too, after a loss in the reporting period, we expect a slightly positive net income again for 2016.

Our net working capital should increase significantly in 2016 due to the expected upturn in business and particularly low inventories – notably in the Americas segment – at the end of the prior year; however, the increase in Europe is likely to be only moderate due to the restructuring measures. Accordingly, for reasons of higher net working capital and payments from derivative hedging instruments, we expect a substantial rise in net financial debt. But on account of the even larger percentage increase expected in operating income, leverage (net financial debt / EBITDA before restructuring expenses) is expected to decline.

Overall, we expect the business situation of the Klöckner & Co Group to noticeably improve in 2016, driven both by enhancements made within the Group as well as by more favorable market conditions.

In 2017, operating income will likely continue to rise substantially, mainly thanks to investment in higher value-added products and processing services, the full contribution to earnings of the KCO WIN+ program for the first time, and the increasing extent to which business processes are being digitalized.

Further acquisitions are planned as a growth accelerator. In line with our growth strategy, the focus here is on US companies offering higher value-added products and processing services.

Duisburg, February 19, 2016
The Management Board

FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements
Consolidated statement of income

for the 12-month period ending December 31, 2015

(€ thousand)	Notes	2015	2014
Sales	7	6,443,628	6,503,930
Other operating income	8	32,911	37,390
Changes in inventory		−14,080	18,106
Own work capitalized		94	91
Cost of materials	9	−5,192,565	−5,261,180
Personnel expenses	10	−676,558	−590,279
Depreciation and amortization		−374,117	−92,498
thereof impairment losses	*15*	*−277,713*	*−1,104*
Other operating expenses	11	−569,556	−517,246
Operating result		**−350,243**	**98,314**
Income from investments		**-**	**−3**
Finance income		1,278	2,759
Finance expenses		−50,272	−62,238
Financial result	**12**	**−48,994**	**−59,479**
Income before taxes		**−399,237**	**38,832**
Income taxes	13	50,400	−16,658
Net income		**−348,837**	**22,174**
thereof attributable to			
– shareholders of Klöckner & Co SE		*−346,689*	*22,332*
– non-controlling interests		*−2,148*	*−158*
Earnings per share (€/share)	**14**		
– basic		**−3.48**	**0.22**
– diluted		**−3.48**	**0.22**

Statement of comprehensive income

for the 12-month period ending December 31, 2015

(€ thousand)	2015	2014
Net income	**–348,837**	**22,174**
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	–13,352	–92,916
Related income tax	5,417	10,549
Total	**–7,935**	**–82,367**
Other comprehensive income reclassifiable		
Foreign currency translation	65,549	41,956
Gain/loss from net investment hedges	–1,830	–1,094
Gain/loss from cash flow hedges	-	5,867
Reclassification to profit and loss due to sale of foreign subsidiaries	–33	-
Related income tax	607	–1,634
Total	**64,293**	**45,095**
Other comprehensive income	**56,358**	**–37,272**
Total comprehensive income	**–292,479**	**–15,098**
thereof attributable to		
– shareholders of Klöckner & Co SE	*–290,384*	*–14,858*
– non-controlling interests	*–2,095*	*–240*

Consolidated statement of financial position

as of December 31, 2015

(€ thousand)	Notes	December 31, 2015	December 31, 2014
Non-current assets			
Intangible assets	15 a	223,624	438,015
Property, plant and equipment	15 b	680,491	630,220
Investment property	15 c	8,742	10,486
Non-current investments		2,069	1,321
Other assets	18	13,273	15,282
Current income tax receivable	13	6,388	2
Deferred tax assets	13	10,829	7,817
Total non-current assets		**945,416**	**1,103,143**
Current assets			
Inventories	16	961,171	1,317,696
Trade receivables	17	655,393	745,538
Current income tax receivable	13	14,262	14,072
Other assets	18	99,576	106,386
Cash and cash equivalents	19	164,853	316,364
Assets held for sale	20	627	25,478
Total current assets		**1,895,882**	**2,525,534**
Total assets		**2,841,298**	**3,628,677**

(€ thousand)	Notes	December 31, 2015	December 31, 2014
Equity			
Subscribed capital		249,375	249,375
Capital reserves		664,182	900,759
Retained earnings		164,852	289,257
Accumulated other comprehensive income		26,412	−24,690
Equity attributable to shareholders of Klöckner & Co SE		**1,104,821**	**1,414,701**
Non-controlling interests		8,606	13,984
Total equity	**21**	**1,113,427**	**1,428,685**
Non-current liabilities			
Provisions for pensions and similar obligations	23	340,112	328,190
Other provisions and accrued liabilities	24	21,221	17,405
Financial liabilities	25	337,211	522,407
Other liabilities	27	64,385	34,407
Deferred tax liabilities	13	43,955	98,576
Total non-current liabilities		**806,884**	**1,000,985**
Current liabilities			
Other provisions and accrued liabilities	24	149,906	110,827
Income tax liabilities	13	17,420	9,307
Financial liabilities	25	207,999	258,950
Trade payables	26	489,048	742,703
Other liabilities	27	56,614	77,220
Total current liabilities		**920,987**	**1,199,007**
Total liabilities		**1,727,871**	**2,199,992**
Total equity and liabilities		**2,841,298**	**3,628,677**

Consolidated statement of cash flows 2015

(€ thousand)	2015	2014
Net income	–348,837	22,174
Income taxes	–50,400	16,658
Financial result	48,994	59,479
Depreciation and amortization	374,117	92,498
Other non–cash income/expenses	–1,024	424
Gain on disposal of non–current assets	–6,299	–8,885
Change in net working capital		
Inventories	445,426	–71,014
Trade receivables	138,865	–6,331
Trade payables	–303,127	57,493
Change in other operating assets and liabilities	21,156	–32,067
Interest paid	–29,971	–46,970
Interest received	1,485	2,930
Income taxes paid	–14,455	–18,363
Cash flow from operating activities	**275,930**	**68,026**
Proceeds from the sale of non–current assets and assets held for sale	35,237	15,550
Cash inflows from the redemption of current loans	-	5,369
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	11,958	-
Payments for intangible assets, property, plant and equipment	–98,812	–70,976
Acquisition of subsidiaries and non-controlling interest	–33,806	–82,022
Cash flow from investing activities	**–85,423**	**–132,079**
Dividend payments to shareholders of Klöckner & Co SE	–19,950	-
Dividend payments to non–controlling interests	–1,684	–1,689
Settlement Cross-Currency Swap	-	–29,004
Repayment convertible bond	–161,350	–97,900
Repayment Syndicated Loan	–100,000	–60,000
Repayment promissory notes	–51,500	–50,000
Borrowings	476,615	227,749
Repayment of financial liabilities	–491,859	–211,287
Cash flow from financing activities	**–349,728**	**–222,131**
Changes in cash and cash equivalents	**–159,221**	**–286,184**
Effect of foreign exchange rates on cash and cash equivalents	7,710	7,155
Cash and cash equivalents at the beginning of the period	316,364	595,393
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**164,853**	**316,364**

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, 2014	**249,375**	**900,759**	**266,925**	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Reclassification of cash flow hedges to profit and loss				
Actuarial gains and losses (IAS 19)				
Related income tax				
Other comprehensive income				
Net income			22,332	
Total comprehensive income				
Dividends				
Balance as of December 31, 2014	**249,375**	**900,759**	**289,257**	
Balance as of January 1, 2015	**249,375**	**900,759**	**289,257**	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Actuarial gains and losses (IAS 19)				
Related income tax				
Reclassification to profit and loss due to sale of foreign subsidiaries				
Other comprehensive income				
Net income			–346,689	
Total comprehensive income				
Change of non–controlling interests			5,657	
Dividends			–19,950	
Withdrawal from capital reserves		–236,577	236,577	
Balance as of December 31, 2015	**249,375**	**664,182**	**164,852**	

Consolidated Financial Statements
Summary of changes in consolidated equity

	Accumulated other comprehensive income					
	Currency translation adjustment	Actuarial gains and losses (IAS 19)	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non–controlling interests	Total
	72,912	**–56,648**	**–3,764**	**1,429,559**	**15,913**	**1,445,472**
	41,885			41,885	71	41,956
			–1,094	–1,094		–1,094
			5,867	5,867		5,867
		–92,763		–92,763	–153	–92,916
		10,549	–1,634	8,915		8,915
				–37,190	**–82**	**–37,272**
				22,332	–158	22,174
				–14,858	**–240**	**–15,098**
					–1,689	–1,689
	114,797	**–138,862**	**–625**	**1,414,701**	**13,984**	**1,428,685**
	114,797	**–138,862**	**–625**	**1,414,701**	**13,984**	**1,428,685**
	65,548			65,548	1	65,549
			–1,830	–1,830		–1,830
		–13,427		–13,427	75	–13,352
		5,440	607	6,047	–23	6,024
	–33			–33		–33
				56,305	**53**	**56,358**
				–346,689	–2,148	–348,837
				–290,384	**–2,095**	**–292,479**
	–5,203			454	–1,599	–1,145
				–19,950	–1,684	–21,634
	175,109	**–146,849**	**–1,848**	**1,104,821**	**8,606**	**1,113,427**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2015

(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 19, 2016. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it approves the consolidated financial statements.

The Klöckner & Co Group is one of the largest producer-independent multi metal distributors world-wide and one of the leading operators of steel service centers.

(2) Accounting Policies

The consolidated financial statements as of December 31, 2015 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, 2015 were applied.

The financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2015, 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 deemed to exist if the parent company participates in variable positive or negative returns of the subsidiary and is able to influence these returns with its decision-making power.

The financial statements of subsidiaries acquired or disposed during 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 during the year under review:

	2015	2014
Consolidated entities at the beginning of the financial year*)	73	72
+ business combinations	1	2
+ newly formed/consolidated companies	3	1
– mergers	–2	–2
– disposals and liquidations	–1	-
Consolidated entities at the end of the financial year	**74**	**73**
thereof domestic entities including Klöckner & Co SE)*	*13*	*11*

*) Including consolidated special-purpose entities.

2 (2014: 3) 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% (2014: 0.11%) of consolidated net income. The impact on the Group's equity amounts to 0.02% (2014: 0.01%). 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 an annex to the notes.

Special-purpose entities

Under the Group's European asset-backed securitization program ("ABS program") a total of four special-purpose entities exist, consisting of the holding company Klöckner Receivables Funding Ltd., Dublin, Ireland, and three country-specific subsidiaries. The shares of these special-purpose entities are held by two independent and privately-owned service companies responsible for the accounting in the holding company. The entities purchase trade receivables from the subsidiaries participating in the ABS program on contractually agreed terms. They are financed by conduit credits refinanced by placement of commercial papers or loans granted by the banks involved. The AAA rating required for the commercial papers is granted by the claim reserves and the compliance with performance indicators.

The extent to which this program is used depends on the amount of receivables and the monthly development of the cash flow requirements. This decision is the responsibility of Klöckner & Co SE.

Klöckner & Co SE is, by contract, responsible for payment orders, reporting, administration of receivables purchased, including credit management and receivable collection, as well as for the accounting of the country-specific entities. In addition, Klöckner & Co determines the factor to be paid in order to cover all current costs of the special-purpose entities. These special-purpose entities are also controlled by Klöckner & Co and must therefore be included in the financial statements. They are subject to control due to the fact that Klöckner & Co SE is subject to a volatile return from the special-purpose entities and is able to influence these returns with its control over these entities.

Within the scope of the German ABS program, Klöckner & Co issued a loan to Klöckner Receivables Funding Ltd., Dublin, Ireland, in the amount of €50 million (2014: €60 million).

For the ABS program issued in the USA in 2007, only one special-purpose entity was founded (NC Receivables Corporation, Wilmington, Delaware, USA), of which Klöckner Metals Corporation, Wilmington, Delaware, USA is holding 100%. This entity purchases trade receivables of the subsidiaries in the USA and Mexico that are transferring these receivables. The NC Receivables Corporation in turn resells them to a conduit either issuing commercial papers to investors or utilizing a liquidity fund for financing purposes.

In addition, the companies participating in this program are responsible for the collection and receivables management, carry all costs and do not receive any remuneration. The special-purpose entities' current expenses are also borne by itself.

(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 with 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 net investments) and monetary 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 closing exchange 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 Group's main currencies developed as follows:

	Closing rate		Average rate	
1 € =	**December 31, 2015**	December 31, 2014	**Jan. 1 – Dec. 31, 2015**	Jan. 1 – Dec. 31, 2014
Brazilian Real (BRL)	4.3117	3.2207	3.7004	3.1211
Pound Sterling (GBP)	0.7340	0.7789	0.7258	0.8061
Swiss Franc (CHF)	1.0835	1.2024	1.0679	1.2146
US Dollar (USD)	1.0887	1.2141	1.1095	1.3285

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, at the request of the buyer, goods have not been delivered, but ownership has been transferred, the buyer has accepted billing, and goods are available and stored separately. 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:

in %	December 31, 2015	December 31, 2014
Risk–free rate of return	–0.4– 0.4	–0.1– 0.6
Expected volatility	36.5	36.0

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 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 by the balance sheet date.

Deferred taxes are calculated in line with the concept of the balance sheet liability method. They result from temporary differences in the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits and from consolidation entries. The calculation is based on tax rates that have been enacted or substantively enacted due to an almost concluded legislative procedure. Such deferred taxes or liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable profits nor the accounting profits.

A deferred tax asset is also recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable 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 are applicable at the date of the reversal of temporary differences or the use of loss carryforwards and 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 will 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 and impairments 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. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rates.

The expected useful lives are as follows:

	Useful life in years
Software	2–5
Customer relations	4–15
Trade names	3–15
Other intangible assets	1–15

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. The financial asset and the impairment are written off in case the financial assets is categorized as bad debt.

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 a lessee, lease payments are recognized as a 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.

Impairments

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 an 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 a recoverable amount for the specific asset cannot 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 GmbH (BSS), the national sub-consolidation groups represent the cash-generating units within the Klöckner & Co Group. 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 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. The interest rates used reflect the risk specific to the underlying business and the country in which the business operates. Among other things, interest rates are based on Peer Group data. The composition of the Peer Group is regularly reviewed and adjusted, if deemed necessary.

In those CGUs in which the carrying amount falls short of the recoverable amount, the fair values are calculated on an individual assets’ level. Taking into account the future development of these fair values it remains uncertain if additional impairments will become necessary or if an appreciation in value will become indispensable.

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 certain 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 for Klöckner & Co.

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, financial instruments available for sale, 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 consolidated financial statements.

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

All identifiable risks are accounted for by making appropriate valuation adjustments to reflect the risk of default, taking into account the credit insurances in place. The carrying amounts of financial assets are assessed for impairment if there is objective material evidence that impairment may be necessary, such as substantial financial difficulty on the part of the obligor, known insolvency proceedings or overdue obligations. Valuation allowances are recorded on separate accounts. In case the financial asset is categorized as bad debt it is written off including the amount of the impairment.

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 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. At the date of issuance, 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 as a "financial liability" 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 not 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 hedge, 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 dependent on the nature of the hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. In addition, hedge accounting is applied for certain unrecognized firm commitments.

Forward exchange transactions are valued on an item-by-item basis at the forward rate 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, or 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 (e.g., increases in wages and salaries and retirement benefits), are recognized over the total service period of the respective employee. Actuarial advice is obtained.

Actuarial gains or losses resulting from deviations between the forecast and realized changes in plan beneficiaries and actuarial assumptions are recorded with no effect on income during the period in which they arise in other comprehensive income. They are stated separately in the statement of comprehensive income.

Service costs are reported in personnel expenses. Interest costs resulting from the accretion of the defined benefit obligation as well as return on plan assets are stated as net interest expenditure in the financial results (under application of the discount rate of the obligation).

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 or loss.

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 its amount. A provision is only established for legal or constructive obligation against third parties.

Provisions are recognized at the amount representing the best estimate of the expenditure required to settle the present obligation. 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 include potential obligations arising from past events that only require settlement if one or more uncertain future events occur, which the enterprise cannot wholly control. In addition, contingent liabilities include unrecognized present obligations that arise from past events but are unlikely to require an outflow of resources to settle the obligation and also obligations in which the amount 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 and liabilities realized within twelve months of the reporting date, or that will be settled within one year of the reporting date are classified as current.

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

Presentation of exchange rate gains and losses resulting from Group financing in the cash flow statement

In order to improve the financial statements' informative value, exchange rate gains and losses relating to the Group's financing activities are included in the financial result. Due to materiality reasons, the previous year's figures have not been adjusted. Accordingly, cash flows resulting from derivatives used for hedging purposes are now reported in financing activity (former operating activity). The previous year's figures have been adjusted accordingly in the cash flow statement. The realization increased the cash inflows by €18,016 thousand with the respective increase of cash inflows resulting from financing activities.

Use of estimates

The preparation of the consolidated financial statements requires the Klöckner & Co Group to make assessments, estimates and assumptions that influence 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. If more than one period is affected, the change is reflected in the period of the revision and subsequent periods.

Particularly in business combinations, intangible assets and property, plant and equipment require estimates 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 any triggering events exist that could give rise to an impairment loss. If triggering events are identified, the recoverable amount must be estimated. Regardless of the existence of triggering events, an impairment test on goodwill must be performed at least on an annual basis. The recoverable amount is usually determined using discounted cash flows. The projected cash inflows largely depend on the expected future gross profit per ton and turnover, which take into account the general economic environment and the expected development of the operating expenses (OPEX) and 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 the return on equity, which includes assumptions about leverage and the market risk premium.

For additional CGUs with the recoverable amount falling short of the assets' carrying amount, the fair values are determined on a single asset basis. Depending on the future development of these fair values, it cannot be ruled out that additional impairments or write-ups will become necessary.

Inventories are reported at the lower of cost or net realizable value. In order to calculate the net realizable value, management must estimate sales prices and future selling costs.

The Group operates in various countries. Therefore, the Group's income is subject to various tax jurisdictions. For each taxable entity, tax assets, tax liabilities, temporary differences, 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 realization is probable. This realization 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 factors, considers historical earnings, budgets, loss carryforward restrictions and tax planning strategies. At each reporting date, the recognition of deferred taxes is assessed once again.

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 economy and stock markets. Therefore, deviations from the forecast may 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 2015, the Klöckner & Co Group initially applied the following standards:

Standard/Interpretation
Annual Improvements to IFRSs 2011–2013
IFRIC Interpretation 21 (Levies)

Within the scope of the Annual Improvement Project four standards were changed under the designation "Annual Improvements to IFRS 2011–2013". These changes had no impact on the Klöckner & Co SE's financial statements.

IFRIC 21 regulates the closing date of public charges accrued either upon threshold limits or accrued irregularly within one year and not being subject to IAS 12 (Income Taxes). The initial application entailed a different periodization of such charges in the 2015 interim financial statements but had no impact on the 2015 annual financial statements.

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

Standard/Interpretation	Mandatory application*)
Amendments to IAS 27: Equity Method in Separate Financial Statements	2016
Improvements to IFRS 2010–2012	2016
Amendments to IAS 16 and IAS 41: Bearer Plants	2016
IFRS 14 Regulatory Deferral Accounts	2016
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	2016
Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)	2016
IFRS 9 Financial Instruments (final standard)	2018
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	2016
IFRS 15 Revenue from Contracts with Customers	2018
Amendments to IFRS 10, IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	outstanding
Annual Improvements to IFRSs 2012–2014	2016
IAS 1 Disclosure Initiative	2016
IFRS 10, IFRS 12, IAS 28 (Consolidation Exception)	2016
IFRS 16 Leases	2019

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

As part of the Annual Improvement Project, modifications were made to seven (2010–2012) standards. The editorial changes in selected IFRS will clarify existing regulations. No impact on the financial statements is expected.

The changes to IAS 19 (Employee Benefits) limit adjustments regarding service cost entries of contributions by employees or third parties. There will be no impact on the Klöckner & Co SE's financial statements.

The amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations) were published on May 6, 2014. This clarification relates to the acquisition of interests in joint operations if they are classified as a business. This clarification will not have an impact on Klöckner & Co SE Group's financial statements.

On May 12, 2014, amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) were published. The amendments are a clarification that revenue-based methods for calculating the depreciation may not be applied. This clarification will not have an impact on Klöckner & Co SE Group's financial statements.

On May 28, 2014, the IASB published the new standard IFRS 15 (Revenue from Contracts with Customers). The standard summarizes regulations for revenue recognition from different standards and requires extended disclosures depending on the kind of business. Provided that it will be endorsed by the EU, the standard is applicable for financial years beginning on or after January 1, 2018. Klöckner & Co is currently analyzing the impact of this standard on the annual financial statements. Due the primary business of Klöckner & Co as stockholding distributor it is not expected that the new standard will have a material impact on Klöckner & Co SE Group's financial statements.

On July 24, 2014, the IASB issued the final standard IFRS 9 (Financial Instruments), whereas the previous releases issued in 2009, 2010 and 2013 were integrated partly modified. IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities as well as for hedge accounting (excl. macro-hedge accounting, which is addressed in a separate project). The standard will be effective for financial years starting on or after January 1, 2018. Klöckner & Co is currently analyzing the impact of this standard on the annual financial statements.

The amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) issued on September 11, 2014 clarify the gain recognition on a sale or contribution of assets between an investor and its associate or joint venture. A gain or loss is recognized when a transaction represents a business. The standard will be effective for financial years, which start on or after January 1, 2016. The changes of these standards will not have an impact on the annual financial statements of Klöckner & Co.

On September 25, 2014, the Annual Improvements to IFRSs 2012-2014 were issued. The publication of this project leads to changes in five standards. The changes of the standards are applicable for financial years beginning on or after January 1, 2016. The Annual Improvements will not have an impact on the annual financial statements of Klöckner & Co.

The narrow-scope amendments to IFRS 10 (Consolidated Financial Statements), IFRS 12 (Disclosure of Interests in Other Entities) and IAS 28 (Investments in Associates and Joint Ventures) issued on December 18, 2014 introduce clarifications to the requirements of the consolidation exemption for investment entities. The initial application of the amendments for annual periods beginning on or after January 1, 2016 is to be postponed indefinitely according to an IASB proposal. This clarification will not have an impact on Klöckner & Co SE Group’s financial statements.

Also on December 18, 2014, the amendments to IAS 1 (Disclosure Initiative) were issued. The amendments contain substantial information regarding the assessment of materiality, clarification of aggregation and disaggregation of items on the balance sheet and the statement of comprehensive income as well as the structure of notes to the consolidated statement of financial position. The amendments are to be initially applied to periods of financial statements beginning on or after January 1, 2016. These amendments are not expected to have a material impact on Klöckner & Co SE Group's financial statements.

The remaining new or revised pronouncements (Amendments to IAS 27: Equity Method in Separate Financial Statements, Amendments to IAS 16 and IAS 41: Bearer Plants, IFRS 14 Regulatory Deferral Accounts) not discussed individually will not have impact on Klöckner & Co SE Group’s financial statements.

On January 13, 2016, IFRS 16 (Leases) was published. The new standard replaces the previous standard IAS 17 (Leases) and eliminates the distinction between operating lease contracts and finance lease contracts. Therefore, all lease contracts are to be recognized in the balance sheet. The standard has to be applied to all business periods starting on or after January 1, 2019. Currently, the impact on the annual financial statements are being reviewed.

(5) Acquisition and disposals

The Group structure changed, as listed below, as a result of the following acquisitions and divestitures during fiscal years 2015 and 2014.

Acquisition 2015 and 2014

2015

American Fabricators, Inc., Nashville, Tennessee, USA

On October 1, 2015, the acquisition of 100% of shares of American Fabricators, Inc., Nashville, Tennessee, USA (AFI) was closed. As of that date, the company has been included in the Klöckner & Co SE financial statements. AFI specializes in professional steel processing into complex parts for customers from diverse industries. In 2014, the company generated sales of approx. USD 30 million (approx. €27 million) with its 150 employees. The purchase price amounts to roughly USD 37 million (approx. €33 million).

The fair values of the acquired assets of AFI for which the calculation in part is still preliminary (among other things with regards to customer relations and the existing trade name) and the assumed liabilities are as follows:

(€ thousand)	Fair values
Assets	
Goodwill	16,929
Other intangible assets	15,764
thereof customer relationships	*15,442*
thereof trade names	*54*
thereof non-compete agreements	*268*
Property, plant and equipment	4,295
Inventories	1,103
Trade receivables	4,034
Other current assets	205
Cash and cash equivalents	359
Total acquired assets	**42,932**
Liabilities and provisions	
Deferred tax liabilities	7,336
Trade payables	1,875
Other current liabilities	702
Total assumed liabilities	**9,912**
Acquired net assets	**33,020**
Consideration	**33,020**
thereof paid in cash and cash equivalents	*33,020*
Reconciliation to transaction volume	
Acquired cash and cash equivalents	–359
Transaction volume	**32,661**

The residual value method was used to measure customer relations and trade name (present value model). Customer relations were measured based on a churn rate of 11.5%. The measurement was based on an interest rate of 6.5%. The customer relationships are written off over a period of 9 years, the non-compete agreement over a peroid of 5 years and the trade name over a period of 3 years.

Fixed assets were measured on the basis of a cost-oriented method.

Goodwill primarily represented future earnings potential with regards to higher margin business. Due to the AFI integration into the CGU North America the goodwill for this CGU was completely impaired within the scope of the yearly impairment test.

Additional information according to IFRS 3.B64:

(€ thousand)	
Sales contribution since initial consolidation	5,536
Contribution to net income since initial consolidation	226
Gross contractual amounts of trade receivables	4,048
Acquisition-related expenses (other operating expenses)	153

Substantial bad debts were not taken over.

If the acquisitions had been consolidated since the beginning of the reporting period, consolidated sales would have been €6,463 million and net income would have been €–347 million.

2014

In 2014, the following purchase was concluded:

Riedo Bau + Stahl AG, Oberbipp, Switzerland

At the beginning of April 2014, the acquisition of 75% of BST Holding AG, Oberbipp, Switzerland, including its subsidiary Riedo Bau + Stahl AG (“Riedo”) was closed. At the end of the second quarter, the remaining shares were also acquired. Thus, the Klöckner & Co Group now holds 100% of the Riedo shares.

With its three locations, Riedo is one of Switzerland’s leading specialists in reinforcing steel, generating sales of about €140 million (CHF 150 million) in 2013. The company has a workforce of approximately 180 employees. The acquisition was part of the “Klöckner & Co 2020” growth strategy, which focuses on entities with higher value-added processing services.

The total purchase price amounts to €83.5 million (roughly CHF 102 million). Riedo has been consolidated since April 1, 2014.

The fair values of the acquired Riedo assets (especially intangible assets) and adopted liabilities are as follows:

(€ thousand)	Fair values
Assets	
Goodwill	18,991
Other intangible assets	19,703
thereof customer relationships	17,342
thereof order backlog	2,340
Property, plant and equipment	40,079
Inventories	10,403
Trade receivables	13,648
Other current assets	8,336
thereof current loans	5,348
Cash and cash equivalents	1,503
Total acquired assets	**112,663**
Liabilities and provisions	
Non-current financial liabilities	1,845
Other non–current liabilities	1,009
Deferred tax liabilities	10,691
Trade payables	2,161
Current financial liabilities	6,971
Other current liabilities	6,454
Total assumed liabilities	**29,131**
Acquired net assets	**83,532**
Consideration	**83,532**
thereof paid in cash and cash equivalents	83,532
Reconciliation to transaction volume	
Assumed financial liabilities (net)	3,468
Acquired cash and cash equivalents	–1,503
Transaction volume	**85,497**

The residual value method was used to measure customer relations and order backlog (fair value model). Customer relations were measured based on a churn rate of 11.5%. The measurement was based on term-congruent interest rates between 5.6% and 8.1%. The customer relationships are written off over a period of 13 years.

Fixed assets were measured on the basis of a cost-oriented method.

Goodwill primarily represents future earnings potential and synergies in the reinforcing steel sector.

Additional information according to IFRS 3.B64:

(€ thousand)	
Sales contribution since initial consolidation	99,612
Contribution to net income since initial consolidation	5,353
Gross contractual amounts of trade receivables	14,134
Acquisition-related expenses (other operating expenses)	369

Substantial bad debts were not taken over.

If the acquisitions had been consolidated since the beginning of the reporting period, consolidated sales for 2014 would have been €6,532 million and net income would have been €23 million.

Acquisition of non-controlling interests

By contract of June 24, 2015, the remaining minority shares of 30% of Kloeckner Metals Brasil S.A. Group, São Paulo, Brazil were purchased at a purchase price of roughly €1 million. The purchase transaction not having a significant impact on the financial statements represents an equity transaction according to IFRS 10.

Disposals 2015 and 2014

2015

At the end of January 2015, the copper business of Reynolds European S.A.S., Reuil Malmaison, France was sold as an asset deal. As of December 31, 2014, the assets (property, plant and equipment) were classified as a disposal group and recognized in the balance sheet as “Assets held for sale”. The capital gain was approximately €2 million.

2014

In 2014, no sale of subsidiaries was closed.

Notes to the consolidated statement of income

(6) Special items in the results

2015

RESTRUCTURING MEASURES

Due to the continuously difficult economic situation additional restructuring measures were introduced in 2015 (mainly site closures and personnel reduction) and the winding-down of the activities in China was initiated. The main focus of these measures were set on France. Further measures concern sustainingly unprofitable activities in Great Britain and Switzerland as well as optimization of the country organizations' holding functions. Within the scope of the program, 11 locations in France, three locations in Great Britain and one location in Switzerland will be closed respectively integrated in existing locations. Within the course of these measures the workforce will be reduced by approximately 630 employees. The existing restructuring provisions as of December 31, 2015 are explained in detail in Note 24 (Other provisions and accrued liabilities).

While the winding-down of the activities in China is almost completed, the implementation of the remaining measures will continue into 2016, especially in France.

IMPAIRMENTS

Goodwill Impairment USA

In consequence of the weaker than expected market environment for steel and metal products in the USA and the accordingly adjusted mid-term planning the goodwill of CGU North America in the amount of €267 million was fully impaired. This impairment is disclosed in the Americas segment.

ASSET IMPAIRMENTS

Within the scope of the completion of the Chinese activities, the executed closing of sites and the impairment test completed for the European activities in Great Britain, Germany, Spain and France, impairments in the amount of €8 million on property, plant and equipment (thereof €3 million restructuring-related) and €2 million for investment property in Valencia, Spain, were recorded.

These measures entailed the following effects:

(€ thousand)	2015
Stock write–downs	–5,466
Personnel expenses	–32,546
Other restructuring expenses	–24,538
EBITDA effects*)	**–62,550**
Goodwill impairment	**–267,026**
Asset impairments	**–9,674**
Impact on operating result	**–339,250**
Tax effects	45,412
Total impact on net income	**–293,838**

*) See Note 34 (Segment reporting) for definition of EBITDA.

2014

There were no material special items included in the 2014 results that should be reported.

(7) Sales

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

(€ thousand)	2015	2014
Germany	1,324,201	1,334,008
EU excluding Germany	1,525,910	1,664,738
Rest of Europe	1,016,649	984,833
North America	2,392,582	2,323,008
Central and South America	93,516	115,869
Asia/Australia	25,521	23,448
Africa	65,249	58,026
Sales	**6,443,628**	**6,503,930**

Sales primarily result from the sale of goods.

(8) Other operating income

(€ thousand)	2015	2014
Gain on sale of non–current assets and assets held for sale	7,422	9,986
Reversal of provisions	5,048	5,141
Rental income	4,712	4,248
Income from written–off receivables	4,691	7,351
Foreign currency exchange gains	3,645	2,517
Gain on sale of consolidated subsidiaries	24	-
Other income	7,369	8,147
Other operating income	**32,911**	**37,390**

Other income is comprised of €1,029 thousand (2014: €1,257 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.

Gain on sale of non-current assets and assets held for sale also includes related to the sale of facilities and the copper business in France.

(9) Cost of materials

(€ thousand)	2015	2014
Cost of materials, supplies and purchased merchandise	5,185,389	5,252,169
Cost of purchased services	7,176	9,011
Cost of materials	**5,192,565**	**5,261,180**

(10) Personnel expenses

(€ thousand)	2015	2014
Wages and salaries	540,779	467,552
Social security contributions (including welfare benefits)	105,287	99,013
Retirement benefit cost	30,492	23,714
Personnel expenses	**676,558**	**590,279**

The majority of the personnel expenses relate to remuneration comprising 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 include restructuring expenses in the amount of €32,546 thousand (2014: €0 thousand).

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

	2015	2014
Salaried employees	5,227	5,224
Wage earners	4,193	4,233
Apprentices	237	226
Employees	**9,657**	**9,683**

(11) Other operating expenses

(€ thousand)	2015	2014
Forwarding cost	148,300	146,569
Third–party services	81,295	75,546
Rental and leasing expenses	79,326	74,492
Supplies	53,407	53,169
Repair and maintenance	47,024	43,683
Restructuring expenses (including subsequent expenditures)	24,538	480
Other taxes	23,557	22,308
Audit fees and consulting	18,378	12,189
Travel expenses	17,645	16,918
Postal charges and telecommunication	10,337	9,483
Other insurance	9,066	8,855
Bad debt expenses	8,243	6,773
Advertising and representation expenses	7,123	7,708
Foreign currency exchange losses	6,685	3,494
Credit insurance	6,143	6,919
Other expenses	28,489	28,660
Other operating expenses	**569,556**	**517,246**

Further information on restructuring expenses are included in Note 6 (Special items in the result).

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

(12) Financial result

(€ thousand)	2015	2014
Income from long–term loans	7	7
Other interest and similar income	1,271	2,752
Interest and similar expenses	–42,993	–54,175
Interest cost for post–employment benefits	–7,279	–8,063
Financial result	**–48,994**	**–59,479**

The decline in net financial expenses is mainly linked to the repayment of promissory note loans and the decreased utilization of the syndicated loan.

In 2014, interest income included an amount of €982 thousand resulting from the fair value adjustment of the put liability assumed in the acquisition of Kloeckner Metals Brasil Group (former Frefer Group).

Included in the financial result is €–41,754 thousand (2014: €–52,431 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)	2015	2014
Current income tax expense (+)/benefit (–)	**16,451**	**18,714**
thereof related to prior periods	*438*	*1,383*
Domestic	4,699	1,238
Foreign	11,752	17,476
Deferred tax expense (+)/benefit (–)	**–66,851**	**–2,056**
Domestic	2,000	–5,743
Foreign	–68,851	3,687
Income tax expense/benefit	**–50,400**	**16,658**

Due to the composition of the German fiscal unity, the combined income tax rate amounts to 31.6%, comprising the corporate income tax (including solidarity surcharges) of 15.8% and the Klöckner & Co trade tax of 15.8%. Foreign tax rates vary between 10.0% and 40.0%.

The Company incurred current income tax of €16,451 thousand (2014: €18,714 thousand). 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.

In the income statement, deferred tax expenses or benefits, respectively, include the following components:

(€ thousand)	2015	2014
Deferred tax expense (+)/benefit (–)	**–66,851**	**–2,056**
thereof from		
– temporary differences	*–56,867*	*3,936*
– loss carryforwards / interest carryforwards	*–9,984*	*–5,992*

The deferred tax benefit results from the goodwill impairment impact of the CGU USA on taxes with €43 million.

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

(€ thousand)	2015	2014
Expected tax rate	**31.6%**	**31.6%**
Income before taxes	**–399,237**	**38,832**
Expected tax expense/benefit at domestic tax rate	–126,159	12,271
Foreign tax rate differential	–21,366	–4,091
Tax rate changes	–35	1,103
Reduced tax rate	–25	–849
Tax reduction due to tax free income	–615	–4,748
Tax increase due to non–deductible expenses	6,275	4,827
Current income tax levied or refunded for prior periods	438	1,383
Goodwill impairment charges	61,577	-
Tax reduction due to first–time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	–130	–5,715
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	–4,712	–3,391
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	34,150	16,364
Other tax effects	202	–496
Effective income tax benefit/expense	**–50,400**	**16,658**
Effective tax rate	**12.6%**	**42.9%**

The 2015 tax rate was largely impacted by the following effects: On one side, the goodwill impairment portion of the CGU USA not impacting taxes lead to a tax burden of €61 million. On the other side, the non-capitalization of deferred tax assets on losses in 2015 had a negative effect of €34 million.

Taxes recognized directly in equity

Current and deferred taxes are generally recognized as income or expense except for taxes arising from a transaction or event that is not affecting net income and is recognized directly in equity.

(€ thousand)	December 31, 2015	December 31, 2014
Change in deferred tax assets and liabilities (net), not affecting net income	**6,024**	**8,915**
thereof reported		
– in other comprehensive income	*6,024*	*8,915*

Deferred taxes on adjustments of pension provisions not affecting net income in accordance with IAS 19 rev. 2011, 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 arise from the following:

(€ thousand)	December 31, 2015	December 31, 2014
Deferred tax assets	10,829	7,817
Deferred tax liabilities	43,955	98,576
Deferred taxes (net)	**–33,126**	**–90,759**

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

DEFERRED TAX ASSETS

(€ thousand)	December 31, 2015	December 31, 2014
from temporary differences and consolidations		
Intangible assets	28,581	12,054
Property, plant and equipment	7,080	6,598
Non-current investments	7,209	7,161
Inventories	5,629	4,046
Receivables and other current assets	3,855	2,563
Provisions for pensions and similar obligations	67,709	68,276
Other provisions and accrued liabilities	3,238	5,521
Liabilities	21,960	15,372
Gross amount	**145,261**	**121,591**
Valuation allowance	–39,324	–53,589
Net amount	**105,937**	**68,002**
Tax loss carryforwards / Interest carryforwards	17,918	7,934
Offsetting	–113,026	–68,119
Deferred tax assets	**10,829**	**7,817**

DEFERRED TAX LIABILITIES

(€ thousand)	December 31, 2015	December 31, 2014
from temporary differences and consolidations		
Intangible assets	33,204	45,333
Property, plant and equipment	77,464	80,699
Non-current investments	9	-
Inventories	13,380	14,647
Receivables and other current assets	13,391	8,140
Provisions for pensions and similar obligations	2	-
Other provisions and accrued liabilities	10,745	11,785
Other liabilities	8,786	6,091
Gross amount	**156,981**	**166,695**
Offsetting	–113,026	–68,119
Deferred tax liabilities	**43,955**	**98,576**

The reduction in deferred tax liablities is mainly attributable to the reversal of deferred tax liabilities associated with the part of the goodwill impairment effecting taxes.

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

(€ million)	December 31, 2015	December 31, 2014
Unrecognized tax losses		
– Corporate income tax	744	719
– Trade tax and similar taxes	287	263
Temporary differences	133	174

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, 2015	December 31, 2014
until December 31, 2020	-	7
until December 31, 2031	145	113
after December 31, 2031	84	34

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, 2015	December 31, 2014
Current income tax receivable	20,650	14,072
Income tax liabilities	17,420	9,307

(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, 7,434 thousand (2014: 10,025 thousand) potential dilutive shares of an issued convertible bond were not included in the computation of diluted earnings per share for 2015 as this would have resulted in higher earnings per share.

		2015	2014
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	–346,689	22,332
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**–3.48**	**0.22**
Diluted earnings per share	**(€/share)**	**–3.48**	**0.22**

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, 2014	355,868	57,024	254,426	667,318
Accumulated amortization and impairments	−199,667	−48,478	−44,299	−292,444
Balance as of January 1, 2014	**156,201**	**8,546**	**210,127**	**374,874**
Exchange rate differences	17,780	117	27,667	45,564
Additions from business combinations	19,684	20	18,991	38,695
Additions	9,362	5,849	-	15,211
Disposals	-	−45	-	−45
Depreciation and amortization	−32,170	−4,114	-	−36,284
Balance as of December 31, 2014	**170,857**	**10,373**	**256,785**	**438,015**
Cost as of December 31, 2014	402,419	65,202	302,042	769,663
Accumulated amortization and impairments	−231,562	−54,829	−45,257	−331,648
Balance as of January 1, 2015	**170,857**	**10,373**	**256,785**	**438,015**
Exchange rate differences	19,191	−113	24,191	43,269
Additions from business combinations	15,764	-	16,929	32,693
Additions	6,672	7,468	-	14,140
Disposals	-	−36	-	−36
Impairments	-	−1,013	−267,026	−268,039
Depreciation and amortization	−31,037	−5,602	-	−36,639
Transfers	−19,203	19,424	-	221
Balance as of December 31, 2015	**162,244**	**30,501**	**30,879**	**223,624**
Cost as of December 31, 2015	440,485	92,061	341,632	874,178
Accumulated amortization and impairments	−278,241	−61,560	−310,753	−650,554

In 2015, impairments in the amount of €1,013 thousand (2014: €0 thousand) were carried out for software no longer required and due to restructuring.

Impairment test according to IAS 36

The mandatory regular annual impairment tests performed on CGU level with an assigned goodwill is performed according to IAS 36 (Impairments) based on the business plan approved by the respective committees in the fourth quarter.

The recoverable amount of a CGU is calculated as value in use using a discounted cash flow method, which is based on "bottom-up" planning. The planning period generally covers a three-year period. 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 identical input parameters for all CGUs and is considering the overall market development. The planning also makes reference to expected demand for our products. These references are derived from macroeconomic and sector studies and modified for the specific CGU. A further key driver of profitability is the expected gross profit per ton. This is projected based on normalized gross profit.

To calculate sustainable realizable cash flow an unchanged growth rate compared to 2014 of 1% is used.

Assumptions for the impairment test of substantial goodwills

For the goodwills categorized as substantial, the following assumptions were made for the development of sales, gross profit per ton, OPEX and EBITDA in the detailed planning period within the scope of the impairment test:

CGU	Shipments	Gross profit per ton	OPEX	EBITDA
North America	moderate increasing	moderate increasing	moderate increasing	remarkably increasing
Switzerland	slightly decreasing	slightly increasing	moderate decreasing	remarkably increasing
Becker Stahl-Service (BSS)	slightly increasing	slightly increasing	slightly increasing	slightly decreasing

Goodwill impairment of CGU North America

The Group's performance situation is substantially influenced by the non-scheduled impairment of goodwill of the CGU North America.

Updated assumptions for the long-term development of the North American market and their impact on the anticipated profitability were the main cause for the goodwill impairment within the scope of the yearly business planning process. Goodwill impairment in the amount of USD 296 million/€267 million (full impairment) was realized in the segment North America.

The full impairment of the segment's North America goodwill is based upon a recoverable amount of USD 1,024 million determined according to the value in use. In this respect, an EBITDA of approximately USD 132 million is assumed for the calculation of the perpetual annuity.

The calculation of the value in use implies a pre-tax rate of 11.1%(2014: 11.5%).

Subsequent to the full impairment the recoverable amount corresponds with the CGU's carrying amount. Thus, any adverse change in material assumptions leads to further impairments.

Goodwill impairment tests of the remaining CGUs

The remaining goodwill after full impairment of the CGU North America amounts to €30.9 million and is mainly allocated with €25.2 million to the CGU Switzerland and €5.5 million to the CGU Becker Stahl-Service. The impairment test performed confirmed the intrinsic value of the goodwill. The appraisement of the value in use for the CGU Switzerland is based on a pre-tax WACC rate of 7.8% (2014: 8.0%).

In case of the CGU Switzerland indicating an interest rate increase of 43 bp or a reduction of the EBITDA regarding the perpetual annuity of 5.6%, the value in use would have corresponded with the net assets. If management considered a change possible for the CGU BSS, this would not lead to an impairment.

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, 2014	752,060	335,025	300,783	12,229	1,400,097
Accumulated amortization and impairments	−374,004	−223,593	−233,286	-	−830,883
Balance as of January 1, 2014	**378,056**	**111,432**	**67,497**	**12,229**	**569,214**
Exchange rate differences	15,104	7,210	3,198	1,147	26,659
Additions from business combinations	29,766	4,240	6,073	-	40,079
Additions	6,459	11,780	9,962	30,529	58,730
Disposals	−2,966	−1,560	−1,161	−263	−5,950
Impaiments	−8	−1,089	−7	-	−1,104
Depreciation and amortization	−17,328	−21,280	−16,501	-	−55,109
Transfers	3,339	5,662	3,576	−12,577	-
Reclassification to assets held for sale	−2,546	245	2	-	−2,299
Balance as of December 31, 2014	**409,876**	**116,640**	**72,639**	**31,065**	**630,220**
Cost as of December 31, 2014	798,321	362,645	311,925	31,065	1,503,956
Accumulated amortization and impairments	−388,445	−246,005	−239,286	-	−873,736
Balance as of January 1, 2015	**409,876**	**116,640**	**72,639**	**31,065**	**630,220**
Exchange rate differences	28,941	8,707	5,373	2,859	45,880
Additions from business combinations	132	4,021	142	-	4,295
Additions	11,445	14,182	14,892	43,205	83,724
Disposals	−13,526	−2,452	−1,209	−8	−17,195
Impaiments	−3,988	−2,278	−1,664	-	−7,930
Depreciation and amortization	−18,337	−23,081	−18,347	-	−59,765
Transfers	4,930	16,885	7,874	−29,910	−221
Reclassification to assets held for sale	1,622	26	−165	-	1,483
Balance as of December 31, 2015	**421,095**	**132,650**	**79,535**	**47,211**	**680,491**
Cost as of December 31, 2015	834,282	402,990	339,161	47,211	1,623,644
Accumulated amortization and impairments	−413,187	−270,340	−259,626	-	−943,153

Property, plant and equipment with a carrying amount of €34,013 thousand (2014: €55,817 thousand) was used as collateral to secure borrowings of the Group in the form of liens, denominated at €13,459 thousand (2014: €24,482 thousand).

Impairment tests of other non-current assets

In case of impairment indicators for CGUs without goodwill, the recoverable amount is calculated on the individual CGU level. This recoverable amount results of the larger amount of the fair value less selling costs and value in use. In case the recoverable amount is less than the value in use of the CGU, the impairment loss is allocated to the individual non-current assets. In 2015, this amounted to €4,586 thousand (2014: €1,104 thousand).

In the year under review, a total of property, plant and equipment in the amount of €7,930 thousand were impaired. This amount reported included €3,344 thousand on restructuring measures (site closures). These impairments account for €7,622 thousand in the Europe segment and €308 thousand in the Americas segment.

Assets held under finance leases

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

	Carrying amounts	
(€ thousand)	December 31, 2015	December 31, 2014
Real estate		
France	750	1,000
USA	3,560	3,420
Spain	-	3,578
Total	**4,310**	**7,998**

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, Spain, premise. An official permit to now use the property for other than only industrial use was obtained. Due to the negative development of the real estate market in the greater Valencia area in 2015, the value of investment property decreased significantly. The valuation was reduced accordingly by an impairment by €1,744 thousand to €8,742 thousand. There was no rental income due to the fact that the building was demolished in 2010. The disclosed cost relates exclusively to land. Operating expenses attributable to the premises were neither incurred in 2015 nor in 2014.

(16) Inventories

(€ thousand)	December 31, 2015	December 31, 2014
Raw materials and supplies	274,407	407,978
Work in progress	4,726	5,083
Finished goods and merchandise	676,685	884,809
Prepayments	5,353	19,826
Inventories	**961,171**	**1,317,696**

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

Of the inventories recognized on December 31, 2015, €358,958 thousand (2014: €339,364 thousand) is stated at net realizable value. Allowances for write-downs to the net realizable value were €46,457 thousand (2014: €36,795 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 €386,816 thousand (2014: €635,955 thousand) serve as collateral for financial liabilities. These credit lines were used in the amount of €8,164 thousand as of December 31, 2015 (2014: €0 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).

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, 2015 amounts to €411 million (2014: €494 million).

For further information on the ABS programs see Note 25 (Financial liabilities) and Note 3 (Scope and principles of consolidation).

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

TRADE RECEIVABLES

(€ thousand)	Of which not overdue as of the reporting date	Of which overdue by days as of the reporting date: 1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Write–downs	Carrying amount
December 31, 2015								
675,237	531,585	103,978	18,528	6,133	3,764	11,249	–19,844	655,393
December 31, 2014								
765,137	588,746	128,529	25,080	4,706	3,429	14,647	–19,599	745,538

As of December 31, 2015, trade receivables in the amount of €4,685 thousand (2014: €4,305 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, 2015 Current	December 31, 2015 Non-current	December 31, 2014 Current	December 31, 2014 Non-current
Other financial assets				
Positive fair values of derivative financial instruments	727	-	28	-
Other non–financial assets				
Receivables from insurance companies	981	28	1,464	109
Commission claims	59,870	-	63,184	-
Reinsurance claims for pension obligations	-	3,593	-	3,821
Claims of other taxes	13,617	-	13,591	-
Prepaid expenses	10,595	1,801	13,589	2,676
Miscellaneous other assets	13,786	7,851	14,530	8,676
Other assets	**99,576**	**13,273**	**106,386**	**15,282**

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

Miscellaneous other current assets include, among other things, debit balances in accounts payable of €2,801 thousand (2014: €2,609 thousand). The other assets include a receivable from the sale of the Spanish La Coruña facilities in 2014 of €1,109 thousand as well as two tenant loans of the German branches Velten (€463 thousand) and Ehningen (€647 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

Apart from disposal groups, assets that are no longer required are stated as held for sale.

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

(€ thousand)	December 31, 2015	December 31, 2014
Europe segment		
Land and buildings	627	13,274
Inventories	-	10,209
Total assets	**627**	**23,483**
Total liabilities	**-**	**-**
Net assets	**627**	**23,483**
Americas segment		
Land and buildings	-	1,928
Technical equipment and machinery	-	66
Other non–current assets	-	1
Total assets	**-**	**1,995**
Total assets held for sale/disposal groups	**627**	**25,478**

In January 2015, the sale of the copper business included in Reynolds European S.A.S., Reuil Malmaison, France qualified as disposal group was concluded. In addition, the disposal of the assets held for sale in The Netherlands was completed in May 2015. Furthermore, machines and other equipment were sold in Great Britain.

Net profit of the sales amounts to €3,738 thousand (2014: €1,519 thousand) and is disclosed in the Europe segment.

In the Segment Americas, assets classified as held for sale in the previous year, were reclassified to property, plant and equipment because a sale in the next 12 months does not seem to be probable. Due to the reclassification, depreciation had to be recorded according to IFRS 5. The earnings effect less tax amounted to €–245 thousand. If the reclassification had taken place already in the 2014 business year, the result for 2014 would have been lowered by €53 thousand.

(21) Equity and non-controlling interests

a) Subscribed capital

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

Acquisition of treasury stock

Until May 24, 2017, the Management Board has permission to acquire up to 10% of the existing subscribed capital at the date of the Annual General Meeting on May 25, 2012, or – in case the amount is lower – the existing subscribed capital as of the date the permission is exercised. In addition, the Management Board was empowered to acquire the own shares also by use of derivative financial instruments (put options, call options or futures). 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. No use of this permission has yet been made.

Conditional capital

CONDITIONAL CAPITAL 2010

The Annual General Meeting on May 26, 2010 also resolved that the subscribed capital was conditionally increased by up to €33,250,000 by issue of up to 13,300,000 new 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. The conditional capital increase can, however, in fact no longer be made as the conversion rights attributable to convertible bonds issued by the Company or its subsidiaries following permission of the Annual General Meeting held on May 26, 2010, are either void or can no longer be excercised. The corresponding Articles of Association are to be found in Section 4 para 5 (Conditional capital 2010).

CONDITIONAL CAPITAL 2013

The Annual General Meeting on May 24, 2013 also resolved that the share capital was conditionally increased up to €49,875,000 by issuance of up to 19,950,000 newly registered no-par-value shares. The corresponding Articles of Association are to be found in Section 4 para 6 (Conditional capital 2013). The newly registered no-par-value shares are each entitled to profits from the beginning of the business year in which they are issued. The conditional capital serves to grant subscription and/or conversion rights to the holders of option bonds and/or convertible bonds that are issued by the Company or a Group company in accordance with the authority of the respective Annual General Meeting of the Company.

Authorized capital

AUTHORIZED CAPITAL 2012

By resolution of the Annual General Meeting on May 25, 2012, the Management Board was authorized until May 24, 2017 to increase the share capital on 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 Section 21 para 1 and Section 22 para 1 German Securities Trading Act (WpHG – Wertpapierhandelsgesetz), Voting Rights Notification

As of the date the financial statements were authorized for issuance, the following shareholdings in Klöckner & Co SE with 3% or more voting rights were held as per notifications received in accordance with Sections 21 et seq. Securities Trading Act. The exact wording of the publication is to be found on the Klöckner website.

Notifying institutions	Domicile	Voting interest in percent	Date
SWOCTEM GmbH (Friedhelm Loh)	Haiger, Germany	25.25	February 2, 2016
BNY Mellon Service Kapitalanlagegesellschaft mbH	Frankfurt am Main, Germany	3.01	November 10, 2015
Federated Global Investment Management Corp.	Wilmington, Delaware, USA	5.06*)	May 21, 2015
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3.07	March 2, 2015
Federated International Leaders Fund, a series of Federated World Investment Series, Inc.	Maryland, USA	3.00	November 26, 2014
Interfer Holding GmbH (Dr. Albrecht Knauf)	Dortmund, Germany	4.98	May 30, 2014
Franklin Mutual Advisors, LLC	Wilmington, Delaware, USA	5.35*)	March 14, 2014
Franklin Templeton Investment Funds	Luxembourg, Luxembourg	3.15	March 13, 2014
Dimensional Holdings, Inc.	Austin, Texas, USA	3.06*)	February 2, 2012

*) (Partly) attributed holding.

A full listing of notifications of increase over or decrease below the threshold in accordance with Section 21 et seq. Securities Trading Act (WpHG) is attached as an appendix to the notes to the consolidated financial statements.

b) Capital reserves

As of December 31, 2015 the capital reserves amount after withdrawals of €236,577 thousand to cover 2015 losses in accordance with German Commercial Code (HGB) of Klöckner & Co SE at €664,182 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, net investments hedges in foreign subsidiaries, changes in the fair value of cash flow hedges, and changes in actuarial gains and losses of pension commitments according to IAS 19, net of deferred taxes.

e) Non-controlling interests

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

(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 program for senior management was extended to management levels two and three. The Group's plans are cash-settled virtual stock option plans. The Management Board program was discontinued effective December 31, 2015.

Management Board program (until 2015)

The members of the Management Board were entitled to yearly virtual stock options ("VSOs"). The contracts provided for a cash payment to the beneficiary upon exercise of the option. The strike price was based on the average Klöckner & Co share price of the last 30 stock market trading days of the year prior to the issuance of the respective tranche. The cash payment amounted to the difference between the average share price (XETRA trading, Deutsche Börse AG, Frankfurt am Main, Germany) of the last 30 trading days prior to exercising the option and the respective strike price of the tranche. The settlement amount was capped at a maximum amount of €25 per option after adjustment of dividend payments made in the meantime and potential dilutive effects of capital increases. There are 130,200 outstanding VSOs from an existing contract with a cap of €37 per option. The vesting period for the first third of a tranche amounted to three years, for the second third four years and for the final third five years as of its allocation. The tranches were allocated annually.

Senior management programs

In addition to the Management Board programs, 785,000 (2014: 184,000) virtual stock options for 2015 were granted and allotted to certain members of the senior management throughout the Group during the first half year of 2015. The conditions are largely identical to the Management Board program of Klöckner & Co SE. The vesting period amounts to four years.

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	**1,124,500**	**785,000**	**1,909,500**
Granted	300,900	785,000	1,085,900
Outstanding at the end of the reporting period	**1,425,400**	**1,570,000**	**2,995,400**
thereof exercisable at the reporting date	*321,800*	*279,500*	*601,300*
weighted average remaining contractual lifetime (months)	*58*	*56*	*57*
range of strike prices (€/VSO)	*8.33–17.86*	*8.33–17.86*	*8.33–17.86*
weighted average strike price (€/VSO)	*10.21*	*10.11*	*10.16*

*) Including 180,000 options of Ulrich Becker (2014: 180,000 VSOs) who left Klöckner & Co in 2012.

Detailed information for the current members of the Management Board can be obtained from the following table:

	Gisbert Rühl	Marcus A. Ketter	Karsten Lork	William A. Partalis
Outstanding at the end of the reporting period	725,400	140,000	140,000	240,000
thereof exercisable at the reporting date	*241,800*	-	-	*20,000*
weighted average remaining contractual lifetime (months)	*58*	*73*	*73*	*67*
range of strike prices (€/VSO)	*8.33–17.86*	*8.33–9.77*	*8.33–9.77*	*8.33–9.77*
weighted average strike price (€/VSO)	*10.69*	*9.01*	*9.01*	*9.03*

No virtual stock options were exercised in 2015 or 2014. Accordingly, no payments for share-based compensation were made. The pro rata provision for share-based payments to the Management Board and senior management amounts to €2,880 thousand on the reporting date (2014: €2,310 thousand), the intrinsic value of the rights exercisable as of the reporting date amounted to €0 thousand (2014: €0 thousand). The additions to provision for share-based payments amounted to €570 thousand (2014: €100 thousand).

(23) Provisions for pensions and similar obligations

Most employees in the Klöckner & Co Group have pension benefits, with the type of provision varying from country to country according to the national legal, economic and tax environments. Pension plans in the Group include both defined contribution and defined benefit plans as follows:

Depending on their year of entry, employees in Germany either have a defined benefit entitlement equaling a percentage of eligible salary for each qualifying year of service or, for entrants after 1979 a fixed capital amount scaled by salary band for each qualifying year of service. There are also individual entitlements for executive staff in accordance with various Essener Verband benefits plans. Older entitlements among these are employer-funded entitlements to pension benefits, while the more recent pension plans are defined contribution plans in which employees are able to add employee-funded contributions. The more recent entitlements feature a choice between a lump sum payment and an annuity. The total defined benefit obligation for all defined benefit plans in Germany is €203,155 thousand (2014: €220,047 thousand). This is partly offset by plan assets of €22,509 thousand (2014: €18,715 thousand), leaving a net defined benefit liability of €180,646 thousand (2014: €201,332 thousand).

Defined benefit plans in France include a collectively negotiated IFC plan that provides for a lump sum payment according to length of service and salary. There is also a final salary plan, closed for new entrants since 1989, for employees taken over from a former state corporation (IRUS plan). The total defined benefit obligation for all plans in France at the end of 2015 was €25,360 thousand (2014: €29,621 thousand). Some companies have voluntarily funded obligations with plan assets in the form of insurance policies in the amount of €259 thousand at the end of 2015 (2014: €273 thousand). This leaves a net defined benefit liability of €25,101 thousand (2014: €29,348 thousand).

In Great Britain, post-2003 new entrants participate in a defined contribution plan with equal employer and employee contributions at a fixed percentage of basic salary. Pre-2003 entrants instead have defined benefit entitlements through two legally independent pension funds that pay a life annuity. Both plans pay final salary benefits dependent on length of service. Both plans are closed to service accruals after 2015 (move to defined contribution plan). Governance of each plan is ensured by a Board of Trustees. Both plans are required by law to fund the obligations with plan assets. There is an agreement with the Board of Trustees to make up any pension shortfall over the long term. Under the current investment strategy, equities account for 70% to 75%. The total defined benefit obligation for both defined benefit plans at the end of 2015 was €105,094 thousand (2014: €101,063 thousand). This was partly offset by plan assets of €80,452 thousand at the end of 2015 (2014: €76,082 thousand). This leaves a net defined benefit liability of €24,642 thousand (2014: €24,981 thousand).

Swiss Group companies and their employees fund pensions through a pension fund with both employer and employees subject to contributions that rise with employee age. On retirement, the accumulated capital is converted into a life annuity using a conversion factor. The fund's internal governance is ensured by a Board of Trustees (Stiftungsrat). As the pension fund is required under Swiss law to guarantee a minimum level of benefits on the capital paid in and, in the event of a pension shortfall, can impose restructuring measures that may be at the expense of the employer, the plan is accounted for as a defined benefit plan in accordance with IAS 19. The total defined benefit obligation in Switzerland at the end of 2015 was the equivalent of €545,363 thousand (2014: €461,399 thousand). This was partly offset by plan assets of €494,741 thousand at the end of 2015 (2014: €443,144 thousand). This leaves a net defined benefit liability of €50,622 thousand (2014: €18,255 thousand).

In the USA, pension benefits are provided in the form of a defined contribution plan and several defined benefit plans. A 401(k) plan gives employees the option to pay a set percentage of their basic salary into a fund, thus entitling them to a subsidy from the employer. Employees who joined the Company by December 31, 2013, participate in a defined benefit plan that provides a life annuity equaling a set percentage of eligible salary for each qualifying year of service, or a fixed amount for unionized employees. Alongside these regular pension plans in the USA, there is also a retiree welfare plan, likewise closed to new entrants, with post-retirement health-care benefits for former employees of an acquired company. In general, all of the above are funded plans. The pension plan bylaws provide for minimum funding if the funding quota drops below 80% or 75% under at-risk assumptions. The only exception constitutes a plan for upper management being exclusively financed through provisions. The retiree welfare plan is also financed entirely through provisions. The total defined benefit obligation is the equivalent of €209,916 thousand (2014: €186,971 thousand), compared with plan assets of €152,058 thousand (2014: €134,002 thousand). This leaves a net defined benefit liability of €57,858 thousand (2014: €52,969 thousand).

RISKS ASSOCIATED WITH DEFINED BENEFIT PLANS

The main risk other than normal actuarial risk – including longevity risk and foreign exchange risk – relates to financial risk associated with plan assets.

On the pension liability side, this mostly means inflation risk on plans with salary-linked benefits (notably final salary plans); a marked rise in pay would increase the obligation under these plans. Within the Klöckner & Co Group, plans of this kind exist only on a small scale or are largely closed with new entrants.

Regarding increases to currently paid pensions, with one exception there is no pension arrangement within the Klöckner & Co Group that carries an obligation to increase the benefit amount in excess of inflation or in excess of the surplus generated on plan assets. As the exception, there is a commitment to increase benefits by 1% a year from retirement regardless of actual inflation only for some entitlements for executive staff in Germany.

The return on plan assets in accordance with IAS 19 R (2011) is assumed on the basis of the discount rate for the defined benefit obligation. If the actual rate of return is below the discount rate, the net liability goes up. For the funded plans, however, notably given the share of plan assets invested in equities, we expect that long-term returns will exceed the discount rate. Nonetheless, short- to medium-term fluctuations cannot be ruled out with a corresponding effect on the net liability.

With the defined contribution plans, the Company pays contributions to private or state pension funds under statutory or contractual obligations. The Company's employee benefit obligations are settled on payment of the contributions. The amount recognized as expense for this purpose in the fiscal year was €10,722 thousand (2014: €7,290 thousand). This does not include employer contributions to the statutory pension insurance scheme. These came to €6,498 thousand in Germany (2014: €6,544 thousand).

In the fiscal year, the following actuarial assumptions were used in the actuarial calculations performed by third-party actuaries:

2015

in %	Germany	Switzer-land	Great Britain	France	United States
Discount rate	2.20	0.90	3.85	2.20	3.70–4.41
Salary trend	2.50	1.00	2.00	1.75	3.50
Pension trend	1.75	0.00	3.00	1.25	0.00

2014

in %	Germany	Switzer-land	Great Britain	France	United States
Discount rate	1.80	1.20	3.70	1.80	3.73-4.20
Salary trend	2.50	1.00	2.20	2.00	3.50
Pension trend	2.00	0.00	3.10	1.25	0.00

The discount rates reflect the bond markets' interest rates in the respective jurisdiction for high-quality corporate bonds with corresponding maturities. A uniform discount rate was selected for the eurozone.

The biometric evaluation for the retirement plans in the various countries is based on the following assumptions:

	2015	2014
Germany	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2010	BVG 2010
Great Britain	SAPS	SAPS
France	INSEE 08–10; TGH05	INSEE 07–09; TGH05
United States	Retirement Plan 2015	Retirement Plan 2014

Provisions for defined benefit plans are consequently as follows:

(€ thousand)	December 31, 2015	December 31, 2014
Defined benefit obligation of unfunded plans	210,417	228,218
Defined benefit obligation of fully or partly funded defined benefit plans	879,714	772,188
Fair value of plan assets	–750,019	–672,216
Provisions for pensions and similar obligations	**340,112**	**328,190**

In addition, there are also reimbursement rights – primarily life insurance policies and claims under other insurance policies – used to fund pension obligations. These changed as follows in the fiscal year:

(€ thousand)	2015	2014
Reimbursement rights as of January 1	**3,821**	**3,994**
Expected return	66	121
Actuarial gains and losses	–71	–45
Benefits paid	–223	–249
Reimbursement rights as of December 31	**3,593**	**3,821**

The net provision changed as follows:

	Defined benefit obligation		Fair value of plan assets		Asset ceiling acc. to IFRIC 14		Net provision	
(€ thousand)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
As of January 1	1,000,406	825,697	−672,216	−590,200	-	78	328,190	235,575
Included in statement of income								
Service cost	20,344	15,316	-	-	-	-	20,344	15,316
Interest cost for pension plans	22,560	24,902	-	-	-	-	22,560	24,902
Interest income from plan assets	-	-	−15,215	−16,720	-	-	−15,215	−16,720
Interest expense from asset ceiling IFRIC 14	-	-	-	-	-	3	-	3
Administration expenses	-	-	1,358	1,166	-	-	1,358	1,166
Settlements/amendments	−2,526	−609	-	-	-	-	−2,526	−609
	40,378	**39,609**	**−13,857**	**−15,554**	**-**	**3**	**26,521**	**24,058**
Included in other comprehensive income								
Actuarial gains and losses due to change in demographic assumptions	2,214	9,862	-	-	-	-	2,214	9,862
Actuarial gains and losses due to change in financial assumptions	−5,594	109,085	-	-	-	-	−5,594	109,085
Experience gains and losses	13,172	6,466	-	-	-	-	13,172	6,466
Actuarial gains and losses	-	-	3,488	−32,461	-	-	3,488	−32,461
Actuarial gains and losses of the period from asset ceiling IFRIC 14	-	-	-	-	-	−81	-	−81
Foreign currency exchange rate differences	77,919	36,360	−68,732	−29,074	-	-	9,187	7,286
	87,711	**161,773**	**−65,244**	**−61,535**	**-**	**−81**	**22,467**	**100,157**
Other								
Employee contributions	14,533	14,328	−14,533	−14,328	-	-	-	-
Employer contributions	-	-	−25,787	−21,718	-	-	−25,787	−21,718
Benefits paid	−52,897	−44,057	41,618	33,174	-	-	−11,279	−10,883
Change in scope of consolidation and other transfers	-	3,056	-	−2,055	-	-	-	1,001
	−38,364	**−26,673**	**1,298**	**−4,927**	**-**	**-**	**−37,066**	**−31,600**
As of December 31	**1,090,131**	**1,000,406**	**−750,019**	**−672,216**	**-**	**-**	**340,112**	**328,190**

The table below shows how the defined benefit obligation would have been affected by changes in key actuarial assumptions:

(€ thousand)	2015	2014
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	1,014,764	930,836
discount rate would be lower by 50 basis points	1,175,770	1,079,915
the expected salary trend would be higher by 0.5%	1,098,764	1,008,697
the expected salary trend would be lower by 0.5%	1,082,076	993,509
pension increase would be higher by 0.5%	1,135,164	1,042,381
pension increase would be lower by 0.5%	1,075,432	984,361
longevity would be 1 year longer	1,119,208	1,026,184

The sensitivities indicated are computed based on the same methods and assumptions used to determine the present value of the defined benefit obligations. If one of the actuarial assumptions is changed for the purpose of computing the sensitivity of results to changes in that assumption, all other unchanged actuarial assumptions are included in the computation.

When considering sensitivities it must be noted that the change in the present value of the defined benefit obligation resulting from changing multiple actuarial assumptions simultaneously is not necessarily equivalent to the cumulative effect of the individual sensitivities.

The table below disaggregates plan assets into asset classes:

	December 31, 2015			December 31, 2014		
(€ thousand)	Price quote from active market	No price quote from active market	Total	Price quote from active market	No price quote from active market	Total
Shares	208,020	42,835	250,855	191,361	43,211	234,572
Bonds	142,817	87,781	230,598	117,294	71,750	189,044
Real estate	39,723	124,531	164,254	32,686	110,497	143,183
Other assets	75,940	28,372	104,312	81,673	23,744	105,417
Fair value of plan assets as of December 31	**466,500**	**283,519**	**750,019**	**423,014**	**249,202**	**672,216**

Plan assets do not include any of the entity's own transferable financial instruments; plan assets that are property occupied by, or other assets used by, the entity total €26,647 thousand in the fiscal year (2014: €24,465 thousand).

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

(€ thousand)	2015	2014
Service cost	–20,344	–15,316
Interest cost for pension plans	–22,560	–24,902
Interest income from plan assets	15,215	16,720
Interest expense from asset ceiling IFRIC 14	-	–3
Administration expenses	–1,358	–1,166
Settlements/amendments	2,526	609
Expected return on reimbursement rights	66	121
Net periodic benefit expense for defined benefit plans	**–26,455**	**–23,937**

The actual return on plan assets was €11,727 thousand in the fiscal year (2014: €49,181 thousand). Resulting from returns on reimbursement rights actual losses in the amount of €5 thousand were accrued in 2015 (2014: gains in the amount of €76 thousand).

Experience adjustments (losses) to the present value of the defined benefit obligation in the year under review were €–13,172 thousand (2014: €–6,466 thousand); experience adjustments to the fair value of plan assets were €–3,488 thousand (2014: €32,461 thousand gains).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2016 are expected to amount to €23,657 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2016	41,551
- due in 2017	39,784
- due in 2018	40,883
- due in 2019	40,872
- due in 2020	42,174
- due 2021–2025	212,957

(24) Other provisions and accrued liabilities

Other provisions developed as follows:

(€ thousand)	As of January 1, 2015	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2015
Other provisions							
Other taxes	6,211	400	-	–2,379	–1,668	–806	1,758
Personnel–related obligations							
– early retirement schemes	447	9	-	–29	-	–231	196
– anniversary payments	11,014	889	103	–1,755	-	440	10,691
– other	49	25	-	-	–8	52	118
Onerous contracts	1,934	295	-	–1,029	–67	91	1,224
Restructuring expenses	10,488	49,455	-	–6,510	-	–12	53,421
Pending litigation	3,135	1,191	-	–390	–585	-	3,351
Warranties	1,159	233	-	–15	–87	1	1,291
Miscellaneous provisions	16,274	6,183	129	–5,850	–209	978	17,505
	50,711	**58,680**	**232**	**–17,957**	**–2,624**	**513**	**89,555**
Other accrued liabilities							
Personnel–related obligations	55,531	38,182	-	–32,207	–876	–3,894	56,736
Outstanding invoices	20,945	17,975	-	–13,376	–1,546	–39	23,959
Miscellaneous accrued liabilities	1,045	50	-	–35	-	–183	877
	77,521	**56,207**	**-**	**–45,618**	**–2,422**	**–4,116**	**81,572**
Other provisions and accrued liabilities	**128,232**	**114,887**	**232**	**–63,575**	**–5,046**	**–3,603**	**171,127**

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

Breakdown by maturities:

(€ thousand)	December 31, 2015		December 31, 2014	
	Non-current	Current	Non-current	Current
Other provisions				
Other taxes	-	1,758	-	6,211
Personnel–related obligations				
– early retirement schemes	156	40	387	60
– anniversary payments	10,691	-	11,014	-
– other	83	35	41	8
Onerous contracts	-	1,224	-	1,934
Restructuring expenses	4,411	49,010	-	10,488
Pending litigation	-	3,351	-	3,135
Warranties	-	1,291	-	1,159
Miscellaneous provisions	5,880	11,625	5,963	10,311
	21,221	**68,334**	**17,405**	**33,306**
Other accrued liabilities				
Personnel–related obligations	-	56,736	-	55,531
Outstanding invoices	-	23,959	-	20,945
Miscellaneous accrued liabilities	-	877	-	1,045
	-	**81,572**	**-**	**77,521**
Other provisions and accrued liabilities	**21,221**	**149,906**	**17,405**	**110,827**

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 resulting from termination benefits granted in redundancy programs in an amount of €25,613 thousand and other restructuring expenses in an amount of €27,808 thousand and are deemed to result in an outflow of resources in the subsequent fiscal year. Provisions not resulting in an outflow within 12 months of resources are recognized at their settlement value discounted at the balance sheet date, if the discount is material.

Accrued liabilities for employee-related obligations include bonus payments of €39,746 thousand (2014: €38,117 thousand) as well as accrued vacation and accrued overtime of €13,739 thousand (2014: €14,219 thousand).

(25) Financial liabilities

The details of financial liabilities are as follows:

	December 31, 2015				December 31, 2014			
(€ thousand)	up to 1 year	1–5 years	Over five years	Total	up to 1 year	1–5 years	Over five years	Total
Bonds	24,865	-	-	24,865	177,935	-	-	177,935
Liabilities to banks	47,319	58,608	11,075	117,002	25,779	157,336	9,980	193,095
Promissory notes	134,595	-	-	134,595	53,797	132,428	-	186,225
Liabilities under ABS programs	634	264,421	-	265,055	565	219,731	-	220,296
Finance lease liabilities	586	1,617	1,490	3,693	874	1,321	1,611	3,806
	207,999	**324,646**	**12,565**	**545,210**	**258,950**	**510,816**	**11,591**	**781,357**

Financial liabilities of €24,575 thousand (2014: €22,796 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 €4,892 thousand (2014: €7,043 thousand) were offset against the respective liabilities.

Bonds

On December 22, 2010, Klöckner & Co issued a senior unsecured convertible bond with a volume of €186 million to institutional investors outside of the USA only.

The bond's coupon was fixed at 2,50% per annum and the bond had a original maturity of seven years.

Furthermore, holders of the bond were entitled to require early redemption after five years at the nominal amount plus accrued interest. As of December 22, 2015, 85.6% of the bond volume (€161.4 million) were cancelled upon exercise of this put option and reimbursed by existing cash funds of the Group. Based on the fact that after exercise of the put option less than 15% of the original total nominal value of the convertible bond were pending, Klöckner & Co Financial Services S.A. as the issuer had the right to redeem these according to the bond terms at nominal value including interest accrued (clean-up). This clean-up was communicated on December 22, 2015 and exercised on January 12, 2016.

At closing date, the carrying amount of the outstanding bonds was at €25 million.

Liabilities due to banks

In April 2015, our syndicated loan with a kept volume of €360 million was prematurely extended within the scope of a so-called "Amend & Extend" process until May 2018. In addition, the opportunity to extend the term in two steps until May 2020 with prior approval of the banks was again granted in the new credit documentation. The syndicated loan is provided by a syndicate of 10 banks. The financial covenants require that gearing, defined as net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations after May 23, 2013, may not exceed 150% and the so adjusted book value of equity may not fall below €800 million (minimum equity). Violation of such financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be available if the covenants are again met. Throughout the fiscal year 2015, the Group consistently complied with all credit terms including the financial covenants.

The accession of Kloeckner Metals Corporation as debtor as well as the option to make use of up to 50% of the credit volume in US dollars are part of additional main changes within the credit documentation.

The existing Asset Based Lending facility in the USA has a volume of USD 325 million (€299 million) and has a maturity until the end of 2017.

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

Promissory notes

At closing date, the book value of the remaining promissory notes amounted to €133 million. Thereof, €33 million are interest bearing at fixed rates and €100 million are subject to variable interest rates. The contract terms are also based on balance sheet-oriented financial covenants fundamentally complying with the terms of the syndicated loan. Throughout the fiscal year 2015, the Group consistently complied with all credit terms, including the financial covenants. In the second quarter, promissory notes in the amount of €52 million were repaid at the time of final maturity. The final maturity date of the outstanding promissory notes is in April 2016.

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has operated a European ABS program. The European program has a residual term until May 2017. On August 10, 2015, the volume was reduced by €60 million to €300 million due to the decreased trade receivables to be financed. The covenants agreed upon are also based on the balance sheet and are equivalent to those for the syndicated loan.

The current United States ABS program has a maximum volume of USD 275 million (€253 million) and will mature at the end of 2017.

At the end of the reporting period, the utilization of the program amounts to €266 million including interest and breaks down as follows:

(€ million)	December 31, 2015	December 31, 2014
European program		
– utilization	91	71
– maximum volume	300	360
American program		
– utilization*)	175	150
– maximum volume*)	253	227

*) Translated at closing exchange rate.

The utilization of the programs will 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, 2015	December 31, 2014
Due within one year	640	962
Due between one and five years	3,358	2,296
Due after five years	6,173	6,747
Future minimum lease payments	**10,171**	**10,005**
Due within one year	54	88
Due between one and five years	1,741	975
Due after five years	4,683	5,136
Interest included in future minimum lease payments	**6,478**	**6,199**
Due within one year	586	874
Due between one and five years	1,617	1,321
Due after five years	1,490	1,611
Total present value of future minimum lease payments	**3,693**	**3,806**

(26) Trade payables

(€ thousand)	December 31, 2015	December 31, 2014
Advance payments received	830	691
Trade payables	487,790	741,276
Bills payable	428	736
Trade payables	**489,048**	**742,703**

(27) Other liabilities

	December 31, 2015		December 31, 2014	
(€ thousand)	Non-current	Current	Non-current	Current
Other financial liabilities				
Negative fair value of derivative financial instruments	64,024	2,318	34,074	9,553
Other non–financial liabilities				
Social security contributions	-	9,006	-	9,738
Customers with credit balances	-	11,154	-	10,797
Liabilities to employees	-	1,491	-	1,396
Value–added tax liabilities	-	24,145	-	32,965
Other tax liabilities	-	5,082	-	5,117
Miscellaneous other liabilities	361	3,418	333	7,654
Other liabilities	**64,385**	**56,614**	**34,407**	**77,220**

Negative fair values of derivative financial instruments of €63,964 thousand (2014: €38,421 thousand) are attributable to cross-currency swaps designated as net investment hedges. To the extent that these negative fair values are attributable to the effective portion of the hedging relationship, they are directly recognized in equity and thus do not affect net income.

The increase in negative fair values is a consequence of the changes in the US-dollar exchange rate.

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 less goodwill from business combinations subsequent to May 23, 2013. Net financial debt is calculated as the difference between financial liabilities (adjusted by 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 about minimum equity capital requirements is 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, 2015	December 31, 2014	Variance
Financial liabilities	545,210	781,357	–236,147
Transaction costs	4,892	7,043	–2,151
Liquid funds	–164,853	–316,364	151,511
Net financial debt (before deduction of transaction cost)	**385,249**	**472,036**	**–86,787**
Consolidated shareholders' equity	1,113,427	1,428,685	–315,258
Non–controlling interests	–8,606	–13,984	5,378
Goodwill from business combinations subsequent to May 23, 2013	–21,373	–19,260	–2,113
Adjusted shareholders equity	**1,083,448**	**1,395,441**	**–311,993**
Gearing	**36%**	**34%**	

(29) Additional Information on financial instruments

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

Financial assets as of December 31, 2015		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							
Non-current investments	*2,069*	*2,069*	-	-	-	-	*2,069*
Loans and receivables	985	985	-	-	-	-	985
Financial assets available for sale	1,084	1,084	-	-	-	-	1,084
Other non–current assets	*13,273*	*9,680*	-	-	-	*3,593*	*9,680*
Loans and receivables	9,680	9,680	-	-	-	-	9,680
Not covered by the scope of IFRS 7	3,593	-	-	-	-	3,593	-
Current financial assets							
Trade receivables	*655,393*	*655,393*	-	-	-	-	*655,393*
Loans and receivables	655,393	655,393	-	-	-	-	655,393
Other current assets	*99,576*	*84,246*	*721*	*6*	-	*14,603*	*84,973*
Loans and receivables	84,246	84,246	-	-	-	-	84,246
Derivative financial instruments not designated in hedge accounting (held for trading)	721	-	721	-	-	-	721
Derivative financial instruments designated in hedge accounting	6	-	-	6	-	-	6
Not covered by the scope of IFRS 7	14,603	-	-	-	-	14,603	-
Liquid funds	*164,853*	*164,853*	-	-	-	-	*164,853*
Loans and receivables	162,688	162,688	-	-	-	-	162,688
Financial assets available for sale	2,165	2,165	-	-	-	-	2,165
Total	**935,164**	**916,241**	**721**	**6**	**-**	**18,196**	**916,968**

Other non-current financial assets not covered by the scope of IFRS 7 mainly include pension-related receivables as well as reinsurance claims against pension funds. The current financial assets not covered by the scope of IFRS 7 primarily concern other tax receivables.

Financial liabilities as of December 31, 2015

		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 liabilities							
Non-current financial liabilities	*337,211*	*334,104*	-	-	*3,107*	-	*339,136*
Liabilities measured at amortized costs	334,104	334,104	-	-	-	-	336,029
Liabilities held under finance leases	3,107	-	-	-	3,107	-	3,107
Other non–current liabilities	*64,385*	*362*	*60*	*63,963*	-	-	*64,385*
Liabilities measured at amortized costs	362	362	-	-	-	-	362
Derivative financial instruments not designated in hedge accounting (held for trading)	60	-	60	-	-	-	60
Derivative financial instruments designated in hedge accounting	63,963	-	-	63,963	-	-	63,963
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
Current financial liabilities							
Current financial liabilities	*207,999*	*207,413*	-	-	*586*	-	*207,877*
Liabilities measured at amortized costs	207,413	207,413	-	-	-	-	207,291
Liabilities held under finance leases	586	-	-	-	586	-	586
Current trade liabilities	*489,048*	*489,048*	-	-	-	-	*489,048*
Liabilities measured at amortized costs	489,048	489,048	-	-	-	-	489,048
Other current liabilities	*56,614*	*16,063*	*2,318*	-	-	*38,233*	*18,381*
Liabilities measured at amortized costs	16,063	16,063	-	-	-	-	16,063
Derivative financial instruments not designated in hedge accounting (held for trading)	2,318	-	2,318	-	-	-	2,318
Derivative financial instruments designated in hedge accounting	-	-	-	-	-	-	-
Not covered by the scope of IFRS 7	38,233	-	-	-	-	38,233	-
Total	**1,155,257**	**1,046,990**	**2,378**	**63,963**	**3,693**	**38,233**	**1,118,827**

Other current financial liabilities not covered by the scope of IFRS 7 mainly concern liabilities resulting from taxes such as VAT liabilities.

Financial assets as of December 31, 2014

(€ 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							
Non-current investments	*1,321*	*1,321*	-	-	-	-	*1,321*
Loans and receivables	925	925	-	-	-	-	925
Financial assets available for sale	396	396	-	-	-	-	396
Other non–current assets	*15,284*	*11,457*	-	-	-	*3,827*	*11,457*
Loans and receivables	11,457	11,457	-	-	-	-	11,457
Not covered by the scope of IFRS 7	3,827	-	-	-	-	3,827	-
Current financial assets							
Trade receivables	*745,538*	*745,538*	-	-	-	-	*745,538*
Loans and receivables	745,538	745,538	-	-	-	-	745,538
Other current assets	*106,386*	*92,636*	*28*	-	-	*13,722*	*92,664*
Loans and receivables	92,636	92,636	-	-	-	-	92,636
Derivative financial instruments not designated in hedge accounting (held for trading)	28	-	28	-	-	-	28
Not covered by the scope of IFRS 7	13,722	-	-	-	-	13,722	-
Liquid funds	*316,364*	*316,364*	-	-	-	-	*316,364*
Loans and receivables	266,102	266,102	-	-	-	-	266,102
Financial assets available for sale	50,262	50,262	-	-	-	-	50,262
Total	**1,184,893**	**1,167,316**	**28**	**-**	**-**	**17,549**	**1,167,344**

Financial liabilities as of December 31, 2014

(€ 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	*522,407*	*519,475*	-	-	*2,932*	-	*524,769*
Liabilities measured at amortized costs	519,475	519,475	-	-	-	-	521,837
Liabilities held under finance leases	2,932	-	-	-	2,932	-	2,932
Other non–current liabilities	*34,407*	*334*	*98*	*33,975*	-	-	*34,407*
Liabilities measured at amortized costs	334	334	-	-	-	-	334
Derivative financial instruments not designated in hedge accounting (held for trading)	98	-	98	-	-	-	98
Derivative financial instruments designated in hedge accounting	33,975	-	-	33,975	-	-	33,975
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
Current financial liabilities							
Current financial liabilities	*258,950*	*258,076*	-	-	*874*	-	*264,866*
Liabilities measured at amortized costs	258,076	258,076	-	-	-	-	263,992
Liabilities held under finance leases	874	-	-	-	874	-	874
Current trade liabilities	*742,703*	*742,703*	-	-	-	-	*742,703*
Liabilities measured at amortized costs	742,703	742,703	-	-	-	-	742,703
Other current liabilities	*77,220*	*19,847*	*5,107*	*4,446*	-	*47,820*	*29,400*
Liabilities measured at amortized costs	19,847	19,847	-	-	-	-	19,847
Derivative financial instruments not designated in hedge accounting (held for trading)	5,107	-	5,107	-	-	-	5,107
Derivative financial instruments designated in hedge accounting	4,446	-	-	4,446	-	-	4,446
Not covered by the scope of IFRS 7	47,820	-	-	-	-	47,820	-
Total	**1,635,687**	**1,540,435**	**5,205**	**38,421**	**3,806**	**47,820**	**1,596,145**

The fair values of non-current financial liabilities are based on risk adjusted discounted cash flows.

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, 2015 for the respective financial instruments. The fair value is not reduced by transaction costs. For current financial liabilities, when not considering transaction costs, the carrying amount approximates fair value.

Any assets and liabilities recognized are regularly accounted for at fair value.

Fair values by fair value hierarchy levels

(€ thousand)	December 31, 2015	Level 1	Level 2	Level 3
	Fair value measurement at the end of the reporting period by hierarchy			
Non-current investments	*2,069*		*2,069*	
Loans and receivables	985		985	
Financial assets available for sale	1,084		1,084	
Other non–current assets	*9,680*		*9,680*	
Loans and receivables	9,680		9,680	
Trade receivables	*655,393*		*655,393*	
Loans and receivables	655,393		655,393	
Other current assets	*84,973*		*84,973*	
Loans and receivables	84,246		84,246	
Derivative financial instruments not designated in hedge accounting (held for trading)	721		721	
Derivative financial instruments designated in hedge accounting	6		6	
Liquid funds	*164,853*		*164,853*	
Loans and receivables	162,688		162,688	
Financial assets available for sale	2,165		2,165	
Total	**916,968**	**-**	**916,968**	**-**
Non-current financial liabilities	*339,136*		*339,136*	
Liabilities measured at amortized costs	336,029		336,029	
Liabilities held under finance leases	3,107		3,107	
Other non–current liabilities	*64,385*		*64,385*	
Liabilities measured at amortized costs	362		362	
Derivative financial instruments not designated in hedge accounting (held for trading)	60		60	
Derivative financial instruments designated in hedge accounting	63,963		63,963	
Current financial liabilities	*207,877*		*207,877*	
Liabilities measured at amortized costs	207,291		207,291	
Liabilities held under finance leases	586		586	
Current trade liabilities	*489,048*		*489,048*	
Liabilities measured at amortized costs	489,048		489,048	
Other current liabilities	*18,381*		*18,381*	
Liabilities measured at amortized costs	16,063		16,063	
Derivative financial instruments not designated in hedge accounting (held for trading)	2,318		2,318	
Derivative financial instruments designated in hedge accounting	-		-	
Total	**1,118,827**	**-**	**1,118,827**	**-**

(€ thousand)	December 31, 2014	Level 1	Level 2	Level 3
	Fair value measurement at the end of the reporting period by hierarchy			
Non-current investments	*1,321*		*1,321*	
Loans and receivables	925		925	
Financial assets available for sale	396		396	
Other non–current assets	*11,457*		*11,457*	
Loans and receivables	11,457		11,457	
Trade receivables	*745,538*		*745,538*	
Loans and receivables	745,538		745,538	
Other current assets	*92,664*		*92,664*	
Loans and receivables	92,636		92,636	
Derivative financial instruments not designated in hedge accounting (held for trading)	28		28	
Liquid funds	*316,364*		*316,364*	
Loans and receivables	266,102		266,102	
Financial assets available for sale	50,262		50,262	
Total	**1,167,344**	**-**	**1,167,344**	**-**
Non-current financial liabilities	*524,769*		*524,769*	
Liabilities measured at amortized costs	521,837		521,837	
Liabilities held under finance leases	2,932		2,932	
Other non–current liabilities	*34,407*		*34,407*	
Liabilities measured at amortized costs	334		334	
Derivative financial instruments not designated in hedge accounting (held for trading)	98		98	
Derivative financial instruments designated in hedge accounting	33,975		33,975	
Current financial liabilities	*264,866*		*264,866*	
Liabilities measured at amortized costs	263,992		263,992	
Liabilities held under finance leases	874		874	
Current trade liabilities	*742,703*		*742,703*	
Liabilities measured at amortized costs	742,703		742,703	
Other current liabilities	*29,400*		*29,400*	
Liabilities measured at amortized costs	19,847		19,847	
Derivative financial instruments not designated in hedge accounting (held for trading)	5,107		5,107	
Derivative financial instruments designated in hedge accounting	4,446		4,446	
Total	**1,596,145**	**-**	**1,596,145**	**-**

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices for similar instruments. If fair values are derived from directly observable market inputs, these instruments are included in Level 2. Financial instruments with fair values, which cannot be derived from directly observable markets are included in Level 3. Changes in hierarchy levels are considered at the end of the respective period in which the change took place. No reclassification in hierarchy levels took place in the reporting period.

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.

The net result for the measurement category "Loans and receivables" consists of:

(€ thousand)	December 31, 2015	December 31, 2014
Exchange rate differences	–2,836	–974
Valuation allowance	–4,039	–37
Subtotal	**–6,875**	**–1,011**
Net income credit insurance	–5,810	–6,254
Net result	**–12,685**	**–7,265**

Calculation of the net result listed in measurement category "Liabilities at amortized cost" is based on the foreign currency exchange calculation. In the financial year 2015, a net loss of €208 thousand (2014: €3 thousand) was incurred.

There were no impairment losses for non-current financial assets in 2015. The impairment loss for trade receivables in 2015 amounted to €8,730 thousand (2014: €7,387 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., in case 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 insurances. In 2015, 48% (2014: 49%) 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 Treasury department of Klöckner & Co SE, which manages and coordinates such use. The transactions are conducted exclusively with counterparts that have first-class credit ratings. Derivative financial instruments cannot be used for speculative purposes, only 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 faces interest rate exposure with regards to its central financing instruments in the eurozone as well as to bilateral lines of credit held by its US subsidiaries. In addition, interest rate risks relate to the short-term deposits of liquid funds at banks. The Corporate Treasury department monitors and controls the exposure of financial liabilities by using derivative interest rate financial instruments.

As part of the central Group financing, financing needs within the Group are primarily refinanced by a diversified portfolio of capital market instruments. Subsequent to repayment of convertible bonds and promissory notes, the financial instruments with variable interest rates mainly used for financing the working capital are subject to a short-term fluctuating use.

Under consideration of the fixed income securities and the fixed rate bilateral credit arrangements as of December 31, 2015, approximately 29% or €157.2 million (2014: €309.4 million) of the total financial indebtedness before transaction costs was of a fixed-rate nature.

Under IFRS 7, interest rate risks 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 determined. Interest rate risk is measured as cash flow risk.

The Group assesses equity with sensitivity analyses in which parallel shifting of the major currency yield curves are assumed within a scenario analysis. 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, 2015 rose by 50 basis points, the financial result of one year driven from financial liabilities as of December 31, 2015 would be negatively impacted by €1.5 million.

With regard to the liquidity reserves, an upside potential results from increasing interest rates. A higher market interest level of 50 basis points and an assumed term of one year would have a positive effect in the amount of €0.8 million.

If, on the contrary, market interest levels had decreased by 50 basis points, a scenario of negative interest levels would have been created. In such case we are assuming that the two effects on the result described above would level out at approximately the same amount in the opposite direction.

Information on foreign currency exchange risk

As part of our risk strategy only transaction risks and risks from group internal financing are subject to our hedging strategy. Our hedging strategy does not cover translation risks from the conversion of income and expenses to the reporting currency. Foreign currency exchange risks therefore result from financing measures, internal dividend payments, acquisitions and operating activity.

The Group operates central foreign currency exchange management. Foreign and domestic subsidiaries are required to identify foreign currency exposure and to communicate the exposure to the Corporate Treasury 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 within the Klöckner & Co Group.

Foreign exchange risks in financing existed resulting from loans and net investments of the holding companies in foreign currency. As part of the central Group financing, these loans denominated in pounds sterling and US dollars with a volume of €518.3 million (2014: €624.8 million), were granted to subsidiaries at year-end and were fully hedged.

Due to the volume and the original term, one US dollar financing arrangement (net investment) is hedged by cross-currency swaps and is designated as net investment hedges within the scope of hedge accounting.

For our Dutch subsidiaries ODS B.V. and ODS Metering B.V., forward exchange deals and currency swaps with a volume of €1.5 million were designated as cash flow hedge. Within the scope of international project deals they are set up to secure customer payments.

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 hedges 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 not affecting net income. 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.

The rise or fall of the US dollar against the euro can result in negative or positive liquidity effects upon prolongation of the cross-currency swaps. These effects are reflected in the development of the fair value for the cross-currency swaps and can be compensated by repayment of loans or third-party refinancing of the underlying Group's internal loans. Our cross-currency swaps' fair value at balance sheet date were valued at €-64.0 million.

Information on liquidity risk

The demand for liquidity is constantly monitored by the Corporate Treasury department to ensure appropriate levels of liquidity for the Klöckner & Co Group.

In April 2015, our syndicated loan with a kept volume of €360 million was prematurely extended until May 2018. In addition, the opportunity to extend the term in two steps until May 2020 with prior approval of the banks was again granted in the new credit documentation. Also, the US subsidiary Kloeckner Metals Corporation was included with the option to make use of up to 50% of the credit in US dollars.

The 2010 convertible bond with a total volume of €186.2 million was covered by a so-called investor put option. As of December 22, 2015, 85.6% (€161.4 milllion) of the bond volume were terminated by use of this put option and paid by use of available cash resources.

Subsequent to the use of this put option, less than 15% of the original total nominal value was outstanding. As the issuer, Klöckner & Co Financial Services S.A. thus had the right to early settle the convertible bonds still outstanding in accordance with the bond conditions at the nominal value including interest accrued (clean-up). The clean-up call was communicated on December 22, 2015 and was executed on January 12, 2016.

In August 2015, the volume for the European ABS program was reduced by €60 million to €300 million while maintaining the term.

In the second quarter of 2015, the volume of the promissory notes was reduced by scheduled repayment of a total of €52 million.

Including the promissory notes of €133 million (2014: €185 million) and finance leasing of approximately €3.7 million (2014: €3.8 million), the Group has credit facilities in the amount of approximately €1.7 billion (2014: €1.9 billion). Financial liabilities before deduction of transaction costs amounted to €550 million (2014: €788 million) representing approximately 33% (2014: 42%) of the credit facilities.

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, 2015		Cash outflows			
(€ thousand)		Less than one year	1–5 years	More than 5 years	Total
Bonds	Nominal values	24,850	-	-	24,850
	Interest	36	-	-	36
	Total	**24,886**	**-**	**-**	**24,886**
Promissory notes	Nominal values	133,000		-	133,000
	Interest	3,111		-	3,111
	Total	**136,111**	**-**	**-**	**136,111**
Bank loans	Nominal values	47,225	62,341	11,075	120,641
	Interest	5,993	7,582	491	14,066
	Total	**53,218**	**69,923**	**11,566**	**134,707**
ABS	Nominal values	-	265,395	-	265,395
	Interest	7,531	6,136	-	13,667
	Total	**7,531**	**271,531**	**-**	**279,062**
Finance lease liabilities	Nominal values	586	1,617	1,490	3,693
	Interest	54	1,741	4,683	6,478
	Total	**640**	**3,358**	**6,173**	**10,171**
Total financial liabilities		**222,386**	**344,812**	**17,739**	**584,937**
Cash outflows from derivative financial instruments designated in interest hedging relationships		34	24	-	58

December 31, 2014		Cash outflows			
(€ thousand)		Less than one year	1–5 years	More than 5 years	Total
Bonds	Nominal values	186,200	-	-	186,200
	Interest	4,655	-	-	4,655
	Total	**190,855**	**-**	**-**	**190,855**
Promissory notes	Nominal values	51,500	133,000	-	184,500
	Interest	5,605	3,221	-	8,826
	Total	**57,105**	**136,221**	**-**	**193,326**
Bank loans	Nominal values	25,187	161,728	9,980	196,895
	Interest	6,700	10,252	570	17,522
	Total	**31,887**	**171,980**	**10,550**	**214,417**
ABS	Nominal values	-	221,260	-	221,260
	Interest	6,039	13,564	-	19,603
	Total	**6,039**	**234,824**	**-**	**240,863**
Finance lease liabilities	Nominal values	874	1,321	1,611	3,806
	Interest	88	975	5,136	6,199
	Total	**962**	**2,296**	**6,747**	**10,005**
Total financial liabilities		**286,848**	**545,321**	**17,297**	**849,466**
Cash outflows from derivative financial instruments designated in interest hedging relationships		44	55	-	99

All financial instruments for which payments have already been fixed as of the end of the reporting period are included; expected payments on future obligations not yet incurred are excluded. Variable interest payments on financial instruments are determined based 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:

	December 31, 2015		December 31, 2014	
(€ million)	Not designated in hedge–accounting	Designated in hedge–accounting	Not designated in hedge–accounting	Designated in hedge–accounting
Nominal values				
Forward exchange transactions	350.4	1.5	265.1	188.7
Interest rate swaps	1.2	-	1.5	-
Cross–currency swaps	-	211.3	-	211.3
Fair values				
Forward exchange transactions	–1.6	-	–5.1	–4.4
Interest rate swaps	–0.1	-	–0.1	-
Cross–currency swaps	-	–64.0	-	–34.0

The nominal values correspond to the gross sum 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 the basis of financial models commonly used by banks. The fair value calculation also considers counterparty risk at valuation date. If fair values exist, they correspond to the amount third parties would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in value in the underlying transactions.

Forward exchange transactions with a nominal amount of €351.9 million (2014: €400.0 million) have a remaining term of less than one year. These include a nominal value of €307.0 million to hedge loans within the Group. In June, the designation for the internal loan's hedge relationship classified as net investment hedge in the amount of €235.0 million was revoked based on the fact that a short-term refinancing by other financial resources was likely. The net investment financing measure with the purpose of hedging its foreign currency exposure of net investments into cross-currency swaps in the amount of €211.3 million is maturing in May 2016. With regard to the financing volume of USD 300 million, the principal swap was set to semiannual 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.

Forward currency exchange contracts with a total volume of €1.5 million were designated as cash flow hedges. These hedging transactions regarding foreign exchange risks resulting from customer payments within the scope of our Dutch subgroups' ODS B.V. and ODS Metering Systems B.V. international project business.

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, 2015, these fair value changes amounted to €25.5 million (2014: €18.2 million). The effective fair value changes of net investment hedges included therein amounted to €30.0 million (2014: €24.1 million).

The interest rate swap without hedge accounting includes an additional interest rate swap of Becker Besitz GmbH, Duisburg, in the amount of €1.2 million. This hedging instrument serves to hedge a bilateral credit with variable interest rate for the company.

(31) Pending litigation, commitments and contingent liabilities

The Klöckner & Co Group is not involved in any litigation or arbitration proceedings that could have a significant influence on the Group's economic situation. Simultaneously, it cannot be assumed that in individual cases violations may occur despite the extensive compliance measures or that cases still exist.

The liabilities on bills amount to €18 thousand (2014: €82 thousand). In addition, the Group issued guarantees in connection with the disposal of subsidiaries and property disposals. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

In the Klöckner & Co Group, there are other financial obligations that arise in particular from agreements that qualify as non-cancellable 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, 2015	December 31, 2014
Due within one year	50,802	54,411
Due between one and five years	134,843	138,020
Due after five years	46,022	54,628
Future minimum lease payments (nominal amounts)	**231,667**	**247,059**

The payments resulting from subleases during fiscal 2015 total €1,794 thousand (2014: €1,963 thousand). The future minimum payments from subleases amount to €3,044 thousand (2014: €3,589 thousand).

Other financial obligations arise from the purchase obligation for investments; these amounted to €2,028 thousand as of December 31, 2015 (2014: €1,000 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. Business relations with these companies do not differ from trade relationships with other companies. No material transactions were conducted with any of these companies in the year under review.

The compensation model of the Management and Supervisory Boards is presented in detail and individually in the compensation report, which is included in the management report. The following presentation represents the total compensation of members of the Management Board of Klöckner & Co SE, the disclosures of which differ from the remuneration according to Deutscher Corporate Governance Codex.

(€ thousand)	Fixed compo-nents	Bonuses	Other remu-nerations[1)]	Total excluding share based compen-sation	Share–based payment[2)]	Total	Issued VSO tranche (number of rights)	Expense from VSO[3)]	Present value of benefit obligation[4)]	Change in benefit obligation
Gisbert Rühl (CEO)	860	812	41	1,713	397	2,110	120,900	10	6,572	*2,860*
	(720)	*(539)*	*(35)*	*(1,294)*	*(496)*	*(1,791)*	*(120,900)*	*(-20)*	*(3,712)*	*(610)*
Marcus A. Ketter (CFO)	480	457	127	1,063	180	1,243	60,000	70	-	-
	(420)	*(360)*	*(127)*	*(907)*	*(147)*	*(1,054)*	*(40,000)*	*(65)*	*(-)*	*(-)*
Karsten Lork	480	457	29	965	180	1,145	*60,000*	70	480	*296*
	(420)	*(360)*	*(27)*	*(807)*	*(147)*	*(953)*	*(40,000)*	*(68)*	*(184)*	*(133)*
William A. Partalis	480	583	30	1,092	*188*	1,281	*60,000*	*40*	*5,859*	457
	(480)	*(445)*	*(17)*	*(942)*	*(208)*	*(1,150)*	*(60,000)*	*(57)*	*(5,402)*	*(1,674)*
Gesamt	**2,300**	**2,308**	**226**	**4,834**	**947**	**5,780**	**300,900**	**190**	**12,911**	**3,613**
	(2,040)	**(1,704)**	**(206)**	**(3,950)**	**(998)**	**(4,948)**	**(260,900)**	**(170)**	**(9,298)**	**(2,417)**

1) Includes for Marcus A. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) Fair value on the grant date of the each VSO tranche.
3) Expenses (+) or income (–) resulting from the necessary adjustment to provisions.
4) This amount was calculated in accordance with IAS 19 for William A. Partalis. The amounts according to IAS 19 are €7,525 thousand for Gisbert Rühl and €473 thousand for Karsten Lork.

Statutory pension provisions for former Management Board members amount to €3,493 thousand (2014: €2,963 thousand). In 2015, pension payments of €117 thousand (2014: €115 thousand) were made to a former member of the Management Board.

Business with members of the Management Board is restricted to their above function as members of the Management Board for the period under review.

In the 2015 financial year, remuneration for the Supervisory Board amounted to €488 thousand (2014: €466 thousand).

A list of the members of the Management Board is included on page 9 and of the Supervisory Board on page 15 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 in 2015 for such premises amount to €1,904 thousand (2014: €1,658 thousand).

(33) Supplemental cash flow information

The consolidated statement of cash flows is presented in line with IAS 7 (cash flow statement). The statement of cash flows is of central importance in assessing the financial position of the Klöckner & Co Group.

The changes in the items of the statement of financial position that provide the basis for the statement of cash flows cannot be directly reconciled to the statement of financial position due to the effects of currency translation and changes in the scope of consolidation, which are eliminated in compiling the statement of cash flows.

Cash flow from operating activities

Cash flows from operating activities amounted to €276 million in the financial year 2015, compared to €68 million in 2014. The release of funds tied up in net working capital especially contributed to this increase.

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

	Variance	
(€ thousand)	2015/2014	2014/2013
Inventories	–445,426	71,014
Trade receivables	–138,865	6,331
Trade payables	303,127	–57,493
Net working capital	**–281,164**	**19,852**

Cash flow from investing activities

Cash-out related to the American Fabricators, Inc. acquisition amounted to €33 million and capital expenditure for property, plant and equipment and intangible assets of €99 million led, under consideration of inflows from asset disposal and the repayment to a net outflow of €85 million compared to net outflows of €132 million in 2014. The net outflow in 2014 included the Riedo Group acquisition in the amount of €82 million.

Cash flow from financing activities

Cash flow from financing activities of €–350 million (2014: €–222 million) includes repayment of the convertible bond 2010 in the amount of €161 million, the syndicated loan of €100 million and promissory notes in the amount of €52 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 and amounted to €165 million as of the end of 2015. Cash and cash equivalents include bank balances of €12,619 thousand (2014: €13,777 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)	2015	2014	2015	2014
Sales	3,983,645	4,101,103	2,459,983	2,402,827
Capital expenditure for intangible assets, property, plant and equipment	66,085	52,720	27,834	17,919
Segment result (EBITDA)	13,699	108,789	34,450	100,398
Earnings before interest and taxes (EBIT)	–44,993	60,054	–277,755	58,705
Amortization and depreciation of intangible assets and property, plant and equipment	49,237	47,698	44,872	41,626
Impairment losses for intangible assets and property, plant and equipment	9,455	1,037	267,333	67
Other non–cash income/expenses	362	–232	-	-
Income taxes	–8,192	–8,001	61,544	–12,764

	Europe*)		Americas	
(€ thousand)	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Net working capital	685,472	763,945	436,913	554,506
Net financial debt	310,848	527,032	669,145	706,758
Employees at year–end (headcount)	6,812	7,104	2,687	2,559

*) Klöckner European Operations GmbH was reallocated to the Europe segment (before: Headquarters), previous year's numbers were adjusted accordingly.

	Headquarters*)		Consolidation*)		Total	
	2015	2014	2015	2014	2015	2014
	-	-	-	-	6,443,628	6,503,930
	3,945	3,302	-	-	97,864	73,941
	44,508	−48,378	−68,783	30,000	23,874	190,809
	41,288	−50,448	−68,783	30,000	−350,243	98,311
	2,295	2,069	-	-	96,404	91,393
	925	-	-	-	277,713	1,104
	662	−192	-	-	1,024	−424
	−2,952	4,107	-	-	50,400	−16,658

	Headquarters*)		Consolidation*)		Total	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	5,131	2,080	-	-	1,127,516	1,320,531
	−594,744	−761,754	-	-	385,249	472,036
	93	77	-	-	9,592	9,740

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

(€ thousand)	2015	2014
Earnings before interest and taxes (EBIT)	–350,243	98,311
Financial result	–48,994	–59,479
Income before taxes	**–399,237**	**38,832**

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.

In the year under review, the segment allocation of Klöckner European Operations GmbH, Duisburg, was adjusted due to the fact that the company exclusively provides services to European Group companies. Therefore, the company is assigned to the Europe segment replacing the segment Headquarters. The comparative figures were adjusted accordingly.

The segments use the same accounting policies as described in Note 4 (Significant accounting policies), except in the case of intra-Group 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. 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 and investment property are broken down by region as follows:

(€ thousand)	2015	2014
United States	340,040	536,017
Switzerland	312,534	280,891
Germany	107,237	108,918
Spain	42,823	48,849
France	37,968	41,858
Great Britain	38,954	28,462
The Netherlands	22,868	24,284
Other regions	10,433	9,442
Total	**912,857**	**1,078,721**

(35) Subsequent events

According to the mandatory notice of Section 21 and Section 22 Securities Trading Act, SWOCTEM GmbH (Friedhelm Loh) has increased its shareholdings of more than 25% of the voting capital. Since February 2, 2016, SWOCTEM is holding 25.25% of the shares. Based on the notification, the investment is aimed at financial and strategic objectives.

Due to the fact that the threshold of 25% was exceeded, existing tax loss carry forwards of German Group companies proportionally forfeit to SWOCTEM's holding's quota due to the regulations of Section 8c of the German Corporate Income Tax Act.

Due to the fact that only deferred tax assets on loss carryforwards were recognized in a limited amount, this has no effect on the annual financial statements of Klöckner & Co SE at this time.

(36) Fees and services of the auditor of the consolidated financial statements

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Prof. Dr. Kai Christian Andrejewski (since business year 2012) and Dr. Markus Zeimes (since business year 2011). Dr. Markus Zeimes is deemed to be the auditor in charge in accordance with Section 24a para 2 BS WP/vBP for Klöckner & Co SE ("Berufssatzung der Wirtschaftsprüfer und vereidigten Buchprüfer").

KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin (resp. its subsidiary KPMG Hartkopf + Rentrop Treuhand KG, Wirschaftsprüfungsgesellschaft, Köln) has been the auditor for Klöckner & Co SE (resp. its legal predecessor) since the initial public offering in 2006.

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, in the financial year:

(€ thousand)	**2015**	2014
Audit of financial statements	857	861
Other assurance services	170	181
Tax advisory services	39	108
Other services	263	73
	1,329	**1,223**

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. The 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 2015, 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):

- Klöckner & Co Deutschland GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner European Operations GmbH, Duisburg
- Klöckner Shared Services GmbH, Duisburg
- Becker Besitz GmbH, Duisburg
- Becker Stahl-Service GmbH, Duisburg
- Becker Stahl GmbH, Bönen
- Umformtechnik Stendal GmbH, Stendal
- kloeckner.i GmbH, Berlin
- Becker Aluminium-Service GmbH, Duisburg

(38) Declaration of compliance with the German Corporate Governance Code in accordance with Section 161 German Stock Corporations Act (AktG – Aktiengesetz)

On December 15, 2015, 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 19, 2016

Klöckner & Co SE
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

To Klöckner & Co SE

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements for 2015 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 1st January to 31st December 2015.

Management's Responsibility for the Consolidated Financial Statements

The management of Klöckner & Co SE, Duisburg 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 § [Article] 315a Abs. [paragraph] 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 § 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 judgment. 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 §322 Abs.3 Satz 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 § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31st December 2015 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, Duisburg for the business year from 1st January to 31st December 2015. The management of Klöckner & Co SE, Duisburg is responsible for the preparation of the group management report in compliance with the applicable requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We conducted our audit in accordance with § 317 Abs. 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 §322 Abs. 3 Satz 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 24, 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

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 19, 2016

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

Individual financial statements
Statement of income

for the period from January 1 to December 31, 2015

(€ thousand)	2015	2014
Other operating income	17,742	16,603
Personnel expenses	–19,968	–15,660
Depreciation of intangible assets and property, plant and equipment	–256	–261
Other operating expenses	–27,738	–21,767
Income from participations	31,144	20,261
Income from profit transfer agreements	29,291	66,193
Income from long–term loans	30,798	15,998
Other interest and similar income	11,220	18,519
Impairment of investments	–258,515	–96,004
Expenses from loss transfer agreements	–19,185	–8,091
Interest and similar expenses	–30,234	–40,231
Result from ordinary activities	**–235,701**	**–44,440**
Income taxes	–876	–1,450
Net income	**–236,577**	**–45,890**
Unappropriated profits carried forward	19,950	16,160
Dividends	–19,950	-
Withdrawal from capital reserves	236,577	-
Appropriation to other revenue reserves	-	–16,160
Withdrawal from other revenue reserves	-	65,840
Unappropriated profits	**0**	**19,950**

Balance sheet

as of December 31, 2015

ASSETS

(€ thousand)	December 31, 2015	December 31, 2014
Intangible assets	119	169
Property, plant and equipment	506	548
Non-current investments	1,177,612	1,295,267
Fixed assets	**1,178,237**	**1,295,984**
Trade receivables	6	70
Receivables from affiliated companies	221,741	527,837
Other assets	5,028	4,699
Securities	-	50,003
Cash and cash equivalents	94,275	147,547
Current assets	**321,050**	**730,156**
Prepaid expenses	2,918	11,116
Total assets	**1,502,205**	**2,037,256**

EQUITY AND LIABILITIES

(€ thousand)	December 31, 2015	December 31, 2014
Equity		
Subscribed capital	249,375	249,375
Capital reserves	681,024	917,601
Other revenue reserves	74,161	74,161
Unappropriated profits	-	19,950
Equity	**1,004,560**	**1,261,087**
Provisions for pensions and similar obligations	101,150	100,548
Provisions for taxes	3,963	6,213
Other provisions	28,233	24,876
Bonds	24,850	186,200
Liabilities to banks	135,129	287,405
Trade payables	151	202
Liabilities to affiliated companies	201,522	164,776
Other liabilities	2,647	5,949
Total equity and liabilities	**1,502,205**	**2,037,256**

Movements in intangible assets, property, plant and equipment and non-current investments

as of December 31, 2015 (annex to the notes)

	Intangible assets	Property, plant and equipment			Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Prepay-ments	Invest-ments in affiliated companies	Loans to affiliated companies	Invest-ments	Total
Cost as of December 31, 2014	1,019	371	1,120	-	1,130,386	501,650	7	1,634,553
Accumulated amortization and depreciation	−850	−185	−758	-	−267,993	−68,783	-	−338,569
Book value as of Dec. 31, 2014	**169**	**186**	**362**	**-**	**862,393**	**432,867**	**7**	**1,295,984**
Additions	36	-	58	74	115,615	25,245	-	141,028
Disposals	−265	-	−205	-	-	-	-	−470
Transfers	-	−97	-	97	-	-	-	-
Current year amortization and depreciation	−86	−37	−133	-	−258,515	-	-	−258,771
Disposal depreciation	265	-	201	-	-	-	-	466
Book value as of Dec. 31, 2015	**119**	**52**	**283**	**171**	**719,493**	**458,112**	**7**	**1,178,237**
Cost as of Dec. 31, 2015	790	274	973	171	1,314,784	458,112	7	1,775,111
Accumulated amortization and depreciation	−671	−222	−690	-	−595,291	-	-	−596,874

Notes to the financial statements

for the 12-month period ending December 31, 2015

General information

Klöckner & Co SE (the "Company") is the parent company of the Klöckner & Co Group. The Klöckner & Co Group is one of the largest producer-independent multi metal distributors world-wide and one of the leading operators of steel service centers.

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, Prime Standard) of the Frankfurt Stock Exchange since the IPO on June 28, 2006.

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

Accounting policies

The financial statements for the financial year from January 1 to December 31, 2015 were compiled in accordance with the German Commercial Code (HGB – Handelsgesetzbuch) amended by 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 Group does not elect to take the option of capitalizing internally developed intangible assets. 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 analogous to IAS 19. In accordance with the requirements of BilMoG, the parameters for valuation were 2.5% (2014: 2.5%) for salary increase and 1.75% (2014: 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 regularly by the German Central Bank (Deutsche Bundesbank). At the reporting date, this interest rate is at 3.89% (2014: 4.53%). 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 the 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 the reporting date. Liabilities in foreign currency with a longer maturity are converted by the rate at the 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 of 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. Under application of the net hedge presentation method, they are estimated according to the value on the date of issue. Changes in value regarding the hedged risk are not recognized, neither in the balance sheet nor in net income.

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.

Fixed assets

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

Additions to intangible assets are exclusively affecting purchased software.

The share capital of Klöckner Participaciones S.A., Madrid, Spain, in the amount of €20,000 thousand, the share capital of Klöckner UK France Holding Ltd., Leeds, Great Britain, in the amount of €39,173 thousand (29,000 TGBP) and the share capital of Klöckner Distribution Industrielle S.A., Aubervilliers, France, in the amount of €56,342 thousand were increased to strengthen the capital resources. Due to the continuously weak economic situation of these subgroups, the capital increases were totally impaired. Based on the weaker than expected market conditions for steel and metal products in the USA and the future earnings projection, which was adjusted accordingly, the investment book value of Klöckner USA Holding, Inc., Wilmington, Delaware, USA, had to be impaired in the amount of €143,000 thousand.

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

A listing of all subsidiaries is presented in the appendix.

Accounts receivable and other assets

(€ thousand)	2015	2014
Trade receivables	6	70
Receivables from affiliated companies	221,741	527,837
Other assets	5,028	4,699
	226,775	**532,606**

Receivables from affiliated companies relate to European cash pooling, profit transfer agreements, financial services and current clearing and current loans.

All receivables fall due in less than one year.

Other assets of €4,254 thousand (2014: €4,395 thousand) have a remaining maturity of more than one year and mainly relate to reinsurance claims.

Securities

Securities relate to short-term money market investments.

Prepaid expenses

The discounts on issuance of the convertible bond 2010 of originally €35,135 thousand were capitalized as prepaid expenses and were amortized over the remaining maturity of the bond. Thus, in 2015, the discounts were amortized completely. In the 2015 business year, the amortization expenses included in interest expense amounted to €7,027 thousand (2014: 9,232 thousand), whereas the previous year's figure included interest expenses for the 2009 bond that was repaid in 2014.

Equity

The Company's subscribed capital remains unchanged to prior year at €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.

By resolution of the Annual General Meeting on May, 25, 2012, the Management Board was authorized until May 24, 2017 to increase the share capital on 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.

In order to cover the loss of the year, an amount of €236,577 thousand was withdrawn from the capital reserves according to Section 150 para 4 no. 1 of the German Stock Corporation Act.

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

The previous year's retained earnings of €19,950 thousand were completely paid out to the shareholders.

Provisions for pensions

The pension obligations of Klöckner & Co SE amounted to €115,977 thousand as of December 31, 2015 (2014: €112,132 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 €14,827 thousand (2014: €11,584 thousand). Plan assets accounted for at fair value are offset against the respective pension obligation.

Expenses from the accretion of pension liabilities of €4,209 thousand (2014: €4,860 thousand) were offset against interest income from plan assets of €379 thousand (2014: €91 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2015	2014
Personnel expenses	6,783	5,976
Outstanding invoices	2,267	1,816
Miscellaneous other provisions	19,183	17,084
	28,233	**24,876**

Miscellaneous other provisions include an amount of €18,286 thousand (2014: €16,179 thousand) with regard to a debtor warrant bond for Klöckner & Co Deutschland GmbH, Duisburg, as part of the ABS program.

Liabilities

All liabilities fall due in less than one year.

On December 22, 2010, Klöckner & Co Financial Services S.A. issued a senior unsecured convertible bond with a volume of €186 million to institutional investors outside of the USA only. This bond is also guaranteed by Klöckner & Co SE. The bond had a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond were entitled to require the early redemption of the bonds after five years at the principal amount including accrued interests. 85.6% of the investor-put-option was used on December 2, 2015. When the threshold of 85% was reached, Klöckner & Co. had the right to settle still outstanding bonds early at the nominal value including interest accrued ("Clean-up call"). The clean-up call was exercised on December 22, 2015 and was executed in January 2016. As of the reporting date, the carrying amount of the outstanding bonds was at €25 million.

Liabilities to banks consist of €287 thousand of accrued interest under the syndicated loan due on May 23, 2018.

In 2010 and 2011, the Company issued promissory notes of originally €343 million, of which €185 million still existed on January 1, 2015 due to repayments. The instruments' times to maturity range between three and five years. A total of €52 million was repaid in the year under review. The contractual conditions are largely identical and the covenants are balance sheet-oriented.

The liabilities resulting from the syndicated loan and the promissory notes are unsecured.

Other liabilities include:

(€ thousand)	2015	2014
Tax liabilities	2,628	5,936
Social security contributions	13	13
Miscellaneous other liabilities	6	-

The tax liabilities mainly relate to VAT.

Derivative financial instruments

The nominal values and fair values of the derivative financial instruments as of December 31, 2015 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	307	–1
Cross–currency swaps	211	–64

Klöckner & Co SE assumes 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 micro-hedges for 14 forward exchange transactions as well as five 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. The risks included in the single valuation unit comply with the carrying amounts of the hedged receivables in the amount of €211 million. The risks excluded from the single valuation are equivalent to the hedged receivables' carrying amount in the amount of €307 million.

With regard to the financing volume of USD 300 million, the principal cross-currency swap occurs at the beginning and at the end of the term and interest is paid semiannually in US dollars. The currency exchange rate was fixed at the inception of the swap agreement. The risk of change in cash flow of cross-currency swaps, of forward exchange contracts and the change in cash flows resulting from loans are channelled into a portfolio hedge. The fair value changes are prospectively and retrospectively determined according to the Critical-Terms-Match method. The critical terms are reviewed at least at each reporting date during the hedging period. The effective part of the cross-currency swaps' fair value change and the forward exchange transaction amounts to €–64 million respectively €–1 million.

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 comparing the average spot exchange rates applicable on the financial statement date, adjusted for time-related premiums or discounts for the respective remaining term of the contract, to the contracted forward rate. The discounting includes 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 that apply 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 at discounting.

Commitments

Future minimum lease payments for long-term operating leases are €2,504 thousand (2014: €2,524 thousand) for 2016, €7,576 thousand (2014: €7,753 thousand) for fiscal years 2017 to 2020 and for 2021 to 2024 €7,329 thousand (2014: €9,107 thousand).

Other operating income

Other operating income contains income attributable to prior periods of €2,100 thousand (2014: €645 thousand).

Personnel expenses

(€ thousand)	2015	2014
Wages and salaries	11,036	10,066
Social securities	676	685
Retirement benefit cost	8,245	4,906
Welfare	11	3
	19,968	**15,660**

Average number of employees:

	2015	2014
Salaried employees	64	59
Wage earners	2	2
	66	**61**

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 following presentation represents the total compensation of members of the Management Board of Klöckner & Co SE, the disclosures of which differ from the remuneration report according to Deutscher Corporate Governance Codex.

(€ thousand)	Fixed compo-nents	Bonuses	Other remuner-ations[1]	Total excluding share based compen-sation	Share–based payment[2]	Total	Issued VSO tranche (number of rights)	Expense from VSO[3]	Present value of benefit obligation[4]	Change in benefit obligation
Gisbert Rühl (CEO)	860	812	41	1,713	397	2,110	120,900	10	6,572	2,860
	(720)	(539)	(35)	(1,294)	(496)	(1,791)	(120,900)	(-20)	(3,712)	(610)
Marcus A. Ketter (CFO)	480	457	127	1,063	180	1,243	60,000	70	-	-
	(420)	(360)	(127)	(907)	(147)	(1,054)	(40,000)	(65)	(-)	(-)
Karsten Lork	480	457	29	965	180	1,145	60,000	70	480	296
	(420)	(360)	(27)	(807)	(147)	(953)	(40,000)	(68)	(184)	(133)
William A. Partalis	480	583	30	1,092	188	1,281	60,000	40	5,859	457
	(480)	(445)	(17)	(942)	(208)	(1,150)	(60,000)	(57)	(5,402)	(1,674)
Gesamt	**2,300**	**2,308**	**226**	**4,834**	**947**	**5,780**	**300,900**	**190**	**12,911**	**3,613**
	(2,040)	**(1,704)**	**(206)**	**(3,950)**	**(998)**	**(4,948)**	**(260,900)**	**(170)**	**(9,298)**	**(2,417)**

1) Includes for Marcus A. Ketter €100,000 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) Fair value on the grant date of the each VSO tranche.
3) Expenses (+) or income (–) resulting from the necessary adjustment to provisions.
4) This amount was calculated in accordance with IAS 19 for William A. Partalis.

The underlying share-based compensation in 2015 is based on 300,900 thousand virtual stock options (2014: 260,900 options).

Statutory pension provisions for former board members amount to €3,493 thousand (2014: €2,963 thousand). In 2015, pension payments of €117 thousand (2014: €115 thousand) were made to a former member of the Management Board.

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 more than 30% of the voting rights change ownership. 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. There will no longer be the requirement to hold own investments. Until that point in time, locked own investment shares will be unlocked and then available for the respective board member. In addition, all unissued VSOs are deemed issued and may be exercised prior to completion of the vesting period, but not prior to the completion of a three-months waiting period from the respective date of issuance.

Other operating expenses

In the 2015 financial year, remuneration for the Supervisory Board amounted to €488 thousand (2014: €466 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 €308 thousand (2014: €94 thousand) relate to prior periods.

Losses from currency conversion amounted to €0 thousand (2014: €1,388 thousand).

Income from investments

(€ thousand)	2015	2014
Income from participations	31,144	20,261
Income from profit transfer agreements	29,291	66,193
Expenses from loss transfer agreements	–19,185	–8,091
Income from investments	**41,250**	**78,363**

Income from participations include dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland. The income from profit transfer agreements results from contracts with Becker Besitz GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg and Klöckner European Operations GmbH, Duisburg.

The expenses for loss transfer agreements relate to Klöckner & Co Deutschland GmbH, Duisburg, Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner Shared Services GmbH, Duisburg and kloeckner.i GmbH, Berlin.

Financial result

(€ thousand)	2015	2014
Income from long–term loans		
– affiliated companies	30,798	15,998
Other interest and similar income		
– affiliated companies	11,020	15,566
– other interest and similar income	200	2,953
Interest and similar expenses		
– affiliated companies	–4,822	–7,609
– interest on provisions	–3,830	–4,770
– other interest and similar expenses	–21,582	–27,852
	11,784	**–5,714**

Interest income from affiliated companies and income from long-term loans results from the takeover of the Group financing. The interest expense on provisions exclusively relates to pension provisions.

Taxes

Taxes exclusively relate to taxes on income and impact 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 excess deductible temporary differences amount to €27,291 thousand (2014: €26,999 thousand) and result from deductible temporary differences in the amount of €27,310 thousand being offset by effects from taxable temporary differences in the amount of €19 thousand(2014: €0 thousand). In addition, tax loss carry forwards exist, which could give rise to deferred tax assets and excess deductible temporary differences over taxable temporary differences.

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. As in the previous year, the combined tax rate of 31.6% for corporate income tax including the solidarity surcharge and trade tax was used to calculate deferred taxes.

Contingent liabilities

The contingent liabilities of Klöckner & Co SE are exclusively comprised of guarantees in the amount of €32,725 thousand (2014: €25,547 thousand) relating to the loans of foreign subsidiaries as well as guarantees and credit support for the securing of Group companies' financing.

To the best of our knowledge, all Group companies affected will meet their obligations. As such, we do not expect that the guarantees will be called in.

Subsequent events

According to the mandatory notice of Section 21 para 1 and Section 22 Securities Trading Act, SWOCTEM GmbH (Friedhelm Loh) has increased its shareholdings of more than 25% of the voting capital. Since February 2, 2016, SWOCTEM is holding 25.25% of the shares. Based on the notification, the investment is aimed at financial and strategic objectives.

Due to the fact that the threshold of 25% was exceeded, existing tax loss carry forwards of German Group companies proportionally forfeit to SWOCTEM's holding's quota due to the regulations of Section 8c of the German Corporate Income Tax Act.

Due to the fact that no deferred tax assets on loss carryforwards were recognized, this has no effect on the annual financial statements of Klöckner & Co SE at this time.

Other information

Information pursuant to Section 160 para 1 No. 8 German Stock Corporations Act (AktG)
At the reporting date, the following shareholdings were held as per notifications received in accordance with Section 21 et seq. Security Trading Act (WpHG) with interests of 3% or more voting rights. The exact wording of the publication is to be found on the Klöckner website.

Notifying institutions	Domicile	Voting interest in percent	Date
SWOCTEM GmbH (Friedhelm Loh)	Haiger, Germany	25.25	February 2, 2016
BNY Mellon Service Kapitalanlage-gesellschaft mbH	Frankfurt am Main, Germany	3.01	November 10, 2015
Federated Global Investment Management Corp.	Wilmington, Delaware, USA	5.06*)	May 21, 2015
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3.07	March 2, 2015
Federated International Leaders Fund, a series of Federated World Investment Series, Inc.	Maryland, USA	3.00	November 26, 2014
Interfer Holding GmbH (Dr. Albrecht Knauf)	Dortmund, Germany	4.98	May 30, 2014
Franklin Mutual Advisors, LLC	Wilmington, Delaware, USA	5.35*)	March 14, 2014
Franklin Templeton Investment Funds	Luxembourg, Luxembourg	3.15	March 13, 2014
Dimensional Holdings, Inc.	Austin, Texas, USA	3.06*)	February 2, 2012

*) Partly attributed holding, not cumulative.

A full listing of notifications of increase over or decrease below the threshold in accordance with Section 21 et seq. Securities Trading Act (WpHG) is attached as an appendix to the notes to the consolidated financial statements.

Corporate bodies

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 15, 2015, 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.

Duisburg, February 19, 2016

Klöckner & Co SE
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, 2015. 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 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 24, 2016

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 19, 2016

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, Luxembourg	100.00
3	Klöckner Shared Services GmbH, Duisburg, Germany	100.00
4	kloeckner.i GmbH, Berlin, Germany	100.00
5	kloeckner.v GmbH, Berlin, Germany	100.00
6	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00
7	Klöckner European Operations GmbH, Duisburg, Germany	100.00
8	Kloeckner Metals (Changshu) Co., Ltd., Changshu, China	100.00
9	Klöckner & Co Deutschland GmbH, Duisburg, Germany	100.00
10	Klöckner Stahl und Metall Ges.m.b.H., Vienna, Austria	100.00
11	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00
12	Metall- und Service-Center Hungária Kft., Budapest, Hungary	90.00
13	Becker Stahl-Service GmbH, Duisburg, Germany	100.00
14	Becker Stahl GmbH, Bönen, Germany	100.00
15	Becker Besitz GmbH, Duisburg, Germany	100.00
16	Umformtechnik Stendal GmbH, Stendal, Germany	100.00
17	Becker Aluminium-Service GmbH, Duisburg, Germany	100.00
18	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00
19	Debrunner Acifer AG, St. Gallen, Switzerland	100.00
20	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00
21	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00
22	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00
23	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00
24	Klöckner Stahl AG, St. Gallen, Switzerland	100.00
25	Koenig Feinstahl AG, Dietikon, Switzerland	100.00
26	Metall Service Menziken AG, Menziken, Switzerland	100.00
27	Debrunner Acifer Bläsi AG, Bern, Switzerland	100.00
28	BEWETEC AG (Riedo Bau + Stahl AG), Oberbipp, Switzerland	100.00
29	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00
30	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00
31	ODS B.V., Rotterdam, The Netherlands	100.00
32	ODS Metals N.V., Antwerp, Belgium	100.00
33	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00
34	ODS Metering Systems B.V., Barendrecht, The Netherlands	100.00
35	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	100.00
36	ODS METERING SYSTEMS ASIA Pacific PTE. LTD., Singapore, Singapore	100.00

1) Profit and loss transfer agreement.

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	1	EUR	2,944,017.66	41,713.55		-
	1	EUR	98,055.85	-	1)	-
	1	EUR	97,123.05	-	1)	-
	1	EUR	49,031.89	−50,968.11		-
	1	EUR	160,025,000.00	-	1)	-
	1	EUR	69,889.06	-	1)	20,729,857.41
	1	EUR	510,853.16	−4,807,835.92		2,444,555.19
	1	EUR	11,239,918.75	-	1)	797,287,495.41
	9	EUR	2,190,996.20	1,472,011.34		-
	10	EUR	11,925,131.08	1,990,770.03		83,673,093.40
	11	EUR	−37,374.80	−84,534.45		8,450,430.16
	1	EUR	81,473,763.43	-	1)	686,120,272.85
	13	EUR	597,887.48	-	1)	-
	1	EUR	25,000.00	-	1)	-
	13	EUR	4,467,470.64	-	1)	14,776,523.45
	13	EUR	100,000.00	-	1)	-
	1	EUR	172,320,809.69	39,473,932.57		-
	18	EUR	101,423,820.54	9,266,289.53		519,605,629.85
	18	EUR	9,647,306.88	1,072,045.86		52,589,734.33
	18	EUR	7,420,587.30	1,005,406.52		34,338,442.92
	18	EUR	29,772,353.35	4,623,588.84		179,521,957.53
	18	EUR	4,669,072.34	639.47		-
	18	EUR	107,317.96	118.12		-
	18	EUR	15,224,969.63	70,670.12		37,062,264.45
	18	EUR	9,501,593.10	627,155.69		77,838,238.10
	18	EUR	23,010,589.64	2,063,939.56		57,743,160.06
	18	EUR	39,914,891.15	10,676,696.47		125,282,057.31
	1	EUR	33,296,784.67	−1,633,320.80		-
	1	EUR	3,000.00	-		-
	29	EUR	22,384,000.00	3,050,000.00		151,457,000.00
	31	EUR	3,759,105.34	−79,165.80		12,161,152.48
	31	EUR	-	-		-
	31	EUR	6,945,367.89	4,944,498.16		50,550,057.25
	34	EUR	2,123,495.18	623,276.48		3,389,661.11
	34	EUR	168,073.50	16,762.37		-

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
37	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00
38	ASD Limited, Leeds, United Kingdom	100.00
39	ASD Interpipe Ltd., Leeds, United Kingdom	100.00
40	ASD Multitubes Ltd., Leeds, United Kingdom	100.00
41	ASD Westok Limited, Leeds, United Kingdom	100.00
42	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00
43	Armstrong Steel Ltd., Leeds, United Kingdom	100.00
44	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00
45	Kloeckner Metals France S.A., Aubervilliers, France	99.31
46	KDI S.A.S, Aubervilliers, France	100.00
47	KDI Export S.A.S., Cergy-Pontoise, France	100.00
48	KDI Immobilier S.A.S., Aubervilliers, France	100.00
49	Prafer SNC, Woippy, France	100.00
50	KDI Davum S.A.S., Le Port, La Réunion, France	100.00
51	AT2T S.A.S., La Grand-Croix, France	100.00
52	Reynolds European S.A.S., Rueil Malmaison, France	100.00
53	Buysmetal N.V., Harelbeke, Belgium	99.99
		0.01
54	Klöckner Participaciones S.A., Madrid, Spain	100.00
55	Kloeckner Metals Iberica S.A., Barcelona, Spain	100.00
56	Kloeckner Metals Turia S.A., Valencia, Spain	80.00
57	Kloeckner Peasa S.A., Zaragoza, Spain	100.00
58	Kloeckner Producto Plano S.A., Valencia, Spain	100.00
59	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00
60	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00
61	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00
62	Kloeckner Metals Corporation, Wilmington, Delaware, USA	100.00
63	NC Receivables Corporation, Wilmington, Delaware, USA	100.00
64	Kloeckner Metals P.R. Inc., Wilmington, Delaware, USA	100.00
65	California Steel & Tube LLC, Wilmington, Delaware, USA	100.00
66	Macsteel Service Centers de Mexico S.A. de C.V., Apodaca, Mexico	100.00
67	Macsteel Productos de Acero S.A. de C.V., Apodaca, Mexico	100.00
68	American Fabricators Inc., Nashville, Tennessee, USA	100.00
69	KLOECKNER METALS BRASIL S.A., São Paulo, Brazil	100.00
70	Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil	99.99
		0.01

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	1	EUR	47,304,346.35	−23,515,478.71		-
	37	EUR	26,760,555.90	−25,338,885.14		305,163,074.37
	37	EUR	27,249.81	-		-
	37	EUR	138.97	-		-
	37	EUR	18,417,389.13	1,181,084.92		26,577,414.82
	37	EUR	29,689,212.68	1,091,598.76		-
	37	EUR	136.25	-		-
	42	EUR	2,724,981.27	-		-
	1	EUR	181,639,310.00	−64,015,449.00		-
	45	EUR	22,062,590.00	−72,255,372.00		543,402,305.00
	46	EUR	1,083,085.00	9,977.00		54,564,959.00
	46	EUR	72,573,103.00	4,932,465.00		12,494,990.00
	46	EUR	−3,168,334.00	−23,794.00		6,123,741.00
	46	EUR	4,354,005.00	−64,273.00		27,820,070.00
	46	EUR	−4,628,447.00	−4,107,085.00		42,343,001.00
	45	EUR	19,660,649.00	3,004,034.00		43,508,314.00
	45	EUR	11,283,691.88	−354,257.87		39,969,219.08
	46					
	1	EUR	127,108,242.11	−10,801.13		-
	54	EUR	30,525,498.17	−4,451,151.87		82,672,009.01
	55	EUR	5,940,586.45	−2,464,877.25		14,683,380.58
	55	EUR	4,951,527.00	−451,183.00		23,453,037.65
	55	EUR	7,704,162.11	−2,498,297.30		36,622,032.55
	55	EUR	3,006.00	-		-
	1	EUR	93,003,638.28	2,429,362.51		-
	60	EUR	271,963,477.97	11,339,108.41		-
	61	EUR	429,803,113.81	−224,940,661.19		2,449,667,726.92
	62	EUR	2,135,011.42	249.77		-
	62	EUR	314,678.06	−136,605.35		1,149,236.32
	62	EUR	10,764,373.11	1,652,420.44		25,546,090.36
	62	EUR	10,692,102.51	1,112,503.72		44,483,659.31
	62	EUR	116,588.52	31,586.02		-
	62	EUR	34,208,038.95	225,590.58		5,535,839.72
	29	EUR	13,216,781.25	−2,149,537.27		25,052,166.55
	69	EUR	−517,480.40	−55,739.21		355,447.30
	29					

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
II.	**Non-consolidated affiliated companies**	
71	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00
72	Reynolds Aluminium et Laiton, Paris, France	100.00
III.	**Associates**	
73	Birs-Stahl AG, Birsfelden, Switzerland*)	50.00

*) Accounted for at amortized cost.

	Held by entity no.	Currency	Equity in Euro	Net income in Euro		Sales in Euro
	16	EUR	184,529.12	17,448.31		42,863.88
	45	EUR	66.00	−3,110.00		-
	19	EUR	857,880.03	7,958.34	2)	1,404,788.03

2) Based on financial statements dated December 31, 2014.

Information pursuant to Section 21 para 1 and Section 22 para 1 WpHG – Wertpapierhandelsgesetz (German Securities Trading Law)

The exact wording can be found on the Klöckner & Co SE website.

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
SWOCTEM GmbH	Haiger, Germany	25.25	February 2, 2016
BNY Mellon Service Kapitalanlage-Gesellschaft mbH	Frankfurt am Main, Germany	3.01	November 10, 2015
UBS AG	Zürich, Switzerland	3.21	June 16, 2015
Federated Global Investment Management Corp.	Delaware, USA	5.06*)	May 21, 2015
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3.07	March 2, 2015
Decrease below threshold			
UBS Group AG	Zürich, Switzerland	0.43	November 26, 2015
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	2.88*)	November 9, 2015
Franklin Templeton Investements Corp.	Toronto, Canada	2.84	October 8, 2015
Source Markets PLC	Dublin, Irland	0.98	May 4, 2015
Allianz Global Investors GmbH	Frankfurt am Main, Germany	2.87	March 24, 2015

*) Partly attributed holding.

Additional information concerning the consolidated and individual financial statements

Attachment to the additional information

Information on 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 USA Holding, Inc., Wilmington/USA, Chairman of the Board of Directors
- Klöckner Namasco Holding Corporation, Wilmington/USA, Chairman of the Board of Directors

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

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

- Klöckner & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Member of the Board of Directors
- Kloeckner Metals Iberica S.A. (formerly Comercial de Laminados S.A.), Barcelona/Spain, Member of the Board of Directors
- Klöckner Distribution Industrielle S.A., Aubervilliers/France, Member of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors

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

- None

Karsten Lork

MEMBER OF THE MANAGEMENT BOARD

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

- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Chairman of the Board of Directors
- Kloeckner Metals Iberica S.A. (formerly Comercial de Laminados S.A.), Barcelona/Spain, Chairman of the Board of Directors
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors
- Klöckner Distribution Industrielle S.A., Aubervilliers/France, Chairman of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board
- Kloeckner Metals (Changshu) Co., Ltd., Changshu/China, Chairman of the Supervisory Board

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

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

Prof. Dr. Dieter H. Vogel, Chairman

MANAGING PARTNER, LINDSAY GOLDBERG VOGEL GMBH, DÜSSELDORF

- Weener Plastik GmbH, Deputy Chairman of the Advisory Board[2)] (until August 20, 2015)
- VDM Metals GmbH, Deputy Chairman of the Advisory Board [2)] (since August 1, 2015)
- Falcon GmbH, Deputy Chairman of the Advisory Board[2)] (since August 1, 2015)
- HSBC Trinkaus & Burkhardt AG, Member of the Administrative Board[2)]
- Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Member of the Advisory Board[2)] (until June 30, 2015)
- denkwerk GmbH, Member of the Advisory Board[2)]
- Bertelsmann Verwaltungsgesellschaft mbH, Member of the Steering Committee[2)]

Dr. Michael Rogowski, Deputy Chairman

FORMER CHAIRMAN OF THE MANAGEMENT BOARD, VOITH AG, HEIDENHEIM

- Vattenfall GmbH, Member of the Supervisory Board[1)]
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board[2)] (until December 31, 2015)

Ulrich Grillo

CHAIRMAN OF THE MANAGEMENT BOARD, GRILLO-WERKE AG, DUISBURG

- Deutsche Messe AG, Member of the Supervisory Board[1)]

Group Mandates Grillo-Werke AG:

- Grillo Zinkoxid GmbH, Member of the Administrative Board[2)]
- RHEINZINK GmbH & Co. KG, Member of the Administrative Board[2)]
- Hamborner Dach- und Fassadentechnik GmbH & Co. KG, Chairman of the Advisory Board[2)]
- Zinacor S. A., Belgien Member of the Board of Managers[2)]

Robert J. Koehler († May 17, 2015)

FORMER CHAIRMAN OF THE MANAGEMENT BOARD, SGL CARBON SE, WIESBADEN

- Heidelberger Druckmaschinen AG, Chairman of the Supervisory Board[1)]
- Lanxess AG, Member of the Supervisory Board[1)]
- Freudenberg SE, Member of the Supervisory Board[1)]
- Freudenberg & Co. KG, Member of the Board of Partners[2)]
- Benteler International AG, Austria, Chairman of the Supervisory Board[2)]

Prof. Dr. Tobias Kollmann (since July 14, 2015)

CHAIR OF E-BUSINESS AND E-ENTREPRENEURSHIP AT THE UNIVERSITY OF DUISBURG-ESSEN

- Mountain Partners AG, Schweiz, Member of the Administrative Board[2)]

Hauke Stars

MEMBER OF THE MANAGEMENT BOARD, DEUTSCHE BÖRSE AG, FRANKFURT/MAIN

- GfK SE, Member of the Supervisory Board[1)]

Group Mandates Deutsche Börse AG:

- Eurex Frankfurt AG, Member of the Supervisory Board [1)]
- International Securities Exchange LLC, USA, Mitglied des Board of Directors[2)] (until December 31, 2015)
- Eurex Zürich AG, Schweiz, Switzerland, Member of the Administrative Board[2)]
- Clearstream Services S.A., Luxemburg, Member of the Board of Directors[2)]
- ISE Gemini, LLC (before: Topaz Exchange, LLC, USA), Member of the Board of Directors[2)] (until December 31, 2015)

Dr. Hans-Georg Vater

FORMER MEMBER OF THE MANAGEMENT BOARD, HOCHTIEF AKTIENGESELLSCHAFT, ESSEN

- Athens International Airport S.A., Greece, Member of the Board of Directors[2)]

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

Agile Project Management
Agile project management is part of IT development. The concept involves the definition of small work packages that (depending on project organization) generate a particular outcome every two weeks. Progress is coordinated in brief daily status meetings, allowing quick responses to changing demands.

Application (app)
Applications or apps are special-purpose computer programs for mobile devices.

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).

Build-Measure-Learn
The method is used in the Lean Start-up Approach: A product or service is designed and brought to market as quickly as possible. The aim is to use customer feedback to draw conclusions that can then be applied to the ongoing development or potential redesign of the product.

"C" items
Items identified in ABC analysis as accounting for a large proportion of the product range in quantity but only a relatively small proportion by value, with corresponding implications for procurement and stockholding. Examples include tools, protective gloves as well as articles such as nuts and bolts.

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.

Contorion
An online platform that offers craft and industrial products for sale to craftsmen and individual customers. Klöckner & Co supplies small lots of plates, pipes, profiles and the like.

Contract
An agreement, normally in writing, between at least two parties. A contract generally comprises a number of clauses setting down the goods to be supplied, date and place of delivery as well as payment terms. It may also include a fixed quantity to be purchased at a fixed price in a specific period.

Conversion Rate
Metric used to measure the success of an online marketing campaign. The figure depicts how many users (measured against the total number of visitors to a page = unique visitors) took a specific action on the page (e.g. made a purchase, registered, clicked on something).

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.

Design Thinking
An approach aimed at resolving problems and developing new ideas. The goal is to find solutions that work best from a user/customer perspective. The development process is generally carried out in heterogeneous groups and includes the following phases: understanding, observation, synthesis, idea development, creating a prototype and testing.

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.

Disruption
Innovation with the potential to replace existing technologies, products or services. Example of a disruptive technology: digital photography which almost completely replaced analog cameras.

EBITDA
Earnings before interest, taxes, depreciation and amortization (EBITDA) is an internal metric that is used to evaluate profitability.

E-commerce
Electronic commerce, in most cases using the Internet.

EDI
Electronic data interchange: paperless, in part automated, electronic exchange of data between companies or units within a company. Data is structured and formatted for electronic transfer to uniform international standards. The data consists of detailed product and process-related information. The benefit and aim of EDI is the rapid, reliable flow of information, making it possible to accelerate business processes, cut logistics costs and improve service levels.

ERP System
The abbreviation for Enterprise Resource Planning. An IT system that supports company-wide resource planning (e.g. storage, logistics, human resources).

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.

Industry 4.0
Used in Germany to describe the fourth industrial revolution. The concept is characterized by product customization or hybridization (coupling of products and services) and the integration of customers and business partners into business processes.

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).

Just-in-time
Just-in-time production is a logistics-driven, decentralized organization and management approach in which material is produced solely in the quantities and at the time actually needed to meet customer orders. This objective is met using a range of different production and distribution methods.

Lean startup
Approach for establishing a successful company or the launch of new products and services with the least possible effort and expense and using streamlined processes. Key features of the method include short development cycles and early market testing, i.e. strong focus on actual customer benefit throughout the development process.

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.

Minimal Marketable Product (MMP)
Minimal Marketable Product. A product that satisfies the customer’s minimum requirements, generating added value for the customer. The concept is an extension of MVP (Minimum Viable Product). Improvements are made to comparatively small core products with selected functions over the course of two developmental phases using customer feedback and then gradually scaled up.

Minimum viable product (MVP)
A minimum viable product (MVP) is one limited to features absolutely necessary to it. Such a product is typically first used by a small group of early adopters. Attempts are then made to determine user satisfaction through usability tests and by observing customers as they use the product. The resulting data and analyses conducted are subsequently used in the product’s further development.

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.

Order Transparency Tool
A Klöckner tool that lets the customer review orders, the order details (quantity, price, etc.) as well as the order status. Customers can track and archive their orders.

Processing
Machining of steel and metal products, such as sawing, plasma and flame cutting, 3D laser cutting, sandblasting, priming and bending.

Prototype
"Test model"; redesign of a product or service.

QR code
A quick response (QR) code is a way of coding information so that it can be very quickly found and read by a machine. The method is in widespread use in view of its robustness thanks to built-in error correction.

Rapid Prototyping
Method that provides companies with a simple way to design “test models” (prototypes) before the planning phase is finished – making it possible to identify and correct errors or deficiencies at an early stage.

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.

RFID
Radio frequency identification (RFID) is a technology for transmitter-receiver systems for the automatic and contactless identification and localization of objects using radio waves. An RFID system consists of a transponder, which is located on the object and contains an identifying code, and a reader to read this ID.

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.

Startup
A young business with two special characteristics: It has an innovative business idea and is launched with the aim of rapid growth.

Think tank
An institute that conducts research, development and advocacy of political, social and economic ideas and strategies to exert influence on public opinion.

Validation phase
Phase when a new product idea or product can be tested, validated and optimized using customer feedback.

Venture Capital
Temporary capital investments in young, innovative, non-listed companies with above-average growth potential.

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 the average share price of Klöckner & Co SE over the last 30 trading days prior to exercise and the strike price.

Working Capital

Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.

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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 Federal Gazette (Bundesanzeiger). In this case, the version submitted to the 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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FINANCIAL CALENDAR 2016

March 1, 2016
Annual Financial Statements 2015
Financial statement press conference
Conference Call with analysts

May 4, 2016
Q1 interim report 2016
Conference Call with journalists
Conference Call with analysts

May 13, 2016
Annual General Meeting 2016, Düsseldorf

August 4, 2016
Q2 interim report 2016
Conference Call with journalists
Conference Call with analysts

November 3, 2016
Q3 interim report 2016
Conference Call with journalists
Conference Call with analysts

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