ANNUAL REPORT **2016**

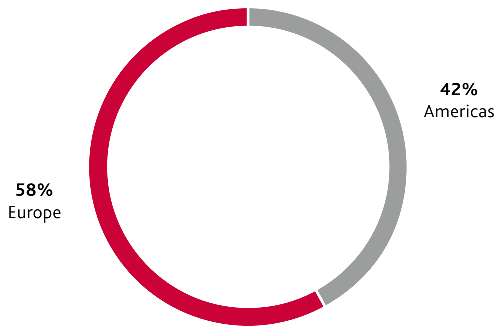
klöckner & co

Key figures
Klöckner & Co SE

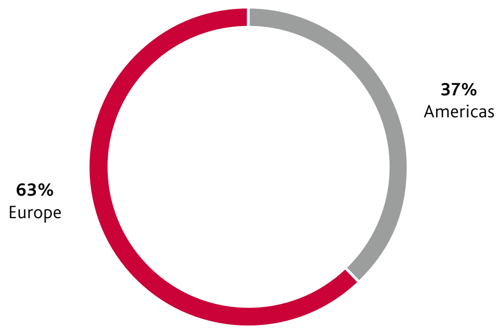
in € million		2016	2015	2014	2013	2012	Change 2016–2015
Shipments	Tto	6,149	6,476	6,598	6,445	7,068	–5.0%
Sales		5,730	6,444	6,504	6,378	7,388	-11.1%
EBITDA before restructuring		196	86	191	150	137	126.2%
EBITDA		196	24	191	124	60	719.0%
EBIT		85	–350	98	–6	–105	n. a.
EBT		52	–399	39	–79	–185	n. a.
EAT		38	–349	22	–90	–203	n. a.
Earnings per share (basic)	€	0.37	–3.48	+0.22	–0.85	–2.00	n. a.
Earnings per share (diluted)	€	0.37	–3.48	+0.22	–0.85	–2.00	n. a.
Cash flow from operating activites*)		73	276	68	143	101	–73.6%
Cash flow from investing activities		–52	–85	–132	–36	–34	39.8%
Free cash flow		21	191	–64	107	67	–88.8%
Liquid funds		134	165	316	595	610	–18.6%
Net working capital		1,120	1,128	1,321	1,216	1,407	–0.7%
Net financial debt		444	385	472	325	422	15.3%
Equity ratio	%	39.6	39.2	39.4	40.2	38.7	0.4%p
Balance sheet total		2,897	2,841	3,629	3,595	3,880	2.0%
Employees as of December, 31		9,064	9,592	9,740	9,591	10,595	–5.5%

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

SHIPMENTS BY SEGMENTS IN 2016



SALES BY SEGMENTS IN 2016



Content

DIGITALIZATION PIONEER OF THE STEEL INDUSTRY

€ **5,730** m

SALES

6,149 Tt

SHIPMENTS

190

LOCATIONS

130,000

CUSTOMERS

9,064
EMPLOYEES

13
COUNTRIES

€ 3,606 m
SALES EUROPE

50
MAIN SUPPLIERS

€ 2,124 m
SALES AMERICAS

€ 196 m
EBITDA

AS OF DEC. 31, 2016

Gisbert Rühl

Dear Shareholders,
Ladies and Gentlemen,

In the 2016 fiscal year, we significantly improved our operating income (EBITDA) from €86 million (before restructuring expenses) to €196 million. Our optimization and restructuring measures were instrumental in this, as were steel prices, which rose in all regions for the first time in years. Based on the resulting return to a positive net income of €38 million, we will propose to the Annual General Meeting on May 12, 2017 a dividend distribution of €0.20 per share. The positive earnings performance was also reflected in our share price. With an increase of 48%, Klöckner & Co shares posted the fourth best performance in the SDAX.

While from today's perspective we remain optimistic about being able to further boost operating income in the current fiscal year, the fierce competition in steel distribution – especially with standard products, or commodities – is keeping our profitability lower than it should be. For this reason, we are further expanding our business in higher value-added products and services as part of our "Klöckner & Co 2020" strategy. This business's share of sales rose from 39% to 46% in 2016 alone. Consequently, we expect higher value-added business to generate the lion's share of our sales as early as 2018 – and with this two years earlier than originally projected.

We see even greater potential for setting ourselves apart from competitors in the digitalization of our supply and value chain. We have worked hard to achieve our undisputed pioneering role in this area, which we are continuing to expand on a massive scale. Despite widespread initial reservations about our digitalization strategy, developments show that we chose the right course at an early stage. Digital integration via platforms is picking up speed in all industries. In the future, everything will be networked. Whoever fails to envision how their business will fit into this digital world a few years down the road will likely miss the boat.

As early as in our 2014 Annual Report, we outlined the future shape of the online order process; now, thanks to the agile working methods of our Berlin-based startup kloeckner.i, its implementation has been largely realized. The positive reception our online offering has met with is manifested in the share of sales we now generate through digital channels. We further boosted this figure successively during the reporting period, from 9% in Q1 to 12% in Q4.

To build on this positive trend, our team in Berlin, which now comprises 40 digital natives, is working all out on the next step in our digitalization strategy: the development of an open industry platform. We plan to integrate the first competitors into our online offering as early as during the current year.

Our digital transformation also goes hand in hand with a profound cultural shift within our Company. In an effort to spread the Berlin team's innovative working methods and mindset to the rest of the Group, in-depth dialogue has been established between our digitalization subsidiary kloeckner.i and employees from other divisions throughout the whole Group. Internal Group communications at Klöckner & Co, in fact, are now non-hierarchical for all employees thanks to our in-house social network Yammer. We have thus broken down the existing vertical communication silos in favor of an unfiltered, increasingly horizontal form of communication.

Managing a far-reaching transformation on this scale calls for the courage to embrace change at all levels. This is especially true of digitalization, which will eliminate or at least alter many current jobs. It will also create new jobs, of course, although many of these will require different skills. To offer all our employees good future prospects in the face of these changes, we set up our Digital Academy about a year ago. All staff can take part in these online courses during working hours and equip themselves with the skills they need for tomorrow's job market. This way, we are retaining our employees' sector expertise here at Klöckner & Co and augmenting it with the skills that will be necessary going forward. Thanks to this and other efforts, our workforce is on board with the digital transformation.

Finally, I would like to thank all our employees for their courage and support in the course we have chosen. I would also like to extend my gratitude to you, the shareholders, for the trust and loyalty you have shown the Company.

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, 2020. He is responsible for the coordination of the Management Board and functionally responsible for the headquarter departments Corporate Development/M&A, Group HR, Investor Relations & Corporate Communications and Legal & Compliance. 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 is responsible for the Europe segment.

William A. Partalis

MEMBER OF THE MANAGEMENT BOARD

Born in 1953. Member of the Management Board since October 1, 2011, appointed until December 31, 2017. William A. Partalis is responsible for the Americas segment. In addition, he is CEO of the US country organization.

Report of the Supervisory Board

During the year under review, the Supervisory Board performed with due care the tasks required of it under the law and under the Company's Articles of Association and Rules of Procedure. It 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 obtain 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 in all matters of fundamental importance on a timely basis. 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 during the Supervisory Board meetings and in the intervals between meetings. All Supervisory Board meetings include reports on the overall economic climate, the industry situation and the performance of the Klöckner & Co Group and its segments as well as on key performance indicators and the performance of the Klöckner & Co share price. Risk exposure, risk management, compliance and changes in the shareholder structure are also regularly covered. One meeting was primarily dedicated to the Company's strategy, 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, the members of the Supervisory Board thoroughly reviewed the Management Board's reports and intended actions and made various suggestions. Information was also exchanged on a regular basis between meetings. In 2016, written Management Board reporting again centered on the detailed monthly Board Reports. Furthermore, the CEO 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 and upcoming decisions.

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

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Ulrich Grillo (Deputy Chairman), Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Dr. Friedhelm Loh and Dr. Hans-Georg Vater. All Supervisory Board members have (in most cases longstanding) experience on the management and supervisory boards of various entities together with expertise that optimally covers the full range of responsibilities required by 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 (the "Code"). In assessing its independence, the Supervisory Board refers to the criteria specified in the recommendation by the European Commission of February 15, 2005 (Appendix 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees [2005/162/EC]). Currently, no members of the Supervisory Board are former members of the Company's Management Board.

The Executive Committee comprises Prof. Dr. Vogel (Chairman), Mr. Grillo and Dr. Loh. 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), Prof. Dr. Köhler and Prof. Dr. Vogel. Dr. Vater is a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and No. 5.3.2 of the Code. 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 topics dealt with and the outcomes of the 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. All members of the Management Board took part in the Supervisory Board meetings. The meetings of the Executive Committee were attended by the CEO, and those of the Audit Committee by the CEO and the CFO.

Meeting attendance

The Supervisory Board held a total of four plenary meetings in fiscal year 2016. In addition, a resolution to delegate to the Executive Committee the process of consenting to issuance of a convertible bond was adopted by circulation on August 29, 2016 (date of confirmation of the resolution by the Supervisory Board Chairman). The Executive Committee held six meetings in the year under review. Four of those were face-to-face meetings and two consisted of conference calls (one on May 4, 2016 to extend the appointment and the employment contract of William A. Partalis for an additional year, and one on September 1, 2016 to approve the launch and the pricing of the convertible bond). The Audit Committee met five times in fiscal year 2016. Three of those meetings involved discussions of the interim report and the interim management statements prior to their publication. Three of the meetings were held in the form of conference calls. A detailed member-by-member overview of meeting attendance during the reporting year can be viewed on the Company's website http://www.kloeckner.com/en/supervisory-board.html. Except for one meeting which one member was unable to attend, all Supervisory Board and committee members attended all meetings in fiscal year 2016 (see No. 5.4.7 of the Code). The attendance rate for all Supervisory Board meetings, including committee meetings, was thus an outstanding 96.6%.

Supervisory Board meetings and resolutions

In the past fiscal year, the Supervisory Board regularly dealt with the Company's business situation and implementation of its corporate strategy – notably the digitalization strategy – as well as the restructuring and optimization programs (KCO WIN+ and One Europe). Corporate governance topics were likewise on the agenda of several meetings, as were Management Board and Supervisory Board matters.

The Group-wide business situation improved somewhat during the reporting year compared with the prior year, although conditions remained difficult. One of the reasons for the improvement over the prior year was the recovery of steel prices, which benefited from the introduction of punitive tariffs on cheap steel imports from the People's Republic of China as well as the decline in Chinese production quantities. Another reason was the internal restructuring and optimization projects either newly initiated (One Europe) or continued (KCO WIN+). On July 11, 2016, the Company published an ad hoc announcement (positive profit warning) to account for the improving business trend during the reporting year. The upward trend continued in the second half of the year with the usual seasonal fluctuations. Key milestones were also achieved in 2016 in terms of corporate financing. For instance, the US facilities as well as the syndicated loan and the European ABS program were slightly extended and extended. In addition, a convertible bond was successfully placed in September 2016.

Other key milestones were reached in terms of strategy implementation, including further advancing the digitalization of supplier and customer processes through the development of digital tools. In addition to the online shop and the contract platform, an order transparency tool now enables customers to view and manage their order history and all documents online. All tools can be accessed via a service platform, which serves as the main point of entry for online transactions with Klöckner & Co. Thanks to these improvements, the share of sales generated via digital sales channels increased to 10.5% of total sales in the year under review. In fiscal year 2017, there are plans to gradually expand our service platform to make it an industry-wide platform by opening it up to third-party access. kloeckner.i GmbH in Berlin will continue play a substantial part in implementing this strategy in its role as a center of digitalization competency. In addition, the necessary functions in the area of digitalization were either established or expanded at the other Group companies – for instance, at Klöckner & Co Deutschland GmbH – in close cooperation with kloeckner.i GmbH.

Group strategy also focused on expanding the prefabrication business, especially as regards higher value-added services. In this regard the expansion of Becker Stahl-Service GmbH's Bönen location is to be named, where a new service center is being set up to process aluminum products – particularly products for the automotive and manufacturing industries.

In parallel, the intended internal reorganization has been further pursued. In addition to the ongoing "KCO WIN+" optimization program, the "One Europe" project geared to comprehensively reorganizing the management levels of our European country organizations, including merging them, was initiated. Developed in cooperation with management consultancy McKinsey, "One Europe" is aimed overall at generating cost savings, tangible synergy effects and positive EBITDA in the double-digit million range.

Alongside these topics, significant issues dealt with by the Supervisory Board included the following: At its meeting of February 24, 2016, the Supervisory Board approved the Company's annual financial statements for 2015 and the consolidated financial statements for 2015. Furthermore, the Supervisory Board adopted the motions for the 2016 Annual General Meeting, including the nomination of candidates for election to the Supervisory Board. Extensions of existing financial instruments (early extensions in some cases) were also approved. The Supervisory Board meeting of May 13, 2016 was largely devoted to preparing the Company's Annual General Meeting to be held after the Supervisory Board meeting as well as to the reappointment of William A. Partalis for an additional year. The newly elected Supervisory Board convened after the Annual General Meeting to elect a chairman and deputy chairman and to set up and fill the Supervisory Board committees. At the Supervisory Board meeting of September 21, 2016, the main focus was on strategy as well as on gaining Supervisory Board approval for the addition of an aluminum service center at Becker Stahl-Service GmbH's Bönen location. Moreover, the Supervisory Board received reports on the outsourcing of IT services to KIS Information Services GmbH and its sale to the Cognizant group. The scheduled review of the efficiency of the Supervisory Board's activities was also carried out. At its meeting of December 16, 2016, the Supervisory Board dealt in particular with strategy (Klöckner & Co 2020) and with the forecasts for the Company's key performance indicators at year-end as well as the budget for fiscal year 2017 and the subsequent two years. After discussion of the findings of the efficiency review, it was determined that there was no need for any significant action. However, in the context of the Company's placing greater emphasis on its digitalization strategy, it was decided that Prof. Dr. Kollmann, as a digitalization expert, shall chair the new advisory board to be established at kloeckner.i GmbH. This is intended to facilitate a more direct exchange of information and more comprehensive consulting of the management of kloeckner.i GmbH. In addition, the Supervisory Board discussed with the Management Board the Chief Compliance Officer's annual report and approved the 2016 Declaration of Conformity together with the Management Board. Finally, approval was given for the sale of the Company's operating units in Spain, which has meanwhile been closed.

Reports from the committees

Executive Committee:
The Executive Committee met a total of six times in 2016. At its meeting on February 24, 2016, the Executive Committee addressed topics such as the bonuses to be paid to Management Board members for fiscal year 2015 and submitted proposals to the plenary Supervisory Board for bonus setting in addition to nominating the candidates for election to the Supervisory Board at the Annual General Meeting to be held on May 13, 2016. The Executive Committee also drew up targets for the Management Board bonuses for fiscal year 2016. In a conference call held on May 4, 2016, the Executive Committee, in its capacity as Personnel Committee, dealt with the extension of William A. Partalis' appointment and employment contract for an additional year. Over the course of two conference calls on September 1, 2016, the Executive Committee consented to the issuance of a convertible bond. Review and approval authority had been previously delegated to the Executive Committee (in its capacity as Committee for Urgent Matters) by way of a written resolution of the plenary Supervisory Board. The Executive Committee meeting held on September 21, 2016 focused on the impending review of Supervisory Board's efficiency. On December 12, 2016, the Executive Committee met to prepare the Supervisory Board meeting to be held on December 16, 2016, and held preliminary discussions notably on the corporate strategy and the cornerstones of the 2017 budget. The findings of the efficiency review as well as corporate governance topics (the Declaration of Conformity) were discussed at the meeting of the Executive Committee held on December 16, 2016. Other points of focus included a thorough review of the corporate strategy (Klöckner & Co 2020) and further preparatory discussion of the 2017 budget.

Audit Committee:
The Audit Committee met five times in all, including three meetings preceding publication of the interim report and the interim management statements. The three meetings on the draft interim report and the draft interim management statements focused on the performance of the Group's business and financial situation, which the committee discussed with the Management Board members in attendance on the basis of the key performance indicators. The Audit Committee brought up points and suggestions that were incorporated into the final versions of the interim report and the interim management statements. Risk management and compliance topics were also regularly addressed in connection with interim financial reporting. At the two scheduled meetings held in February and December 2016, the Audit Committee likewise discussed risk management and compliance issues. Discussions at the February meeting centered on the Company's annual and consolidated financial statements for 2015. At the same meeting, the Audit Committee discussed the proposal for the election of the auditors for 2016 and prepared the groundwork for the plenary Supervisory Board to commission 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 the December meeting, the audit plan for fiscal year 2017 was adopted. In addition, Rules of Procedure were adopted for the Audit Committee in light of the modified statutory requirements. Finally, the committee chairman reported on the status of the tendering procedure for the audit of the financial statements for fiscal year 2017.

Corporate governance and Declaration of Conformity

On December 16, 2016, the Supervisory and Management Boards issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG). The Declaration, which is permanently available to shareholders on the Company's website, states that Klöckner & Co SE has complied in full with all recommendations of the Code as currently amended. Further information on corporate governance can be found on page 24 et seq. of this Annual Report. The Management Board and Supervisory Board keep abreast of changes to Code recommendations and suggestions along with their implementation.

Dealing with conflicts of interest in individual cases

On September 12, 2016, the Supervisory Board unanimously approved a consulting agreement with Prof. Dr. Kollmann. In addition, the setting up of a new advisory board at kloeckner.i GmbH to be chaired by Prof. Dr. Kollmann was unanimously approved on December 16, 2016. In neither case did Supervisory Board member Prof. Dr. Kollmann take part in the vote. Both procedures were separately reviewed by the Supervisory Board for any possible conflict of interest relating to Prof. Dr. Kollmann; however, no such conflict of interest was determined.

Audit of the 2016 annual and consolidated financial statements

Klöckner & Co SE's annual financial statements for fiscal year 2016 and the consolidated financial statements and combined management report were audited and issued an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditors elected by the Annual General Meeting and engaged 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 315 a of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union. The audit reports and further documentation relating to the financial statements were made 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 responded to questions. At the Supervisory Board meeting held on February 22, 2017 to approve the annual financial statements, the Chairman of the Audit Committee reported on the Audit Committee's consultations regarding the annual and consolidated financial statements and the combined management report. With regard to the risk early warning system, the auditors stated that the Management Board had taken the actions required by Section 91 (2) of the German Stock Corporations Act in an appropriate manner – in particular those aimed at establishing a monitoring system – and that the monitoring system established was capable of promptly identifying factors that could put the Company's ability to continue as a going concern at risk. 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 of February 22, 2017, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted.

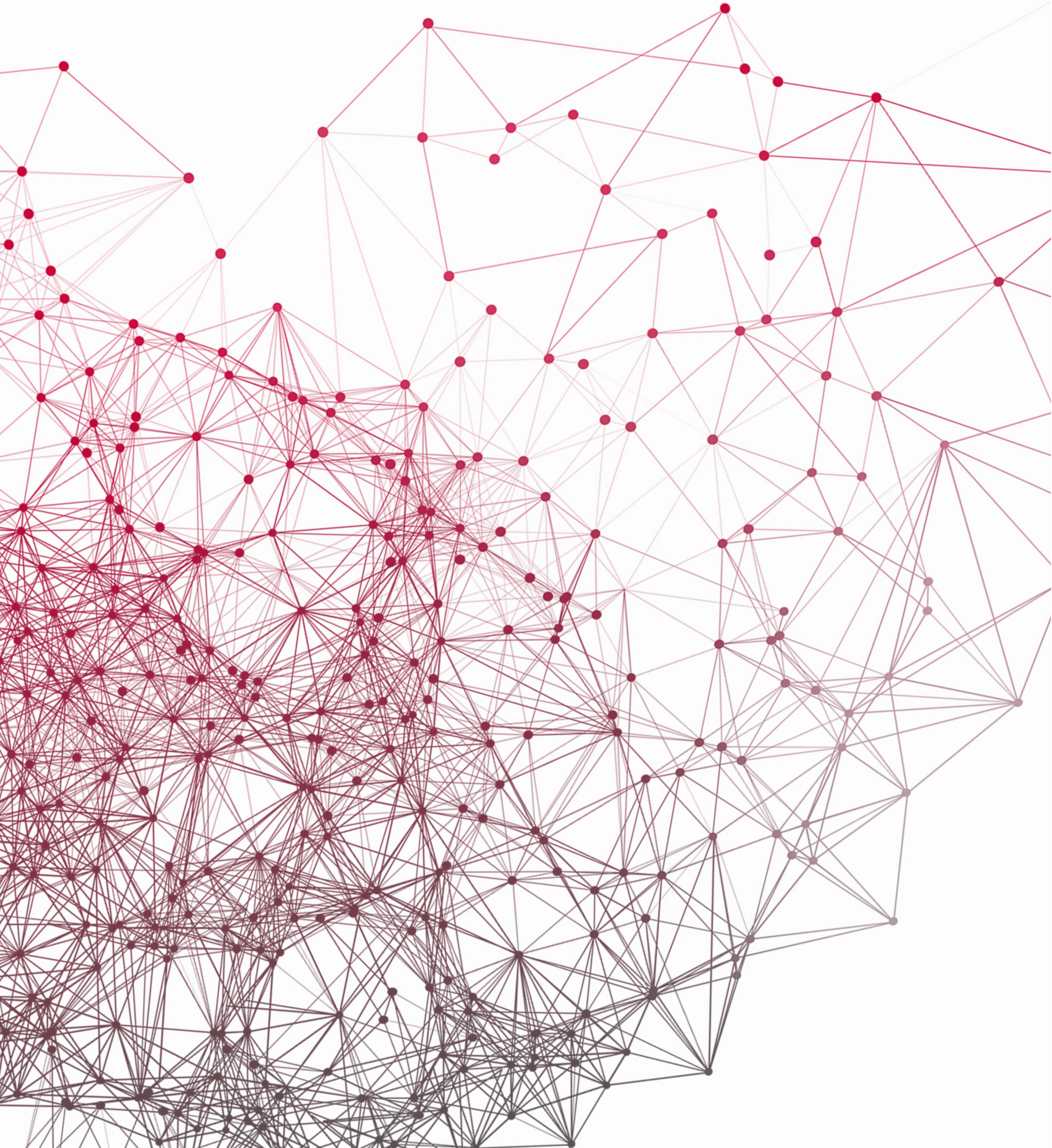
Changes on the board

The composition of the Supervisory Board of Klöckner & Co SE changed as follows in fiscal year 2016: Prof. Dr. Karl-Ulrich Köhler, CEO of RITTAL International Stiftung & Co. KG and chairman of the management board of Rittal GmbH & Co. KG, and Dr. Friedhelm Loh, businessman, owner and CEO of Friedhelm Loh Stiftung & Co. KG (as well as managing director of other Friedhelm Loh Group companies) were elected to the Supervisory Board by the Annual General Meeting on May 13, 2016. The Supervisory Board mandates of Hauke Stars and Dr. Michael Rogowski expired on the day of the Annual General Meeting. Both elected to refrain from running for an additional term of office. In addition, the Annual General Meeting (re-)elected Prof. Dr. Vogel and Prof. Dr. Kollmann to the Supervisory Board on May 13, 2016. The personnel changes on the Supervisory Board also impacted the composition of the committees. Since the constitutive meeting of the Supervisory Board on May 13, 2016, the Executive Committee has consisted of re-elected Chairman Prof. Dr. Vogel, his newly elected deputy Mr. Grillo and the newly elected member Dr. Loh. The Audit Committee is made up of re-elected members Dr. Vater (Chairman) and Prof. Dr. Vogel as well as newly elected member Prof. Dr. Köhler.

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

Duisburg, February 22, 2017

Prof. Dr. Dieter H. Vogel
Chairman



Supervisory Board

Supervisory Board

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

Ulrich Grillo
Chairman of the Management Board, Grillo Werke AG,
Duisburg, Germany,
President of the Federation of German Industries (BDI)
(until Dec. 31, 2016)
(Deputy Chairman since May 13, 2016)

Prof. Dr. Karl-Ulrich Köhler
CEO of RITTAL International Stiftung & Co. KG and
Chairman of the Management Board of Rittal
GmbH & Co. KG, Herborn, Germany
(Member since May 13, 2016)

Prof. Dr. Tobias Kollmann
Chair of E-Business and E-Entrepreneurship at the University of Duisburg-Essen, Germany

Dr. Friedhelm Loh
Owner and chairman of Friedhelm Loh Stiftung & Co. KG,
Haiger, Germany
(Member since May 13, 2016)

Dr. Michael Rogowski
Former Chairman of the Management Board, Voith AG,
Heidenheim, Germany
(Deputy Chairman and member until May 13, 2016)

Hauke Stars
Member of the Management Board, Deutsche Börse AG,
Frankfurt/Main, Germany
(Member until May 13, 2016)

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

Ulrich Grillo

Dr. Friedhelm Loh

Audit Committee

Dr. Hans-Georg Vater[1]
Chairman

Prof. Dr. Karl-Ulrich Köhler

Prof. Dr. Dieter H. Vogel

[1] Financial expert within the meaning of Section 100 (5) German Stock Corporation Act (AktG).

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

€12.91

All-year high on August 10, 2016

SHARE PRICE PERFORMANCE

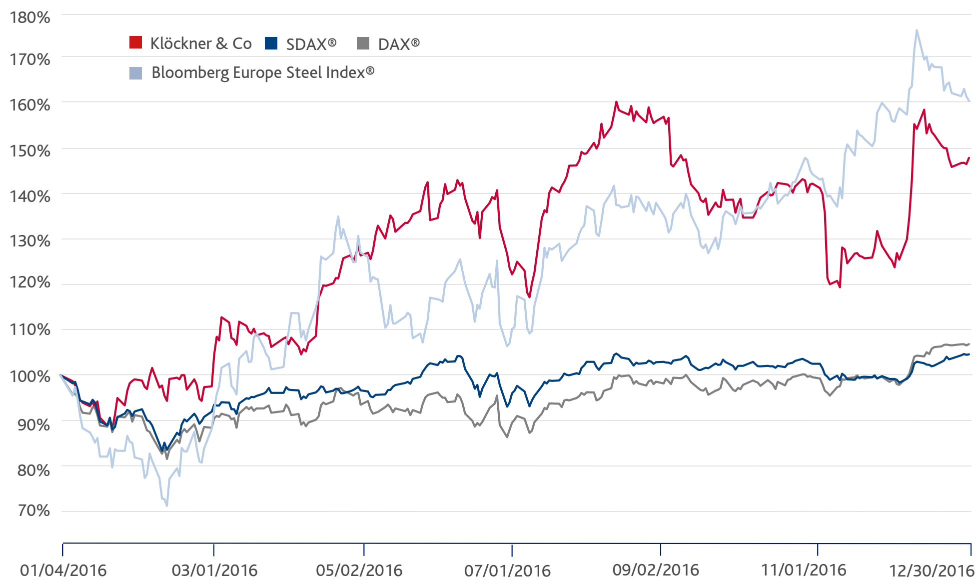
The Klöckner & Co share price initially fell at the beginning of 2016 and marked its lowest level for the year at €7.08 on January 20. It then recovered substantially to reach the highest price for the reporting period at €12.91 on August 10. The share price consolidated on the basis of this high point to close 2016 at €11.91.

KEY DATA – KLÖCKNER & CO SHARE

		2016	2015	2014	2013	2012
Share Capital	€	249,375,000	249,375,000	249,375,000	249,375,000	249,375,000
Number of shares	in shares	99,750,000	99,750,000	99,750,000	99,750,000	99,750,000
Closing pirce (Xetra, Close)	€	11.91	8.04	8.96	9.95	8.97
Market capitalization	€ million	1,188	802	894	993	895
High (Xetra, Close)	€	12.91	10.12	12.66	11.50	12.02
Low (Xetra, Close)	€	7.08	7.03	8.37	8.15	6.62
Earnings per share (basic)	€	0.37	-3.48	0.22	-0.85	2.00 1)
Average daily trading volume	in shares	527,299	819,771	645,814	646,743	1,101,199
Dividend per share2)	€	0.20	-	0.20	-	-
Dividend yield based on closing stock price	%	1.7	-	2.2	-	-
Total dividend paid2)	€ million	20.0	-	20.00	-	-

1) As restated for the initial application of IAS 19 (Employee benefits) rev. 2011.
2) In each case for the fiscal year. 2016: Proposal to the Annual general Meeting on May 12, 2017.

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

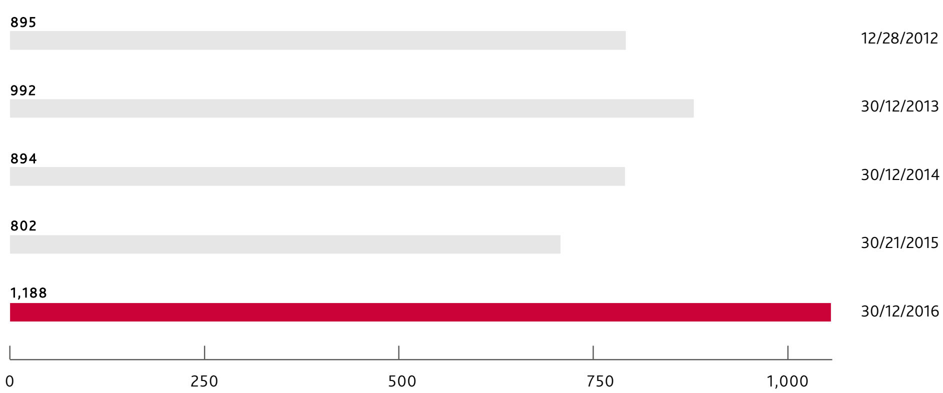


With an increase of some 48% compared to the price at prior year-end, Klöckner & Co's shares delivered the fourth-best price performance in 2016 of all 50 shares in the SDAX®. The Bloomberg Europe Steel Index®, which is often referred to as a benchmark index for the Klöckner & Co share price, even gained 61% over the reporting period. By contrast, the SDAX® went up by just 5% in 2016 and the DAX® by 7%. Klöckner & Co shares ranked 57th by free float market capitalization and 42nd by trading volume in Deutsche Börse AG's ranking for MDAX® and SDAX® stocks in December 2016.

MARKET CAPITALIZATION

The market capitalization was approximately €1,188 million at the end of the reporting period, compared with €802 million as of December 30, 2015.

MARKET CAPITALIZATION
in €m



KLÖCKNER & CO CONVERTIBLE BOND: KEY DATA

	Convertible Bond 2016
German securities code	A185XT
ISIN	DE000A185XT1
Issue volume	€147.8 million
Issue date	September 8, 2016
Maturity date	September 8, 2016
Coupon p. a.	2.00%
Conversion price	€14.82

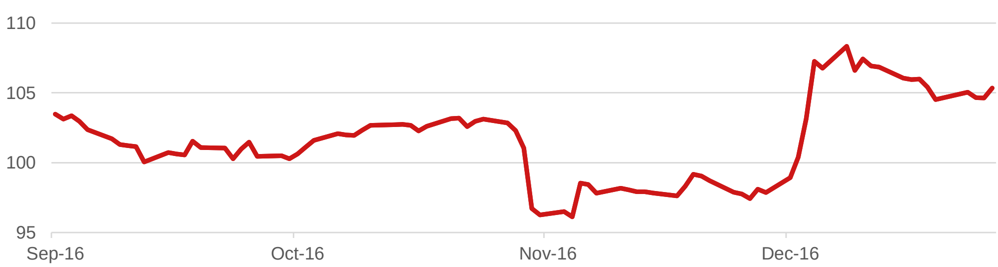
Right to early call via investor put

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BOND

In September 2016, Klöckner & Co SE successfully launched a €148 million convertible bond issue with a maturity of seven years and a denomination of €100,000 per bond. As intended, the bonds were taken up exclusively by institutional investors. The bonds feature a 2.00% coupon. They are traded on the open market at Frankfurt Stock Exchange (ISIN DE000A185XT1). The initial conversion price was set at €14.82. The Company plans to use the proceeds from the issue for general business purposes.

On December 30, 2016, the 2016 convertible bond was trading at approximately 105%.

CONVERTIBLE BOND 2016



2016 ANNUAL GENERAL MEETING

The tenth Annual General Meeting of Klöckner & Co SE took place in Düsseldorf on May 13, 2016. Some 300 shareholders and shareholder representatives attended. In all, approximately 56% of the voting capital took part in voting. Shareholders approved all of the resolutions proposed by the Supervisory and Management Boards.

Annual General Meeting attendance around 56%

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

GROUP OF ANALYSTS

Klöckner & Co SE continues to attract strong interest in the financial community. Klöckner & Co's shares were being watched and rated by 22 analysts at the end of 2016. In total, they published more than 140 research reports. Five securities houses gave our shares a "buy" recommendation, nine gave a "hold" recommendation and eight a "sell" recommendation. We provide an up-to-date overview of investment recommendations on our website under Investors/Share/Analysts.

22
analysts cover Klöckner & Co shares

Klöckner & Co shares were analyzed by the following banks and securities houses as of the end of 2016:

Baader Bank	Hauck & Aufhäuser
Bankhaus Lampe	Independent Research
Bank of America Merrill Lynch	Jefferies International Equities
Berenberg Bank	Kepler Cheuvreux
Citigroup	LBBW
Commerzbank	Metzler Equity Research
Credit Suisse	M. M. Warburg
Deutsche Bank	Montega
DZ Bank	National Bank
Exane BNP Paribas	NordLB
Goldman Sachs	UBS Equities

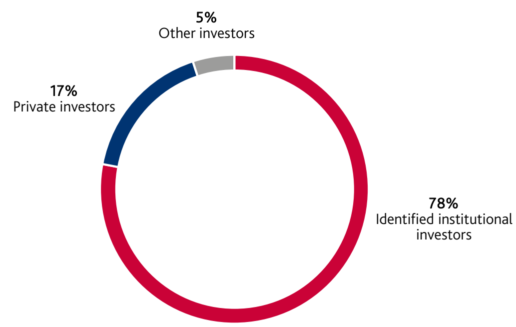
17%

of the share capital is held by private investors

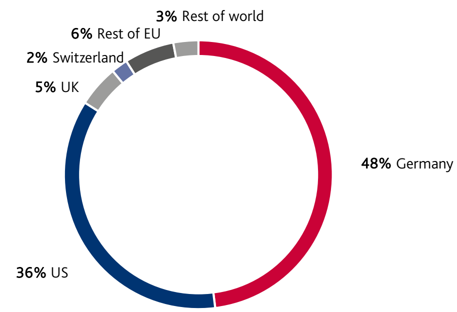
OWNERSHIP STRUCTURE

Last year, Klöckner & Co once again commissioned regular shareholder identification analyses in order to gain an up-to-date overview of the regional distribution of its investors. The 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 95% of investors in February 2017. This most recent analysis showed that the institutional investors identified held 78% of the share capital and private individuals 17%.

SHAREHOLDER STRUCTURE OF KLÖCKNER & CO SE



GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



At the end of the year, our largest shareholders were SWOCTEM GmbH/Friedhelm Loh with a shareholding of between 25% and 30% and Franklin Mutual Advisors with a shareholding of between 5% and 10%. These were followed by Franklin Mutual Series Funds, Norges Bank and Dimensional Holdings Inc./Dimensional Fund Advisors LP with holdings of between 3% and 5% each.

OPEN AND CONTINUOUS COMMUNICATIONS

Intensive communications with institutional and private investors

At Klöckner & Co, investor relations is all about transparent and continuous communications with private and institutional investors. In 2016, members of the Management Board and the IR team once again kept domestic and international investors informed about the Klöckner & Co Group's results and potential.

Institutional investors were able to find out about Klöckner & Co SE at roadshows and conferences in all the major financial centers in Europe and the USA as well as at numerous additional individual meetings. Talks with investors primarily focused on the Klöckner & Co Group results, progress with the Company's digitalization strategy, and changes in ownership structure.

Klöckner & Co SE stepped up activities targeting private investors during fiscal year 2016. At numerous events held by private shareholder associations, the IR team engaged in dialogue with existing and potential Klöckner & Co shareholders that was open and constructive throughout.

Our website is a key part of our financial market communications. Interested parties will find full information on Klöckner & Co shares and convertible bond presented in the Investor Relations section of our website at www.kloeckner.com/en/investors.php. 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.

Our e-mail newsletter additionally keeps shareholders and other interested parties abreast of current developments at Klöckner & Co SE. You are welcome to sign up for this Company information 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 mail.

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 suggestions of the Code. 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 2016. 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.

2016 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

Klöckner & Co SE had complied with the recommendations of the German Corporate Governance Code in the version of May 5, 2015 (published on June 12, 2015 in the Federal Gazette) since the last Declaration of Conformity dated December 15, 2015 with the exceptions outlined therein, and will in the future comply with the recommendations of the German Corporate Governance Code in the aforementioned version without any exceptions.

Duisburg/Germany, December 16, 2016

The Supervisory Board The Management Board

Share ownership by the Management Board and Supervisory Board in accordance with Section 6.2 of the Code

Ownership of shares or related financial instruments by Management Board and Supervisory Board members is to be reported if the holdings directly or indirectly exceed 1% of the shares issued by the Company (Section 6.2 of the Code). If the entire holdings of all members of the Management Board and Supervisory Board exceed 1% of the shares issued by the Company, overall share ownership is to be reported separately for the Management Board and Supervisory Board. Member of the Supervisory Board Dr. Friedhelm Loh, through his wholly owned subsidiary SWOCTEM GmbH, holds 26.623% of Klöckner & Co SE shares that are attributed to him under Section 22 of the German Securities Trading Act (WpHG). The entire direct and indirect holdings of all remaining members of the Supervisory Board as of December 31, 2016 came to significantly less than 0.1% (specifically, approximately 0.043%) of shares in the Company or related financial instruments.

Members of the Supervisory Board thus held a total of 26.666% of the shares as of December 31, 2016.

Members of the Management Board held a total of less than 0.2% (specifically, approximately 0.159%) of the shares as of December 31, 2016. Klöckner & Co SE provides information on Management Board shareholdings on its website.

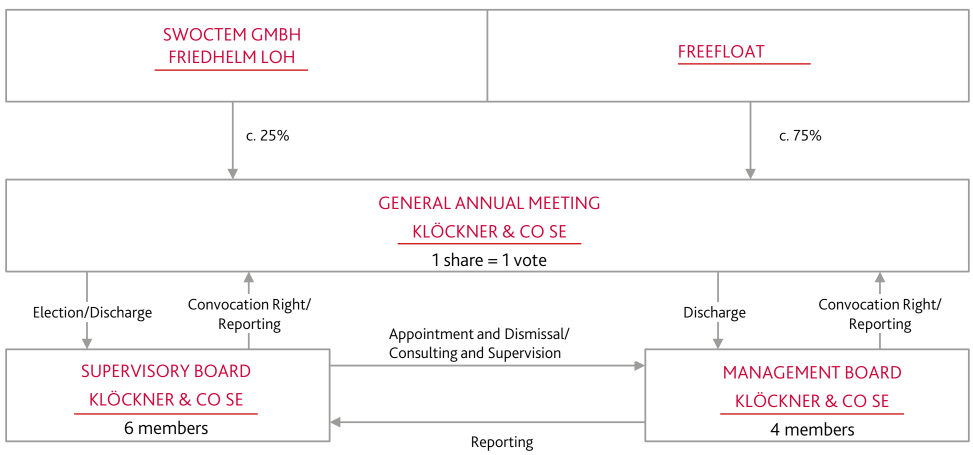
2.2 Application of the German Corporate Governance Code

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 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, 2016.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE bears full responsibility for management of the Group and the Group holding company. It sets the targets and the strategies for the Group and 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 borne by all Management Board members, the individual members each manage their allotted portfolios on their own responsibility within the framework of the 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 and interim management statements, 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 comprises four individuals who are appointed and dismissed by the Supervisory Board in accordance with the European Company 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 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 factors, by the Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure describe the responsibilities involved in each Management Board portfolio, specify those matters that are reserved for the full Management Board and describe the decision-making procedures as well as 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 specifically require the Management Board to hold meetings at least once a month, although the Management Board usually meets twice monthly. At such meetings, the Management Board coordinates its work and makes joint decisions.

In addition to the 19 meetings and six resolutions by circulation in the year under review, the 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. In addition, the Supervisory Board is involved in monitoring adherence to legal provisions, official regulations and corporate guidelines (compliance) by the Company. Moreover, the Supervisory Board is responsible for appointing members to 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 Mr. Ulrich Grillo. As with all members of the Supervisory Board, both have extensive experience in managing and supervising international corporations and 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 (5) of the previous version of the German Stock Corporations Act (AktG) and Section 5.4.2 of the Code.

The Management Board and 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. Supervisory Board meetings are conducted in 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.

Moreover, the Management Board provides regular, timely and comprehensive written and verbal reports to the Supervisory Board. Written reporting centers around the monthly Board Reports, which provide information on the financial position, cash flows and results of operations of the Group as well as those of its operating segments. The reports also cover 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 of 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 its industry peers.

In accordance with the Supervisory Board's 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 activities and supervisory duties. The Supervisory Board prepares detailed annual reports for the Annual General Meeting on its work and the main focus of its activities for each fiscal year (p. 10 et seq.).

SUPERVISORY BOARD COMMITTEES

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 Nomination Committee, Personnel Committee and Committee for Urgent Matters. No additional committees have been established 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 the 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 Mr. Ulrich Grillo, Deputy Chairman of the Supervisory Board, and Dr. Friedhelm Loh.

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

AUDIT COMMITTEE

The primary task of the Audit Committee is to review the accounting process and 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 pre-selection, engagement and independence of the auditor), the services additionally rendered by the auditor, issuance of the audit engagement to the auditor, the establishment of focal points for the auditor's activities, fee arrangements and compliance. The Supervisory Board has also entrusted the Audit Committee with discussing the half-year interim reports and the quarterly interim management statements 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 (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. Alongside Committee Chairman Dr. Vater, the other members of the Audit Committee are Supervisory Board Chairman Prof. Dr. Vogel and Prof. Dr. Karl-Ulrich Köhler.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board holds at least four, and the Executive Committee at least three regular meetings each year. The Audit Committee normally meets five times a year, but no fewer than four times. Those 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 six and the Audit Committee five.

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 usually not 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 by 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 German Corporate Governance 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 include at least one financial expert to satisfy the requirements of Section 100 (5) of the German Stock Corporations Act (AktG). The current financial expert is Dr. Hans-Georg Vater.

The requirements for nomination to membership on the Supervisory Board depend among other factors on which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's current composition. In the estimation of the Supervisory Board, the above objectives have been met in the best possible manner 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 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 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 13, 2016. The next will likewise be held in Düsseldorf, on May 12, 2017. 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. Klöckner & Co SE publishes the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on its 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 on the website in recorded form after the Annual General Meeting.

DIRECTORS' DEALINGS (MANAGERS' TRANSACTIONS)

Under Section 15a of the German Securities Trading Act (WpHG) and, from July 3, 2016, under Article 19 of the Market Abuse Regulation (EU) No 596/2014, members of the Management Board and Supervisory Board as well as individuals and legal entities closely associated with such members are required by law to disclose to Klöckner & Co SE and to the German Federal Financial Supervisory Authority (BaFin) all purchases or disposals of shares or related financial instruments, including derivatives, insofar as the value of the transactions reaches or exceeds a total of €5,000 in a single calendar year. All 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 furthermore saved in the company register. The reports are also available on the Company's website.

There were a total of eight such transactions between January 1, 2016 and February 22, 2017.

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

Date	Name	Position	Instrument	Transaction	Quantity	Price per unit	Total price
01/03/2016	Marcus A. Ketter	Management Board	Shares	Purchase	13,903	8.2101 €	114,145.02 €
01/03/2016	Karsten Lork	Management Board	Shares	Purchase	13,903	8.2101 €	114,145.02 €
01/03/2016	Gisbert Rühl	Management Board	Shares	Purchase	24,716	8.2101 €	202,920.83 €
01/03/2016	William A. Partalis	Management Board	Shares	Purchase	17,584	8.2101 €	144,366.40 €
24/05/2016	William A. Partalis	Management Board	Shares	Sale	6,180	11.2235 €	69,361.23 €
06/09/2016	Gisbert Rühl	Management Board	Shares	Sale	98,571	11.9044 €	1,173,428.61 €
07/09/2016	Gisbert Rühl	Management Board	Shares	Sale	40,000	11.9120 €	476,480.00 €
19/12/2016	Gisbert Rühl	Management Board	Shares	Sale	51,429	12.0530 €	619,875.38 €

The transactions carried out by Management Board members on March 1, 2016 were share purchases relating to their obligation to invest in shares in the Company (see Remuneration Report – Section 2.3).

According to the information provided to the Company by the members of the Management Board and the Supervisory Board, those members' total holdings in shares of Klöckner & Co SE or related financial instruments accounted for approximately 26.825% of the shares in issue as of the reporting date. Supervisory Board member Dr. Friedhelm Loh holds 26.623% of that amount through his wholly owned subsidiary SWOCTEM GmbH. The shares are attributed to him pursuant to Section 22 of the German Securities Trading Act (WpHG). As of December 31, 2016, all remaining members of the Supervisory Board in total directly or indirectly held significantly less than 0.1% of the total shares in the Company or related financial instruments. The members of the Management Board held a total of less than 0.2% of the shares as of December 31, 2016.

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 2016 for fiscal year 2016 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Dr. Markus Zeimes (from 2011, six signatures) and Ulrich Keisers (from 2016, one signature) 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. For further information on the auditors of the annual financial statements and consolidated financial statements for fiscal year 2017, please see our website www.kloeckner.com.

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 5.3 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 July and the interim reports and disclosures published in April after the first quarter and in October 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 outside 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 inform employees at regular intervals about the relevant law and internal policies, and serve as points of contact for individual questions as they arise. Classroom training is complemented by a Group-wide interactive e-learning program 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 and revised in July 2016 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 operated by an external service provider is available for this purpose. The whistleblower system 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. Top-level managers and board members are subject to integrity screening before engagement or appointment.

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 anti-money laundering, supply chain compliance (monitoring in relation to conflict minerals, RoHS, dual-use goods and anti-human trafficking), capital market law and compliance with 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. This policy has been revised in line with the Market Abuse Regulation, which entered into force on July 3, 2016. Individuals who have legitimate access to insider information as part of their work are registered on an insider list as stipulated in the Market Abuse Regulation.

2.3 Remuneration Report

The Remuneration Report summarizes the fundamentals 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 13, 2016 with a majority of 87.03% 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 component of Management Board compensation in the reporting period consisted of a variable annual bonus.

The annual fixed salary of ordinary members of the Management Board is €480,000 and that of the CEO is €860,000.

The variable annual bonus for ordinary members of the Management Board is €720,000 at 100% target attainment, subject to a maximum of €1,440,000. The variable annual bonus for the CEO is €1,280,000, subject to a maximum of €2,560,000. The maximum amounts correspond in each case to 200% target attainment. Total annual compensation (fixed salary plus bonus) at 100% target attainment is therefore €1,200,000 for ordinary members of the Management Board and €2,140,000 for the CEO.

However, only 49% of the variable annual bonus is paid directly to each Management Board member. Management Board members must use the remaining 51% for a personal investment in Company shares with a vesting period of three years, thus linking it to the Company's sustained performance. Hence, the performance-related component gives mainly long-term performance incentives, gearing the compensation structure toward the sustained growth of the Company. The amount of the variable annual bonus is calculated based on the achievement of targets set by the Supervisory Board at the beginning of each fiscal year. 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 strategy to reposition Klöckner, comprising reorganization and reorientation of the Group parent and country-level holding companies while further reducing the commodity business, and (ii) to the further implementation of the digitalization strategy (among other things by rolling out the contract platform to additional countries, completing and implementing the new web shop in Germany and the Netherlands, and completing and implementing the service platform in additional countries).

Under the Management Board members' contracts, the Supervisory Board also has discretionary power to award a special bonus to individual Management Board members for exceptional performance or exceptional achievements. In total, however, the special bonus and annual bonus may not exceed the cap on the annual bonus stated above. No special bonus was awarded for the year under review.

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 and bonus (including any special bonus awarded at the Supervisory Board's discretion to reward exceptional performance or accomplishment) – is subject to a cap. The cap is €1,920,000 for ordinary members of the Management Board and €3,420,000 for the CEO.

Other arrangements

Management Board contracts provide for compensation on early termination of office other than for good 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. In this case, the personal investment requirement is also waived. The Company has directors and officers (D&O) insurance, including for members of the Management Board. For members of the Management Board, this features a deductible of 10% of the claim, limited to one-and-a-half times the annual fixed salary. 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.

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 compensation 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 the fixed and variable components of Management Board remuneration under the current remuneration system, a horizontal comparative survey of compensation was carried out, based among other factors 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. The Supervisory Board also regularly reviews the current remuneration system with regard to its components and the amount of fixed and variable remuneration.

Horizontal comparison of the Management Board compensation with other companies for the purpose of establishing the current remuneration system showed Klöckner & Co SE to be rather 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 was 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 are subject to a regular review if they are up to date.

Compensation for 2016

The tables below show the individual compensation entitlements of Management Board members for 2016 as provided for in the German Corporate Governance Code:

Granted compensation	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)
Fixed compensation	860	860	860	860	480	480	480	480
Ancillary benefits[1)]	41	41	41	41	127	127	127	127
Total	**901**	**901**	**901**	**901**	**607**	**607**	**607**	**607**
One year's variable compensation	640	1,280	-	2,560	360	720	-	1,440
Multi-year variable compensation								
- Virtual stock option plan	397	-	-	-	180	-	-	-
Total	**1,939**	**2,181**	**901**	**3,461**	**1,147**	**1,327**	**607**	**2,047**
Postemployment benefits	677	664	664	664	-	-	-	-
Total compensation	**2,616**	**2,845**	**1.565**	**4,125**	**1,147**	**1,327**	**607**	**2,047**

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)	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)
Fixed compensation	480	480	480	480	480	480	480	480
Ancillary benefits	29	29	29	29	30	29	29	29
Total	**509**	**509**	**509**	**509**	**510**	**509**	**509**	**509**
One year's variable compensation[2)]	360	720	-	1,440	459	762	-	1,525
Multi-year variable compensation								
- Virtual stock option plan	180	-	-	-	188	-	-	-
Total	**1,049**	**1,229**	**509**	**1,949**	**1,158**	**1,271**	**509**	**2,034**
Postemployment benefits	156	152	152	152	250	218	218	218
Total compensation	**1,205**	**1,381**	**661**	**2,101**	**1,407**	**1,489**	**727**	**2,252**

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.

Proceeds	Gisbert Rühl (CEO)				Marcus A. Ketter (CFO)			
(€ thousand)	2015	2016			2015	2016		
Fixed compensation	860	860			480	480		
Ancillary benefits[1)]	41	41			127	127		
Total	**901**	**901**			**607**	**607**		
One year's variable compensation	812	1.424			457	801		
Multi-year variable compensation								
- Virtual stock option plan	0	162			0	54		
Total	**1,713**	**2,487**			**1,063**	**1,462**		
Postemployment benefits	677	664			0	0		
Total compensation	**2,390**	**3,151**			**1,063**	**1,462**		

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

Proceeds	Karsten Lork				William A. Partalis			
(€ thousand)	2015	2016			2015	2016		
Fixed compensation	480	480			480	480		
Ancillary benefits	29	29			30	29		
Total	**509**	**509**			**510**	**509**		
One year's variable compensation[2)]	457	801			583	848		
Multi-year variable compensation								
- Virtual stock option plan	0	54			0	80		
Total	**965**	**1,364**			**1,092**	**1,437**		
Postemployment benefits	156	152			250	218		
Total compensation	**1,121**	**1.516**			**1,342**	**1,655**		

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 Supervisory Board members are governed by Article 14 of the Articles of Association available on the Company's website.

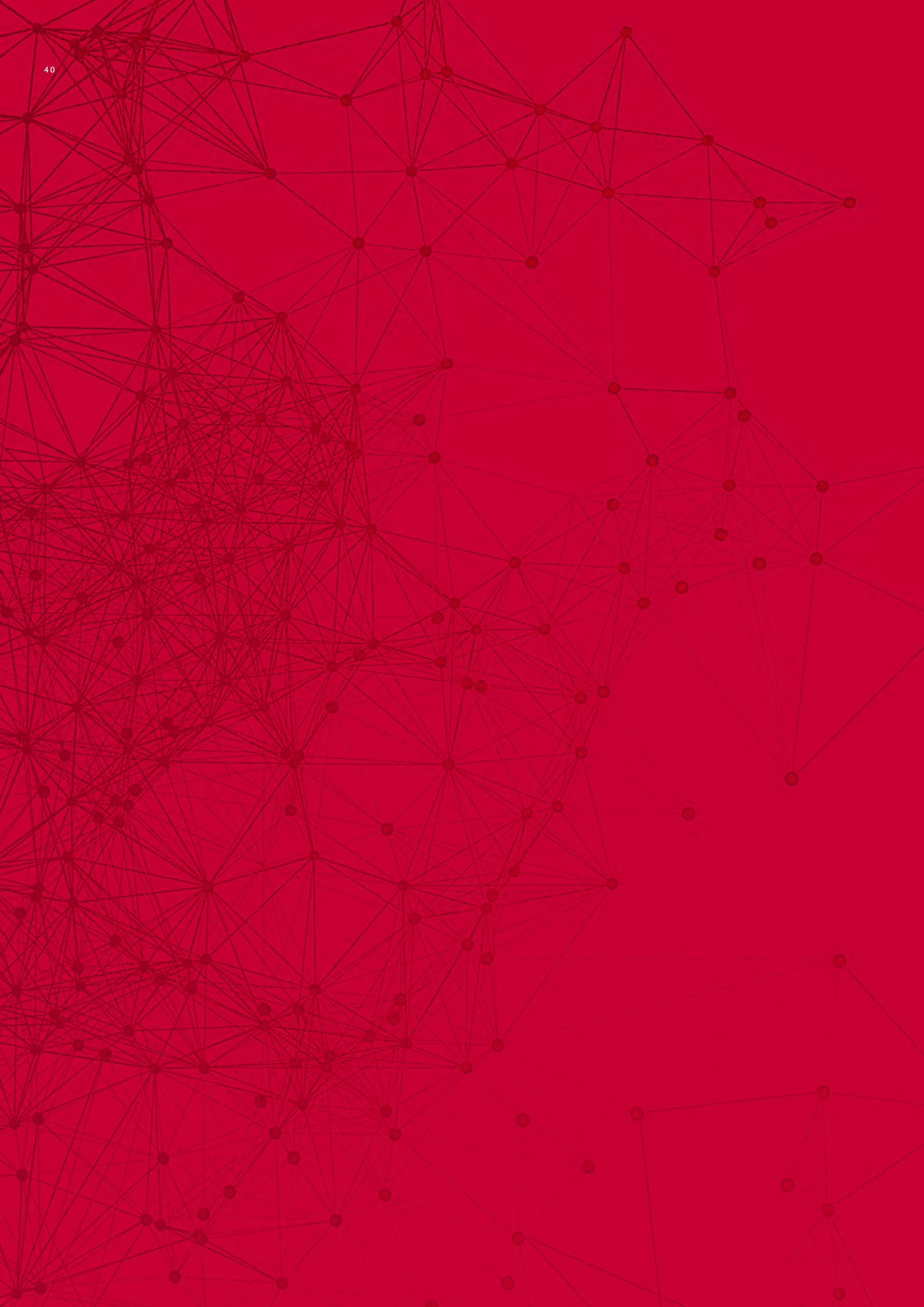
Compensation consists mainly of fixed compensation allocated pro rata temporis in the event of personnel changes during the fiscal year. An attendance fee is also paid and reasonable out-of-pocket expenses and value added tax are reimbursed. Costs of external training for Supervisory Board members are 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 (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 €500,334 in 2016 (2015: €487,667). The table below shows the individual compensation entitlements of Supervisory Board members for 2016 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 2017.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	60,000	160,000
Dr. Michael Rogowski (Deputy Chairman) - bis zum 13. Mai 2016	25,000	14,000	39,000
Ulrich Grillo (since May 13, 2016 Deputy Chairman)	53,333	17,000	70,333
Prof. Dr. Karl-Ulrich Köhler - since May 13, 2016	26,667	12,000	38,667
Prof. Dr. Tobias Kollmann	40,000	8,000	48,000
Dr. Friedhelm Loh - since May 13, 2016	26,667	14,000	40,667
Hauke Stars - until May 13, 2016	16,667	4,000	20,667
Dr. Hans–Georg Vater	50,000	33,000	83,000
	338,334	**162,000**	**500,334**

During the year under review, the Company engaged Prof. Dr. Kollmann with the development and implementation of a training program (online seminars) on digitalization (e-business) for Klöckner & Co Group employees. Prof. Dr. Kollmann did not receive any remuneration on the basis of this contract in the year under review but was in receipt of €29,700 in this connection in January 2017.

No other compensation or benefits were granted in the year under review for services provided individually, in particular advisory and agency services.



GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report[1] for Fiscal Year 2016

[1] For the Remuneration Report and the Corporate Governance Statement pursuant to Section 289a and Section 315 Article 5 of the German Commercial Code (HGB), which are integral parts of the Group Management Report, please see the Corporate Governance section on pages 24–39 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:

After restructuring the European distribution business at country logistics level as well as downsizing capacity and pooling operations over the last few years, we have brought the activities of the European country organizations even closer together under the "One Europe" program. The first region comprises Austria, Belgium, Germany and the Netherlands. The second consists of France and the United Kingdom. In this way, we aim to generate synergies – most of all in procurement and higher value-added processing – and expedite the further implementation of our digitalization strategy. To further enhance our focus on core markets, we decided upon and initiated our withdrawal from Spain during the period under review as part of our "One Europe" strategy.

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

190 distribution and service locations in 13 countries

Klöckner & Co SE is one of the world's largest producer-independent distributors of steel and metal products and one of the 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, customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options from over 50 main suppliers worldwide. Our key competitive factors are scale economies in global procurement, our broad product portfolio, customer access via an extensive logistics and distribution network, plus a very wide range of processing services. Spanning 13 countries, our global network provides customers with local access to some 190 distribution and service locations. Our high product availability levels largely eliminate the need for customers to hold inventory. Concentrated mainly in construction as well as the machinery and mechanical engineering industries, our customer base comprises around 130,000 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 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 approximately 4% in the USA. In Europe and the USA, we are one of the top three distributors and steel service centers.

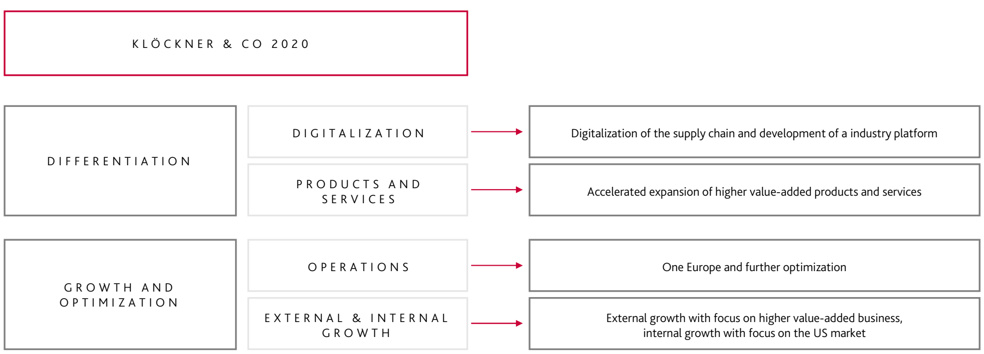
1.3 Corporate strategy

"Klöckner & Co 2020"

For several years now, the steel and metal industry in our core markets of Europe and North America has suffered from severe global overcapacities and insufficient demand outside the automotive sector. The resulting high availability of supply, especially for standard goods, has led to a small potential for differentiation. This situation is exacerbated by the highly fragmented market in which too many suppliers compete for the same customers. For years, this extremely competitive environment has been putting pressure on margins in steel and metal distribution.

Digitalization and expansion of business with higher value-added products and services

Our "Klöckner & Co 2020" strategy was designed to set ourselves apart from the competition by applying two main leverage points: first, by digitalizing the supply and value chain with the goal of developing an Internet-based industry platform and, second, by driving forward our business in higher value-added products and processing services. Our newly established "One Europe" optimization program will enable us to leverage additional earnings potential after we have successfully completed the restructuring of the business. With regard to acquisitions, we are focusing on companies in specialized – i.e. higher-margin – market segments, in line with our strategy.

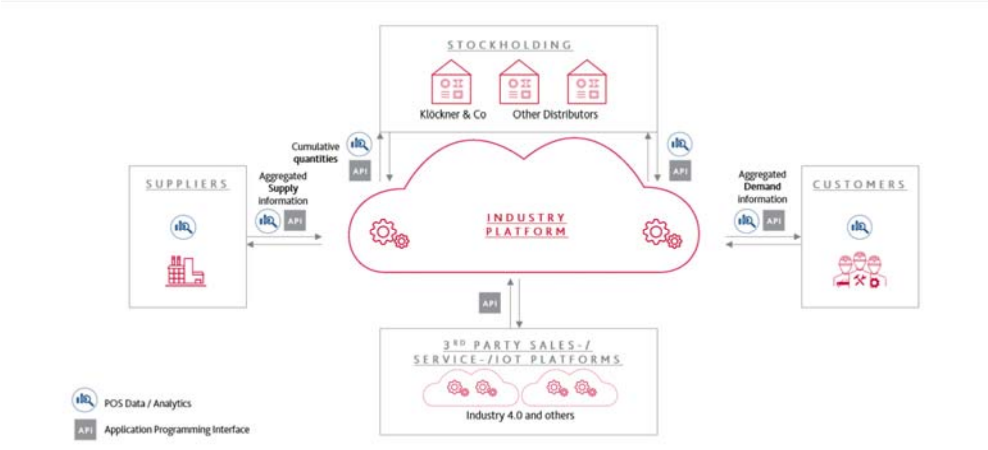


DIGITALIZATION

Our objective: eliminating inefficiencies

The supply and value chain in the steel industry remains highly inefficient to this day. Many transactions continue to be carried out by telephone, fax or e-mail. There is no end-to-end digital order and production management. The intransparency resulting from the disruption in the flow of information at multiple points means that too many market participants are stockpiling a lot of steel at all levels of the supply chain. Process costs are also too high.

Klöckner envisions an industry platform for the steel and metal industry in which information asymmetries have been eliminated by digitally connecting all market participants in order to enable significant efficiency increases for all.

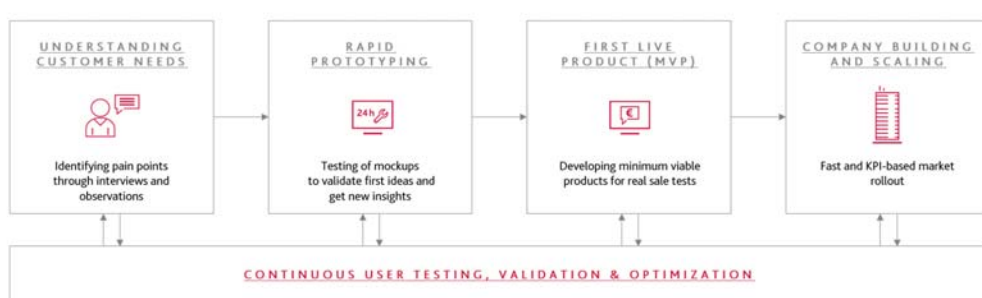


Start-up methods permit high speed of implementation

All projects and initiatives relating to digitalization and digital networking are being driven forward by kloeckner.i, our Group Center of Competence for Digitalization, from the heart of the German start-up scene in Berlin. Approximately 40 employees now work at kloeckner.i in the fields of product innovation, software development, online marketing and business analytics.

We make use of methods such as design thinking, agile product development and the lean start-up approach to design digital solutions for our 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. Once we have made our evaluation, we need just a few weeks to develop simple prototypes. The initial prototypes are specifically designed to cover solely the most important functions. Through constant testing, we then check with our customers whether and to what extent the individual tool meets the given requirements. This ensures that only prototypes that have already been validated with customers are developed into solutions.

APPLICATION OF LEAN START-UP-METHODS



give us our own start-up enterprise, we founded kloeckner.i as a separate operation in Berlin. The new company is far enough removed from Klöckner for it to act more independently in the rapid development of digital tools and platforms than would be possible from within Klöckner. However, kloeckner.i is connected closely enough with Klöckner for it to harness the Company's in-depth expertise in steel distribution and leverage our relationships with customers and suppliers in developing platforms.

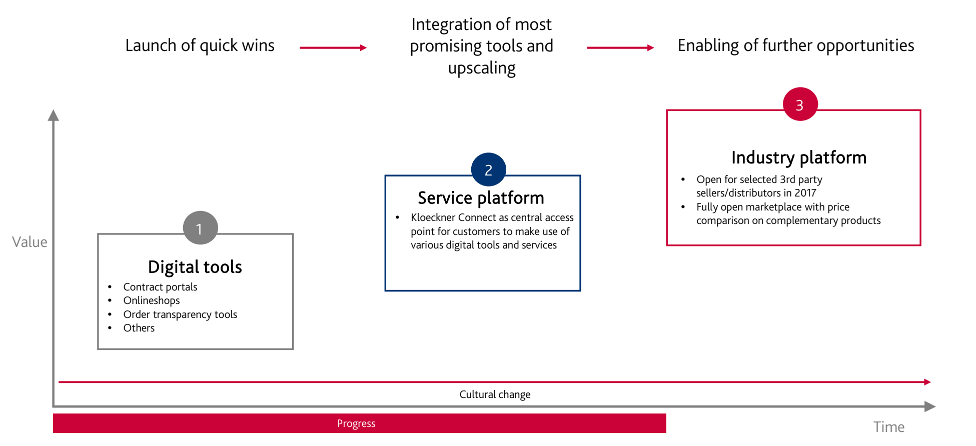
Not only does this make Klöckner faster than the competition in developing tools and platforms, but it also gives us a clear advantage over independent start-ups due to our sector expertise and our relationships.

Thanks to our agile working methods, the online order processing system first outlined in our 2014 Annual Report has now largely become a reality. Our customers have already successfully implemented digital tools such as contract portals, online shops and order reviews. Apart from developing new tools, we also continued to roll out existing solutions across the Group during the reporting period. As a result, the percentage of sales generated via digital channels rose steadily during the reporting period, increasing from 9% in the first quarter to 12% in the fourth quarter. Also on the procurement side, we have achieved integration with wholesalers and major steel producers.

As the second step in our digitalization strategy, we have integrated digital tools into our "Kloeckner Connect" service platform at many of our country organizations. The platform gives both customers and partners a central access point for all tools and data, which they are then able to use much more efficiently than before.

Expanding the service platform into an industry platform

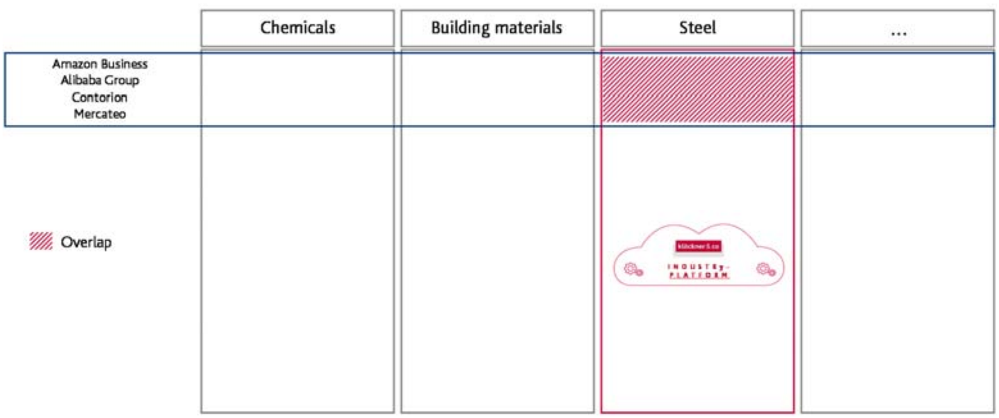
In the current year, we will be gradually opening up the service platform. Initially, we plan to include companies whose products complement our portfolio or cover regions in which we do not operate. As our service platform is made available to more and more competitors and a marketplace function added, it will gradually become an open industry platform. Customers particularly appreciate digitally integrated, open platforms because of the large variety of products to select from and high degree of price transparency gained by pooling offers from different competitors.



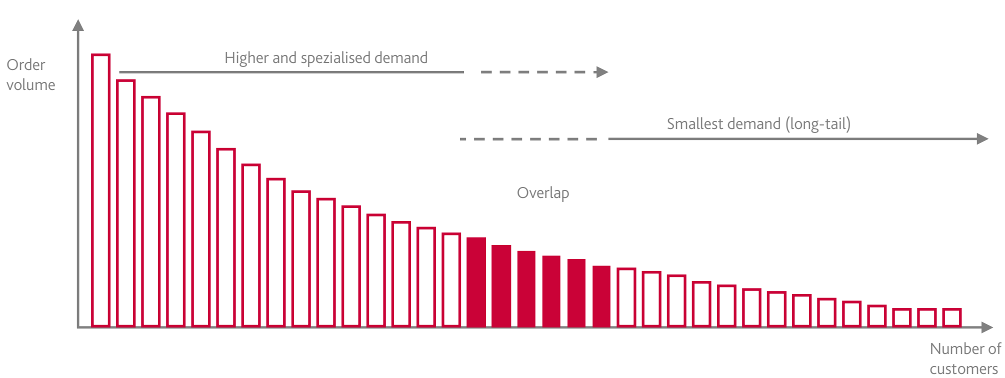
On the supply side, the efficiency increases resulting from digital platforms will lead to a market in which those suppliers who digitalized their processes early on and have mastered online selling will emerge as the winners. Operators of dominant platforms will enjoy even greater advantages, as they will generally be able to design the platforms in line with their own economic interests. Not only will this give them access to valuable data, but they will also be able to leverage added profits by collecting transaction fees and placing advertisements.

Horizontal vs. vertical platforms

It is expected that both cross-industry platforms for standardized products, known as "horizontal" platforms, as well as industry-specific "vertical" platforms for specialized offerings will prevail on the market. While in the case of horizontal platforms market leaders such as Amazon or Alibaba are anticipated to play a globally leading role also in the B2B sector, established companies such as Klöckner will enjoy a head start when it comes to vertical platforms.



We benefit from our specific industry expertise, longstanding relationships with suppliers and customers and specialized logistics, the latter of which is of particular significance in steel distribution. There will also be overlaps with what is known as "long-tail business," in other words, serving customers with minimal requirements. Klöckner will engage in long-tail distribution via equity investments, such as its stake in Contorion, an online marketplace for tradesmen and private individuals.



Entering different alliances

Alongside digitalization of processes throughout the Group, intelligent use of the data generated is increasingly gaining in importance. We entered into an alliance with Arago, one the leading providers of artificial intelligence, in order to gain an early foothold also in this market. Going forward, better evaluation of data incorporating a wide variety of factors will make it possible to predict demand for steel with much greater accuracy. At the same time, a more in-depth analysis of customer behavior will open up additional growth potential.

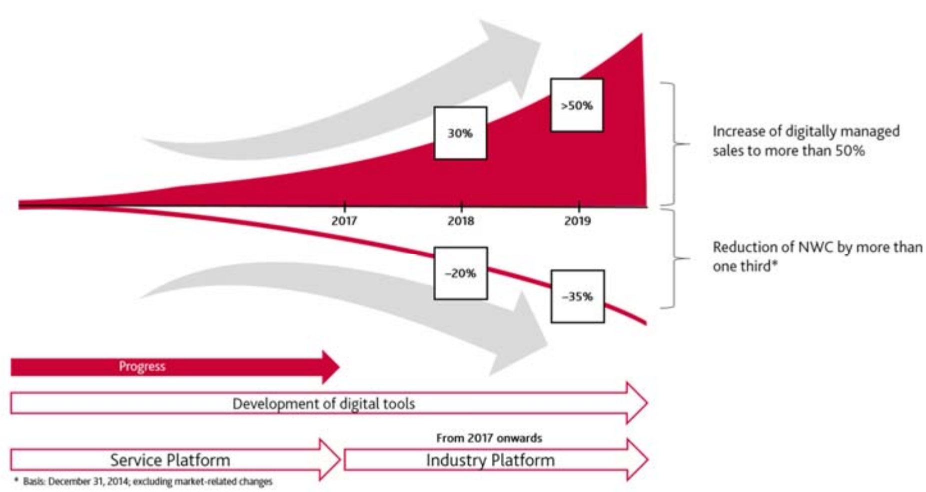
A key component of our digitalization strategy involves establishing direct access to our customers' ERP systems via interfaces in order to fully automate the order process, among other things. One of the alliances we entered into in 2016 for this purpose was with Sage Software, a market leader in integrated systems for financial accounting, payroll accounting and payment transfers. Together with Sage, we are marketing the Sage Office Line – a special version of the accounting and goods management solution preconfigured for steel and metal processors. Klöckner customers will be able to harness the solution to professionally manage their business processes at attractive conditions while at the same time gaining online access to our extensive range of steel and metal products.

Not only that, but customers using other ERP or goods management systems will have access to the platform via the open OCI interface and thus avoid double entries. Besides that we are an exclusive partner in machinery manufacturer Trumpf's Industry 4.0 project Axoom, in which production machines will in the future order steel from us autonomously. To that end, the Klöckner & Co contract portal has already been integrated into the customer solution's software user interface.

Investing in external startups via kloeckner.v

While kloeckner.i operates like an internal start-up, it is through our venture capital company kloeckner.v that we establish links with external start-ups. This company invests both through selected venture capital firms and directly in start-ups that support our digitalization strategy with disruptive approaches. Moreover, we joined the German Stock Exchange's Venture Network during the reporting period to give us greater access to attractive direct investments in the area of venture capital.

With regard to the ongoing implementation of our digitalization strategy, we have set ourselves ambitious goals: As early as 2019, we aim to generate more than half of Group sales online and cut net working capital by about a third relative to the 2014 year-end.



Our digitalization strategy also goes hand in hand with a profound cultural shift within our Company. For example, the innovative working methods employed in the start-up scene are being applied more and more throughout the Group. Those efforts are underpinned by in-depth dialogue between our digitalization subsidiary kloeckner.i and employees from other divisions in all of the country organizations. Online training is also being provided by Klöckner & Co Digital Academy to get the workforce in shape for the digital age. This lends employees support in developing and implementing new ideas, which they can discuss and fine-tune with their colleagues across national and divisional borders in a non-hierarchical way using innovative channels of communication, such as Yammer, the Group's internal social network. We have thus broken down the existing vertical communication silos in favor of an unfiltered, increasingly horizontal form of communication.

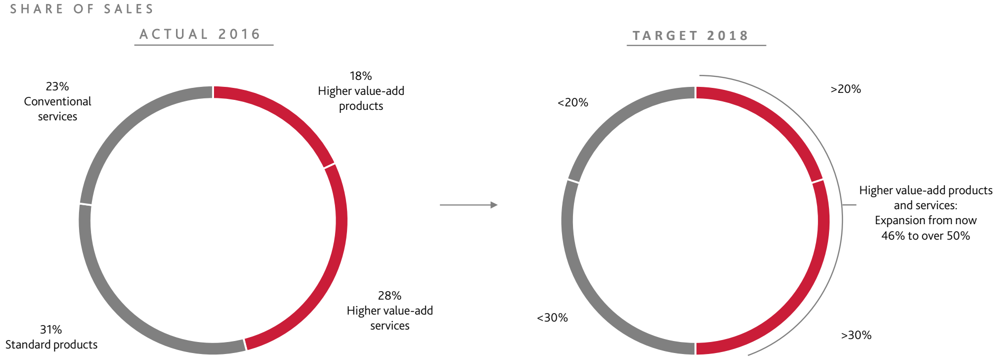
ACCELERATING THE SHIFT TO HIGHER VALUE-ADDED PRODUCTS AND SERVICES

Major market potential from shifting to higher value-added products and services

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 of this is our investment in 3D lasers, which we can use to combine several conventional customer tasks such as drilling, sawing and slitting at an attractive price and with significant gains in precision. In addition, we will also be undertaking a major expansion of our higher-margin business in higher value-added products. At our Bönen location in North Rhine-Westphalia, Germany, for example, we are building a service center to process aluminum flat products for the European automotive and manufacturing industries.

In the period under review, we succeeded in expanding the percentage of sales of our higher-margin business from 39% to 46%. This significant increase was also the result of scaling back low-margin business in standard products ("commodities") as part of our KCO WIN+ restructuring program, in addition to our investments in high-margin business segments. This means we already exceeded the 45% target originally announced for 2017 in the reporting period. Due to the rapid progress made here, we now anticipate generating the lion's share of sales from higher value-added products and services as early as 2018 rather than in 2020 as previously forecast.

SHARE OF SALES



KCO WIN+ PROGRAM

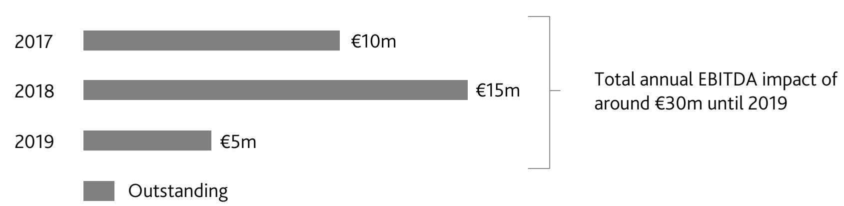
Measures of the KCO WIN+ program completed

Thanks to a range of measures designed to improve workflows and processes in our business operations, we achieved an incremental EBITDA contribution of €26 million in 2014 and 2015 under the KCO WIN+ program. We expanded the program considerably to include additional restructuring and improvement measures, primarily in France but also in other European countries. As a result of the program, a total of 16 locations were closed, the country organizations' headquarters were downsized and headcount was reduced by more than 600 employees. The expanded program is expected to have an annual impact on EBITDA of some €30 million from 2017 onward, most of which (€28 million) was already realized during the reporting period. This puts the annual EBITDA contribution from all program measures at up to €60 million since 2014.

"ONE EUROPE" PROGRAM

EBITDA contribution totaling some €30 million

Over the last few years, we have restructured the European distribution business at the country level, downsized capacity and pooled operations. Under the "One Europe" program, we are now bringing the activities of our country organizations in Austria, Belgium, France, Germany, the Netherlands and the United Kingdom even closer together. In this way, we not only aim to generate cost savings and synergies more readily – especially in purchasing and logistics – but also to enable even faster, more efficient implementation of the "Klöckner & Co 2020" strategy. Plans are for "One Europe" to deliver an incremental contribution to EBITDA totaling some €30 million by 2019, €10 million of which is to be contributed in the current year.



RETURN TO GROWTH PATH THROUGH EXTERNAL AND ORGANIC GROWTH

In terms of regional growth opportunities, we regard the USA as our most attractive market over the medium to long term despite the sharp decline in demand seen last year. This market is 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. The infrastructure investments announced by the new administration are expected to make the US market even more attractive. We aim to expand our share of US shipments from 41% in 2016 to more than 50% over the medium term.

When it comes to strengthening higher-margin business, we have set our sights on a mix of organic and external growth. We are therefore considering acquiring additional companies that offer a wide range of higher value-added products and processing services following our successful acquisition of American Fabricators, Inc. in the USA.

1.4 Control system

Financial performance indicators

Key performance indicators at Group and segment level

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 a key performance indicator used in management of the distribution business. Gross profit is sales less cost of goods sold and is thus an important indicator of the Company's profitability. In view of 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 increasingly 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.

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.

Direct impact of stockholding levels

Just-in-time procurement by customers calls for high levels of availability in our merchandise inventories. Stockholding levels are therefore 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. 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. Accordingly, we give high priority to health and safety in the workplace. Initiatives we have adopted to this end include our Group-wide "Safety 1st program. This aims to ensure safe working conditions as well as to reduce 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. The LTIF target is a reduction below ten in all subsidiaries. This target is integrated as a variable component in the compensation system for European management.

Focus on lost time injury frequency rate

2. Economic report

2.1 Macroeconomic conditions

Economic environment

MACROECONOMIC SITUATION

Global GDP growth in 2016: 3.1%

After a sharp slowdown in the first half of 2016 due to geopolitical uncertainties, increasing risks on financial markets and slower economic growth in China, the global economy picked up again in the second half of the year. The main factors here were an upturn in US production and an improved situation in emerging markets. Global economic growth of 3.1% in 2016 was nonetheless below original expectations.

In 2016, the performance of the euro area economy continued to be influenced by the European Central Bank's expansionary monetary policy and by the weak euro. Economic output was up in all countries across the currency area. Overall economic growth in the region was 1.7%.

The economic upswing in the USA continued in 2016 but lost momentum compared with the prior year. Buoyed by a robust labor market, private consumption remained a major pillar of economic growth. Extra stimulus from an export surge, in particular in the second half, helped the US economy to notch up growth of 1.6% on the prior year.

In China, gross domestic product (GDP) pulled ahead again in the second half of the year thanks to more expansionary economic policy and, at 6.7%, was slightly above the government's expansion target. Compared with the prior year, however, growth was less dynamic overall.

Brazil remained deep in recession through 2016. The year was marked by political uncertainties and declining private consumption as well as lower public spending and investment. As a result, GDP fell by 3.5% year on year.

Development of GDP (in percent)	2016 vs. 2015
Europe*	**1.7**
Germany	1.7
Great Britain	2.0
France	1.3
Spain	3.2
Switzerland	1.5
China	**6.7**
Americas	
USA	1.6
Brazil	-3.5

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

Industry-specific situation

Global crude steel production up by 0.8%

Despite good overall economic conditions, the market environment in the steel industry remains challenging. Global crude steel production gained 0.8% in 2016 to 1,629 million tons of crude steel. According to the World Steel Association, the production volume in the European Union fell by around 2.3%. North American output stayed flat. China saw production increase by about 1.2%. Eurometal reports that shipments in Europe were stable in the period under review. According to the Metals Service Center Institute (MSCI), the decline in shipments in the USA was 6.2%.

Ongoing surplus capacity in the Chinese and European steel industries continues to cause problems, leading to structural underutilization at current demand levels. Steel producers in Europe and the USA were running at only 67% and 69% of capacity, respectively, at the end of December 2016. There is also much surplus capacity at distribution level, fueling ongoing fierce competition.

Steel production

(in million tons)	2016	2015	Variance
France	14.6	14.9	-2.0%
Germany	42.1	42.7	-1.4%
Spain	13.7	14.9	-8.1%
Great Britain	7.6	10.9	-30.3%
EU–28, total	**162.3**	**166.2**	**-2.3%**
Rest of Europe	**36.0**	**34.0**	**5.9%**
C.I.S.	**102.2**	**101.3**	**0.9%**
United States	78.6	78.9	-0.4%
Rest of North America	32.4	32.0	1.3%
North America total	**111.0**	**110.9**	**0.1%**
South America total	**39.2**	**43.9**	**-10.7%**
Africa	**12.2**	**12.8**	**-4.7%**
Middle East	**29.0**	**27.0**	**7.4%**
China	808.4	798.8	1.2%
Rest of Asia	297.9	291.8	2.1%
Asia total	**1,106.3**	**1,090.6**	**1.4%**
Oceania total	**5.8**	**5.7**	**1.8%**
Other countries	**24.5**	**22.9**	**7.0%**
Total	**1,628.5**	**1,615.4**	**0.8%**

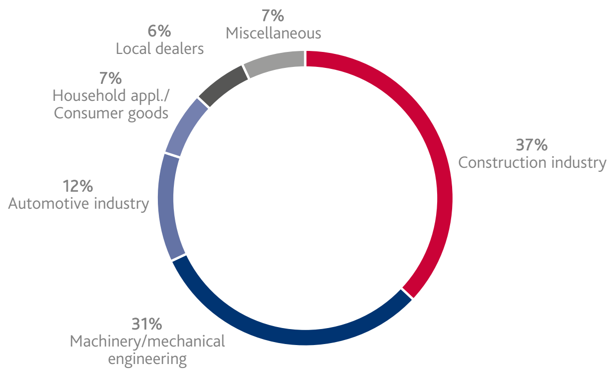
Source: WorldSteel Association (as of January 2017, preliminary figures for 2016).

2.2 Sector environment

Customer sectors of Klöckner & Co SE (by sales)

Klöckner & Co's highest revenue customer sector in the past fiscal year was the construction industry, accounting for 37% of sales, followed by machinery and mechanical engineering (31%) and the automotive industry (12%).

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

The construction industry is the world's biggest consumer of steel and its performance is therefore a major determinant of steel demand. According to estimates by steel industry association EUROFER, European construction activity remained near-constant in 2016. There was minor stimulus from infrastructure projects. The US construction industry benefited from a sharp rise in private-sector construction activity. Public-sector construction, by contrast, was down in the period under review. All told, the US Census Bureau reports that construction spending increased by 4.5% compared with the prior-year period.

Machinery and mechanical engineering

EUROFER estimates that machinery and mechanical engineering increased by only a marginal 0.7% relative to the prior year in Europe. In the USA, by contrast, machinery and mechanical engineering production fell by 2.9%. While there was growth impetus from increasing automation of machinery parks, the industry is notably laboring under the collapse in demand for mining machinery.

Automotive industry

The international automotive sector developed positively in 2016. According to the German Association of the Automotive Industry (VDA), global demand for passenger cars increased sharply year on year. In Western Europe, shipments rose by 6%. The United States, by contrast, saw shipments stay constant after very strong growth in the prior year. Growth in unit sales on the Chinese market was unexpectedly strong, with a year-on-year increase of 18%.

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

Market assumption proved largely accurate

Our guidance for the reporting period set out in the Annual Report 2015 was based on the assumption of a lower steel price level in Europe and the USA, the two regions of importance to our business. This expectation materialized, despite rising steel prices through much of the year. For both regions, we also anticipated a slight increase in steel demand. While actual demand on the European market was merely stable, there was an unforeseeably pronounced fall in demand in the United States.

Although our market expectations for Europe were largely fulfilled, sales in this segment decreased sharply rather than moderately as forecast. The main reason for the discrepancy lies in the location closures under our KCO WIN+ restructuring program, which were implemented faster than expected. In the Americas segment, sales likewise fell markedly due to weaker than anticipated demand instead of rising slightly as projected. Accordingly, sales at Group level declined by a significant 11.1% to €5.7 billion and not slightly as expected.

For the Europe segment, we predicted a marginal decline in gross profit due to location closures. The surprisingly marked rise in steel prices more than offset the negative effect of the restructuring measures, however, so that we succeeded in posting a slight increase in gross profit. In the Americas segment, on the other hand, despite the trend in demand that was weaker than expected, gross profit gained substantially in step with our forecast. As in the Europe segment, prices here developed more favorably than assumed on compiling our guidance. In total, gross profit increased by a moderate 6.3% in line with expectations.

The price environment just described opened the way for a significant improvement in gross profit margin across both segments and hence also at Group level (by 3.7 percentage points to 22.9%). This compares with our original assumption of merely a slight rise in the Europe segment, a substantial increase in the Americas segment and a moderate gain for the Group as a whole.

Key drivers: improved price environment and KCO WIN+

In line with our forecast, operating income (EBITDA) and the EBITDA margin improved significantly in both segments. This resulted in a correspondingly pronounced increase at Group level relative to the prior-year figures adjusted for restructuring expenses, from €86 million to €196 million and 1.3% to 3.4%. The main drivers of this outcome were the improved price environment coupled with the restructuring and optimization measures under KCO WIN+.

As expected, there was no further expense from goodwill impairments, although the planned and initiated sale of the Spanish activities made it necessary to recognize a €16 million impairment loss on non-current assets in Spain. Interest expense was also lower due to reductions in financial liabilities. As projected, this made it possible once again to generate positive net income (of €38 million).

The Europe segment saw a moderate increase in net working capital in line with our guidance, due to the anticipated improvement in the market. In the Americas segment, we achieved a slight reduction in net working capital – contrary to the expected substantial rise. The primary factor in this, besides demand weaker than anticipated, was the encouraging progress in our internal optimization measures. Given the outcome in the Americas segment, which was better than expected, net working capital – including the portion relating to the Spain disposal group at Group level – remained broadly constant, at €1.1 billion, rather than significantly increasing as forecast.

Net debt rose substantially as projected from €385 million at the prior year-end to €444 million, despite the lower than expected net working capital. The increase in net debt was mainly driven by payments relating to derivatives used for hedging purposes.

2.5 Results of operations, financial position and net assets

The most significant key performance indicators for our results of operations, financial position and net assets for fiscal 2016 – as presented under "Control system" on page 50 – 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)	2016	2015	Variance	
Sales	5,730	6,444	-714	-11.1%
Gross profit	1,315	1,237	78	6.3%
Gross profit margin	22.9%	19.2%		3.7%p
EBITDA before restructuring expenses	196	86	110	126.2%
EBITDA margin before restructuring expenses	3.4%	1.3%		2.1%p
EBITDA	196	24	172	719.0%
EBITDA margin	3.4%	0.4%		3.0%p
Net Working Capital (NWC)	1,120	1,128	-8	-0.7%
Net financial debt	444	385	59	15.3%

OTHER KEY PERFORMANCE INDICATORS

(€ million)	2016	2015	Variance	
Shipments (Tto)	6,149	6,476	-327	-5.0%
Gearing (Net financial debt/shareholders' equity*)	40%	36%		4.2%p
Leverage (Net financial debt/EBITDA**)	2.3x	4.5x		-2.2x

*) 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 totaled 6.1 million tons in 2016, 5.0% down on the comparative period (6.5 million tons).

Shipments in the Europe segment decreased by 4.7% compared with 2015, to 3.6 million tons. This was mainly due to location closures under the KCO WIN+ program in France, the UK and Switzerland. In Germany, meanwhile, the trend in shipments was positive. Adjusted for the effects of restructuring measures, shipments in Europe increased by 3.5%.

At 2.5 million tons, shipments in the Americas segment were likewise down on the prior year (by – 5.5 %). US shipments decreased, primarily at the start of the year, with customers putting off purchases in the expectation that prices would fall. Despite a recovery in the course of the year, shipments for the full year were nonetheless down on the comparative period. Part of the drop in shipments was also accounted for by our withdrawal from the low-margin pipe business. The market environment in Brazil deteriorated further, and shipments fell once again as a result.

SALES BY SEGMENTS

(€ million)	2016	2015	Variance	
Europa	3,606	3,984	-378	-9.5%
Americas	2,124	2,460	-336	-13.7%
Konzernumsatz	**5,730**	**6,444**	**-714**	**-11.1%**

Sales down due to lower average price level

Although sales prices recovered over the course of the year, the lower price level on a full-year basis meant that sales decreased more steeply than shipments, by 11.1% to €5.7 billion.

Compared with fiscal year 2015, sales in the Europe segment went down by 9.5%. This affected all country organizations except for the activities of Klöckner & Co Deutschland GmbH, with the above-mentioned location closures – along with the lower price levels – accounting for much of the decrease most of all in France, the UK and Switzerland.

At 13.7%, the decrease in sales in the Americas segment was even more pronounced due to the steeper drop in price levels than in Europe, despite a marked recovery in steel prices from the second quarter onward.

NET INCOME

(€ million)	2016	2015	Variance	
Sales	5,730	6,444	–714	-11.1%
Gross profit	1,315	1,237	78	6.3%
Gross profit margin	22.9%	19.2%		3.7%p
OPEX*)	–1,119	–1,213	94	7.8%
EBITDA	196	24	172	719.0%
EBITDA before restructuring expenses	196	86	110	126.2%
EBIT	85	–350	435	n.a.
EBT	52	–399	451	n.a.
Net income	38	–349	387	n.a.

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

Gross profit margin up by 3.7 percentage points

Favored by rising prices in both operating segments over the course of the year, the gross profit margin improved by 3.7 percentage points, from 19.2% in the prior-year period to 22.9%. Looking at the absolute figure, the gross profit of €1,315 million was likewise comfortably above the prior year (2015: €1,237 million).

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

(€ million)	2016	2015	Variance	
Other operating income	40	33	7	21.3%
Personnel expenses	–641	–677	36	5.3%
Other operating expenses	–518	–570	52	9.0%
OPEX	**–1,119**	**–1,213**	**94**	**7.8%**

Inter-period comparability of OPEX is impaired by the €57 million in restructuring expenses contained in the prior-year figure. Adjusted for these effects, the favorable impact of the KCO WIN+ program led to a €37 million reduction in costs in 2016.

Other operating income, at €40 million, was higher than the prior-year figure of €33 million. It includes €14 million in proceeds on the sale of property, plant and equipment and assets held for sale (2015: €7 million).

Personnel expenses dropped from €677 million to €641 million, although here again the prior-year figure included €33 million in restructuring expenses.

The year-on-year comparability of changes in other operating expenses is likewise restricted due to restructuring expenses of €25 million contained in the prior-year figure; adjusted for this, other operating expenses improved by €27 million.

As a result of the described effects, EBITDA, at €196 million, was significantly higher than the prior-year figure of €24 million – or €86 million adjusted for restructuring expenses.

EBITDA BEFORE RESTRUCTURING EXPENSES BY SEGMENTS

(€ million)	Q4 2016	Q4 2015	2016	2015
Europe	36	12	151	69
Americas	11	3	74	37
Headquarters	– 10	– 4	– 29	– 20
Klöckner & Co–Group	37	11	196	86

Strong positive EBITDA performance in both operating segments

At €151 million, EBITDA in the Europe segment was substantially higher than the €69 million prior-year figure adjusted for restructuring expenses. Except for lower earnings in the Netherlands due to a weaker performance in the metering business, all country organizations improved earnings. Segment EBITDA for 2016 contained non-operating income from the sale of non-operating assets (€13 million) and adjustments to a pension plan in Switzerland (€5 million), versus non-operating expenses due to additions to provisions (€6 million). The contribution to EBITDA from KCO WIN+ was €24 million.

As a result of the improved gross profit, EBITDA in the Americas segment, at €74 million, was well above the prior-year comparative figure of €37 million. The main factor here was the significant recovery in selling prices in the USA beginning in the second quarter. KCO WIN+ contributed €4 million.

Headquarters EBITDA was a negative €29 million (2015: negative €20 million). The larger net expense is primarily due to higher variable remuneration components, including share-based payment, as a result of the better business performance.

RECONCILIATION TO NET INCOME

(€ million)	2016	2015	Variance	
EBITDA	**196**	**24**	**172**	**719.0%**
Depreciation, amortization and impairments	– 110	– 374	264	70.6%
EBIT	**85**	**– 350**	**435**	**n.a.**
Financial result	– 33	– 49	16	31.8%
EBT	**52**	**– 399**	**451**	**n.a.**
Income taxes	– 14	50	– 64	n.a.
Net income	**38**	**– 349**	**387**	**n.a.**

Asset impairments following initiated sale of Spanish activities reduce EBIT

Due to the initiated sale of the Spanish activities, the associated assets and liabilities have been classified as held for sale. In accordance with IFRS 5, impairment losses of €16 million were recognized on property, plant and equipment at the time of the reclassification. Despite this, impairments were less than a third of impairments in the prior year, when there was the exceptionally large impact of goodwill impairment in the US (€267 million).

The net outcome was EBIT in the positive range, at €85 million, compared with a negative €350 million in the prior-year period.

Further improvement in financial result

The financial result further improved, from a negative €49 million to a negative €33 million. Most notably, there was a reduction in interest expenses due to the repayment of promissory notes and the 2010 convertible bond issue.

EBT was €52 million, compared with a negative €399 million in the prior-year period, which was impacted by the goodwill impairment. The improved earnings situation resulted in a tax expense of €14 million for 2016 (2015: tax income of €50 million).

Positive net income

The bottom line comprises positive net income of €38 million (2015: consolidated net loss of €349 million).

Basic earnings per share came to €0.37, compared with a negative €3.48 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 a convertible bond issue, ABS programs, a syndicated loan, an asset-based lending facility and bilateral loan agreements.

SYNDICATED LOAN

85% of syndicated loan extended early to May 2019

A central component of Group financing is our syndicated loan (a revolving credit facility) with a facility amount of €360 million and an initial term of three years. As scheduled, a large part of the syndicated loan volumes were extended with our core banks in April 2016. Of a total volume of €360 million, 85% (€305 million) was extended until May 2019; as before, 15% of the facilities (€55 million) are due to expire in May 2018. The contractual documentation provides for a further one-year extension through to May 2020 subject to approval from the banks. The financial covenants continue to apply unaltered.

These stipulate that 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 150%. 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 repaid on schedule

The remaining €133 million promissory note issue still outstanding as of the prior year-end was paid back in full during 2016 as a result of scheduled repayments.

ASSET-BACKED SECURITIZATION PROGRAMS

ABS programs likewise amended early

The Klöckner & Co Group has operated a European ABS program since July 2005. By way of an amend and extend process in July 2016, the program was extended early by two years to 2019 while retaining the €300 million loan amount. Becker Stahl-Service GmbH, Bönen, Germany, was added to the Klöckner & Co companies participating in the program. Additionally, the terms were amended in Klöckner & Co's favor. The agreed financial covenants match those of the syndicated loan.

The US ABS program was extended early to 2021 via an amend and extend process in March 2016. Its volume remained unchanged, at USD 275 million.

Utilization under the two programs totaled €300 million as of the reporting date. The covenants on both the European and the US ABS programs were complied with throughout the reporting period.

CONVERTIBLE BOND

€148 million convertible bond issue

Klöckner & Co placed a €148 million convertible bond issue with institutional investors closing September 8, 2016. The Company is using the proceeds from the issue for general business purposes.

The coupon on the bonds was set at 2.00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. The bonds have a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option). The issuer does not have an early redemption option in the first five years. It does have such an option thereafter provided that over certain stipulated periods the market price of Klöckner & Co shares exceeds 130% of the conversion price.

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

The bilateral credit facilities in an amount of approximately €579 million were 25% drawn at the end of 2016. These include a USD 275 million asset-based lending facility at our US country organizations that expires in March 2021.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

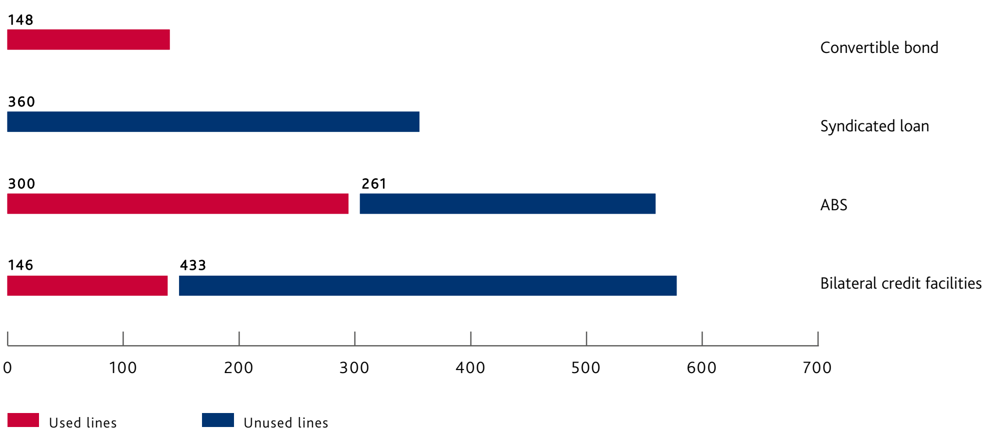
The Group uses an international cash pooling system to handle inter-company settlements and cash management. Our country organizations in Switzerland and the Americas segment are not included in this system, as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2016.

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Klöckner & Co has credit facilities in a total amount of some €1.6 billion. As shown in the following table, drawings on these facilities totaled only around €0.6 billion as of December 31, 2016.

Ample financial headroom retained, at €1.6 billion

FINANCIAL VOLUME
in € million



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

(€ million)	December 31, 2016	December 31, 2015	Variance	
Net financial debt	444	385	59	15.3%
Gearing (Net financial debt/shareholders' equity*)	40%	36%		4.2%p
Leverage (Net financial debt/EBITDA**)	2.3x	4.5x		-2.2x

Leverage significantly improved to 2.3x

Gearing was 40 % as of the fiscal year-end, well within the 150% limit under the syndicated loan and the European ABS program, while leverage improved significantly as a result of the higher profitability from 4.5x to 2.3x.

Klöckner & Co's operating business entails interest-rate, currency and credit risk. The instruments used to hedge and manage such 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 107 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)	2016	2015	Variance	
Cash flow from operating activities	73	276	– 203	-73.6%
Cash flow from investing activities	– 52	– 85	33	39.8%
Free Cash flow	**21**	**191**	**– 170**	**-88.8%**
Cash flow from financing activities	– 46	– 350	304	86.8%

Cash flow from operating activities was €73 million, compared with €276 million in the prior year. The prior-year figure benefited from a €281 million reduction in net working capital, whereas an additional €22 million was tied up in net working capital in 2016. Cash outflows of €32 million relating to prior-year restructuring measures also came out of cash flow from operating activities in 2016.

Free cash flow once again positive

Investing activities generated a cash outflow of €52 million in fiscal year 2016 (2015: €85 million), including payments for the construction of an aluminum service center in Germany in the amount of €14 million. The prior-year figure included the €33 million payment for the acquisition of American Fabricators, Inc. The remaining payments for intangible assets, property, plant and equipment – including financial assets – came to €66 million (2015: €99 million), countered by €29 million (2015: €47 million) in proceeds from divestments. These included receipts of €10 million from the sale of the pipe business in the USA and €8 million for that of a location in Switzerland. Of the capital expenditure, €51 million was incurred in the Europe segment and €19 million in the Americas segment. Free cash flow was consequently €21 million, compared with €191 million in the prior year.

The €46 million (2015: €-350 million) negative cash flow from financing activities contains a €145 million cash inflow from the convertible bond issue after deducting transaction costs and, in the opposite direction, a €133 million cash outflow from scheduled repayments of promissory notes. Cash flow from financing activities likewise includes €67 million in proceeds from extending currency hedges as part of the Group headquarters financing arrangements.

FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet *(€ million)*	31.12.2016	31.12.2015	Variance	
Non-current assets	897	945	– 48	-5.1%
Current assets				
Inventories	1,006	961	45	4.7%
Trade receivables	654	656	– 2	-0.3%
Assets held for sale and assets of disposal groups	88	1	87	n.a.
Other current assets	118	113	5	4.4%
Liquid funds	134	165	– 31	-18.6%
Total assets	**2,897**	**2,841**	**56**	**2.0%**
Equity	1,148	1,113	35	3.1%
Non-current liabilities				
Financial liabilities	527	337	190	56.4%
Other non–current liabilities	422	469	– 47	-10.0%
Current liabilities				
Financial liabilities	44	208	– 164	-78.8%
Trade payables	540	489	51	10.4%
Other current liabilities	194	225	– 31	-13.8%
Liabilities from disposal groups	22		22	n.a.
Total equity and liabilities	**2,897**	**2,841**	**56**	**2.0%**

Total assets at €2.9 billion

Total assets stood at €2.9 billion as of December 31, 2016. This is 2.0% up on the prior year. The assets of the Spanish activities were reclassified to the assets held for sale balance sheet item as of December 31, 2016 in connection with the initiated sale of those activities. Significant changes on the liabilities and equity side resulted from Group financing activities. Current financial liabilities fell as a result of scheduled repayment of the promissory note issue still outstanding; this was offset in non-current financial liabilities by the convertible bond issue.

While the effected restructuring measures are already delivering significant contributions to earnings, the carrying amounts of the cash generating units in the UK and France – and also in Germany – are not yet exceeded by their value in use as stipulated in IAS 36. Detailed information on this is provided in Note 15, Intangible assets, property, plant and equipment and investment property.

Equity rose mainly as a result of net income (€38 million) and the equity portion of the convertible bond issue (€18 million) from €1,113 million to €1,148 million.

Slight increase in equity ratio

The equity ratio is a solid 40% (2015: 39%).

Adding in non-current liabilities, the excess of equity and non-current liabilities over non-current assets amounted to €1,200 million, compared with €974 million in 2015.

Net working capital developed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2016	December 31, 2015	Variance	
Inventories	1,006	961	45	4.7%
Trade receivables	654	656	– 2	-0.3%
Trade payables	– 540	– 489	– 51	-10.4%
Net Working Capital	**1,120**	**1,128**	**– 8**	**-0.7%**

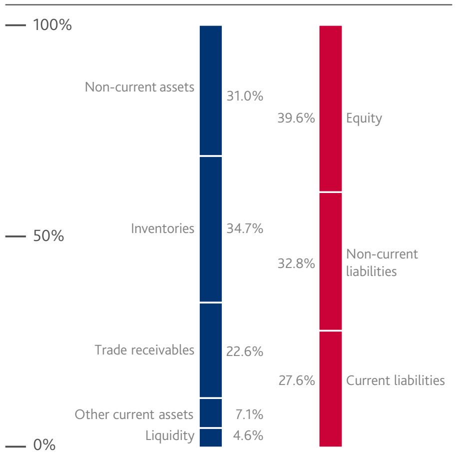
Net working capital was €1,120 million as of December 31, 2016, compared with €1,128 million a year earlier. Including the net working capital within the Spanish assets classified as held for sale (€30 million), net working capital thus showed only a slight increase on the prior year, despite the improved business environment.

Cash and cash equivalents came to €134 million at the end of the fiscal year (2015: €165 million). Within this figure, cash outflows from the scheduled repayment of the promissory notes were countered by inflows from the new convertible bond issue.

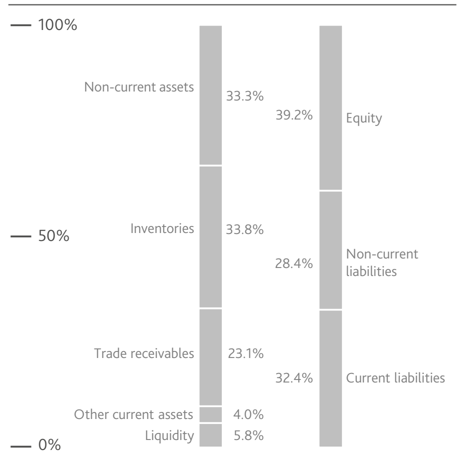
Financial liabilities were €571 million, €26 million above the prior-year figure. They include €300 million in drawings on the ABS programs, €129 million for the debt component of the convertible bond issue and €142 million in bilateral facilities and lease liabilities. The syndicated loan was undrawn as of the year-end.

Provisions for pensions rose from €340 million in the prior year to €359 million in the year under review. Additions of €23 million included in the statement of income and of €32 million included in other comprehensive income were partly offset by €36 million in reductions due to benefits paid and contributions to plan assets.

BALANCE SHEET TOTAL 2016: 2,897
in € million



BALANCE SHEET TOTAL 2015: 2,841
in € million



2.6 Overall assessment of the business situation

Key drivers: KCO WIN+ and improved price environment

Operating income (EBITDA) in the Klöckner & Co Group developed very positively in fiscal year 2016. Besides internal optimization and restructuring measures, this was also helped along by the significant upward trend in the price environment. Prior-year earnings were still hit by falling steel prices and substantial restructuring expenses.

There was a particularly marked increase in net income, which in the prior year was brought down significantly by goodwill impairments.

We continue to regard our finances as very stable. Further optimization measures enabled us to keep net working capital broadly constant – despite the distinct rise in steel prices year on year – and hence once again to generate positive free cash flow. Net financial debt went up mainly as a result of exchange rate changes but remained at a relatively low level. Financing for the Group is based on a widely diversified portfolio of funding instruments. The equity ratio remains very solid at 40% as of the 2016 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, 2016	December 31, 2015	Variance	
Intangible assets and property, plant & equipment	1	1	-	43.2%
Non-current investments	1,163	1,178	– 15	-1.2%
Fixed assets	**1,164**	**1,178**	**– 15**	**-1.2%**
Receivables from affiliated companies	256	222	34	15.2%
Other receivables	4	5	– 1	-31.1%
Cash and cash equivalents	91	94	– 3	-2.5%
Current assets	**351**	**321**	**30**	**9.3%**
Prepaid expenses	20	3	17	580.5%
Total assets	**1,535**	**1,502**	**33**	**2.2%**
Equity	**1,098**	**1,005**	**93**	**9.3%**
Provisions for pensions and similar obligations	92	101	– 9	-8.8%
Other provisions	29	32	– 3	-9.3%
Bonds	148	25	123	494.8%
Liabilities to affiliated companies	166	202	– 36	-17.8%
Liabilities to banks	-	135	– 135	-99.8%
Other current liabilities	2	3	– 1	-41.3%
Total equity and liabilities	**1,535**	**1,502**	**33**	**2.2%**

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).

Promissory note issue repaid on schedule; new convertible bond issue

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.

Other major items in the balance sheet relate to financial liabilities. The promissory notes still outstanding were repaid on schedule in the reporting year. A €148 million convertible bond issue was launched in September 2016. The coupon on the bonds was set at 2.0% p.a. and the initial conversion price at €14.82. The equity portion relating to the right to convert amounted to €18 million and was added to capital reserves. The syndicated loan with a total loan amount of €360 million was undrawn as of the fiscal year-end.

Klöckner & Co SE's equity ratio increased to 71% as of December 31, 2016 (2015: 67%).

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2016	2015	Variance	
Revenues	16	14	2	16.5%
Other income	30	4	26	666.6%
Cost of purchased services	– 10	– 9	– 1	-5.4%
Personell expenses	– 14	– 20	6	27.0%
Other operating expenses	– 21	– 19	– 2	-14.7%
Impairments of investments	– 2	– 259	257	99.2%
Income from investments	78	41	37	89.9%
Interest income, net	4	12	– 8	-66.8%
Result from ordinary activities	**81**	**– 236**	**317**	**n.a.**
Taxes	– 6	– 1	– 5	-584.1%
Net income	**75**	**– 237**	**312**	**n.a.**
Retained profit prior year	-	20	– 20	-100.0%
Dividends	-	– 20	20	100.0%
Withdrawal from capital reserves	-	237	– 237	-100.0%
Unapproppriated profits	**75**	**0**	**75**	**n.a.**

The income statement is presented in accordance with the requirements of the German Accounting Directive Implementation Act (BilRUG); the prior-year figures have been restated for comparison.

Sales mainly relate to services for Group companies.

Other operating income includes €28 million from the reversal of impairment losses on the carrying amount of Klöckner Participaciones S.A., Madrid, Spain due to the sale of the interests therein initiated in December 2016 and completed in January.

Personnel expenses decreased year on year. While retirement benefit cost resulted in a €10 million gain due to a statutory change in discount rates used in the measurement of defined benefit obligations, bonus payments increased by €5 million – partly due to the development of share-based compensation. Under Section 253 (6) of the German Commercial Code (HGB), the gain from the change in discount rates is not allowed to be distributed to shareholders.

The impairments on financial assets in the amount of €2 million relate to the investment in Buysmetal N.V., Belgium.

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.

Net interest income went down. This was because the decrease in income from loans to affiliated companies (notably Kloeckner Metals Corporation, Delaware, USA) due to reduced lending exceeded the decrease in the interest expense on promissory notes and convertible bonds due to repayments.

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

Dividend proposal of €0.20 per share

After a €237 million net loss in the prior year, net income of €75 million was generated in fiscal year 2016.

The Management Board and Supervisory Board will propose to the Annual General Meeting the distribution from net income available for distribution of a dividend of €0.20 per share (€20 million in total) and appropriation of the remaining €55 million to other revenue reserves.

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 as well as the profit transfer agreements we have in place, we expect that net income will once again be comfortably positive in 2017, although less than the fiscal year 2016 figure, which included the positive impact of impairment reversals.

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 or on the Internet at www.kloeckner.com.

3.2 Takeover disclosures

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

STRUCTURE OF SHARE CAPITAL

As of December 31, 2016, Klöckner & Co SE's subscribed 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, 2016, direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of voting rights had been reported to the Company pursuant to the German Securities Trading Act (WpHG) as follows: SWOCTEM GmbH (Mr. Friedhelm Loh), Haiger, 25.25% on 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 DISMISSAL 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 dismissed by the Supervisory Board as stipulated by Article 9 (1) c, Article 39 (2) and Article 46 of the European Company Regulation, Sections 84 and 85 of the German Stock Corporations Act and Section 6 of the Articles of Association. Under Article 59 (1) of the European Company Regulation, amendments to the Articles of Association require, in principle, a two-thirds majority of the votes cast, unless the German Stock Corporations Act requires or permits a greater majority. Under Article 59 (2) of the European Company Regulation and Section 51, sentence 1 of the German SE Implementation Act (SEAG), read in conjunction with Section 19 (2), sentence 2 of the Klöckner & Co SE Articles of Association, amendments can be implemented with a simple majority of votes cast if at least one half of the share capital is represented. 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 in 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 until 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 (3) of the Articles of Association (Authorized Capital 2012).

The Management Board has been authorized to issue warrant-linked bearer bonds and/or convertible bearer bonds, or combinations of such instruments, at any time until 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 having a proportionate amount in the share capital of up to €49,875,000. Authorization has thus been granted 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 convertible bonds issued by the Company or its subsidiaries under authorization by the Annual General Meeting of May 24, 2013. For further details, see Section 4 (6) of the Articles of Association. The Management Board already made partial use of these authorizations on September 8, 2016 by issuing convertible bonds having a total placement volume of €147.8 million. The bonds were (initially) backed by 9.973 million shares (2016 Convertible Bond).

Under Section 71 (1) No. 8 of the German Stock Corporations Act, and in accordance with the resolution adopted by 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 adoption of the resolution by the Annual General Meeting on May 25, 2012 or, if lower, the Company's share capital in issue at the time of the authorization is exercised. The Management Board has been additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, 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 within the meaning of Section 2 (5) of the Securities Acquisition and Takeover Act (WpÜG), directly or indirectly acquire(s) more than 50% of the voting rights in the Company, any of the individual lenders under the currently €360 million syndicated revolving credit facility may demand repayment of any outstanding loan it has disbursed.

In the event of an acquisition of control, the terms and conditions of the 2016 Convertible Bond permit the bondholders to demand early repayment of the principal amount plus accrued interest in certain cases. Pursuant to these terms and conditions, an acquisition of control is deemed to have occurred if a person, or persons acting in concert, directly or indirectly hold(s) more than 50% of the voting rights in the Company (acquisition of control).

Individual bondholders are also entitled to exercise their conversion rights at an adjusted conversion price in the event of a change of control under certain conditions. Pursuant to the terms and conditions of the 2016 Convertible Bond, a change of control is, among other instances, deemed to have occurred if (i) an acquisition of control as referred to above occurs or (ii) a mandatory offer within the meaning of the Securities Acquisition and Takeover Act is published or (iii) the bidder holds at least 30% of the voting rights in the Company in the event of a voluntary takeover offer as defined by the Securities Acquisition and Takeover Act, regardless of whether the bidder's stake results from the holding or attribution of voting rights or from voting rights in relation to which the takeover bid has already been accepted, whereby in the event of a conditional takeover bid a change of control is only deemed to have occurred if the offer conditions have been either met or waived.

For additional information, reference is made to the terms and conditions of the 2016 Convertible Bond.

The termination rights agreed upon represent standard industry practice, especially with respect to the granting and extension of long-term credit facilities.

AGREEMENTS CONCLUDED 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 that right, they will be entitled to payment of their budgeted salary (fixed component plus budgeted bonus) up to the end of their contract term, capped at three times the total compensation received in the last full fiscal year prior to termination of their service contracts. The personal investment requirement is waived. Any personal investment shares still vesting will be unlocked and released to the Management Board member in question. In addition, all virtual stock options already granted to the Management Board may be exercised prior to the end of the contractual vesting period.

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.

3.3 Dividend planning

Proposed dividend of €0.20 per share

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's net income available for distribution for fiscal year 2016 of an amount of €19,950 thousand to shareholders as dividend and the appropriation of the remaining €54,939 thousand of the net income available for distribution to other revenue reserves. With 99,750,000 entitled shares, the dividend proposal corresponds to a dividend of €0.20 per share. In general, Klöckner & Co follows a dividend policy of distributing 30% of consolidated net income before one-time items. Given that no dividend was paid out in the prior year and in view of the improved operating environment, the Management Board and Supervisory Board consider it appropriate to distribute a dividend in excess of this amount for 2016.

4. Responsibility

Klöckner & Co's business activities impact a wide range of stakeholders inside and outside the Company. We aim 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 regions where we are located.

Four focus topics: Employees, environment, corporate citizenship and *value chain*

Our sustainability activities and the information we publish on them are grouped into four focus topics comprising employees, the environment, corporate citizenship and the value chain. Furthermore, we 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.

In January 2017, CEO Gisbert Rühl signed the Compact for Responsive and Responsible Leadership sponsored by the International Business Council of the World Economic Forum. In this, we wish to pledge our public commitment to sustainable long-term growth.

Employees

Our approximately 9,100 employees at around 190 locations in 13 countries apply their skills and enthusiasm day in, day out to meeting the needs and wishes of some 130,000 customers. About 70% of our workforce is employed in Europe and 30% in the Americas.

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 safety and health initiatives.

A standardized annual performance feedback process introduced for upper and middle management in 2012 is established in all country organizations. Since 2015/2016, we have also implemented standardized development reviews for all employees in most country organizations and the holding company. In addition, we make increasing use of in-house talent development programs such as our Emerging Leaders Program for the branch managers of tomorrow. This program refreshes and trains the 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. Our first Emerging Leaders are already successfully in deployment as branch managers. January 2017 saw the start of the program's second year.

We conducted a global employee survey for the first time in 2015. Its aim was to gain an up-to-the-minute picture of opinion on communications, leadership behavior and working at Klöckner & Co. A gratifyingly high response rate of around 60% in combination with the generally positive echo showed our employees to be 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. 2016 brought follow-up processes, such as the expansion of annual feedback and reviews, implemented in close consultation with the heads of human resources at our country organizations. Likewise in 2016, we carried out a sample-based resurvey, primarily in the branches and areas where scope for improvement was identified in 2015. The great majority of branches covered in the resurvey were shown to have improved tangibly across almost all evaluation criteria.

Targets for female executives

Pursuant to the Act on Equal Participation of Women and Men in Leadership Positions in Germany, the Supervisory Board was required to set targets for women on the Supervisory Board and the Management Board, and the Management Board was required to set targets for women at the upper two leadership levels below Management Board level in Klöckner & Co SE (the Group parent). The top leadership level comprises head of corporate department positions and the second leadership level generally consists of head of department positions. 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 Management Board level in Klöckner & Co SE Group headquarters: 12.5% for level 1 and 25% for level 2. All targets must be met by June 30, 2017. As of the year-end, the percentage of women was 0% on the Supervisory Board and the Management Board, 12.5% at level 1 and 25% at level 2.

We have additionally set ourselves further, more long-term targets on a voluntary basis for the Klöckner & Co Group as a whole. Our aim is to increase the percentage of women at the upper three leadership levels below the Group Management Board to 20% by 2020. These three leadership levels comprise upper and middle management in the Group. Level 1 generally comprises the top management of country organizations (such as managing director positions) or comparable positions, level 2 encompasses positions such as that of a commercial director within a country organization, and a typical job profile in level 3 would be the position of branch manager. At the end of fiscal year 2015, women made up 14% of our management staff. We kept that figure stable in 2016. In contrast, the proportion of women in management at the end of 2010 was 8%.

The effectiveness of our approach for promoting women in managerial positions is demonstrated by the findings of the 2015 iteration of Frauen-Karriere-Index (Women Career Index), a regular survey conducted by Barbara Lutz Index Management GmbH. 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.

However, our efforts are not 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 130,000 customers day in, day out in 13 countries at some 190 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.

Focus on continuing professional development

With a view to keeping our employees' qualifications up to date, developing their skills and nurturing talent within our own ranks, Klöckner & Co places considerable emphasis on continuing professional development. To this end, our employees have access to job-specific, in-house training 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.

We have additionally launched a range of activities and transformation processes to take our workforce with us into the digital age. These include:

- Launch and development of the Kloeckner Digital Academy for employees to continue learning about digitalization online during working hours
- Establishment of an internal social network as a leadership instrument enabling us to implement non-hierarchical communication
- Short-run Digital Experience program for sales staff at our digitalization unit kloeckner.i to further dovetail steel and digital expertise

Occupational safety and health protection

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 further reduce the accident rate in the coming years. We have already cut our accident rate by more than half over the last six years. To this end, we have developed a comprehensive package of measures giving greater accountability to management staff and closely involving employees in occupational health and safety.

Already adopted in most European country organizations, British Standard BS OHSAS 18001 is an internationally recognized occupational health and safety certification that helps enhance awareness of health and safety issues. Implementation of the standard at additional locations is planned for 2017.

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, person-centered therapy 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 comprising logistics and quality managers meet regularly for cross-border exchange of best-practice solutions in these fields as well as to develop and systematically pursue joint projects. Successful projects from various country organizations are reviewed with a view to feasibility in other countries and implemented there if found suitable.

Certification to ISO 14001

Our locations in several European country organizations are certified to environmental standard ISO 14001 and a number of locations in our US country organization already boast an environmental management system.

We once again participated in the Carbon Disclosure Project (CDP) in 2016 and plan to continue doing so. The CDP's objective is to promote data transparency and comparability along with developing measures to achieve lasting reductions in carbon emissions.

Corporate citizenship

Active, local community engagement

Klöckner & Co operates in 13 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, living out 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.

One focus of our activities is on supporting selected scientific, sports, art and cultural projects along with ongoing promotion of education initiatives. Klöckner & Co additionally assists schools and a youth center in the Group's home town of Duisburg, Germany, among other things by providing healthy meals for socially disadvantaged children and by modernizing premises.

Joining forces with the Ruhr Piano Festival Foundation, we created an education project 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. No fewer than five schools with over 400 children took part in 2016. Meanwhile, the musical education work has earned supraregional recognition. In October 2016, the education program garnered the Echo Klassik award presented by Deutsche Phono-Akademie. The prestigious music award was bestowed in the Fostering Young Talent category. This and other awards are an endorsement of our successful collaboration, which is to continue in fiscal year 2017.

Integration of refugees

The integration of refugees into our society is another important concern for us. This includes creating career prospects. One sector with notable numbers of vacancies is information technology. To help refugees with IT skills onto the career ladder, the knowledge they bring with them needs to be enhanced and supplemented in line with the needs of the German labor market. They also have to be brought into contact with prospective employers in order to find a vacant position. Under the umbrella of the "We together" German Industry Integration Initiative, Klöckner & Co therefore supports the ReDI School auf Digital Integration in Berlin as main sponsor.

ReDI is short for Readiness and Digital Integration. Students are provided with laptops and can take part in free beginners and advanced programming courses. Additionally, students are each assigned a mentor to help them take the course content to a deeper level. Organized networking events make for lively contact with the Berlin startup scene. We also have our own presence in Berlin with kloeckner.i, our Group Center of Competence for Digitalization, where we are adding to staff numbers on an ongoing basis. When filling new positions, we place special emphasis on recruiting ReDI School graduates. With this in mind, the ReDI syllabus is specially geared to what is required of new employees at kloeckner.i. Internships prepare ReDI students for potential permanent employment at kloeckner.i.

We also support a special Stifterverband program targeting the integration of refugees through education as part of Kiron Open Higher Education's Computer Science study track. The program aims to offer refugees access to a course of study leading to an accredited bachelor's degree.

For some years, we have supported the Germany Scholarship in collaboration 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 and/or go on to university. It is our way of helping to remove barriers to equal opportunities among people of different social backgrounds.

The eligibility of projects for support in each region is best judged by the various country organizations. 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.

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.

Certification to quality standards

Long-lasting customer satisfaction is ensured by continuously enhancing service and product quality. Accordingly, 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 communicate the successful outcomes of our initiatives for the benefit of the outside world. Numerous branches of our country organizations are already certified to the ISO 9001 global quality standard. 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 business partners, as well as to establish responsible relationships. Our employees are provided with a frame of reference and guidance in the form of our Code of Conduct together with internal compliance rules.

Code of conduct a central element

All employees have received our Code of Conduct and confirmed that they have understood its content and will abide by the values it enshrines in their work for Klöckner & Co. In addition, in line with their leadership role, our managerial staff have a special responsibility to explain our ethical values and principles and to lead by example. Classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of compliance-related issues such as antitrust law, corruption risks and fraud. We conduct refresher e-learning sessions throughout the Group to keep our employees up to date and address specific compliance-related issues with examples from their day-to-day work. If they have a question about ethical conduct in a given business situation, employees can always approach a contact within our compliance organization at the holding company or locally in their country organization. Moreover, the compliance organization conducts risk analyses of compliance issues and, in cooperation with the Corporate Internal Audit Department, ongoing compliance audits at our country organizations, thereby checking compliance with statutory provisions as well as our in-house rules and regulations. We expect external business partners to comply with the ethical values and principles enshrined in our Code of Conduct or a comparable code and to implement them effectively 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.

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. Export controls and anti-money laundering are an additional priority area in the compliance management system. Klöckner & Co continued to support the work of Transparency International Deutschland in 2016, thus setting an example in the fight against corruption.

5. Macroeconomic outlook including key opportunities and risks

5.1 Expected global economic growth

Expected global economic growth in 2017: 3.4%

The International Monetary Fund (IMF) estimates that the world economy will grow by 3.4% in 2017, primarily driven by emerging and developing countries. However, potential adverse impacts of Brexit, the trend in the oil price and notably question marks over the unforeseeable impacts of the altered US trade policy are uncertainty factors that could prove detrimental to the global economy.

Eurozone economic growth is likely to stay moderate in 2017. Although supportive monetary policy measures are expected to continue, growth will be held back by weak private consumption and the potential adverse effects of Brexit on exports. Overall, the IMF projects eurozone GDP growth of 1.6%.

The IMF's growth forecast for the USA in 2017 is 2.3%. Stimulus measures planned by the new US administration could lend positive impetus. Higher employment would spell stronger wage growth and a consequent rise in private consumption.

The IMF expects that, due to a lack of further policy stimulus, economic growth in China will cool down to 6.5% in 2017. After decades of at times double-digit growth, the government plans to align the export-led economic model toward the domestic market, hence the projected growth slowdown.

As a result of greater political stability ushered in by the new president and the dissipating impacts of past economic shocks, the IMF is forecasting slight growth of 0.2% for Brazil in 2017.

Expected development of GDP (in percent)	2017
Europe*)	**1.6**
Germany	1.5
Great Britain	1.5
France	1.3
Spain	2.3
Switzerland	1.5
China	**6.5**
Americas	
USA	2.3
Brazil	0.2

Source: IMF, Bloomberg.
*) Eurozone.

Expected steel sector trend

The World Steel Association predicts that global steel consumption will grow by 0.5% in 2017. It projects growth of 1.4% for the European Union, 2.9% for the North American Free Trade Agreement (NAFTA) region and 4.1% for South and Central America, while China is forecast to decline by 2.0%.

5.2 Expected trend in our core customer sectors

Construction industry

EUROFER, the steel industry association, estimates that the European construction industry will grow by 2.1% in 2017. It is anticipated that this will continue to be driven by an increase in residential construction – including public spending on refugee accommodation. In the USA, expected state infrastructure projects and rising employment spell approximately 7% growth for the construction industry in 2017.

Machinery and mechanical engineering

For the eurozone EUROFER anticipates only slight growth for machinery and mechanical engineering of 0.7% in 2017. Positive effects such as the weak euro, which aids eurozone exporters, and lower borrowing costs in the EU may offset at least some of the potential negative impact from the Brexit vote. Growth of 4.6% is expected for the USA on the back of the low energy prices.

Automotive industry

The German Association of the Automotive Industry (VDA) projects growth of about 2.0% for the global passenger car market in 2017. Western Europe and the USA are expected to hold a stable sideways trend, while growth of 5.0% is forecast for China. In Brazil, for the first time after a downtrend lasting several years, the market is forecast to steady off at its prior-year level.

5.3 Risks and opportunities

Steel demand showed a varied picture in our key markets of Europe and North America. While demand in Europe went sideways, demand in the USA even contracted It remains to be seen whether hopes for a boost in infrastructure investment pinned on the outcome of the US presidential election will materialize and whether steel demand in the USA will recover as a result. In both Europe and the USA, a rise in steel prices could be traced through large parts of the reporting period. Major factors in this were a sharp drop in steel imports – first and foremost from China – due to anti-dumping measures and rising raw material prices. The market environment is also impacted by uncertainties as a result of increased political risks, notably in Europe with several elections in 2017, as well as by ongoing geopolitical risks.

Risk policy

Optimizing the Group's risk position

Risks are frequently unavoidable in our business activities if we are to leverage market opportunities. We therefore aim not to minimize but to optimize the Company's risk position, as otherwise opportunities would have to be passed up. 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).

Central authority to issue guidelines, our Group-wide risk management guideline and comprehensive annual updating of the risk inventory at both country and corporate department level ensure a uniform understanding of risk throughout the Group. Our risk management system is an integrated system that supports structured risk analysis across the entire Group. Flexible architecture allows adaptation to changing company requirements and continuous improvement. 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 that 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.

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.

Risk owners identify, assess and carry responsibility for their respective risks and responses. As the link between operating units and the Corporate Risk Management Department, local risk managers serve a control and reporting function. 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. The Risk Committee critically reviews the resulting current risks as well as supervising and advising the Corporate Risk Management Department.

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. A risk's relevance represents its overall significance for the Group as a whole and thus combines various aspects such as expected value, realistic maximum loss, and risk duration. Relevance is used to classify identified risks 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 (meaning on a gross basis). We also include risks that do not impact EBITDA, such as impairments as well as interest, currency and tax risk.

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 company 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). Identified individual risks 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, in parallel with compilation of the risk report, these 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 material changes in risks already identified. Intended primarily for the Management Board and 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 aim of the ICS is to use the implemented controls 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. Another fundamental element of the ICS is to ensure the separation of approval, execution, administrative and invoicing functions. Automated, 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 & Development/M&A. For instance, the country organizations' control units produce monthly reports, which Corporate Controlling & Development/M&A aggregates at Group level. All notable and quantifiable factors impacting results at 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 specific 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 enables both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. Our contractual partners outside the Company are likewise expected to implement and comply with the principles and standards enshrined in our Code of Conduct or a comparable code of conduct. The implementation and effectiveness of our CMS are subject to continuous review by the Corporate Internal Audit Department and external appraisers.

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 – which we fully revised in the year under review – and other compliance-related Group guidelines. These 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 integrity due diligence on intermediaries we engage and system-integrated export controls and sanction list screening. 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 was reviewed by an outside appraiser during the year under review. It was found that the CMS covered all material requirements with regard to a good compliance management system and that the measures implemented and structures established are capable of identifying and avoiding compliance risks for significant compliance violations.

The Management Board of Klöckner & Co SE has, both internally and externally, unequivocally expressed its policy of zero tolerance toward antitrust violations and corruption in its “Tone from the top.” In the event of any violation, Klöckner & Co will take action against the employees involved under labor law and may hold them personally liable for any loss incurred. We notify employees that bribery and other forms of corruption may also 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 all other risk categories.

Relevance Risk category	4 Serious risk (≥ €60 million)	3 Significant risk (≥ €18 million)	2 Intermediate risk (≥ €6 million)
Strategic risk	Traditional steel distribution model not sustainable over long term		
	High level of dependence on earnings from US, Swiss and Becker Stahl business units		
	Dependence on construction industry and commodity products		
	New financial crisis		
		Threat of disruptive market players	
		Lack of success in future 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 due to significant decline in shipments	
		Demand and price development	
		Competitive environment	
Value chain risk		Non-attainment of One Europe project targets	
Financial risk	Impairment losses on non-current assets[1]		
	Continuous fall in discount rate for defined benefit obligations[2]		
		Future long-term weak profitability	
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 digitalization

1) Does not impact the key performance indicator EBITDA, but does impact net income.
2) Does not impact the key performance indicator EBITDA, but may impact the Group's financing covenants.

Strategic risk

Our serious strategic risks relate to traditional steel distribution potentially ceasing to be a sustainable business model, high levels of dependence on the profitability of our US and Swiss business units and that of Becker Stahl-Service as well as on the construction industry and commodity products, together with the risk of another financial crisis. Further significant risks comprise the potential threat of disruptive market players, future acquisitions that are lacking in success and excessive sovereign debt in many industrial countries, which could lead to a sovereign debt and/or liquidity crisis and additionally burden the economic situation in our markets.

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, developing an industry platform and 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 high levels of dependence on earnings from our US and Swiss business units and from Becker Stahl-Service by more closely integrating our traditional steel distribution activities in Europe under a single organization via the One Europe program in order to unlock synergies, save costs and enable faster, more efficient implementation of our strategy. Notably our leading role in digitalizing the steel distribution value chain is expected to deliver enhanced market differentiation and hence competitive advantages. In addition, our ongoing investment in higher value-added products and processing services makes an important contribution to improving earnings from steel distribution.

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, and streamlining our portfolio in the low-margin construction business. 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 address 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 (40% equity ratio) and our comparatively low net financial debt in relation to equity (40% gearing). Our available working capital facilities ensure that we can finance our operating activities and cover our liquidity requirements at all times. The main tools are the €300 million European ABS program, which runs to July 2019, and the €360 million syndicated holding credit facility running to May 2019 (€305 million) and May 2018 (€55 million), as well as a syndicated ABS/ABL facility in the USA totaling USD 550 million and running to March 2021. To extend our financing portfolio, we launched a €148 million senior unsecured convertible bond issue closing September 8, 2016. At €134 million, we also had adequate holdings of cash and cash equivalents as of the year-end 2016. These are invested on a short-term basis with the Group's prime-rated core banks.

We meet the potential risk of disruptive market players with our pioneer position in the digital transformation of the steel industry. Our aim is to digitalize the supply and value chain from beginning to end. This is why we launched kloeckner.i and kloeckner.v in Berlin in 2014 and 2015. kloeckner.i serves as the Group's center of competence for digital solutions, innovation, intra-Group knowledge transfer, online marketing and liaison with the startup community, while kloeckner.v sounds out the market and invests in venture capital funds or directly in startups that support our digitalization strategy with their potentially disruptive business models.

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 influences acting on our business environment, such as a sovereign debt crisis, we pursue ongoing efforts to optimize workflows and processes in our business operations. Part of this is the One Europe program, which we launched after successfully completing our KCO WIN+ restructuring and optimization program in the reporting period.

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. Above and beyond this, significant market risks for Klöckner & Co result from diminishing economies of scale due to a potential significant decrease in shipments, from trends in demand and prices, and to a major extent from the highly competitive situation.

Cyclical risk stems from the sustained mood of uncertainty on financial markets. In Europe, unresolved problems at a number of European banks make for uncertainty, as does the heightened political risk as a result of Brexit, elections in France and Germany along with the possibility of elections in Italy and Spain. The primary source of uncertainty in the USA concerns what elements of the campaign program the new US administration will actually implement. Currently prevailing positive expectations are chiefly based on potential high levels of investment in infrastructure, large tax breaks and a reduction in red tape. These are countered, however, by increased protectionism and isolationism, which would also negatively impact world trade. Further concerns surround the fraught situation on the lending and real estate market in China – despite government countermeasures – and increasingly critical attitudes toward globalization in many countries that could lead to rising barriers to trade and, via falling global investment activity, to a drop in steel demand.

The optimization of our location network and ongoing portfolio streamlining result in lower shipments. Any decline significantly below the targeted shipments figure could lead to a situation where 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 expanding our business in higher value-added products and processing services, such as through the establishment of Becker Aluminium-Service launched in the reporting year and acquisitions in the higher value-added steel fabrication segment as with American Fabricators, Inc., USA, in 2015.

Demand continues to be subject to 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 – there is a strong dependence 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 ongoing 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. Interdependencies between price trends on different markets as a result of imports from Asia to Europe and from Asia and Europe to America have been mitigated in the reporting year by growing anti-dumping measures in both Europe and the USA. It remains to be seen, however, how successful these measures will be in the long term, because in the USA especially they are being circumvented to an extent by importing via third countries or importing products of higher quality or high steel content, and also because rising prices create a greater incentive to bring mothballed production capacity back into service. All this acts against any lasting recovery in steel prices. A devaluation of the yuan and a renewed fall in raw material prices could also adversely affect any sustained price recovery. Despite announcements made by the Chinese government, there are still no signs of any major capacity adjustment. The structural disequilibrium between production capacity and actual demand will therefore 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.

Overcapacities also exist in steel distribution, which has led to intensification of the competitive situation. 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 makes it possible to respond to market change as swiftly as possible, such as by taking specific measures in inventory management. The main early warning indicators for steel prices are price trends in iron ore, coking coal and scrap as well as market inventory levels.

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. A major part in this is our One Europe program. Our increasing differentiation in relation to competitors is also a key factor in minimizing market risk. The core elements in this connection are digitalizing the supply and value chain together with the development of an industry platform as well as driving forward our business in higher value-added products and processing services. We also aim to be more rigorous in obtaining the margins available in the market for our products and services by continuously fine-tuning pricing.

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. Internationally coordinated procurement, further enhanced via One Europe, enables us to respond quickly to changing situations in the procurement market. In this way, we are able to manage our portfolio of suppliers and make even greater use of 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. At the same time, price risk is reduced by our inventory and product range policy, which is tailored to demand and logistically optimized.

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

Value chain risk

To place Klöckner & Co's business success on a broader base and to be successful in the long term, it is necessary to achieve a substantial and lasting improvement in earnings from the traditional steel distribution business in Europe. A key success factor in this is the effective implementation of our One Europe program. Non-attainment of our objectives in the One Europe program thus constitutes a significant risk for the requisite optimization of the value chain.

Implementation of a matrix structure in Europe serves deeper integration of the value chain across national borders and business units while firmly embedding the central building blocks of our strategy – such as higher value-added products and processing services, or digitalization – as cross-cutting functions in our organization. The importance of the One Europe organization for Klöckner & Co is additionally underscored by the fact that a member of our Group's Management Board carries direct operational responsibility as CEO of the new organization.

Financial risk

The Corporate Treasury Department manages the financial risk of Klöckner & Co SE 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 and significant.

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 risk of actual developments diverging from these assumptions. Following impairment charges recognized on the entire goodwill of Klöckner & Co SE's North American activities in 2015, non-current intangible assets from US acquisitions total €124 million as of December 31, 2016. A reduction in value in use would result in further impairments. 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. Notable countermeasures include the continuous optimization of our North American activities with a view to achieving lasting improvements in the earnings situation in the USA.

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.

With regard to defined benefit obligations, given the current low interest rate environment, a continuously falling discount rate would have a considerable impact on the measurement of our obligations. A potential decrease in the discount rate would necessitate further additions to pension provisions, with the effect of reducing equity. In light of the high volatility in the steel distribution industry, we regard changes in the discount rate as a serious risk, even though it does not impact our key performance indicator EBITDA, as under certain circumstances it could affect our Group's financing covenants.

We therefore monitor interest rate changes and their balance sheet impact so that we can take timely countermeasures as needed. In addition, we regularly commission independent experts to produce asset/liability studies as part of risk analysis and, where necessary, adapt our investment policy accordingly. Worldwide, decisions on the allocation of funds to pension schemes are made centrally by the Klöckner Global Retirement Benefits Committee. These decisions require the approval of the Group's Management Board. New commitments are on a defined contribution basis only so as to minimize the financial risk arising from pension commitments.

Operating earning power is a key criterion in the assessment of our creditworthiness by banks. Weak profitability over longer periods would therefore limit our future scope for refinancing. We regard any such weak profitability over longer periods as a significant risk. Among the measures we deploy to counter this risk is our One Europe optimization program geared to lasting improvements in profitability.

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. Outside experts are additionally carrying out a cyber security review of systems and applications at selected Group companies in 2017.

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 in the case of 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. Moreover, we regularly identify potential personnel risks through our internal monitoring process. During 2016, we additionally engaged an international human resources consulting group to perform a management audit in our Group in order to back up the internal evaluation with objective findings from outside experts. Likewise in the period under review, we conducted a follow-up of the Group-wide employee survey carried out in 2015, working in close consultation with heads of human resources. The focus was on areas where, despite the overall positive response, we had identified scope for improvement. We additionally carried out a sample-based resurvey in 2016 to more accurately measure what has been attained. The vast majority of branches covered in the resurvey were shown to have improved measurably across almost all evaluation criteria.

Risks arising from management processes

In addition to ongoing process adjustments, the huge, market-driven decline in shipments in Europe in recent years has already necessitated massive structural adjustments. It is of critical importance for our future success that our structures and processes meet market and customer requirements 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. Adjusting costs in proportion to quantities in the short term would only be possible 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 and by taking a leading role in the digitalization of the steel distribution value chain at an early stage, by rapidly pushing ahead with digitalization of the supply and value chain, by generating competitive advantages with pioneering approaches, and by 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 specialized companies, such as American Fabricators, Inc. in 2015, we also aim to grow more and more organically in this higher-margin segment. Our regional focus here continues to be on the United States due to its significantly better growth prospects. The new US administration's campaign pledges of additional infrastructure spending and intimations of wide-ranging corporate tax breaks could mean a further boost to growth prospects for the US economy. For enduring success, however, it is necessary to increase the proportion of higher value-added products and services across all countries. We plan to raise the share of Group sales in this field to over 50% by 2018. Measures to attain this goal include the systematic expansion of our business with aluminum, a key material for the future, which we set in motion during the period under review with the construction of a service center to process aluminum flat products at our Bönen location. Already under construction, the slitting line is slated for completion in 2017. A supplementary cut-to-length line is scheduled to come into operation the following year. Marking the biggest investment in Klöckner & Co's corporate history at some €35 million, the plant is expected to reach its full 80,000 ton-per-year aluminum processing capacity in 2018. The launch of the new business segment operating as Becker Aluminium-Service GmbH sees the creation of up to 80 new jobs overall.

Alongside growth in the areas mentioned, the main focus of our strategy is on the digitalization of our entire supply and value chain together with the phased development of an open industry platform as a further element in our differentiation from competitors. We are at the forefront of our industry in this regard. All this is supplemented by measures to fine-tune operating processes, above all via the One Europe program for our European steel distribution activities, targeting lasting improvements in earnings in our core business.

Operational opportunities

The "Klöckner & Co 2020" growth strategy also brings with it numerous opportunities from operational-level changes. To further leverage our two key strategic approaches for enhanced differentiation – digitalization and expansion of our business with higher value-added products and processing services – we are directly embedding them in our operating activities as two cross-cutting functions (Digital, and Value Added Services and Products Business Development) within the matrix structure of our new One Europe organization.

As an integral part of our optimization strategy, One Europe also brings together measures and projects directed at improving workflows and processes in our operating business. Alongside further streamlining and focusing of procurement and logistics, a notable emphasis here is on more differentiated pricing and other measures to boost effectiveness and efficiency in sales, such as better sales control. As our chief competitors comprise a host of small and medium-sized enterprises, we are exploiting our economies of scale across business units and national borders to delineate ourselves more distinctly than ever from that competition. This applies especially to the core strategic areas just mentioned.

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 portfolio 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. Notably this is one of the focal areas of the One Europe program, which alongside material procurement is also aimed at combining and optimizing procurement of non-merchandising items and services across Europe.

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. With this in mind, we already have several digital tools in deployment across various country organizations. Based on such 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 at the end of 2014 to develop and test digital solutions before rolling them out 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. kloeckner.i thus works jointly with our German country organization Klöckner & Co Deutschland GmbH to develop innovative tools and involves customers from an early stage to test functionality and customer benefit step by step.

On the sales side, we have already successfully rolled out contract portals and online shops to customers. In procurement, we have full digital integration with growing numbers of wholesalers and major steel producers. All tools and data are gradually being integrated into the Kloeckner Connect service platform. In this way, customers and partners have a central access point for data, which they can leverage profitably. A further step will be to gradually open up the service platform to competitors starting in 2017. The resulting open industry platform will additionally boost product diversity and enhance price transparency for our customers. At the same time, we will unlock added earnings potential by generating commission from transactions effected by competitors using the industry platform.

While kloeckner.i operates like an internal startup, it is through our venture capital company kloeckner.v, which we launched in 2015, that we establish links with external startups. This company invests both through selected venture capital firms and 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.

Working in harness with Contorion, a Berlin-based startup and online trader, Klöckner & Co has entered into the attractive segment comprising online sales to tradespeople and private customers. Using Contorion's platform, we are able to supply tradespeople and private customers with sheet, tube, section and other Klöckner products in line with their requirements and with no minimum order value.

We are also the exclusive partner of an Industry 4.0 project launched by machinery manufacturer Trumpf. Going forward, the partnership will enable production machines to order steel from us autonomously. With this in mind, our contract portal has already been integrated into Trumpf's Axoom customer platform.

In Germany, Klöckner & Co has additionally entered into collaboration with Sage, one of the market leaders in integrated business software. We are jointly marketing an ERP solution specially preconfigured for steel and metal processors. The system will enable our customers to professionally manage their business processes as well as automatically trigger online orders for steel and metal products in the Klöckner range.

A further source of leverage for our Group's ongoing digital transformation is the artificial intelligence (AI) innovation partnership we launched with Arago GmbH during the period under review. Our aim in this is to drive forward the digital transformation of Klöckner & Co by using AI. To that end, we will use Arago's Hiro AI platform to automate our IT infrastructure and thus support attainment of our strategic goals. Hiro will give us a boost in terms of efficiency, flexibility and speed.

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 enhance service quality, efficiency and effectiveness. Examples of cross-border projects in Europe include the introduction of our KliCC CRM system and of semiautomated pricing. In addition, we have launched a medium-term project to introduce a dynamic pricing approach. This uses software-based algorithms to draw lessons from customer behavior and apply them in the pricing process. Continuous improvement of processes and workflows in our stockholding locations and in transport management is the core task of our Logistics/Operations function. Correspondingly, we have for many years been developing Europe-wide best practices and standards such as "Safety 1st" and our "10 Commandments of Operations". Successfully introducing paperless stockholding processes in our POW:R project delivered significantly better transparency regarding current order status, both internally and for customers. Having online information on current stockholding capacity utilization permits efficient resource management and enables us to further improve stockyard service levels. The pro² project in Logistics/Operations helps us in further professionalizing our processing activities.

Our Logistics/Operations function will continue and expand the successful standardization process in the new organizational structure under Kloeckner Metals Europe. Introduction of a Europe-wide transport planning tool will have a major impact here. This will provide time and cost optimization in cross-border customer delivery scheduling. Analysis of transport performance data will flag up further scope for improvements in service mindedness and customer satisfaction. We also plan to leverage available telemetry data for purposes such as actively informing customers of delivery times.

Ultimately, we also set ourselves apart from the competition through our state-of-the-art technologies and systems, which we fine-tune on an ongoing basis. As mentioned earlier, these enable us, for instance, to take customer analysis and service to even higher professional levels. 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, Corporate Controlling & Development/M&A 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 on a case-by-case basis 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 the Corporate Controlling & Development/M&A Departments carry out annual goodwill impairment tests under IAS 36 on a centralized basis. We thus ensure a uniform approach when it comes to measuring the cash-generating units and applying management judgment. 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 what is still a volatile 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.

6. Group forecast

For the current fiscal year, we expect a slight rise in real steel demand in both of our primary sales markets, Europe and the USA. Additionally driven by an anticipated rise in the price level, sales both in the Klöckner & Co Group and in the operating segments are projected to grow slightly more strongly than demand. Due to the sale of our Spanish activities, however, the increase will be a little smaller in the Europe segment than in the Americas segment.

With regard to gross profit, we expect this will stay constant in the Europe segment and gain slightly in the Americas segment and the Group as a whole. In both cases, however, the increase will be less than the growth in sales as gross profit was boosted almost throughout in the prior year by rising prices. Accordingly, we expect that the gross profit margin will be stable in the Americas segment and the Group while anticipating a slight decrease for the Europe segment.

Supported by the contributions to earnings from the One Europe and KCO WIN+ programs, we project a slight increase in EBITDA and the EBITDA margin at Group level. This will be driven by the Americas segment, where both figures are likely to improve significantly, whereas we expect that they will both decrease slightly in Europe. The expected decreases in Europe relate to lower anticipated proceeds from sales of sites that are no longer operationally needed.

Aided by ongoing implementation of the digitalization strategy, we anticipate that net working capital will remain constant at Group and segment level despite the expected rise in sales. Against the backdrop of a projected further improvement in net income, our net debt is forecast to be slightly down on the prior year.

Duisburg, February 22, 2017

The Management Board

FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements

Consolidated statement of income

for the 12-month period ending December 31, 2016

(€ thousand)	Notes	2016	2015
Sales	7	5,730,064	6,443,628
Other operating income	8	39,912	32,911
Changes in inventory		829	-14,080
Own work capitalized		12	94
Cost of materials	9	-4,416,331	-5,192,565
Personnel expenses	10	-640,702	-676,558
Depreciation and amortization		-110,113	-374,117
thereof impairment losses	*15*	*-17,546*	*-277,713*
Other operating expenses	11	-518,255	-569,556
Operating result		**85,416**	**-350,243**
Income from investments		**-6**	**-**
Finance income		1,862	1,278
Finance expenses		-35,269	-50,272
Financial result	**12**	**-33,407**	**-48,994**
Income before taxes		**52,003**	**-399,237**
Income taxes	13	-14,046	50,400
Net income		**37,957**	**-348,837**
thereof attributable to			
– shareholders of Klöckner & Co SE		*36,797*	*-346,689*
– non-controlling interests		*1,160*	*-2,148*
Earnings per share (€/share)	14		
– basic		0.37	-3.48
– diluted		0.37	-3.48

Statement of comprehensive income

for the 12-month period ending December 31, 2016

(€ thousand)	2016	2015
Net income	**37,957**	**-348,837**
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	-34,309	-13,352
Related income tax	-1,661	5,417
Total	**-35,970**	**-7,935**
Other comprehensive income reclassifiable		
Foreign currency translation	15,732	65,549
Gain/loss from net investment hedges	-326	-1,830
Related income tax	103	607
Gain/loss from cash flow hedges	-267	-
Reclassification to profit and loss due to sale of foreign subsidiaries	-	-33
Total	**15,242**	**64,293**
Other comprehensive income	**-20,728**	**56,358**
Total comprehensive income	**17,229**	**-292,479**
thereof attributable to		
– shareholders of Klöckner & Co SE	*16,107*	*-290,384*
– non-controlling interests	*1,122*	*-2,095*

Consolidated statement of financial position

as of December 31, 2016

ASSETS

(€ thousand)	Notes	December 31. 2016	December 31. 2015
Non-current assets			
Intangible assets	15 a	206,317	223,624
Property, plant and equipment	15 b	661,548	680,491
Investment property	15 c	-	8,742
Non-current investments		5,732	2,069
Other assets	18	10,162	13,273
Current income tax receivable	13	8,415	6,388
Deferred tax assets	13	4,855	10,829
Total non-current assets		**897,029**	**945,416**
Current assets			
Inventories	16	1,006,255	961,171
Trade receivables	17	653,784	655,393
Current income tax receivable	13	19,725	14,262
Other assets	18	97,606	99,576
Cash and cash equivalents	19	134,228	164,853
Assets held for sale	20	87,909	627
Total current assets		**1,999,507**	**1,895,882**
Total assets		**2,896,536**	**2,841,298**

EQUITY AND LIABILITIES

(€ thousand)	Notes	December 31, 2016	December 31, 2015
Equity			
Subscribed capital		249,375	249,375
Capital reserves		682,412	664,182
Retained earnings		201,687	164,852
Accumulated other comprehensive income		5,722	26,412
Equity attributable to shareholders of Klöckner & Co SE		**1,139,196**	**1,104,821**
Non-controlling interests		8,757	8,606
Total equity	**21**	**1,147,953**	**1,113,427**
Non-current liabilities			
Provisions for pensions and similar obligations	23	358,887	340,112
Other provisions and accrued liabilities	24	22,614	21,221
Financial liabilities	25	527,494	337,211
Other liabilities	27	275	64,385
Deferred tax liabilities	13	39,308	43,955
Total non-current liabilities		**948,578**	**806,884**
Current liabilities			
Other provisions and accrued liabilities	24	137,737	149,906
Income tax liabilities	13	14,422	17,420
Financial liabilities	25	44,013	207,999
Trade payables	26	540,130	489,048
Other liabilities	27	41,296	56,614
Liabilities of disposal groups		22,407	-
Total current liabilities		**800,005**	**920,987**
Total liabilities		**1,748,583**	**1,727,871**
Total equity and liabilities		**2,896,536**	**2,841,298**

Consolidated statement of cash flows 2016

(€ thousand)	2016	2015
Net income	37,957	-348,837
Income taxes	14,046	-50,400
Financial result	33,407	48,994
Depreciation and amortization	110,113	374,117
Other non–cash income/expenses	-351	-1,024
Gain on disposal of non–current assets	-13,186	-6,299
Change in net working capital		
Inventories	-69,168	445,426
Trade receivables	-21,938	138,865
Trade payables	69,299	-303,127
Change in other operating assets and liabilities	-39,110	21,156
Interest paid	-25,698	-29,971
Interest received	977	1,485
Income taxes paid	-23,600	-14,455
Cash flow from operating activities	**72,748**	**275,930**
Proceeds from the sale of non–current assets and assets held for sale	18,675	35,237
Proceeds from the sale of consolidated subsidiaries (incl. businesses)	9,921	11,958
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-80,017	-98,812
Acquisition of subsidiaries and non-controlling interest	-	-33,806
Cash flow from investing activities	**-51,421**	**-85,423**
Dividend payments to shareholders of Klöckner & Co SE	-	-19,950
Dividend payments to non–controlling interests	-933	-1,684
Issue proceeds of convertible bond (incl. equity component)	145,398	-
Repayment convertible bond	-24,850	-161,350
Repayment Syndicated Loan	-	-100,000
Repayment promissory notes	-133,000	-51,500
Borrowings	653,896	476,615
Repayment of financial liabilities	-686,504	-491,859
Cash flow from financing activities	**-45,993**	**-349,728**
Changes in cash and cash equivalents	**-24,666**	**-159,221**
Effect of foreign exchange rates on cash and cash equivalents	-3,197	7,710
Cash and cash equivalents at the beginning of the period	164,853	316,364
Cash and cash equivalents at the end of the period	136,990	164,853
Thereof included in "Assets held for sale"	-2,762	-
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**134,228**	**164,853**

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, 2015	**249,375**	**900,759**	**289,257**	
Other comprehensive income				
Foreign currency translation				
Related income tax				
Gain/Loss from cash flow 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**	
Balance as of January 1, 2016	**249,375**	**664,182**	**164,852**	
Other comprehensive income				
Foreign currency translation				
Gain/loss from net investment hedges				
Related income tax				
Gain/Loss from cash flow hedges				
Actuarial gains and losses (IAS 19)				
Related income tax				
Other comprehensive income				
Net income			36,797	
Total comprehensive income				
Change of non–controlling interests			38	
Dividends				
Equity component of convertible bond		18,230		
Balance as of December 31, 2016	**249,375**	**682,412**	**201,687**	

	Accumulated other comprehensive income					
	Currency translation adjustments	Actuarial gains and losses (IAS 19)	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	Total
	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
			607	607		607
		-13,427		-13,427	75	-13,352
		5,440		5,440	-23	5,417
	-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**
	175,109	**-146,849**	**-1,848**	**1,104,821**	**8,606**	**1,113,427**
	15,733			15,733	-1	15,732
			-326	-326		-326
			103	103		103
			-267	-267		-267
		-34,266		-34,266	-43	-34,309
		-1,667		-1,667	6	-1,661
				-20,690	**-38**	**-20,728**
				36,797	1,160	37,957
				16,107	**1,122**	**17,229**
				38	-38	
					-933	-933
				18,230		18,230
	190,842	**-182,782**	**-2,338**	**1,139,196**	**8,757**	**1,147,953**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2016

(1) Company information

Klöckner & Co SE is a listed corporation domiciled at Am Silberpalais 1, Duisburg, Germany and entered in the commercial register of Duisburg Local Court under HRB 20486. The consolidated financial statements of Klöckner & Co SE and its subsidiaries (the Klöckner & Co Group) were authorized for submission to the Supervisory Board by resolution of the Management Board on February 22, 2017. The Supervisory Board has the task of examining the consolidated financial statements and stating whether it approves them.

The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

(2) Basis of accounting

The consolidated financial statements as of December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional requirements under Section 315a (1) of the German Commercial Code (Handelsgesetzbuch/HGB). All IFRS and the associated interpretations of the IFRS Interpretations Committee (IFRIC) effective as of December 31, 2016 have been applied.

The financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of the reporting date of the consolidated financial statements, 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). There may be discrepancies relative to the unrounded figures.

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

(3) Basis of consolidation and consolidation methods

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Klöckner & Co SE and the companies controlled by it (subsidiaries). Klöckner & Co controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries acquired or divested during the fiscal year are included in the consolidated financial statements from the date control commences until the date on which control ceases.

Intra-Group receivables, liabilities, balances, income and expenses, are eliminated in consolidation. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset against each other where they relate to taxes levied by the same taxation authority and to the same period.

The number of consolidated companies changed as follows during the year under review:

	2016	2015
Consolidated entities at the beginning of the financial year*)	74	73
+ business combinations	-	1
+ newly formed/consolidated companies	2	3
– mergers	-	– 2
– disposals and liquidations	-	– 1
Consolidated entities at the end of the financial year	**76**	**74**
thereof domestic entities including Klöckner & Co SE)*	*13*	*13*

*) Including consolidated special-purpose entities.

2 (2015: 2) subsidiaries that are not material to the Group's results of operations, financial position and net assets are not consolidated. A list of affiliated companies included in the consolidated financial statements is attached as an annex to the notes.

Special-purpose entities

A total of four special-purpose entities exist in connection with the Group's European asset-backed securitization program (ABS program), comprising a parent, Klöckner Receivables Funding (DAC), Dublin, Ireland, and three country-specific subsidiaries. The interests in the special-purpose entities are held by two independent and privately owned service companies that are responsible for accounting in the parent. These special-purpose entities purchase merchandise receivables from the subsidiaries participating in the ABS program on contractually agreed terms and finance them using conduit credits refinanced with commercial paper issues or loans from the participating banks. The AAA rating required for the commercial papers is ensured by maintaining accounts receivable reserves and meeting performance indicators.

Utilization of the program depends on the level of receivables and monthly variation in cash flow requirements. This decision is the responsibility of Klöckner & Co SE.

Klöckner & Co SE is contractually responsible for payment execution, reporting, management of the purchased receivables, including credit management and collection of receivables in the special-purpose entities, and for accounting in the country-specific special-purpose entities. In addition, Klöckner & Co determines the factor that subsidiaries are required to pay in order to cover all running costs of the special-purpose entities. The special-purpose entities are controlled by Klöckner & Co SE and are therefore included in the consolidated financial statements. They are subject to control due to the fact that Klöckner & Co is exposed to variable returns from the special-purpose entities and is able to influence those returns with its control over them.

For the purposes of the ABS program in Germany, Klöckner & Co SE has extended loans to Klöckner Receivables Funding (DAC), Dublin, Ireland, in the amount of €100 million (2015: €50 million).

For the ABS program in place in the USA since 2007, only one special-purpose entity has been established (NC Receivables Corporation, Wilmington, Delaware, USA), which is wholly owned by Klöckner Metals Corporation, Wilmington, Delaware, USA. The special-purpose entity purchases merchandise receivables from the subsidiaries in the USA and Mexico, which transfer the receivables. NC Receivables Corporation in turn resells the receivables to a conduit that finances the purchase either by issuing commercial papers to investors or by drawing on a liquidity fund.

The companies participating in the program continue to be assigned responsibility by Klöckner & Co SE for collection and receivables management, bear all related costs but do not receive any corresponding remuneration. The special-purpose entity covers its own running costs.

(4) Significant accounting policies

Business combinations

Business combinations are accounted for by applying the acquisition method, which involves identifying the difference between the consideration transferred and the remeasured net assets of the acquiree. The net assets are based on the fair values of the assets and liabilities, including identifiable intangible assets and contingent liabilities recognized as of the acquisition date.

If a quoted price in an active market is not available for the purpose of purchase price allocation, the fair values are measured using suitable valuation techniques. The discounted cash flow (DCF) method is generally 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 first-time consolidation using a discount rate reflecting the inherent risk associated with the asset.

Any excess of the consideration transferred over the proportionate share of net assets is recognized separately as goodwill; any negative difference is – after reassessing the acquired assets and liabilities – recognized immediately in the income statement. Non-controlling interests are measured at their proportionate share of the fair values of the identified assets and liabilities (net assets), i.e., the full goodwill method is not applied. Audit and consulting fees relating to business combinations are expensed as incurred.

Changes in the Group’s interest in a consolidated subsidiary that do not result in a change in the accounting method used are accounted for as equity transactions.

Currency translation

Transactions in foreign currency are translated at the exchange rate at the date of the transaction. Monetary items are translated at the exchange rate at the reporting date. Translation differences arising on the measurement of monetary assets (except exchange differences on net investments) or monetary liabilities are recognized, regardless of any hedging, in profit or loss as part of other operating income or expenses.

In accordance with the functional currency approach, the annual financial statements of foreign Group companies prepared in foreign currency are translated into euros by the modified current rate method. The functional currency is the currency of the primary economic environment in which an entity operates. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency is the local currency in each case. Assets and liabilities of subsidiaries are translated at the mid-point rate at the reporting date. Income and expenses are translated at the average rate for the reporting period. Translation differences arising in the balance sheet and income statement as a result of these differing rates are recognized in other comprehensive income. On disposal of a subsidiary, such translation differences are recognized in profit or loss in the period of disposal.

The exchange rates for the Group's main currencies changed as follows:

	Closing rate		Average rate	
€1 =	December 31, 2016	December 31, 2015	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015
Brazilian Real (BRL)	3.4305	4.3117	3.8562	3.7004
Pound Sterling (GBP)	0.8562	0.734	0.8195	0.7258
Swiss Franc (CHF)	1.0739	1.0835	1.0902	1.0679
US Dollar (USD)	1.0541	1.0887	1.1069	1.1095

Revenue recognition

Revenues from sales of goods are recognized when the significant risks and rewards of ownership have been transferred to the buyer and the amount of revenues can be measured reliably. This mostly coincides with the delivery date. Prior to delivery, revenues are only recognized when, at the request of the buyer, goods have not been delivered, but title has been transferred, the buyer has accepted the invoice, and goods are available and stored separately. Revenues are recognized net of allowances such as trade discounts and rebates.

Interest income is recognized pro rata temporis based on the outstanding principal amount and the applicable interest rate using the effective interest method. Dividends are recognized when the right to receive payment is legally established.

Share-based payment

The share-based compensation plans in the Klöckner & Co Group are cash-settled virtual stock option (VSO) plans. A provision is recognized pro rata temporis in the amount of the fair value of the payment obligation as of each reporting date; any subsequent change in the fair value is recognized in profit or loss. The fair value of the virtual stock options is measured using Monte Carlo simulation with the following parameters:

in %	December 31, 2016	December 31, 2015
Risk-free rate of return	-0.8-0.0	-0.4-0.4
Expected volatility	37.8	36.5

The expected volatility is based on market-traded options on the 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. Potential shares from convertible bonds are treated as dilutive when, and only when, their conversion to shares would decrease earnings per share or increase loss per share from continuing operations.

Income taxes

Income tax expense is the sum total of current and deferred tax expenses.

Current tax expense is calculated on the basis of the taxable income for the fiscal year. Taxable income differs from income before taxes in the income statement as it does not include income and expenses that will not be taxable or tax deductible until future fiscal years if at all. Tax liabilities are measured at the amount expected to be paid to the taxation authorities, using the tax rates enacted by the end of the reporting period.

Deferred taxes are accounted for using the balance sheet liability method. They result from temporary differences between the tax bases of assets and liabilities and their carrying amounts of assets and liabilities in the consolidated statement of financial position and from consolidation entries. They are measured based on tax rates that have been enacted or substantively enacted by the end of the reporting period. No deferred tax liabilities are recognized for taxable temporary differences arising from the initial recognition of goodwill. Similarly, no deferred tax liabilities are recognized for taxable temporary differences arising from the initial recognition of assets or liabilities in transactions that are not business combinations and, at the time of the transaction, affect neither accounting profit or loss nor taxable profit or tax loss.

Deferred tax assets are also recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow part or all of deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting 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 measured at the tax rates that are expected to apply to the period when the temporary differences reverse or the loss carryforwards are utilized and that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Klöckner & Co Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off and they relate to income taxes levied by the same taxation authority and it is intended to settle current tax liabilities and assets on a net basis.

Current and deferred taxes are recognized in profit or loss unless they relate to items that are recognized directly in equity or in other comprehensive income, in which case they are likewise recognized directly in equity or other comprehensive income, as applicable.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses if economic benefits are expected from the asset and the cost of the asset can be measured reliably.

Intangible assets are amortized on a straight-line basis over their expected useful life. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rate.

The expected useful lives are as follows:

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

The useful life is reviewed annually and changed as necessary in accordance with expectations. Intangible assets with an indefinite useful life – in the Klöckner & Co Group solely goodwill – are reviewed for impairment annually and whenever there is an indication that they may be impaired.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. The cost of self-constructed assets comprises all direct cost and attributable overheads. Administrative costs are only included in the cost of an asset to the extent that they relate to its construction.

Maintenance and repair costs are expensed as incurred.

Property, plant and equipment subject to depreciation is normally depreciated on a straight-line basis. On disposal or retirement, the cost less accumulated depreciation is derecognized. Any gain or loss arising from derecognition is recognized in profit or loss. Assets that are deemed to be uncollectible are derecognized together with any impairment losses.

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

Leases are divided into finance leases and operating leases. Leases that transfer substantially all risks and rewards to the Group are classified as finance leases. All other leases in which Klöckner & Co is the lessee are accounted for as operating leases.

Items of property, plant and equipment leased under finance leases are initially recognized at fair value at the inception of the lease or, if lower, the present value of the minimum lease payments. The obligation to pay future lease payments is initially recognized as a financial liability and subsequently accounted for using the effective interest method. The assets are depreciated over the shorter of the lease term and their useful life.

For operating leases where the Group is the lessee, lease payments are recognized as an expense on a straight-line basis over the lease term.

Investment property

Land and buildings held to earn rentals or for capital appreciation rather than for use in the production or supply of goods or services or for administrative purposes are accounted for as investment property. Investment property is measured at cost less any accumulated depreciation and any accumulated impairment losses. The fair values of investment property are disclosed in Note 15 (Intangible assets, property, plant and equipment and investment property).

Depreciation methods and useful lives are as for property, plant and equipment.

Impairments

The Group assesses at each reporting date whether there is any indication that intangible assets, property, plant and equipment and investment property may be impaired. If there is an indication that an asset may be impaired, its recoverable amount is measured in order to determine the size of any impairment loss to be recognized. The recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount cannot be determined for an individual asset, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. If an impairment loss recognized in prior periods for an asset other than goodwill no longer exists or has decreased, 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 had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Goodwill arising in business combinations is tested for impairment at least annually. The impairment test is performed at the level of the CGU to which the goodwill has been assigned. CGUs are the lowest reporting level in the Group at which management monitors goodwill for internal reporting purposes. With the exception of Becker Stahl-Service GmbH (BSS), the CGUs in the Klöckner & Co Group are the country subgroups. Goodwill is tested for impairment in the fourth quarter of each financial year or whenever there is an indication that it 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 costs of disposal and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. Value in use and fair value less costs of disposal are usually determined using a DCF approach. The estimated cash flows are based on the Company's current three-year business plan and management's estimates for each business unit. The discount rates used reflect the risk specific to the underlying business and the country in which the business operates. They are based among other things on peer group data. The composition of the peer group is regularly reviewed and modified as necessary.

For additional CGUs whose recoverable amount is less than their carrying amount, fair values are determined at the level of individual assets. Detailed information is provided in Note 15 (a) (Property, plant and equipment). Depending on future changes in those fair values, additional impairment losses and impairment reversals cannot be ruled out.

Impairment losses are presented in the income statement under depreciation, amortization and impairments. Impairment reversals are presented in other operating income.

Government grants and government assistance

Government grants are recognized if there is reasonable assurance that the Company complies with the conditions attached to them and the grants are actually received. They are recognized in profit or loss over the periods in which the related costs are recognized in expense.

Government grants related to assets – mainly property, plant and equipment – are deducted from the cost of the asset.

Government grants that become 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 in profit or loss as other operating income in the period in which they become receivable for Klöckner & Co.

Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs of conversion include costs directly related to the units of production, based on normal capacity.

As well as directly attributable costs, costs of conversion also include a systematic allocation of indirect materials and indirect labor, including production-related depreciation (e.g. for certain coil inventories). Measurement is normally on a monthly moving average basis. In certain cases, cost is assigned by specific identification of individual costs.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group's financial assets primarily consist of cash and cash equivalents, available-for-sale financial assets, trade receivables and derivative financial instruments with positive fair values. The Group's financial liabilities include bonds, liabilities 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 derivatives 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 measured on initial recognition at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are included in the carrying amount except in the case of financial instruments at fair value through profit or loss. For the purpose of subsequent measurement, financial assets and liabilities are classified into the categories in IAS 39.

a) Non-derivative financial assets and financial liabilities and equity instruments issued by Klöckner & Co

Cash and cash equivalents comprise cash on hand, bank balances and marketable securities with an original maturity of less than three months and subject to an insignificant risk of changes in value. They are measured at nominal value. Foreign currency balances are measured at the mid-point rate at the reporting 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 is applied exclusively to derivative financial instruments to the extent that these are not designated in hedge accounting. Such assets are presented as other assets in the balance sheet.

Loans and receivables are non-derivative 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 classified in this category are non-current securities that are not quoted in an active market and long-term loans measured at amortized cost.

All identifiable risks are accounted for by making appropriate valuation allowances to reflect the risk of default, taking into account any credit insurance. The carrying amounts of financial assets are assessed for impairment if there is objective evidence that an asset may be impaired, such as substantial financial difficulty on the part of the obligor, knowledge of an insolvency filing or overdue obligations. Impairments are recorded in separate accounts. Assets that are deemed to be uncollectible are derecognized together with any impairments.

Non-derivative financial assets that are not classified as any of the other categories in IAS 39 are classified as available-for-sale financial assets and are measured at fair value. This category also includes 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. Any impairments are accounted for by valuation allowances in profit or loss. Impairment losses are reversed when the reasons for them no longer apply unless they relate to available-for-sale financial assets, which are accounted for at cost for which no impairment reversal is allowed.

An equity or debt instrument is classified as a financial liability or as equity according to the substance of the contractual agreement. Equity instruments are recognized in the amount of the issue proceeds less directly attributable transaction costs.

The components of compound financial instruments such as convertible bonds are recognized separately as financial liabilities and equity. At the issue date, the fair value of the liability component is determined by discounting at the market interest rate for comparable financial instruments without conversion rights. The financial liability is subsequently measured at amortized cost until conversion or maturity of the instrument. In accordance with the residual method, the remaining difference is 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.

In the Klöckner & Co Group, only derivative financial instruments that are not designated and effective hedging instruments are recognized as liabilities at fair value through profit or loss. Any negative fair value of such instruments is presented in other liabilities.

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

An exchange between Klöckner & Co SE and a lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Subject to qualitative considerations, terms are deemed to be substantially 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 rate risk and currency risk. 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).

Derivatives are initially measured at fair value on inception and subsequently measured at fair value at each reporting date. Any gain or loss from a change in the fair value of a derivative financial instrument that is not a designated and effective cash flow hedge or hedge of a foreign net investment relationship is immediately recognized in profit or loss. For derivative financial instruments that are designated hedges, the timing of the recognition of gains or losses depends on the type of hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. Certain unrecognized firm commitments are also hedged.

Forward exchange transactions are measured item by item at the forward rate as of the reporting date, and exchange differences arising due to the contracted forward exchange rate are recognized in the income statement.

Interest exchange amounts from interest rate swaps are recognized in profit or loss at the payment date or on accrual at the reporting date. In all other respects, interest rate swaps, like interest rate caps, are measured at fair value at the reporting date and – unless hedge accounting is applied –changes in their fair value during the reporting period are recognized in the income statement.

Derivatives held for hedging purposes are classified as non-current assets or liabilities if the remaining term of the hedging relationship is more than twelve months and as current assets or liabilities if the remaining term of the hedging relationship is less than twelve months.

Derivatives not designated in a hedging relationship are classified as current assets or liabilities.

c) Hedge accounting

The Klöckner & Co Group designates individual derivatives held for hedging purposes either as cash flow hedges or as hedges of foreign net investments, according to volume, term and risk structure.

The relationship between the hedged item and the hedging instrument, including the risk management objectives and the strategy for undertaking the hedge, are documented at the inception of the hedge. At the inception of the hedge and regularly on an ongoing basis, the hedge is assessed and it is documented whether the hedge is highly effective in offsetting changes in the cash flows attributable to the hedged risk or the net investment. Information on the fair values of these derivative financial instruments is provided in Note 30 (Derivative financial instruments); changes in accumulated other comprehensive income from adjustments of financial instruments are shown in the summary of changes in consolidated 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 other comprehensive income; the ineffective portion is recognized immediately in profit or loss. The amounts recognized in other comprehensive income are reclassified to profit or loss in the period in which the hedged item is recognized in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or ceases to be effective. Any cumulative gain or loss that has been recognized in comprehensive income from changes in the fair value of the derivative remains in equity and is reclassified to profit or loss when the forecast transaction is recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative profit or loss deferred in equity is immediately recognized in the income statement.

Non-current assets held for sale, disposal groups and associated liabilities

Non-current assets or groups of such assets that 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. For this to be the case, the disposal must be highly probable and the asset or disposal group must be 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 carrying amount and fair value less costs of disposal.

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., pension and salary increases), are recognized over an employee's entire period of service. Actuarial advice is obtained.

Actuarial gains or losses resulting from differences between the expected and actual changes in plan participants and actuarial assumptions are recognized in other comprehensive income in which they occur. They are presented separately in the statement of comprehensive income.

Service cost is reported in personnel expenses. Interest expense from the unwinding of the discount on pension obligations and returns on plan assets are presented in the financial result as net interest expense at the rate used to discount the obligations.

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 or reductions in future contributions to the plan.

Past service cost is recognized in profit or loss.

Employer contributions to defined contribution plans under which Klöckner & Co Group pays set contributions into a separate entity under defined contribution plans and has no legal or constructive obligation to pay further contributions are expensed as incurred.

Other provisions

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and where applicable IAS 19 (Employee Benefits), 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 their amount. Provisions are only recognized for legal or constructive obligations to third parties.

Provisions are recognized at the expected settlement amount and not net of any reimbursements. The settlement amount also includes any cost increases to be taken into account at the reporting date. 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.

Warranty provisions are recognized on the basis of the estimated probability of claims. Provisions are recognized for onerous sale or purchase contracts when the total costs of meeting the obligations under the contract exceed the expected sales.

Provisions for restructuring measures are recognized if there is a detailed restructuring plan and it has been announced to those affected.

Provisions for onerous contracts are recognized if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. They also include present obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Unless the possibility of any outflow in settlement is remote, a description of the nature of the contingent liability is disclosed.

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 these Notes. Assets and liabilities expected to be realized or settled within one year are classified as current.

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

Estimates, judgments and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual amounts may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period of the change if the change affects that period only and in the period of the change and future periods if the change affects both.

JUDGMENTS

a) Scope of consolidation (Note 3)

Judgments are necessary in assessing ability to control for the purposes of determining the scope of consolidation. This is notably required in relation to the special-purpose entities in the ABS programs, where there is no majority of voting rights or capital.

b) Classification as held for sale (Note 20)

Judgments are involved in determining whether the criteria have been met for recognizing assets and liabilities as held for sale and for accounting as discontinued operations, notably with regard to the timing of the transaction.

ESTIMATES AND ASSUMPTIONS

a) Intangible assets from business combinations (Note 5)

The measurement of intangible assets and property, plant and equipment notably requires estimates where they are acquired in a business combination within the meaning of IFRS 3. This requires estimation of fair value and expected useful life. For material business combinations, these are usually determined with the aid of outside experts. The estimates are associated with management's assessment of the future value of the assets concerned, which is also reflected in the projections of future cash flows from the assets to be measured.

b) Impairment testing in accordance with IAS 36 (Note 15 (a) – (c))

Management is required to assess intangible assets, property, plant and equipment and investment property at each reporting date for triggering events indicating that the assets may be impaired. If triggering events are identified, the recoverable amount must be estimated. Irrespective of whether there is a triggering event, goodwill must be tested at least annually for impairment.

The recoverable amount is normally determined using discounted cash flows. The projected cash inflows largely depend on expected future gross profit per ton and on shipments, taking into account the general economic environment and the expected development of operating expenses (OPEX), and on the determination of the discount rates, including the future growth rates assumed in perpetuity. The discount rates are determined using a capital asset pricing model (CAPM) whose main inputs are the risk-free rate of return, the beta factor for Klöckner & Co shares, and the credit risk and market risk premium assumptions for return on equity.

Where the recoverable amount of CGUs is less than their carrying amount, fair values are determined at the level of individual assets for the purpose of allocating any impairment loss in accordance with IAS 36.105. If the fair value of an individual asset is less than its carrying amount, the carrying amount is reduced to the fair value of the asset by recognizing an impairment in profit or loss.

Depending on future changes in those fair values, additional impairment losses and impairment reversals cannot be ruled out.

c) Measurement of inventories (Note 16)

Inventories are measured at the lower of cost and net realizable value. Determining net realizable value requires management to estimate sales prices and costs until sale.

d) Recognition and measurement of tax receivables and tax liabilities (Note 13)
The Group operates in numerous different countries. Its income is therefore subject to various tax jurisdictions. Tax receivables, tax liabilities, temporary differences, tax loss carryforwards and the resulting deferred taxes must be determined separately for each taxable entity. Management is required to make assessments in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their realization is probable. This realization of deferred taxes notably depends on sufficient taxable income being available for the type of tax and tax jurisdiction concerned. Various factors must be taken into consideration when gauging the probability of the future flow of economic benefits, such as historical earnings, budgets, loss carryforward restrictions and tax planning strategies. The recognition of deferred taxes is reviewed at each reporting date.

e) Provisions for pensions and similar obligations (Note 23)
Provisions for pensions and similar obligations are subject to actuarial assumptions including discount rates, mortality rates and, where applicable, expected returns on plan assets. Such assumptions may differ significantly from the actual outcomes due to changes in the market and economic environment, resulting in material change in the amount of the benefit obligation and future benefit costs.

Accounting for other provisions involves assessment of the facts and circumstances, consideration of claims made and assumptions regarding the probability of utilization and the order of magnitude of the amounts involved.

New accounting standards and interpretations

The following standards were applied for the first time in fiscal year 2016:

Standard/Interpretation
Amendments to IAS 27: Equity Method in Separate Financial Statements
Improvements to IFRS 2010– 2012
Amendments to IAS 16 and IAS 41: Bearer Plants
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
Annual Improvements to IFRSs 2012– 2014
IAS 1 Disclosure Initiative
IFRS 10, IFRS 12, IAS 28 (Consolidation Exception)

Seven standards were amended in the Annual Improvement Project (2010–2012). The objective of this process is to amend the wording to clarify guidance in individual IFRS.

The amendments to IAS 19 (Employee Benefits) consisted of narrow-scope clarification of the accounting requirements for contributions from employees or third parties that are linked to service.

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 a joint operation where the operation constitutes a business.

On May 12, 2014, the Clarifications of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38) were published. The amendments are a clarification that revenue-based methods of calculating depreciation may only be applied in certain exceptional instances.

On September 25, 2014, the Annual Improvements to IFRSs 2012–2014 were published. The publication of this project resulted in amendments to four standards.

On December 18, 2014, amendments to IAS 1 (Disclosure Initiative) were published. Among other things, the amendments contained clarification regarding the materiality of notes disclosures, aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income, and the structure of notes disclosures. Application of this amended standard has led to the removal of a number of immaterial disclosures.

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 impact the consolidated financial statements of Klöckner & Co SE.

Amendments to standards had no material impact on the consolidated financial statements

The aforementioned amendments and clarifications to standards had no material impact on the consolidated financial statements of the Klöckner & Co Group.

The remaining new or revised pronouncements not described in detail and likewise applicable in 2016 (Amendments to IAS 27: Equity Method in Separate Financial Statements, Amendments to IAS 16 and IAS 41: Bearer Plants, IFRS 14 Regulatory Deferral Accounts) similarly had no impact on Klöckner & Co SE's consolidated financial statements.

The table below lists the published standards and interpretations not yet applied in the Klöckner & Co Group:

Standard/Interpretation	Mandantory application
Endorsed by the EU until authorization date for issuance	
IFRS 9 Financial Instruments (finaler Standard)	2018
IFRS 15 Revenue from Contracts with Customers	2018
EU endorsement outstanding	
IFRS 16 Leases	2019
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018
Amendments to IFRS 10, IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	outstanding
Clarifications to IFRS 15 Revenue from Contracts with Customers	2018
Amendments to IAS 7: Disclosure Initiative	2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	2017
Amendments to IAS 40: Transfers of Investment Property	2018
IFRIC 22: Foreign Currency Transactions and Advance Consideration	2018
Improvements to IFRS 2014-2016: Amendments to IFRS 12	2017
Improvements to IFRS 2014-2016: Amendments to IFRS 1 and IAS 28	2018

On July 24, 2014, the IASB issued the final IFRS 9 (Financial Instruments), incorporating the previous releases of the standard issued in 2009, 2010 and 2013 partially in slightly modified form. IFRS 9 (Financial Instruments) contains, first of all, new rules on the classification and measurement of financial assets based on the entity's business model and on characteristics of the contractual cash flows (Solely Payments of Principal and Interest – SPPI). IFRS 9 also introduces a new model for the determination of impairments based on expected defaults. Additionally, the stipulations on hedge accounting have been revised for closer alignment with risk management.

The impacts of applying IFRS 9 on the consolidated financial statements are currently being assessed. Based on the analysis so far, certain financial assets may have to be reclassified from the amortized cost to the fair value category because the cash flow criteria are not met. On current assessment, however, this only affects a limited range of assets and no material measurement effects are therefore expected.

Implementation of the new impairment model requires substantial process and system changes, notably in the financial services segment. The aggregate effect cannot yet be quantified, however, as data quality at subsidiaries still has to be assessed and assured, and key elements in implementing the new standard – in particular the transfer criterion for impairment levels – will only be finalized during the course of 2017. On current knowledge, no material change is expected as regards impairments.

With regard to hedge accounting, changes in value will be recognized in the future on the basis of the forward element during the lifetime of the hedge as the cost of hedging in accumulated other comprehensive income. This may slightly reduce volatility in the financial result and in net income. The income statement presentation of the cost of hedging is yet to be conclusively decided. This may mean a reallocation between earnings before the financial result and the financial result itself.

IFRS 9 must be applied retrospectively with regard to classification and measurement, whereas the new hedge accounting rules are generally to be applied prospectively. Klöckner intends to make use of the option of not restating prior-period information with regard to the changes in classification and measurement (including impairment).

On May 28, 2014, the IASB published the new standard IFRS 15 (Revenue from Contracts with Customers). This brings together the various rules on revenue recognition in a single standard and requires extensive disclosures depending on the type of business. It supersedes existing pronouncements on revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The standard is effective for annual periods beginning on or after January 1, 2018. Klöckner & Co SE is currently analyzing the impacts on the consolidated financial statements. In light of the Group's business as stockholding distributor, however, the new standard is not currently expected to have a material impact on the Klöckner & Co SE consolidated financial statements.

On January 13, 2016, IFRS 16 (Leases) was published. The new standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for leases. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are exceptions for short-term leases and leases where the underlying asset has low value. Lessor accounting is comparable to the current standard, meaning that lessors must continue to classify leases as finance and operating leases.

IFRS 16 supersedes the existing pronouncements on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. Although it is not yet possible to provide quantitative data, assets and liabilities will significantly increase on first-time application and thus reduce the equity ratio. However, we expect that the reduction in the equity ratio will not lead to any inability to comply with minimum equity ratio covenants attached to loan agreements.

Provided that it is endorsed by the EU, the standard is effective for annual periods beginning on or after January 1, 2019.

On June 20, 2016, the IASB published amendments to IFRS 2 (Share-based payments) that clarify specific issues relating to the accounting for cash-settled share-based payment transactions. The main amendments and additions surround the fact that IFRS 2 now contains guidance relating to the fair value of liabilities for cash-settled share-based payments. Following the same approach as used for equity-settled share-based payments, only certain vesting conditions are taken into account in estimating fair value, while others are only taken into account by adjusting the number of awards included in the measurement of the liability.

On January 19, 2016, the IASB published Recognition of Deferred Tax Assets for Unrealised Losses: Amendments to IAS 12 (Income Taxes). The amendments notably clarify the requirements on recognition of deferred tax assets for unrealized losses on assets measured at fair value, around which there is currently diversity in practice. The impacts on the consolidated financial statements are currently being reviewed.

On January 29, 2016, the IASB published amendments to IAS 7 (Statement of Cash Flows). The disclosure requirements focus on liabilities for which cash flows are, or future cash flows will be, classified in cash flows from financing activities within the meaning of IAS 7. The impacts on the consolidated financial statements are currently being reviewed.

On April 12, 2016, the IASB published amendments to IFRS 15 (Clarifications to IFRS 15 Revenues from Contracts with Customers) clarifying a number of topics in the standard and providing practical expedients on first-time application. The impacts on the consolidated financial statements are currently being reviewed.

The amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) published on September 11, 2014 clarify that, in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments to the standards will have no impact on the consolidated financial statements of Klöckner & Co SE.

On December 8, 2016, interpretation IFRIC 22 (Foreign Currency Transactions and Advance Consideration) was published. This clarifies the accounting for the payment of consideration in a foreign currency. It is effective for annual reporting periods beginning on or after January 1, 2018. The impacts on the consolidated financial statements of Klöckner & Co SE are currently being assessed.

On December 8, 2016, the Annual Improvements to IFRSs 2014–2016 were issued. The publication of this project resulted in amendments to three standards. The amendments are effective for annual periods beginning on or after January 1, 2017 or January 1, 2018. The Annual Improvements will not have an impact on the consolidated financial statements of Klöckner & Co SE.

The amendments to IAS 40 (Investment Property) were published on December 8, 2016 and are effective from January 1, 2018. They amend the rules on classification as investment property. These changes will have no impact on the consolidated financial statements of Klöckner & Co SE.

Early application is permitted but not planned.

(5) Acquisition and disposals

The group structure changed, as listed below, as a result of the following acquisitions and divestitures during fiscal years 2016 amd 2015.

Acquisitions

2016

There were no acquisitions in fiscal year 2016.

2015

American Fabricators, Inc., Nashville, Tennessee, USA

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

The fair values of the acquired assets of AFI and the assumed liabilities were determined 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
Deferred tax	243
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**
Considerations	**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**

Customer relationships and the brand name were measured using the residual method (present value model). The fair value of customer relationships was measured on the basis of a churn rate of 11.5%. Measurement was based on an interest rate of 6.5%. The customer relationships are amortized over a period of 9 years, the non-compete clause over 5 years and the brand name over 3 years.

Property, plant and equipment was measured using a historical cost approach.

The acquired goodwill primarily related to expected future earnings from higher-margin business. As AFI was allocated to the North America CGU, the goodwill was written off in annual impairment testing of that CGU.

Additional disclosures in accordance with 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

No material uncollectible receivables were acquired.

If the acquisition date had been as of the beginning of the reporting period, consolidated sales would have been 6,463 Mio. € and the net loss would have been -347 Mio. €.

Acquisition of non-controlling interests

By contract of June 24, 2015, the remaining 30% non-controlling interest in Kloeckner Metals Brasil S.A. Group, São Paulo, Brazil was purchased at a purchase price of roughly €1 million. The acquisition, which did not have any material impact on the consolidated financial statements, constitutes an equity transaction within the meaning of IFRS 10.

Disposals

2016

The pipe business of Kloeckner Metals Corporation, Wilmington, Delaware, USA, was disposed of in an asset deal in June 2016. The disposal resulted in a loss of approximately €150 thousand and mainly related to machinery, inventories and trade receivables.

2015

The copper business of Reynolds European S.A.S., Rueil Malmaison, France, was sold in an asset deal at the end of January 2015. The gain on the sale was approximately €2 million.

Notes to the consolidated statement of income

(6) Special items affecting the results

2016

As part of the process of enhancing the focus of the business on core markets in Europe, a contract for the sale of the Spanish activities was signed on January 20, 2017. The transaction closed on January 27, 2017. All assets and liabilities of the Spanish companies were reclassified in accordance with IFRS 5 as assets held for sale and associated liabilities in the consolidated financial statements as of December 31, 2016. The remeasurement carried out in the course of the sale process resulted in recognition of an impairment loss of €16 million on non-current assets and deferred taxes of €3 million. Further information is provided in Note 20 (Assets held for sale).

2015

RESTRUCTURING MEASURES

Due to the ongoing difficult economic situation, additional restructuring measures (mainly location closures and reductions in the workforce) and the winding-up of the activities in China were initiated in 2015. The main focus of these measures was on our activities in France. Further measures related to persistently unprofitable activities in Great Britain and Switzerland and optimization measures within holding company functions at the country organizations. The program saw the closure of eleven locations in France, three in Great Britain and one in Switzerland along with the integration of activities into other existing locations. In the course of the measures, the workforce was reduced by approximately 630 employees. The provisions for restructuring recognized as of December 31, 2015 were utilized almost in their entirety in fiscal year 2016.

IMPAIRMENTS

US goodwill impairment

After the market environment for steel and metal products in the USA developed less favorably than generally expected in 2015 and mid-term planning was adjusted accordingly in line with future market expectations, an impairment loss of €267 million had to be recognized on the goodwill of the North America CGU. The impairment was recognized in the Americas segment.

Asset impairments

In connection with the winding-up of the Chinese activities, the location closures and impairment testing of assets for the European activities in the Great Britain, Germany, Spain and France, impairment losses of €8 million (of which €3 million restructuring-related) were recognized on property, plant and equipment and €2 million on a property accounted for as an investment property in Valencia, Spain.

The impacts of these measures were as follows:

(€ 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.

(7) Sales

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

(€ thousand)	2016	2015
Germany	1,298,723	1,324,201
EU excluding Germany	1,306,792	1,525,910
Rest of Europe	913,946	1,016,649
North America	2,056,166	2,392,582
Central and South America	81,672	93,516
Asia/Australia	16,958	25,521
Africa	55,807	65,249
Sales	**5,730,064**	**6,443,628**

Sales largely relate to sales of goods.

(8) Other operating income

(€ thousand)	2016	2015
Gain on sale of land and buildings	12,377	2,622
Rental income	5,254	4,712
Income from written-off receivables	3,491	4,691
Reversal of provisions	3,383	5,048
Foreign currency exchange gains	3,160	3,645
Gain on sale of other non-current assets and assets held for sale	1,910	4,800
Other income	10,337	7,393
Other operating income	**39,912**	**32,911**

Of the gain on disposals of land and buildings, €8 million relates to the sale of non-operating land and buildings in Switzerland, €2 million to a property in Germany and €2 million to properties in France.

(9) Cost of materials

(€ thousand)	2016	2015
Cost of materials, supplies and purchased merchandise	4,411,276	5,185,389
Cost of purchased services	5,055	7,176
Cost of materials	**4,416,331**	**5,192,565**

(10) Personnel expenses

(€ thousand)	2016	2015
Wages and salaries	508,995	540,779
Social security contributions (including welfare benefits)	107,015	105,287
Retirement benefit cost	24,692	30,492
Personnel expenses	**640,702**	**676,558**

The majority of the personnel expenses relate to remuneration comprising wages, salaries, compensation and all other remuneration for work performed by employees of the Klöckner & Co Group in the fiscal year. The mandatory statutory contributions to be borne by the Company, notably including social insurance contributions, are reported under social security contributions. Prior-year wages and salaries included €32,546 thousand restructuring expenses relating to the KCO WIN program.

Retirement benefit cost relates to active and former staff or their surviving dependants. These expenses include additions to pension provisions, employer contributions to supplementary occupational pension plans and retirement benefit payments.

The average number of employees in the Klöckner & Co Group pursuant to Section 314 (1) 4 of the German Commercial Code (HGB) was as follows in the reporting year:

	2016	2015
Salaried employees	4,822	5,227
Wage earners	4,069	4,193
Apprentices	250	237
Employees	**9,141**	**9,657**

(11) Other operating expenses

(€ thousand)	*2016*	*2015*
Forwarding cost	139,114	148,300
Third-party services	80,094	81,295
Rental and leasing expenses	68,914	79,326
Repair and maintenance	49,067	47,024
Supplies	46,534	53,407
Other taxes	21,929	23,557
Audit fees and consulting	19,214	18,378
Travel expenses	17,682	17,645
Postal charges and telecommunication	9,426	10,337
Other insurance	8,773	9,066
Advertising and representation expenses	7,170	7,123
Bad debt expenses	6,786	8,243
Credit insurance	4,151	6,143
Foreign currency exchange losses	3,373	6,685
Restructuring expenses	-	24,538
Other expenses	36,028	28,489
Other operating expenses	**518,255**	**569,556**

Further information on prior-year restructuring expenses is provided in Note 6 (Special items affecting the results).

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

(12) Financial result

(€ thousand)	2016	2015
Other interest and similar income	1,862	1,278
Interest and similar expenses	– 27,574	– 42,993
Interest cost for post–employment benefits	– 7,695	– 7,279
Financial result	**– 33,407**	**– 48,994**

The decrease in net finance expenses mainly relates to repayment of the 2010 convertible bond and full repayment of the promissory notes in the first half of the fiscal year.

Included in the financial result is net interest expense of €-26,785 thousand (2015: €-41,754 thousand) measured and recognized using the effective interest rate method.

(13) Income taxes

Income taxes in the income statement

Income tax income/expense for the Klöckner & Co Group is as follows:

(€ thousand)	2016	2015
Current income tax expense (+)/benefit (–)	**13,761**	**16,451**
thereof related to prior periods	*– 1,991*	*438*
Domestic	5,052	4,699
Foreign	8,709	11,752
Deferred tax expense (+)/benefit (–)	**285**	**– 66,851**
Domestic	– 530	2,000
Foreign	815	– 68,851
Income tax expense/benefit	**14,046**	**– 50,400**

The combined income tax rate is 31.6%, comprising corporate income tax (including solidarity surcharge) of 15.8% and trade tax for Klöckner & Co of 15.8%. Foreign tax rates vary between 10.0% and 40.0%.

The Company incurred current income tax of €13,761 thousand (2015: €16,451 thousand). It should be noted that cross-border offsetting of tax profits and tax losses is not permitted. In particular, tax losses in individual European countries cannot be offset against tax profits in other European countries.

Deferred tax expense and deferred tax income in the income statement is made up as follows:

(€ thousand)	2016	2015
Deferred tax expenses (+)/benefit (–)	285	– 66,851
thereof from		
– temporary differences	*– 5,059*	*– 56,867*
– loss carryforwards / interest carryforwards	*5,344*	*– 9,984*

The €43 million deferred tax income in the prior year relates to the tax-effective portion of the goodwill impairment at the USA CGU.

Expected tax income/expense is reconciled to actual tax income/expense as follows:

(€ thousand)	2016	2015
Expected tax rate	**31.6%**	**31.6%**
Income before taxes	**52,003**	**– 399,237**
Expected tax expense/benefit at domestic tax rate	16,433	– 126,159
Foreign tax rate differential	– 1,034	– 21,366
Tax rate changes	– 614	– 836
Reduced tax rate	– 155	– 25
Tax reduction due to tax free income	– 572	– 615
Tax increase due to non–deductible expenses	3,302	6,275
Current income tax levied or refunded for prior periods	– 1,991	438
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	– 4,305	– 130
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 6,618	– 4,712
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	7,510	34,150
Other income taxes	2,526	801
Other tax effects	– 436	202
Effective income tax benefit/expense	**14,046**	**– 50,400**
Effective tax rate	**27.0%**	**12.6%**

The 27.0 % actual tax rate in the year under review is 4.6 percentage points below the 31.6 % expected combined income tax rate, with the main benefit stemming from the utilization of previously unrecognized trade tax and corporate income tax loss carryforwards at Klöckner & Co SE and from a reduction in income tax expense due to a previously unrecognized temporary difference from a prior period in the France subgroup.

Other income taxes primarily relate to tax effects on the sale of a property in Switzerland subject to a higher rate of tax.

Material effects on the prior-year tax rate comprised a €61 million negative effect due to the non-tax-effective portion of the goodwill impairment at the USA CGU and a €34 million negative effect due to the nonrecognition of deferred tax assets on prior-year losses.

Taxes recognized directly in other comprehensive income

Current and deferred taxes are normally recognized in the income statement, with the exception of taxes on items recognized directly in other comprehensive income.

(€ thousand)	December 31, 2016	December 31, 2015
Change in deferred tax assets and liabilities (net), not affecting net income	**– 1,558**	**6,024**
thereof reported		
– in other comprehensive income	*– 1,558*	*6,024*

Deferred taxes on adjustments of pension provisions in other comprehensive income in accordance with IAS 19 rev. 2011, net investment hedges and changes in the fair values of derivative financial instruments designated in hedge accounting are reported in other comprehensive income.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are as follows:

(€ thousand)	December 31, 2016	December 31, 2015
Deferred tax assets	4,855	10,829
Deferred tax liabilities	39,308	43,955
Deferred taxes (net)	**– 34,453**	**– 33,126**

Deferred tax assets and liabilities relate to items in the consolidated statement of financial position and loss carryforwards as follows:

DEFERRED TAX ASSETS

(€ thousand)	December 31, 2016	December 31, 2015
From temporary differences and consolidations		
Intangible assets	3,225	20,844
Property, plant and equipment	1,644	5,163
Non-current investments	4,306	5,257
Inventories	1,779	4,105
Receivables and other current assets	8,876	2,811
Provisions for pensions and similar obligations	43,253	49,379
Other provisions and accrued liabilities	5,585	2,361
Liabilities	5,710	16,017
Net amount (incl. valuation allowances)	**74,378**	**105,937**
Tax loss carryforwards / Interest carryforwards	12,574	17,918
Offsetting	– 82,097	– 113,026
Deferred tax assets	**4,855**	**10,829**

DEFERRED TAX LIABILITIES

(€ thousand)	December 31, 2016	December 31, 2015
From temporary differences and consolidations		
Intangible assets	9,850	33,204
Property, plant and equipment	62,958	77,464
Non-current investments	19	9
Inventories	11,407	13,380
Receivables and other current assets	9,094	13,391
Provisions for pensions and similar obligations	-	2
Other provisions and accrued liabilities	8,944	10,745
Liabilities	19,133	8,786
Net amount	**121,405**	**156,981**
Offsetting	– 82,097	– 113,026
Deferred tax liabilities	**39,308**	**43,955**

No deferred tax assets were recognized for the following unused loss carryforwards and deductible temporary differences because it is not probable that they will be realized:

(€ million)	December 31, 2016	December 31, 2015
Unrecognized tax losses		
– Corporate income tax	503	744
– Trade tax and similar taxes	232	287
Temporary differences	166	133

The majority of the unrecognized loss carryforwards are not subject to a maximum carryforward period under prevailing law and therefore do not expire unless specific circumstances arise (such as change of control). The unrecognized loss carryforwards that are subject to a maximum carryforward period expire as follows:

(€ million)	December 31, 2016	December 31, 2015
until December 31, 2020	-	-
until December 31, 2031	33	145
after December 31, 2031	95	84

Temporary differences are deductible indefinitely.

Current tax receivables and liabilities:

Current tax receivables and current tax liabilities reported in the consolidated statement of financial position are as follows:

(€ thousand)	December 31, 2016	December 31, 2015
Current income tax receivable	28,140	20,650
Income tax liabilities	14,422	17,420

(14) Earnings per share

Earnings per share is 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, an average of 2,036 thousand (2015: 7,434 thousand) potential dilutive shares under the convertible bond issues were not included in the computation of diluted earnings per share for fiscal year 2016 as this would have resulted in higher earnings per share.

		2016	2015
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	36,797	– 346,689
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**0.37**	**– 3.48**
Diluted earnings per share	**(€/share)**	**0.37**	**– 3.48**

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, 2015	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
Impaiments	-	– 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
Balance as of January 1, 2016	**162,244**	**30,501**	**30,879**	**223,624**
Exchange rate differences	3,735	83	226	4,044
Additions	729	10,775	-	11,504
Disposals	– 10	-	-	– 10
Depreciation and amortization	– 21,996	– 10,582	-	– 32,578
Transfers	– 401	482	-	81
Reclassification to assets held for sale	-	– 348	-	– 348
Balance as of December 31, 2016	**144,301**	**30,911**	**31,105**	**206,317**
Cost as of December 31, 2016	456,704	101,336	350,091	908,131
Accumulated amortization and impairments	– 312,403	– 70,425	– 318,986	– 701,814

The carrying amount of software includes purchases of licenses and capitalized development costs.

Goodwill impairment testing in accordance with IAS 36

The annual impairment testing of cash-generating units (CGUs) to which goodwill has been allocated, as required by IAS 36 (Impairment of Assets), is carried out on the basis of the business plan approved by the respective committees in the fourth quarter.

The recoverable amount of a CGU is determined by measuring value in use using a discounted cash flow method on the basis of bottom-up planning. This is normally based on a detailed planning horizon of three years. The last year of the detailed planning period is used to extrapolate the expected future cash flows.

Klöckner & Co utilizes a uniform planning model with identical input parameters for all CGUs. The model includes macroeconomic variables. It also incorporates expectations regarding demand for our products. Expectations of this kind are derived from macroeconomic and sectoral research and modified for each CGU. A further key value driver is budgeted gross profit per ton. This is projected on the basis of normalized gross profit.

As in the prior year, a growth rate of 1% is used in determining the expected future cash flows.

Assumptions used in impairment testing of material goodwill

The following assumptions were used for the development of sales, gross profit per ton, OPEX and EBITDA in the detailed planning period for the purposes of impairment testing of goodwill determined to be material:

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

Impairment testing of goodwill allocated to the CGUs

The carrying amounts of goodwill total €31 million and relate to the Switzerland CGU (€26 million) and Becker Stahl-Service (€5 million). The impairment test confirmed that the goodwill is not impaired.

Even a 100 basis point increase in the interest rate or a 10% decrease in EBITDA in perpetuity would not result in an impairment.

Value in use was measured for the Switzerland CGU on the basis of a pretax WACC of 7.0% (2015: 7.8%) and for the Becker Stahl-Service CGU on the basis of a pretax WACC of 8.9% (2015: 9.4%).

Impairment testing of other intangible assets

Of the carrying amount of licenses, similar rights and other intangible assets in the amount of €144 million, €124 million relates to intangible assets (mainly customer relationships) from business combinations in the USA amortized on a straight-line basis over their expected useful life. There were no triggering events in the reporting year indicating that the assets may be impaired.

b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construc-tion in progress	Total property, plant and equipment
Cost as of January 1,2015	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
Balance as of January 1, 2016	**421,095**	**132,650**	**79,535**	**47,211**	**680,491**
Exchange rate differences	2,760	2,276	– 336	– 636	4,064
Additions	17,189	12,275	21,278	33,496	84,238
Disposals	– 2,366	– 1,150	– 552	-	– 4,068
Disposals change in the scope of consolidation	-	– 313	– 52	-	– 365
Impaiments	– 14,347	– 2,516	– 681	– 2	– 17,546
Depreciation and amortization	– 17,747	– 23,780	– 18,462	-	– 59,989
Transfers	21,463	16,765	8,438	– 46,747	– 81
Reclassification to assets held for sale	– 22,013	– 2,257	– 923	– 3	– 25,196
Balance as of December 31, 2016	**406,034**	**133,950**	**88,245**	**33,319**	**661,548**
Cost as of December 31, 2016	769,778	371,428	344,120	33,319	1,518,645
Accumulated amortization and impairments	– 363,744	– 237,478	– 255,875	-	– 857,097

Property, plant and equipment with a carrying amount of €33,227 thousand (2015: €34,013 thousand) was pledged as security in the form of liens for financial liabilities.

Impairment testing of other non-current assets

If there are indications that CGUs to which no goodwill has been allocated may be impaired, recoverable amount is measured at the level of each CGU.

In fiscal year 2016, the European steel distribution activities in Great Britain continued to fall short of the targeted profitability level and those in France continued to generate losses. For Germany, the medium-term budget indicates that (with the exception of Becker Stahl-Service), profitability has not yet regained pre-crisis levels. The same applies to the activities in Brazil. There are therefore indications (a triggering event) that assets in the consolidated financial statements may be impaired.

In addition, the sale of the Spain CGU was initiated in December 2016 and completed in January 2017. The change in intended use is likewise a triggering event for impairment testing. Further information is provided in Note 20 (Assets held for sale and disposal groups).

The carrying amounts of the tested non-current assets of the CGUs in question before impairment testing were as follows as of December 31, 2016:

(€ thousand)	Germany	Great Britain	France	Brazil
Other intangible assets	282	1,036	26	-
Land and buildings	22,104	17,186	27,149	226
Technical equipment and machinery	10,888	5,807	5,031	926
Other equipment, operating and office equipment	10,178	8,666	2,524	84
Payments on account	5,141	-	621	-
	48,593	**32,695**	**35,351**	**1,236**

Germany, Great Britain and France CGUs

Impairment testing showed that the values in use of these CGUs were materially less than their carrying amounts, hence the recoverable amount cannot be determined from the cash flows from continuing use. An alternative determination of the recoverable amount using fair value less costs of disposal of the three CGUs was not performed.

Any impairment must then be allocated to reduce the carrying amounts of the assets of the CGUs (IAS 36.104); in allocating the impairment loss, however, the carrying amount of an asset may not be reduced below its fair value less costs of disposal or its value in use (IAS 36.105). The recoverable amounts of the various assets were determined accordingly.

In determining the fair values of land assets, we relied on outside appraisals and external sources on land values. Any appraisals from prior periods were updated in line with observed market changes. The appraisals are based on the sales comparison approach where pertinent data is available and otherwise on the replacement value approach. The fair values were determined to exceed the carrying amounts by a substantial amount in the double-digit millions of euros.

For plant and equipment and for operating and office equipment, fair values were determined with the assistance of outside experts. The fair values were determined on the basis of an indexed replacement value approach. The price indices were obtained from the Statistical Office of the European Union (Eurostat) and the GENESIS-Online database provided by the German Federal Statistical Office (Destatis). Obsolescence risk was accounted for by reductions of 5% to 10% for functional and of 5% to 30% for economic obsolescence. The assumed economic useful lives are based on a 2010 study by the ASA Machinery & Technical Specialties Committee. The replacement values thus determined exceed the carrying amounts of the assets of each CGU by an amount in the single-digit millions of euros.

The non-current assets are thus determined to be not impaired under the assumption of individual disposal.

Brazil CGU
The value in use of the Brazil CGU is likewise less than the carrying amount of the non-current assets allocated to it. As the non-current assets are immaterial to the Group both individually and in the aggregate, individual measurement was dispensed with and an impairment loss was recognized in the full amount (€1,236 thousand). The impairment loss is recognized in the Americas segment.

Assets held under finance leases

The Klöckner & Co Group holds various assets under finance leases, the majority of which contains purchase options. Assets for which title passes to Klöckner & Co at the end of the lease term are reclassified to the appropiate category of property, plant and equipment.

The carrying amounts of the recognized lease assets are as follows:

	Carrying amounts	
(€ thousand)	December 31, 2016	December 31, 2015
Real estate		
France	688	750
USA	15,831	3,560
Other equipment, operating and office equipment		
Switzerland	8,248	-
Total	**24,767**	**4,310**

In the year under review, new leases in Switzerland and the USA were contracted that had to be classified as finance lease.

c) Investment property

The property in Valencia, Spain, accounted for in the prior year as investment property has been reclassified to assets held for sale (land and buildings disposal group).

(16) Inventories

(in € thousand)	December 31, 2016	December 31, 2015
Raw materials and suppoies	337,122	274,407
Work in progress	3,222	4,726
Finished goods and merchandise	661,048	676,685
Prepayments	4,863	5,353
Inventories	**1,006,255**	**961,171**

Raw materials and supplies also include coil inventories at steel service centers.

Of the inventories as of December 31, 2016, €245,852 thousand (2015: €358,958 thousand) is carried at net realizable value. Write-downs to net realizable value were recognized as expense in the amount of €29,740 thousand (2015: €46,457 thousand). The amount recognized as expense for inventories corresponds to the cost of materials.

In addition to reservations of title in the ordinary course of business, inventories with a carrying amount of €367,072 thousand (2015: €386,816 thousand are pledged as security for financial liabilities. Drawings on these credit lines were €32,203 thousand as of December 31, 2016 (2015: €8,164 thousand).

(17) Trade receivables

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

The Klöckner & Co Group sells trade receivables as a rule under two ABS programs. The trade receivables are sold by participating Klöckner & Co companies to special-purpose entities (SPEs).

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

The carrying amount of the receivables of the companies participating in the ABS programs as of December 31, 2016 amounts to €491 million (2015: €411 million).

For further information on the ABS programs, see Note 25 (Financial liabilities) and Note 3 (Basis of consolidation and consolidation methods).

The following table provides information on credit risk on trade receivables:

TRADE RECEIVABLES

		Of which overdue by days as of the reporting date						
(€ thousand)	Of which not overdue as of the reporting date	1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Write–downs	Carrying amount
31.12.2016								
674,270	526,545	106,738	20,210	4,568	2,109	14,100	-20,486	653,784
31.12.2015								
675,237	531,585	103,978	18,528	6,133	3,764	11,249	-19,844	655,393

As of December 31, 2016, trade receivables of companies not participating in the ABS programs were pledged in the amount of €5,435 thousand (2015: €4,685 thousand) as collateral for loan liabilities.

(18) Other assets

	December 31, 2016		December 31, 2015	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial assets				
Fair value of derivative financial instruments	1,638	-	727	-
Other non-financial assets				
Receivables from insurance companies	478	28	981	28
Commission claims	59,463	-	59,870	-
Reinsurance claims from pension obligations	-	3,446	-	3,593
Claims of other taxes	10,832	-	13,617	-
Prepaid expenses	11,287	935	10,595	1,801
Miscellaneous other assets	13,908	5,753	13,786	7,851
Other assets	**97,606**	**10,162**	**99,576**	**13,273**

Commission claims mainly relate to refunds to suppliers of purchased inventory.

Miscellaneous other current assets include, among other things, debit balances in accounts payable of €3,005 thousand (2015: €2,801 thousand).

(19) Cash and cash equivalents

Cash and cash equivalents mainly comprise bank balances and short-term deposits. There were no restrictions as of the reporting date.

(20) Non-current assets held for sale and disposal groups

Disposal groups and assets that are no longer required are classified as held for sale.

Assets held for sale, disposal groups and associated liabilities are grouped by segment as follows:

(€ thousand)	Disposal Group	Other assets	December, 31 2016	December, 31 2015
Intangible assets	348	-	348	
Land and buildings	21,425	9,472	30,897	627
Technical equipment and machinery	2,256	-	2,256	-
Ohter non-current assets	1,481	150	1,631	-
Inventories	25,067	-	25,067	-
Trade receivables	22,553	-	22,553	-
Cash and cash equivalents	2,762	-	2,762	-
Ohter current assets	2,395	-	2,395	-
Total assets	**78,287**	**9,622**	**87,909**	**627**
Non-current liabilities	1,349	-	1,349	-
Trade liabillities	17,939	-	17,939	-
Other non-current liabilities	3,119	-	3,119	-
Total liabilities	**22,407**	**-**	**22,407**	**-**
Total assets held for sale/disposal groups	**55,880**	**9,622**	**65,502**	**627**

The contract for the sale of the Spain CGU was signed on January 20, 2017. The transaction closed on January 27, 2017. Related resolutions had been made as of December 31, 2016. The criteria in IFRS 5 for presentation as a disposal group were met as of that date. On the basis of the agreed selling price, in accordance with IFRS 5.16, an impairment loss in the amount of €16,101 thousand was recognized on the non-current assets and deferred taxes were recognized in the amount of €3,220 thousand. The Spain disposal group includes a property in Valencia that is accounted for as an investment property. The inventories and financial instruments in the disposal group are measured according to the rules applicable for the assets concerned.

A location closure in Switzerland resulted in a property being classified as held for sale.

The property in Great Britain held for sale in the prior year was disposed of in the first quarter of 2016.

The net gain on the disposals is €206 thousand (2015: €3,738 thousand) and is presented in the Europe segment.

(21) Equity and non-controlling interests

a) Subscribed capital

The subscribed capital of Klöckner & Co SE is €249,375,000, as in the prior year, and is divided into 99,750,000 no-par-value shares, each notionally corresponding to €2.50 of the share capital.

Acquisition of treasury stock

The Management Board is authorized to acquire, by or before May 24, 2017, treasury stock of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 25, 2012 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board has been additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization can be utilized in whole or in part, on one or more occasions, by the Company, by companies of the Klöckner & Co Group or by third parties acting on the Company's account or on the account of companies of the Klöckner & Co Group. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

Conditional capital

CONDITIONAL CAPITAL 2010

The Conditional Capital 2010 originally created by resolution of the Annual General Meeting of May 26, 2010 and amended by resolution of the Annual General Meeting of May 20, 2011 was rendered superfluous by repayment of the corresponding convertible bond issue in its entirety in January 2016. The condition precedent can no longer occur. By resolution of the Supervisory Board of February 24, 2016, Section 4 (5) of the Articles of Association was revoked. The amendment to the Articles of Association was entered in the commercial register on March 10, 2016.

CONDITIONAL CAPITAL 2013

By resolution of the Annual General Meeting of May 24, 2013, the share capital was conditionally increased by up to €49,875,000 by the issue of up to 19,950,000 new no-par-value registered shares. The corresponding provision of the Articles of Association is Section 4 (6) (Conditional Capital 2013). No-par-value registered shares issued under the contingent capital increase are each eligible to participate in profit from the beginning of the fiscal year in which they are issued. The conditional capital serves the purpose of satisfying subscription and/or conversion rights of the holders of warrant-linked and/or convertible bonds issued by the Company or a Group company in accordance with the authorization of the Annual General Meeting of May 24, 2013, adopted under agenda item 6.

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 a total of €124,687,500 against cash or non-cash contributions by the issue of 49,875,000 no-par-value registered shares. The corresponding provision of the Articles of Association is Section 4 (3) (Authorized Capital 2012).

Information pursuant to Section 21 (1) and Section 22 (1) of the German Securities Trading Act (WpHG – Wertpapierhandelsgesetz) – Voting Rights Notifications

As of the preparation date, as per notifications under Section 21 et seq. WpHG, shareholdings with 3% or more of the voting rights were as follows. The notifications are published verbatim on the Klöckner & Co SE website.

Notifier**	Domicile	Voting interest in percent	Date on which threshold was met
Black Rock, Inc.	Wilmington, Delaware, USA	3.03 *)	February 1, 2017
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	3.004 *)	January 20, 2017
SWOCTEM GmbH (Friedhelm Loh)	Haiger, Germany	25.245604	February 2, 2016
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3.07	March 2, 2015
Franklin Mutual Advisors, LLC	Wilmington, Delaware, USA	5.35 *)	March 14, 2014
Dimensional Holdings, Inc	Austin, Texas, USA	3.06 *)	February 2, 2012

* (Partly) attributed holding

** According to the German Act Implementing the Transparency Directive Amending Directive (Transparenzrichtlinie-Änderungsrichtlinie-Umsetzungsgesetz – TRL-ÄndRL-UmsG) the ultimate parent may publish solely one notification (as a group notification) covering its notifiable subsidiary undertakings; in this case these subsidiary undertakings are exempted from notification, but may voluntarily publish a notification (cf. section 24 Securities Trading Act (WpHG)).

A full listing of notifications of shareholdings passing above or below the notification thresholds pursuant to Section 21 et seq. WpHG is attached as an appendix to the Notes to the Consolidated Financial Statements.

b) Capital reserves

Capital reserves are €682,412 thousand as of December 31, 2016, compared with €664.182 thousand in the prior year. The increase relates in the amount of €18,230 thousand to the equity component associated with the conversion right under the convertible bond issue (after transaction costs and deferred taxes).

c) Retained earnings

Retained earnings include the accumulated undistributed earnings of the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, and consolidation adjustments insofar as they affect equity.

d) Accumulated other comprehensive income

Accumulated other comprehensive income comprises translation differences from translation of the financial statements of foreign subsidiaries, changes in the fair value of cash flow hedges and net investment hedges, and changes in actuarial gains and losses on pension obligations under IAS 19, including related deferred taxes.

e) Non-controlling interests

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

(22) Share-based payments

The Klöckner & Co Group has operated share-based payment programs since 2006. The beneficiaries are the Management Board and selected members of senior management throughout the Group. The program for senior management has been 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 had an annual entitlement to virtual stock options (VSOs). The contracts provided for a cash payment to the beneficiary on exercise of the option. The strike price was based on the average price of Klöckner & Co shares over the last 30 stock market trading days of the year prior to 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) over the last 30 trading days prior to exercising the option and the strike price for the respective tranche. The settlement amount was capped at a maximum amount of €25 per option after adjusting for dividend payments in the meantime and any dilutive effects of capital increases. The vesting period was three years from the allotment date for the first third of the tranche, four years for the second third and five years for the last third. The individual tranches were issued annually. The stock options granted but not yet exercised expire in 2023.

Senior management programs

In addition to the Management Board programs, 734.000 (2015: 785.000) virtual stock options for 2016 were allocated and issued during the first half of the fiscal year to selected members of the senior management throughout the Group. The conditions are largely identical to the Management Board program at Klöckner & Co SE. However, the vesting period is four years.

The total number of outstanding virtual stock options has changed as follows:

(Number of virtual stock options)	Management Board programs*)	Other executives	Total
Outstanding at the beginning of the year	**1,425,400**	**1,570,000**	**2,995,400**
Granted	0	734,000	734,000
Exercised	-187,266	-80,000	-267,266
Forfeited	-130,200	-279,500	-409,700
Outstanding at the end of the reporting period	**1,107,934**	**1,944,500**	**3,052,434**
thereof exercisable at the reporting date	*271,900*	*78,000*	*349,900*
weighted average remaining contractual lifetime (months)	*56*	*62*	*60*
range of strike prices (€/VSO)	*8.33-17.86*	*7.94-9.77*	*7.94-17.86*
weighted average strike price (€/VSO)	*10.17*	*8.60*	*9.17*

*) Including 140,000 options of Ulrich Becker (2015: 180,000 VSOs) who left Klöckner & Co in 2012.

Detailed information for the current members of the Management Board is provided in the following table:

(Number of virtual stock options)	Gisbert Rühl	Marcus A. Ketter	Karsten Lork	William A. Partalis
Outstanding at the end of the reporting period	**514,600**	**126,667**	**126,667**	**200,000**
thereof exercisable at the reporting date	*151,900*	*0*	*0*	*20,000*
weighted average remaining contractual lifetime (months)	*64*	*61*	*61*	*56*
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)	*10.51*	*9.08*	*9.08*	*9.02*

267,266 (2015: 0) virtual stock options were exercised in fiscal year 2016 (of which Management Board program: 187,266 virtual stock options). The payments totaled €651 thousand (of which Management Board program: €483 thousand).

The provision recognized pro rata temporis for stock options granted to the Management Board and senior management amounts to €8,700 thousand as of the reporting date (2015: €2,880 thousand); the intrinsic value of virtual stock options exercisable as of the reporting date was €567 thousand (2015: €0 thousand). Additions to provisions amounted to €6,471 thousand (2015: €570 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 situation. 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 new entrants from 1979, are entitled to 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 €219,684 thousand (2015: €203,155 thousand). This is partly offset by plan assets of €26,053 thousand (2015: €22,509 thousand), leaving a net defined benefit liability of €193,631 thousand (2015: €180,646 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 to 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 2016 was €27,617 thousand (2015: €25,360 thousand). Some companies have voluntarily funded obligations with plan assets in the form of insurance policies in the amount of €265 thousand at the end of 2016 (2015: €259 thousand). This leaves a net defined benefit liability of €27,352 thousand (2015: €25,101 thousand).

In Great Britain, post-2003 new entrants have 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 and 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 2016 was €103,242 thousand (2015: €105,094 thousand). At the end of 2016, this is partly offset by plan assets of €71,464 thousand (2015: €80,452 thousand). This leaves a net defined benefit liability of €31,778 thousand (2015: €24,642 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 2016 was the equivalent of €560,246 thousand (2015: €545,363 thousand). This is partly offset by plan assets of €503,824 thousand at the end of 2016 (2015: €494,741 thousand). This leaves a net defined benefit liability of €56,422 thousand (2015: €50,622 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 have 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 the aforesaid regular pension plans in the USA, there is also a retiree welfare plan, likewise closed to new entrants, with post-retirement healthcare 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 is a plan for upper management, which is exclusively financed through provisions. The retiree welfare plan is also financed entirely out of provisions. The total defined benefit obligation is the equivalent of €221,185 thousand (2015: €209,916 thousand), compared with plan assets of €172,791 thousand (2015: €152,058 thousand). This leaves a net defined benefit liability of €48,394 thousand (2015: €57,858 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. Plans of this kind exist only on a small scale in the Klöckner & Co Group or are largely closed to new entrants.

Regarding increases to pensions currently in payment, there is, with one exception, 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. Only for a number of entitlements for executive staff in Germany is there a commitment to increase benefits by 1% a year from retirement regardless of actual inflation.

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 €9,288 thousand (2015: €10,722 thousand). This does not include employer contributions to the statutory pension insurance scheme. These came to €6,663 thousand in Germany (2015: €6,498 thousand).

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

2016

in %	Germany	Switzerland	Great Britain	France	United States
Discount rate	1.50	0.60	2.80	1.50	3,54– 4,23
Salary trend	2.50	1.00	2.05	1.75	3.50
Pension trend	1.75	0.00	3.00	1.25	0.00

2015

in %	Germany	Switzerland	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

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

The discount rate in Great Britain is based on the Markit iBoxx GBP Benchmark Indices. These include four long-term low-yield British university bonds that are considered unrepresentative for derivation of corporate discount rates and are therefore no longer taken into consideration. The modified composition of the reference index led to a 0.10 percentage point increase in the discount rate, which resulted in a €2 million decrease in the defined benefit obligation.

The mortality assumptions used for pension accounting in the various countries are as follows:

	2016	2015
Germany	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck	Richttafeln 2005 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2015	BVG 2010
Great Britain	SAPS	SAPS
France	INSEE 10– 12; TGH05	INSEE 08– 10; TGH05
United States	Retirement Plan 2016	Retirement Plan 2015

Provisions for defined benefit plans are consequently as follows:

(€ thousand)	December 31, 2016	December 31, 2015
Defined benefit obligation of unfunded plans	218,440	210,417
Defined benefit obligation of fully or partly funded defined benefit plans	914,844	879,714
Fair value of plan assets	– 774,397	– 750,019
Provisions for pensions and similar obligations	**358,887**	**340,112**

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)	2016	2015
Reimbursement rights as of January 1	**3,593**	**3,821**
Expected return	76	66
Actuarial gains and losses	-	– 71
Benefits paid	– 223	– 223
Reimbursement rights as of December 31	**3,446**	**3,593**

The net provision changed as follows:

(€ thousand)	Defined benefit obligation 2016	Defined benefit obligation 2015	Fair value of plan assets 2016	Fair value of plan assets 2015	Net provision 2016	Net provision 2015
As of January 1	1,090,131	1,000,406	– 750,019	– 672,216	340,112	328,190
Included in statement of income						
Service cost	19,960	20,344	-	-	19,960	20,344
Interest cost for pension plans	21,677	22,560	-	-	21,677	22,560
Interest income from plan assets	-	-	– 13,907	– 15,215	– 13,907	– 15,215
Administration expenses	-	-	1,280	1,358	1,280	1,358
Settlements/amendments	– 8,434	– 2,526	2,289	-	– 6,145	– 2,526
	33,203	**40,378**	**– 10,338**	**– 13,857**	**22,865**	**26,521**
Included in other comprehensive income						
Actuarial gains and losses due to change in demographic assumptions	– 6,294	2,214	-	-	– 6,294	2,214
Actuarial gains and losses due to change in financial assumptions	69,117	– 5,594	-	-	69,117	– 5,594
Experience gains and losses	– 12,232	13,172	-	-	– 12,232	13,172
Actuarial gains and losses	-	-	– 16,282	3,488	– 16,282	3,488
Foreign currency exchange rate differences	– 3,469	77,919	1,363	– 68,732	– 2,106	9,187
	47,122	**87,711**	**– 14,919**	**– 65,244**	**32,203**	**22,467**
Other						
Employee contributions	17,773	14,533	– 17,773	– 14,533	-	-
Employer contributions	-	-	– 25,471	– 25,787	– 25,471	– 25,787
Benefits paid	– 54,945	– 52,897	44,123	41,618	– 10,822	– 11,279
	– 37,172	**– 38,364**	**879**	**1,298**	**– 36,293**	**– 37,066**
As of December 31	**1,133,284**	**1,090,131**	**– 774,397**	**– 750,019**	**358,887**	**340,112**

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

(€ thousand)	2016	2015
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	1,053,051	1,014,764
discount rate would be lower by 50 basis points	1,224,684	1,175,770
the expected salary trend would be higher by 0.5%	1,141,649	1,098,764
the expected salary trend would be lower by 0.5%	1,125,454	1,082,076
pension increase would be higher by 0.5%	1,181,722	1,135,164
pension increase would be lower by 0.5%	1,118,277	1,075,432
longevity would be 1 year longer	1,164,790	1,119,208

The sensitivities indicated are computed on the basis of the same methods and assumptions as are 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 actuarial assumptions are held constant.

When appraising sensitivities, it should 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 classes of asset:

	December 31, 2016			December 31, 2015		
(€ 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	211,887	48,855	260,742	208,020	42,835	250,855
Bonds	138,197	106,403	244,600	142,817	87,781	230,598
Real estate	42,356	128,157	170,513	39,723	124,531	164,254
Other assets	70,608	27,934	98,542	75,940	28,372	104,312
Fair value of plan assets as of December 31	**463,048**	**311,349**	**774,397**	**466,500**	**283,519**	**750,019**

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 totaled €26,848 thousand in the fiscal year (2015: €26,647 thousand).

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

(€ thousand)	2016	2015
Service cost	– 19,960	– 20,344
Interest cost for pension plans	– 21,677	– 22,560
Interest income from plan assets	13,907	15,215
Administration expenses	– 1,280	– 1,358
Settlements/amendments	6,145	2,526
Expected return on reimbursement rights	76	66
Net periodic benefit expense for defined benefit plans	**– 22,789**	**– 26,455**

The actual return on plan assets was €30,189 thousand in the fiscal year (2015: €11,727 thousand). The actual return on reimbursement rights was €76 thousand in the reporting period (2015: losses of €5 thousand).

The regulatory percentage rates for conversion of capital accumulated up to retirement into a lifelong pension under the Swiss pension scheme are being gradually reduced from currently 6.45% to 6.25% in 2020. This benefit reduction led to a negative past service cost in 2016, which correspondingly reduced the net periodic benefit expense for defined benefit plans. Experience adjustments to the present value of the defined benefit obligation in the year under review were €12,232 thousand (2015: losses of €-13,172 thousand); experience adjustments to the fair value of plan assets were €16,282 thousand (2015: losses of €-3,488 thousand).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2017 are expected to amount to €23,528 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2017	41,689
- due in 2018	40,634
- due in 2019	39,815
- due in 2020	41,563
- due in 2021	40,797
- due 2022- 2026	210,222

(24) Other provisions and accrued liabilities

Other provisions changed as follows in the reporting year:

(€ thousand)	As of January 1, 2016	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2016
Other provisions							
Other taxes	1,758	386	-	– 272	– 4	– 268	1,600
Personnel-related obligations							
– early retirement schemes	196	3	-	– 22	-	– 103	74
– anniversary payments	10,691	921	113	– 330	-	25	11,420
– other	118	70	-	-	-	8	196
Onerous contracts	1,224	2,728	-	– 603	– 127	34	3,256
Restructuring expenses	53,421	-	-	– 32,002	– 1,091	– 233	20,095
Pending litigation	3,351	800	-	– 2,300	-	101	1,952
Warranties	1,291	285	-	– 25	– 262	-	1,289
Miscellaneous provisions	17,505	11,005	123	– 3,259	319	– 163	25,530
	89,555	**16,198**	**236**	**– 38,813**	**– 1,165**	**– 599**	**65,412**
Other accrued liabilities							
Personnel-related obligations	56,736	55,316	-	– 42,100	– 1,004	– 643	68,305
Outstanding invoices	23,959	20,332	-	– 15,942	– 1,205	– 1,568	25,576
Miscellaneous accrued liabilities	877	198	-	– 42	– 8	33	1,058
	81,572	**75,846**	**-**	**– 58,084**	**– 2,217**	**– 2,178**	**94,939**
Other provisions and accrued liabilities	**171,127**	**92,044**	**236**	**– 96,897**	**– 3,382**	**– 2,777**	**160,351**

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

Analysis by maturities:

(€ thousand)	December 31, 2016 Non-current	December 31, 2016 Current	December 31, 2015 Non-current	December 31, 2015 Current
Other provisions				
Other taxes	-	1,600	-	1,758
Personnel-related obligations				
– early retirement schemes	43	31	156	40
– anniversary payments	11,420	-	10,691	-
– other	124	72	83	35
Onerous contracts	8	3,248	-	1,224
Restructuring expenses	4,411	15,684	4,411	49,010
Pending litigation	100	1,852	-	3,351
Warranties	-	1,289	-	1,291
Miscellaneous provisions	6,508	19,022	5,880	11,625
	22,614	**42,798**	**21,221**	**68,334**
Other accrued liabilities				
Personnel-related obligations	-	68,305	-	56,736
Outstanding invoices	-	25,576	-	23,959
Miscellaneous accrued liabilities	-	1,058	-	877
	-	**94,939**	**-**	**81,572**
Other provisions and accrued liabilities	**22,614**	**137,737**	**21,221**	**149,906**

The provision for onerous contracts relates to 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 €7,207 thousand (2015: €25,613 thousand) and other restructuring expenses in an amount of €12,888 thousand (2015: €27,808 thousand) that either result in an outflow of resources in the following year or, to the extent they are material, are recognized as of the reporting date at their discounted settlement amount.

Accrued liabilities for employee-related obligations include bonus payments of €51,157 thousand (2015: €39,746 thousand) as well as vacation entitlements and flextime balances in the amount of €13,528 thousand (2015: €13,739 thousand).

(25) Financial liabilities

The details of financial liabilities are as follows:

(€ thousand)	December 31, 2016 up to 1 year	December 31, 2016 1 – 5 years	December 31, 2016 Over five years	December 31, 2016 Total	December 31, 2015 up to 1 year	December 31, 2015 1 – 5 years	December 31, 2015 Over five years	December 31, 2015 Total
Bonds	923	128,400	-	129,323	24,865	-	-	24,865
Liabilities to banks	41,658	65,725	11,174	118,557	47,319	58,608	11,075	117,002
Promissory notes	-	-	-	-	134,595	-	-	134,595
Liabilities under ABS programs	611	298,086	-	298,697	634	264,421	-	265,055
Finance lease liabilities	821	4,885	19,224	24,930	586	1,617	1,490	3,693
	44,013	**497,096**	**30,398**	**571,507**	**207,999**	**324,646**	**12,565**	**545,210**

Financial liabilities of €20,552 thousand (2015: €24,575 thousand) are secured by liens. Inventories as set out in Note 16 (Inventories) and trade receivables as set out in Note 17 (Trade receivables) are also pledged as collateral.

Transaction costs directly attributable to the assumption of financial liabilities in the amount of €6,740 thousand (2015: €4,892 thousand) have been deducted from the liabilities.

The volume-weighted remaining term of the core Group financing instruments (Syndicated Loan, 2016 Convertible Bond, European ABS and US ABS/ABL) is 3.4 years as of the reporting date.

Bonds

A €148 million senior unsecured convertible bond issue was placed with non-US institutional investors closing September 8, 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE. The Company is using the proceeds from the issue for general business purposes.

The coupon on the bonds was set at 2,00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. The bonds have a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option). The issuer does not have an early redemption option in the first five years. It does have such an option thereafter provided that, over certain stipulated periods, the market price of Klöckner & Co shares exceeds 130% of the conversion price.

For accounting purposes, the convertible bond issue is divided into an equity and a debt component. The equity component was €18 million after deducting transaction costs and accounting for deferred taxes. This was credited to capital reserves.

The carrying amount of the outstanding bonds was €129 million as of the reporting date.

Liabilities to banks

As scheduled, a large part of the syndicated loan volumes were extended with our core banks in April 2016. Of a total volume of €360 million, 85% (€305 million) were extended until May 2019; 15% of the facilities (€55 million) are still due in May 2018. The contractual documentation provides for a further one-year extension through to May 2020 subject to approval from the banks.

The syndicated loan is provided by a syndicate of ten 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 carrying amount of equity attributable to shareholders of Klöckner & Co SE less the same adjustment may not fall below €800 million (minimum equity). Breach of the financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be possible if the covenants were once again complied with. Throughout fiscal year 2016, the Group consistently complied with all loan terms, including the financial covenants.

In an amend and extend process in March 2016, the two US working capital facilities were extended ahead of term to March 2021, which corresponds to the original five-year term. In addition, better financing terms were secured and the terms were amended to provide greater flexibility. The ABL facility was reduced by USD 50 million to USD 275 million due to the decrease in inventories requiring funding.

The remaining liabilities to banks exclusively comprise bilateral borrowings by the country organizations, used among other things to finance net working capital.

Promissory notes

All promissory notes still outstanding, with a principal amount of €133 million, were repaid on schedule and in full on final maturity in April 2016.

Liabilities under ABS programs

The Klöckner & Co Group has operated a European ABS program since July 2005. By way of an amend and extend process in July 2016, the European ABS program was extended early by more than two years to 2019 while retaining the €300 million loan amount. Additionally, the terms were amended in Klöckner & Co's favor. The agreed financial covenants are likewise balance sheet-based and match those of the syndicated loan.

The US ABS program was extended early to 2021 via an amend and extend process in March 2016. Its volume remained unchanged, at USD 275 million.

Utilization of the programs including accumulative interest totaled €300 million as of the reporting date and breaks down as follows:

(€ million)	December 31, 2016	December 31, 2015
European program		
– utilization	115	91
– maximum volume	300	300
American program		
– utilization *)	185	175
– maximum volume *)	261	253

*) Translated at closing exchange rate.

The utilization of the programs is accounted for as borrowings as the requirements in IAS 39 for derecognition of the transferred receivables are not met.

Finance lease liabilities

Finance lease liabilities have the following term structure:

(€ thousand)	December 31, 2016	December 31, 2015
Due within one year	1,599	640
Due between one and five years	12,011	3,358
Due after five years	26,957	6,173
Future minimum lease payments	**40,567**	**10,171**
Due within one year	778	54
Due between one and five years	7,126	1,741
Due after five years	7,733	4,683
Interest included in future minimum lease payments	**15,637**	**6,478**
Due within one year	821	586
Due between one and five years	4,885	1,617
Due after five years	19,224	1,490
Total present value of future minimum lease payments	**24,930**	**3,693**

(26) Trade payables

(€ thousand)	December 31. 2016	December 31, 2015
Advance payments received	352	830
Trade payables	539,765	487,790
Bills payable	13	428
Trade payables	**540,130**	**489,048**

(27) Other liabilities

	December 31, 2016		December 31, 2015	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial liabilities				
Negative fair value of derivative financial instruments	530	28	2,318	64,024
Other non-financial liabilities				
Value-added tax liabilities	13,007	-	24,145	-
Customers with credit balances	9,534	-	11,154	-
Social security contributions	6,727	-	9,006	-
Other tax liabilities	5,229	-	5,082	-
Liabilities to employees	1,858	-	1,491	-
Miscellaneous other liabilities	4,411	247	3,418	361
Other liabilities	**41,296**	**275**	**56,614**	**64,385**

The decrease in the negative fair values of derivative financial instruments relates to the expiration of a hedging instrument used to hedge a long-term acquisition financing arrangement.

Other disclosures

(28) Information on capital management

The Klöckner & Co Group determines its capital requirements in relation to risk. Management of and any adjustment in the capital structure is carried out with due regard to changes in the economic environment. Options for maintenance or adjustment of the capital structure include adjusting dividend payments, returning capital to shareholders, issuing new shares and the sale of assets to reduce debt.

Capital is managed on the basis of 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 for deducted transaction costs) and cash and cash equivalents in the statement of financial position. The Klöckner & Co Group's target is to maintain gearing below the 150% required under the financial covenants in order to be able to continue borrowing on reasonable terms.

Further information about minimum capital requirements is provided in Note 25 (Financial liabilities).

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

€ thousand	December 31, 2016	December 31, 2015	Variance
Financial liabilities	571,507	545,210	26,297
Transaction costs	6,740	4,892	1,848
Liquid funds	– 134,228	– 164,853	30,625
Net financial debt (before deduction of transaction cost)	**444,019**	**385,249**	**58,770**
Consolidated shareholders' equity	1,147,953	1,113,427	34,526
Non-controlling interests	– 8,757	– 8,606	– 151
Goodwill from business combinations subsequent to May 23, 2013	– 21,564	– 21,373	– 191
Adjusted shareholders equity	**1,117,632**	**1,083,448**	**34,184**
Gearing	**40%**	**36%**	**4.2%p**

(29) Additional disclosures on financial instruments

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

Financial assets as of December 31, 2016		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	*5,732*	*5,732*	-	-	-	-	*5,732*
Loans and receivables	5	5	-	-	-	-	5
Financial assets available for sale	5,727	5,727	-	-	-	-	5,727
Other non–current assets	*10,162*	*6,716*	-	-	-	*3,446*	*6,716*
Loans and receivables	6,716	6,716	-	-	-	-	6,716
Not covered by the scope of IFRS 7	3,446	-	-	-	-	3,446	-
Current financial assets							
Trade receivables	*653,784*	*653,784*	-	-	-	-	*653,784*
Loans and receivables	653,784	653,784	-	-	-	-	653,784
Other current assets	*97,606*	*84,448*	*1,638*	-	-	*11,520*	*86,086*
Loans and receivables	84,448	84,448	-	-	-	-	84,448
Derivative financial instruments not designated in hedge accounting (held for trading)	1,638	-	1,638	-	-	-	1,638
Derivative financial instruments designated in hedge accounting	-	-	-	-	-	-	-
Not covered by the scope of IFRS 7	11,520	-	-	-	-	11,520	-
Liquid funds	*134,228*	*134,228*	-	-	-	-	*134,228*
Loans and receivables	131,452	131,452	-	-	-	-	131,452
Financial assets available for sale	2,776	2,776	-	-	-	-	2,776
Total	**901,512**	**884,908**	**1,638**	**-**	**-**	**14,966**	**886,546**

Other non-current financial assets not covered by the scope of IFRS 7 mainly comprise pension-related receivables and pension liability claims against pension funds. Other current assets not covered by the scope of IFRS 7 mainly comprise other tax receivables.

Financial liabilities as of December 31, 2016

(€ 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	*527,494*	*503,384*	-	-	*24,110*	-	*553,469*
Liabilities measured at amortized costs	503,384	503,384	-	-	-	-	529,359
Liabilities held under finance leases	24,110	-	-	-	24,110	-	24,110
Other non–current liabilities	*275*	*247*	*28*	-	-	-	*275*
Liabilities measured at amortized costs	247	247	-	-	-	-	247
Derivative financial instruments not designated in hedge accounting (held for trading)	28	-	28	-	-	-	28
Derivative financial instruments designated in hedge accounting	-	-	-	-	-	-	-
Not covered by the scope of IFRS 7	-	-	-	-	-	-	-
Current financial liabilities							
Current financial liabilities	*44,013*	*43,192*	-	-	*821*	-	*44,013*
Liabilities measured at amortized costs	43,192	43,192	-	-	-	-	43,192
Liabilities held under finance leases	821	-	-	-	821	-	821
Current trade liabilities	*540,130*	*540,130*	-	-	-	-	*540,130*
Liabilities measured at amortized costs	540,130	540,130	-	-	-	-	540,130
Other current liabilities	*41,296*	*15,802*	*270*	*260*	-	*24,964*	*16,332*
Liabilities measured at amortized costs	15,802	15,802	-	-	-	-	15,802
Derivative financial instruments not designated in hedge accounting (held for trading)	270	-	270	-	-	-	270
Derivative financial instruments designated in hedge accounting	260	-	-	260	-	-	260
Not covered by the scope of IFRS 7	24,964	-	-	-	-	24,964	-
Total	**1,153,208**	**1,102,755**	**298**	**260**	**24,931**	**24,964**	**1,154,219**

Other current financial liabilities not covered by the scope of IFRS 7 mainly comprise other tax liabilities, such as VAT liabilities.

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**

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**

The non-current financial assets are measured at cost as the fair value cannot be reliably determined. They mainly comprise financial instruments for which there is no quoted price in an active market. No disposal of investments accounted for at cost is currently planned.

The fair values of non-current financial liabilities are determined on the basis of 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 situation for the respective financial instruments as of December 31, 2016. Their fair values are not reduced by transaction costs. For current financial liabilities, when there are no transaction costs to be deducted, their carrying amount is identical to fair value.

All assets and liabilities accounted for at fair value are recognized as a rule at fair value.

Fair values by fair value hierarchy levels

		Fair value measurement at the end of the reporting period by hierarchy		
(€ thousand)	December 31, 2016	Level 1	Level 2	Level 3
Non-current investments	*5,732*	-	*5,732*	-
Loans and receivables	5	-	5	-
Financial assets available for sale	5,727	-	5,727	-
Other non–current assets	*6,716*	-	*6,716*	-
Loans and receivables	6,716	-	6,716	-
Trade receivables	*653,784*	-	*653,784*	-
Loans and receivables	653,784	-	653,784	-
Other current assets	*86,086*	-	*86,086*	-
Loans and receivables	84,448	-	84,448	-
Derivative financial instruments not designated in hedge accounting (held for trading)	1,638	-	1,638	-
Derivative financial instruments designated in hedge accounting	-	-	-	-
Liquid funds	*134,228*	-	*134,228*	-
Loans and receivables	131,452	-	131,452	-
Financial assets available for sale	2,776	-	2,776	-
Total	**886,546**	**-**	**886,546**	**-**
Non-current financial liabilities	*553,469*	-	*553,469*	-
Liabilities measured at amortized costs	529,359	-	529,359	-
Liabilities held under finance leases	24,110	-	24,110	-
Other non–current liabilities	*275*	-	*275*	-
Liabilities measured at amortized costs	247	-	247	-
Derivative financial instruments not designated in hedge accounting (held for trading)	28	-	28	-
Derivative financial instruments designated in hedge accounting	-	-	-	-
Current financial liabilities	*44,013*	-	*44,013*	-
Liabilities measured at amortized costs	43,192	-	43,192	-
Liabilities held under finance leases	821	-	821	-
Current trade liabilities	*540,130*	-	*540,130*	-
Liabilities measured at amortized costs	540,130	-	540,130	-
Other current liabilities	*16,332*	-	*16,332*	-
Liabilities measured at amortized costs	15,802	-	15,802	-
Derivative financial instruments not designated in hedge accounting (held for trading)	270	-	270	-
Derivative financial instruments designated in hedge accounting	260	-	260	-
Total	**1,154,219**	**-**	**1,154,219**	**-**

(€ 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**	**-**

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices in active markets. Fair values determined using other observable market inputs are classified as Level 2. Financial instruments whose fair values are measured using unobservable inputs are classified as Level 3. Transfers between hierarchy levels are deemed to have occurred at the end of the reporting period during which the transfer took place. There were no transfers between hierarchy levels during the reporting year.

Net gains or losses by category

Cash and cash equivalents, trade receivables and other receivables mostly have short remaining maturities. Their carrying amounts at the reporting date therefore approximate to their fair values.

Net gains or losses in the loans and receivables category are as follows:

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

(€ thousand)	December 31, 2016	December 31, 2015
Exchange rate differences	– 14	– 2,836
Valuation allowance	– 3,638	– 4,039
Subtotal	**– 3,652**	**– 6,875**
Net income credit insurance	– 3,796	– 5,810
Net result	**– 7,448**	**– 12,685**

Net gains or losses on liabilities measured at amortized cost are a result of currency translation. In the fiscal year, there was a net loss of €183 thousand (2015: net loss of €208 thousand).

There were no impairment losses on non-current investments in the reporting year. The expense recognized for valuation allowances on trade receivables amounted to €7,129 thousand (2015: €8,730 thousand).

Credit risk

The Company's exposure to credit risks mainly arises from its operating business. A credit risk is defined as an unexpected loss on financial assets, such as if a customer is unable to meet its obligations when due. Operating receivables are locally monitored on an ongoing basis. Credit risk is taken into account by valuation allowances.

The maximum exposure to credit risk is reflected by the carrying amounts of financial assets in the statement of financial position. The Klöckner & Co Group addresses credit risk with its own credit management and by taking out credit insurance. In the fiscal year, 46% (2015: 48%) of trade receivables were covered by credit insurance.

(30) Derivative financial instruments

Derivative financial instruments are accounted for at fair value in accordance with IAS 39.

The Klöckner & Co Group is exposed to interest and currency risk in its operating business. This risk is hedged using derivative financial instruments.

The Group exclusively uses market instruments with sufficient market liquidity. Derivative financial instruments are entered into and managed in compliance with internal directives governing the scope of action, responsibilities and controls. According to these directives, the use of derivative financial instruments is a primary responsibility of the Corporate Treasury department of Klöckner & Co SE, which manages and coordinates the use of such instruments. Such transactions are only entered into with counterparties with impeccable ratings. Derivative financial instruments are not allowed to be used for speculative purposes and may only be used to hedge risks associated with hedged items.

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.

Disclosures on credit risk are provided in Note 29 (Additional disclosures on financial instruments).

Disclosures on interest rate risk

The Klöckner & Co Group is exposed to interest rate changes due to the use of financial instruments. The hedging policy is geared to risk arising from interest rate changes on variable-rate financial liabilities. The Klöckner & Co Group faces interest rate risk exposure on its central financing instruments in the eurozone (Syndicated Loan, European ABS) and on bilateral borrowings, notably by the US country organization (US ABS/ABL). There is additional interest rate risk exposure on short-term deposits of liquid funds at banks. The Corporate Treasury department monitors and controls interest rate risk on financial liabilities.

As part of central Group financing, the Group's borrowing needs are primarily met with a diversified portfolio of financing instruments. These primarily comprise the working capital instruments (Syndicated Loan, European ABS, US ABS/ABL) supplemented by the September 2016 convertible bond issue. The working capital instruments are variable-rate financial instruments, generally with flexible drawing provisions. The convertible bond was issued with a fixed coupon and is subject to no interest rate risk for its entire term to maturity.

Taking into account the fixed-coupon convertible bond and the bilateral borrowings, as of December 31, 2016 some 41% or €244 million (2015: €157 million) of financial liabilities before transaction costs were fixed-rate.

Interest rate risk exposures and opportunities are presented using sensitivity analyses in accordance with IFRS 7. These show how interest income and expense and equity as of the reporting date are affected by changes in market interest rates. Interest rate risk is measured as cash flow risk (flow variable-based analysis).

Scenario-based sensitivity analysis is used to show the effects on Klöckner & Co's profit and loss of a parallel shift in yield curves in the relevant currencies. The cash flow effect of the shift in the yield curve relates solely to interest expense and income for the following reporting period.

On the basis of financial liabilities as of December 31, 2016, an increase in market interest rates on the relevant currencies by 100 basis points would have a negative effect on the financial result in the amount of approximately €3.5 million for an analysis period of one year.

A rising interest rate scenario creates upside potential for the accumulated holdings of liquidity. Assuming a one-year investment period, an increase in market interest rates by 100 basis points would have a positive effect in the amount of €1.3 million.

Conversely, a decrease in market interest rates by 100 basis points would result in a substantially negative interest rate scenario. We expect that such a scenario would show the aforesaid effects on profit or loss in roughly equal magnitude in the opposite direction.

Disclosures on currency risk

Within our risk strategy, only transaction risk and risk on intra-Group borrowings are subject to our hedging policy. Our hedging activities do not target translation risk relating to the translation of income and expenses into our Group currency. Currency risk therefore arises from borrowing, intra-Group dividend payments, acquisitions and operating activities.

The Klöckner & Co Group operates central foreign currency management. Domestic and foreign subsidiaries are required to identify currency risk and to hedge it through Corporate Treasury or, within set limits, individually with banks. The hedges cover currency risk on recognized sales and purchases as well as on firm sale and purchase commitments. With regard to currency risk on firm sale commitments, the hedging strategy takes into account the compensatory effects of operating measures and market changes (natural hedges).

At the reporting date, the Klöckner & Co Group did not have any material exposure to currency risk arising from its operating activities or acquisitions.

In financing, currency risk arises on foreign currency loans provided by the holding companies. These loans are granted to finance Group companies as part of central Group financing and are fully hedged. As of the reporting date, there were pound sterling and US dollar loans of this kind totaling €211 million (2015: €518 million).

At our Dutch subsidiaries ODS B.V. and ODS Metering Systems B.V., forward exchange transactions and currency swaps totaling €4.8 million were designated in a cash flow hedge. These hedge customer payments in international project business.

The intra-Group loans granted predominantly in US dollars and pounds sterling, including ongoing interest payments, have been hedged with forward contracts and currency swaps.

A sensitivity analysis is performed to show the effects of changes in exchange rates on foreign exchange gains and losses as well as on equity as of the reporting date. Currency risk is measured as cash flow risk (flow variable-based analysis) for the following year.

The sensitivity analysis shows compensatory effects in the forward exchange transactions and swaps since they match the hedged items in term and amount.

The fair value of our currency swaps was €1.0 million as of the reporting date.

Disclosures on liquidity risk

Liquidity requirements are continuously budgeted by the Klöckner & Co Group and monitored by the Corporate Treasury department to ensure appropriate levels of liquidity for the Group.

In an amend and extend process in March 2016, the two US working capital facilities were extended ahead of term to March 2021, which corresponds to the original five-year term. In addition, better financing terms were secured and the terms were amended to provide greater flexibility. The volume of the ABS program remained unchanged, at USD 275 million. The ABL facility was reduced by USD 50 million to USD 275 million due to the decrease in inventories requiring funding.

As scheduled, a large part of the Syndicated Loan volumes were extended with our core banks in April 2016. Of a total volume of €360 million, 85% (€305 million) was extended until May 2019; 15% of the facilities (€55 million) are still due in May 2018. The contractual documentation provides for a further one-year extension through to May 2020 subject to approval from the banks.

By way of an amend and extend process in July 2016, the European ABS program was extended early by more than two years to 2019 while retaining the €300 million loan amount. The terms were additionally amended in Klöckner & Co's favor with effect from the end of July 2016.

A €148 million senior unsecured convertible bond issue with a 2.00% coupon was placed with non-US institutional investors closing September 8, 2016. The Company plans to use the proceeds from the issue for general business purposes. The bonds have a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option).

All promissory notes still outstanding, with a principal amount of €133 million, were repaid on schedule and in full on final maturity in April 2016.

Including the convertible bond issue (€148 million) and finance leases (€25 million), the Group has credit facilities totaling approximately €1.6 billion (2015: €1.7 billion). Financial liabilities plus transaction costs came to €572 million (2015: €550 million). This corresponds to approximately 35% of the credit facilities (2015: 33%).

The following table shows contractual undiscounted interest and principal payments for non-derivative and derivative financial instruments as of each reporting date.

December 31, 2016 (€ thousand)		Cash outflows Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	11,824	-	14,780
	Total	**2,956**	**159,624**	**-**	**162,580**
Promissory notes	Nominal values	-	-	-	-
	Interest	-	-	-	-
	Total	**-**	**-**	**-**	**-**
Bank loans	Nominal values	41,357	69,008	11,174	121,539
	Interest	5,868	11,529	323	17,720
	Total	**47,225**	**80,537**	**11,497**	**139,259**
ABS	Nominal values	-	299,557	-	299,557
	Interest	7,719	25,611	-	33,330
	Total	**7,719**	**325,168**	**-**	**332,887**
Finance lease liabilities	Nominal values	821	4,885	19,224	24,930
	Interest	778	7,126	7,733	15,637
	Total	**1,599**	**12,011**	**26,957**	**40,567**
Total financial liabilities		**59,499**	**577,340**	**38,454**	**675,293**
Cash outflows from derivative financial instruments designated in interest hedging relationships		18	3	-	21

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

The table includes all instruments for which contractual payments are agreed as of the reporting date; budgeted payments for new liabilities to be assumed in the future are not included. Variable interest on financial instruments is determined on the basis of the forward yield curve as of immediately before the reporting date. For drawings on the revolving credit facility, it was assumed that the level of drawings as of the reporting date will be maintained for the remaining term of the facility.

The notional amounts and fair values of the derivative financial instruments in interest rate and currency hedges as of the reporting date are as follows:

(€ million)	December 31, 2016 Not designated in hedge-accounting	December 31, 2016 Designated in hedge-accounting	December 31, 2015 Not designated in hedge-accounting	December 31, 2015 Designated in hedge-accounting
Nominal values				
Forward exchange transactions	316.2	4.8	350.4	1.5
Interest rate swap	0.8	-	1.2	-
Cross–currency–swaps	-	-	-	211.3
Fair values				
Forward exchange transactions	1.3	– 0.3	– 1.6	-
Interest rate swap	-	-	– 0.1	-
Cross–currency–swaps	-	-	-	– 64.0

The notional amounts correspond to the non-netted sum of the currency and interest rate portfolio.

The fair values of the derivative financial instruments are determined on the basis of banks' quoted prices or by quantitative finance methods using standard banking models. Counterparty risk as of the measurement date is taken into account in the determination of fair values. Where market prices exist, these correspond to the price a third party 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 the value of hedged items.

Forward exchange contracts with a notional amount of €321 million (2015: €352 million) have a remaining maturity of less than one year. These include a notional amount of €285 million for the hedging of intra-Group loans.

Forward exchange contracts for a total of €4.8 million were designated as cash flow hedges. These hedge currency risk on customer payments in the international project business of our Dutch subsidiaries ODS B.V. and ODS Metering Systems B.V.

The interest rate swap not designated in hedge accounting is an interest rate swap in the amount of €0.8 million held by Becker Besitz GmbH, Duisburg, Germany. This serves to hedge a variable-rate bilateral loan at that company.

The contractual agreements with counterparties do not give rise to any rights of set-off to be disclosed in accordance with IFRS 7.13B as of December 31, 2016.

(31) Litigation, contingent liabilities and commitments

The Klöckner & Co Group is not involved in any litigation or arbitration proceedings that could have a material impact on the Group's financial situation. Notwithstanding extensive compliance measures isolated compliance violations and legacy cases cannot be ruled out.

There are also guarantees that are given on divestments and property disposals. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

Notable commitments arise in the Klöckner & Co Group from contracts that qualify as non-cancelable operating leases. Operating leases mainly relate to buildings, 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, 2016	December 31, 2015
Due within one year	51,604	50,802
Due between one and five years	145,132	134,843
Due after five years	68,238	46,022
Future minimum lease payments (nominal amounts)	**264,974**	**231,667**

Rental income under subletting in fiscal year 2016 totaled €1,595 thousand (2015: €1,794 thousand). The future minimum payments from subleases amount to €2,250 thousand (2015: €3,044 thousand).

Other commitments arise from capital expenditure purchase obligations; these amounted to €1,429 thousand as of December 31, 2016 (2015: €2,028 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. There were no material transactions with related parties during the reporting year.

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the Management Report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated required in the remuneration report in accordance with the German Corporate Governance Code – pursuant to the stipulations of German commercial law:

(€ thousand)	Fixed components	Bonuses	Other remunerations[1]	Total excluding share-based compensation	Share-based compensation[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	1,424	41	2,325	-	2,325	-	1,061	5,708	– 864
	(860)	(812)	(41)	(1,713)	(397)	(2,110)	(120,900)	(10)	(6,572)	(2,860)
Marcus A. Ketter (CFO)	480	801	127	1,408	-	1,408	-	294	-	-
	(480)	(457)	(127)	(1,063)	(180)	(1,243)	(60,000)	(70)	(-)	(-)
Karsten Lork	480	801	29	1,310	-	1,310	-	294	413	– 67
	(480)	(457)	(29)	(965)	(180)	(1,145)	(60,000)	(70)	(480)	(296)
William A. Partalis	480	848	29	1,357	-	1,357	-	430	6,737	878
	(480)	(583)	(30)	(1,092)	(188)	(1,281)	(60,000)	(40)	(5,859)	(457)
Total	**2,300**	**3,874**	**226**	**6,400**	**-**	**6,400**	**-**	**2,079**	**12,858**	**– 53**
	(2,300)	**(2,308)**	**(226)**	**(4,834)**	**(947)**	**(5,780)**	**(300,900)**	**(190)**	**(12,911)**	**(3,613)**

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 €9,113 thousand for Gisbert Rühl and €740 thousand for Karsten Lork.

Statutory pension provisions for former Management Board members amount to €2,595 thousand(2015: €3,493 thousand). In 2016, pension payments of €118 thousand (2015: €117 thousand) were made to a former member of the Management Board.

Transactions with members of the Management Board are restricted to transactions in their capacity as members of the Management Board as set out above.

Remuneration for the Supervisory Board in fiscal year 2016 totaled €500 thousand (2015: €488 thousand). In October 2016, a contract was signed with Professor Kollmann for consulting services in connection with the Klöckner & Co Group's Digital Academy. No remuneration was paid in this connection in 2016.

A list of the members of the Management Board is included on page 9 and of the Supervisory Board on page 17 of this annual report.

A further related party within the meaning of IAS 24 is the pension fund of the Debrunner & Acifer Group, Switzerland. The pension fund leases premises to Swiss subsidiaries. Rental expenses for such premises in 2016 amounted to €1,518 thousand (2015:€1,904 thousand).

(33) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is presented in accordance with IAS 7 (Statement of Cash Flows). It is of central importance in assessing the cash flows 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 preparing the statement of cash flows.

Cash flow from operating activities

Cash flow from operating activities was €73 million in the fiscal year, compared with €276 million in the prior year. Whereas reductions in net working capital brought about a large (€281 million) increase in cash flow in the prior year, additions to working capital made for a €22 million decrease in cash flow in the fiscal year under review. Adjusted for exchange rate effects and changes in the scope of consolidation, net working capital changed as follows:

	Variance	
(€ thousand)	2016/2015	2015/2014
Inventories	69,168	– 445,426
Trade receivables	21,938	– 138,865
Trade payables	– 69,299	303,127
Net working capital	**21,807**	**– 281,164**

Cash flow from investing activities

Capital expenditure on property, plant and equipment and intangible assets accounted for a cash outflow of €80 million. Deducting proceeds from disposals of property, plant and equipment left a net cash outflow from investing activities of €52 million (2015: net cash outflow of €85 million). The cash outflow in the prior year included €33 million for the acquisition of American Fabricators, Inc.

Cash flow from financing activities

Cash flow from financing activities was a negative €-46 million (2015: €-350 million) and includes a €145 million cash inflow (after deducting transaction costs) from the 2016 Convertible Bond alongside residual repayments of the 2010 Convertible Bond in the amount of €25 million and of promissory notes in the amount of €133 million. The balance was covered by additional drawings on the European and US asset-backed securitization (ABS) programs.

The Klöckner & Co Group's business activities constantly generate short-term cash inflows. These are generally used within one month to repay working capital facilities.

Cash and cash equivalents

Cash and cash equivalents including marketable securities amounted to €134 million as of the end of 2016 (2015: €165 million). Cash and cash equivalents include bank balances of €3,767 thousand (2015: €12,619 thousand) belonging to the consolidated special-purpose entities solely serving the subsidiaries participating in the European ABS program.

(34) Segment reporting

(€ thousand)	Europe 2016	Europe 2015	Americas 2016	Americas 2015	
Sales	3,606,311	3,983,645	2,123,965	2,459,983	
Capital expenditure for intangible assets, property, plant and equipment	51,136	66,085	19,078	27,834	
Segment result (EBITDA)	151,403	13,699	73,512	34,450	
Earnings before interest and taxes	85,537	– 44,993	32,490	– 277,755	
Amortization and depreciation of intangible assets and property, plant ande equipment	49,743	49,237	39,599	44,872	
Impairment losses for intangible assets and property, plant and equipment	16,124	9,455	1,422	267,333	
Other non-cash income/expenses	– 111	362	-	-	
Income taxes	– 4,528	– 8,192	– 4,021	61,544	

(€ thousand)	Europe December 31. 2016	Europe December 31, 2015	Americas December 31. 2016	Americas December 31, 2015	
Net Working Capital	706,411	685,472	410,499	436,913	
Net financial debt	376,347	310,848	409,924	669,145	
Employees at year-end (headcount)	6,419	6,812	2,531	2,687	

	Headquarters		Consolidation		Total	
	2016	2015	2016	2015	2016	2015
	-	-	– 212	-	5,730,064	6,443,628
	4,878	3,945	-	-	75,092	97,864
	– 1,584	44,508	– 27,808	– 68,783	195,523	23,874
	– 4,809	41,288	– 27,808	– 68,783	85,410	– 350,243
	3,225	2,295	-	-	92,567	96,404
	-	925	-	-	17,546	277,713
	26,269	662	– 25,807	-	351	1,024
	– 5,497	– 2,952	-	-	– 14,046	50,400

	Headquarters		Consolidation		Total	
	December 31. 2016	December 31, 2015	December 31. 2016	December 31, 2015	December 31. 2016	December 31, 2015
	3,153	5,131	– 154	-	1,119,909	1,127,516
	– 367,995	– 594,744	25,743	-	444,019	385,249
	114	93	-	-	9,064	9,592

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

(€ thousand)	2016	2015
Earnings before inerest and taxes (EBIT)	85,410	– 350,243
Financial result	– 33,407	– 48,994
Income before taxes	**52,003**	**– 399,237**

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. The internal reporting compiles information regarding the reportable segments Europe and Americas, which include all entities domiciled in those regions. Central functions that are not assigned to a segment, as well as the consolidation effects, are reported separately.

The segments use the same accounting policies 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)	2016	2015
USA	341,654	340,040
Switzerland	304,517	312,534
Germany	120,795	107,237
Spain	-	42,823
France	35,351	37,968
Great Britain	32,695	38,954
The Netherlands	23,124	22,868
Other regions	9,729	10,433
Total	**867,865**	**912,857**

The decrease in non-current assets in Spain relates to the reclassification to assets held for sale. Further information is provided in Note 20 (Non-current assets held for sale and disposal groups).

(35) Subsequent events

As part of its One Europe strategy to further enhance focus on core markets, Klöckner & Co SE has sold its Spanish activities to Hierros Añón S.A., A Coruña, Spain. An agreement for the acquisition of Klöckner & Co's Spanish companies, including the operating business unit, Kloeckner Metals Ibérica S.A., was signed and put into effect by both parties in January 2017. With a workforce of around 350, the Kloeckner Metals Ibérica Group generated sales of €120 million in the year under review and thus accounted for some 2% of Klöckner & Co Group sales. Recently, its pretax earnings (EBT) were negative due to the ongoing difficult economic environment in Spain. The inflow of cash from the sale significantly reduces Klöckner & Co's net debt.

(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, Germany. The audit opinion is signed by Wirtschaftsprüfer Dr. Markus Zeimes (from fiscal year 2011) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016). Dr. Zeimes has held responsibility within the meaning of Section 24a (2) of BP/vBP ("Berufssatzung der Wirtschaftsprüfer und vereidigten Buchprüfer") for carrying out the engagement for Klöckner & Co SE since fiscal year 2011.

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, Germany (or its subsidiary, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne, Germany) has been the auditor for Klöckner & Co SE (or 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 fiscal year:

(€ thousand)	2016	2015
Audit of financial statements	1,081	857
Other assurance services	150	170
Tax advisory services	206	39
Other services	101	263
	1,538	**1,329**

The auditing fees primarily relate to the audit of the IFRS consolidated financial statements and audits of the separate financial statements of the entities included in the consolidated financial statements. The other assurance services include, among other things, 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 services.

(37) Application of Section 264 para 3 and Section 264 b HGB

In 2016, the following domestic subsidiaries made use in part of the exemption provided in Section 264 (3) and Section 264 b of the German Commercial Code (HGB):

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

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

The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 16, 2016 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, February 22, 2017

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, Duisburg, Germany

Report on the Audit of the Consolidated Financial Statements

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the consolidated financial statements of Klöckner & Co SE, Duisburg, Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income, the statement of comprehensive income, consolidated statement of cash flows and the summary of changes in consolidated equity for the fiscal year from January 1, 2016 to
December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Pursuant to Section 322 (3) sentence 1 half sentence 2 HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on our knowledge obtained in the audit, the accompanying consolidated financial statements comply in all material respects with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB], and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016 as well as the results of operations for the fiscal year from January 1, 2016 to December 31, 2016, in accordance with these requirements.

Pursuant to Section 322 (3) sentence 1 half sentence 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations with respect to the propriety of the consolidated financial statements.

BASIS FOR OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW] as well as in supplementary compliance with International Standards on Auditing (ISA). Our responsibilities under those standards and additional guidelines are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the requirements of German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2016 to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Impairment test of individual or groups of assets (other than goodwill)

WITH RESPECT TO THE SIGNIFICANT ACCOUNTING POLICIES OF KLÖCKNER & CO SE APPLIED, WE REFER TO SECTION (4) OF THE NOTES. SECTION (15) OF THE NOTES PROVIDES FURTHER INFORMATION REGARDING THE IMPAIRMENT TEST . WE ALSO REFER TO SECTION "5.3 RISK AND OPPORTUNITIES"IN THE GROUP MANAGEMENT REPORT

THE FINANCIAL STATEMENT RISK

Klöckner presents intangible assets of €206.3 million., thereof €175.2 million. for licenses, similar rights and other intagibles and software as well as property, plant and equipment of €661.5 million. in the consolidated statement of financial position.

In fiscal year 2016, European steel distribution activities in Great Britain and France continued to fall short of earnings targets and resulted in further losses. In Germany (excluding Becker Stahl) planning still indicates that mid-term profitability has not reached levels as prior to the financial crisis. The same applies to the activities in Brazil. The scenario could indicate an impairment of assets in the consolidated financial statements ("triggering event"). The sale of the cash-generating unit Spain, which was initiated in December 2016, also represents a triggering event

The Management Board has centrally tested the cash-generating units and assets for impairment. Any identified impairment loss has to be allocated to the individual assets

The carrying amount of an individual asset in this case shall not be reduced below its fair value less cost of disposal. Klöckner based the allocation of any identified impairment on the valuations of external experts as well as external sources for standard land values (so-called "Bodenrichtwerte")

As a result, impairment losses in the amount of €1.5 million were recognised on non-current assets mainly based in Brazil.

The valuation of individual cash-generating units is largely based on the Management Board's judgement and therefore afflicted with considerable uncertainty. Furthermore, the most appropriate valuation method has to be applied to the assets to determine the minimum carrying amounts for the allocation of identified impairment losses within a cash-generating unit. This leads to the risk that an impairment loss, if applicable, may not be identified or not be identified to the extent necessary and/or not be appropriately allocated to the assets, resulting in an overstatement of the assets' carrying amounts.

Estimation uncertainty and judgmentare particularly prevalent when assessing the timing and amount of cash inflows and outflows as well as the discount rate used.

When determining the minimum carrying amount, judgement is required with regard to key valuation parameters such as indexation, depreciation due to age, total useful life, reductions for technical obsolescence, costs to sell and obsolescence of property, plant and equipment, as well as the location, usability and condition of land and buildings. Furthermore extensive note disclosures are required.

OUR RESPONSE

Our audit procedures included – amongst other procedures - an assessment of whether the cash inflows and outflows used for determining the value in use of individual cash-generating units were appropriate. We evaluated the business plan taking into account market data and publically available industry and analyst reports. In addition we evaluated the reasonableness of the underlying planning assumptions of individual cash-generating units in the business plan.

Our valuation experts supported the group engagement team whilst auditing the planning assumptions and the parameters used for discount rates. We analysed the peer group used for deriving the beta coefficient and also verified the risk-free interest rate and market risk premium derived from data provided by relevant central banks on yield curves as well as guidance issued by the German Institute of Public Auditors [IDW] for deriving the risk-free interest rate and market risk premium.

In cases of cash-generating units for which an impairment had been identified, we verified the expert's competence and objectivity and evaluated the adequacy of the minimum carrying amount determined by the external experts.

We determined whether all assets of the cash-generating units to be audited were fully included in the valuation. We then assessed with the involvement of our valuation experts whether the valuation methods used to determine the minimum carrying amounts were properly applied. In this context, we also considered, jointly with our valuation experts, whether the key valuation parameters mentioned above were properly and reasonably applied. Finally, we examined the accuracy of the calculations inperformed under the valuation models for a risk based selection of assets.

We also assessed whether the resulting impairment loss was accurately recognised in the financial statements.

Whilst auditing relevant disclosures, we focussed on the completeness of the information provided on impairment testing.

OUR OBSERVATIONS

The assumptions underlying the impairment test are appropriate and overall balanced. The minimum carrying amounts for the individual assets were appropriately determined. The impairment losses determined are accurately presented in the financial statements.

The required disclosures in the notes are complete and sufficiently detailed.

Measurement of inventories

WITH RESPECT TO THE SIGNIFICANT ACCOUNTING POLICIES OF KLÖCKNER & CO SE APPLIED WE REFER TO SECTION (4) OF THE NOTES. SECTION (16) OF THE NOTES PROVIDES FURTHER INFORMATION REGARDING THE INVENTORIES

THE FINANCIAL STATEMENT RISK

In the consolidated statement of financial position Klöckner recognises inventories in the amount of €1,006.3 million. Of the inventories recognised as at December 31, 2016, €245.9 million are presented at net realisable value. Impairment losses amount to €29.7 million.

To determine the net realisable values, the Management Board used estimated the development of steel prices at the beginning of 2017. This assessment was based on internal as well as externally available information.

The determination of net realisable values is highly dependent on the Management Board's judgement. Therefore, there is a risk that measurement of inventories is not within an acceptable range.

OUR RESPONSE

Within our audit we gained an understanding of the process of determining the net realisable values and their consideration in inventory measurement.This included our consideration of the accuracy of estimates made in the previous year. Furthermore we evaluated the appropriatness of the material assumptions used in deriving the net realizable value. For a risk based selection of material types we corroborated – the information employed by Klöckner to derive the net realisable value with externally available information, such as assessments of other market participants. In addition we assessed the appropriatness of the net realisable values by considering the price development in January 2017.

At the component level, we ascertained that the valuation methods used are in compliance with the group accounting policy and the provisions of IAS 2 and are applied consistently. This also included an evaluation of whether the estimated net realisable values were properly used as the benchmark for inventory measurement.

We satisfied ourselves that the determined inventory values are recognised in the consolidated financial statements, i.e. inventories are recognised at the lower of cost and net realisable value.

OUR OBSERVATIONS

The net realisable values were properly determined and accurately considered in inventory measurement. Write-downs to net realisable value were recognised to the extent necessary.

Measurement of deferred tax assets or liabilities arising from temporary differences and loss and interest carryforwards

WITH RESPECT TO THE SIGNIFICANT ACCOUNTING POLICIES OF KLÖCKNER & CO SE APPLIED WE REFER TO SECTION (4) OF THE NOTES. SECTION (13) OF THE NOTES PROVIDES FURTHER INFORMATION REGARDING THE DEFERRED TAX ASSETS OR LIABILITIES.

THE FINANCIAL STATEMENT RISK

In the consolidated statement of financial position Klöckner recognises tax assets in the amount of €4.9 million. The recognition and measurement of deferred tax assets are based on corporate planning and therefore highly dependent upon the Management Board's judgement and afflicted with considerable uncertainty. This requires estimates of future taxable income, the timing of reversal of temporary differences and the usability of loss and interest carryforwards.

OUR RESPONSE

Our specialists were involved in the audit of tax matters as part of our audit team. With their support, we assessed the internal processes established for the recognition and calculation of deferred tax assets or liabilities arising from temporary differences as well as loss and interest carryforwards. We have conducted an analysis of the corporate planning and verified the mathematical accuracy of the values calculated by the Company. We assessed the value of recognised deferred tax assets for loss and interest carryforwards as well as deductible temporary differences based on internal corporate forecasts of the future tax income of Klöckner & Co SE and its main controlled entities for income tax purposes using the budget prepared by the Management Board, and also evaluated the suitability of the underlying planning data. In addition, we have verified the reconciliation of the financial statements to tax income/expense and also audited the other disclosures..

OUR OBSERVATIONS

The assumptions of the Management Board with regard to the recognition and measurement of deferred tax assets and liabilities are reasonable and overall balanced. All required disclosures were provided in the notes.

Completeness and measurement of the disposal group Spain

WITH RESPECT TO THE SIGNIFICANT ACCOUNTING POLICIES OF KLÖCKNER & CO SE APPLIED, WE REFER TO SECTION (4) OF THE NOTES. SECTION (20) OF THE NOTES PROVIDES FURTHER INFORMATION REGARDING THE THE DISPOSAL GROUP. WE ALSO REFER TO SECTIONS "1.1 GROUP STRUCTURE", "2.4 COMPARISON OF THE GROUP'S ACTUAL BUSINESS PERFORMANCE WITH THE FORECAST FROM THE PRIOR YEAR" AND "3.1 NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE"IN THE GROUP MANAGEMENT REPORT

THE FINANCIAL STATEMENT RISK

Klöckner & Co SE sold its Spanish operations by agreement dated 20 January 2017 to Hierros Añon, S.A. following the respective resolution passed by the Management Board and the Supervisory Board in December 2016 and the commencement of negotiations.

As assessment in accordance with the criteria set out in IFRS 5 for disposal groups is subject to judgement, there is the risk that the requirements of IFRS 5 for classification as assets held for sale are not met as of the balance sheet date or that assets held for sale are not measured in accordance with IFRS 5 with the lower of book value and fair value less cost to sell or are not presented as a separate line item in the statement of financial position. As a consequence the valuation of assets and liabilities of the group and the presentation in the notes would be inaccurate.

OUR RESPONSE

We verified whether the requirements for a classification of the Spanish operations as a disposal group were fulfilled as at the reporting date. We interviewed members of the management board and inspected minutes of committee meetings held to decide on the sale, to ensure that the disposal group is available for immediate sale in its current condition and disposal is highly likely, i.e. there was a plan to sell the entity as at the reporting date and this plan is being actively pursued. We also inspected the draft versions and final agreements to sell.

We performed test of details to verify that the assets of the disposal group were initially valued in accordance with the applicable IFRSs, as adopted by the EU. In addition, we satisfied ourselves based on the contract documents that the subsequent measurement pursuant to IFRS 5 based on available selling price offers was accurate. We verified by inspecting the accounts and contract documentation that only assets and liabilities are part of the disposal group that are subject to the contract. Based on this audit procedure we assessed whether the land and buildings, property, plant and equipment, inventories, trade receivables, trade payables and other liabilities were accurately reclassified as assets and liabilities helf for sale in the statement of financial position.

We determined whether the disclosures in the notes are appropriate and sufficiently detailed.

OUR OBSERVATIONS

The criteria of IFRS 5 were properly applied to the measurement, recognition and classification of the disposal group in Spain. The assets and liabilities were measured as at the reporting date based on the available purchase offer. All required disclosures were provided in the notes.

OTHER INFORMATION IN THE ANNUAL REPORT

The Management Board is responsible for the other information. The other information comprises the information included in the Annual Report, except for the consolidated financial statements, the Group Management Report combined with the Management Report of Klöckner & Co SE, Duisburg, Germany, and our auditor's report thereon.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board is responsible for the preparation of the consolidated financial statements which comply with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free form material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW] as well as in supplementary compliance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW] as well as in supplementary compliance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or the Group Management Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Audit of the Group Management Report

OPINION ON THE GROUP MANAGEMENT REPORT

We have audited the Group Management Report of Klöckner & Co SE, Duisburg, Germany, which is combined with the Company's Management Report, for the fiscal year from 1 January 2016 to December 31, 2016.

In our opinion, based on our knowledge obtained in the audit, the accompanying Group Management Report as a whole provides a suitable view of the Group's position. In all material respects, the Group Management Report is consistent with the consolidated financial statements, complies with the German statutory requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the Group Management Report.

BASIS FOR OPINION ON THE GROUP MANAGEMENT REPORT

We conducted our audit of the Group Management Report in accordance with Section 317 (2) HGB and German generally accepted standards for the audit of management reports promulgated by the German Institute of Public Auditors [IDW]. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD FOR THE GROUP MANAGEMENT REPORT

The Management Board is responsible for the preparation of the Group Management Report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with the German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the Management Board is responsible for such arrangements and measures (systems) as the Management Board determines are necessary to enable the preparation of the Group Management Report in compliance with the requirements of German commercial law applicable pursuant to Section 315a (1) HGB and for providing sufficient and appropriate evidence for the statements in the Group Management Report

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the Group Management Report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the Group Management Report as a whole provides a suitable view of the Group's position, as well as, in all material respects, is consistent with the consolidated financial statements and our our knowledge obtained in the audit, complies with German statutory requirements, and suitably presents the opportunities and risks of future development and to issue an auditor's report that includes our opinion on the Group Management Report.

As part of an audit, we examine the Group Management Report in accordance with Section 317 (2) HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this regard, we draw attention to the following:

- The audit of the Group Management Report is integrated into the audit of the consolidated financial statements.
- We obtain an understanding of the arrangements and measures (systems) relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these arrangements and measures (systems).
- We perform audit procedures on the prospective information presented by the Management Board in the Group Management Report. Based on sufficient and appropriate audit evidence, we hereby, in particular, trace the significant assumptions used by the Management Board as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.
- We are also not issuing a separate opinion on individual disclosures in the Group Management Report; our opinion covers the Group Management Report as a whole.

Responsible Auditor

The engagement partner on the audit resulting in this independent auditor's report is Dr Markus Zeimes.

Düsseldorf, February 22, 2017

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. Markus Zeimes
WIRTSCHAFTSPRÜFER

Ulrich Keisers
WIRTSCHAFTSPRÜFER

Declaration of the Management Board

Statement by the Management Board on the consolidated financial statements and the Group management report

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report for Klöckner & Co SE, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Duisburg, February 22, 2017

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, 2016

(€ thousand)	2016	2015
Sales	16,079	13,796
Other operating income	30,250	3,946
Cost of purchased services	– 9,979	– 9,470
Personnel expenses	– 14,571	– 19,968
Depreciation of intangible assets and property, plant and equipment	– 217	– 256
Other operating expenses	– 20,946	– 18,268
Income from participations	5,928	31,144
Income from profit transfer agreements	73,072	29,291
Income from long-term loans	14,426	30,798
Other interest and similar income	4,713	11,220
Impairment of investments	– 2,000	– 258,515
Expenses from loss transfer agreements	– 648	– 19,185
Interest and similar expenses	– 15,225	– 30,234
Result before taxes	**80,882**	**– 235,701**
Income taxes	– 5,993	– 876
Net income	**74,889**	**– 236,577**
Unappropriated profits carried forward	-	19,950
Dividends	-	– 19,950
Withdrawal from capital reserves	-	236,577
Unappropriated profits	**74,889**	**0**

Balance sheet

as of December 31, 2016

ASSETS

(€ thousand)	December 31, 2016	December 31, 2015
Intangible assets	91	119
Property, plant and equipment	804	506
Non-current investments	1,163,019	1,177,612
Fixed assets	**1,163,914**	**1,178,237**
Trade receivables	37	6
Receivables from affiliated companies	255,554	221,741
Other assets	3,432	5,028
Cash and cash equivalents	91,926	94,275
Current assets	**350,949**	**321,050**
Prepaid expenses	19,858	2,918
Total assets	**1,534,721**	**1,502,205**

EQUITY AND LIABILITIES

(€ thousand)	December 31, 2016	December 31, 2015
Equity		
Subscribed capital	249,375	249,375
Capital reserves	699,459	681,024
Other revenue reserves	74,161	74,161
Unappropriated profits	74,889	-
Equity	**1,097,884**	**1,004,560**
Provisions for pensions and similar obligations	92,208	101,150
Provisions for taxes	10,511	3,963
Other provisions	18,691	28,233
Bonds	147,800	24,850
Liabilities to banks (incl. promissary notes)	293	135,129
Trade payables	540	151
Liabilities to affiliated companies	165,566	201,522
Other liabilities	1,228	2,647
Total equity and liabilities	**1,534,721**	**1,502,205**

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

as of December 31, 2016

	Intangible assets	Property, plant and equipment			Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Prepayments	Investments in affiliated companies	Loans to affiliated companies	Investments	Total
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
Book value as of Dec. 31, 2015	**119**	**52**	**283**	**171**	**719,493**	**458,112**	**7**	**1,178,237**
Additions	54	22	95	316	13,691	31	-	14,209
Attribution	-	-	-	-	27,807	-	-	27,807
Disposals	-	-	-	-	-	– 54,122	-	– 54,122
Transfers	-	-	-	-	213,876	– 213,876	-	-
Current year amortization and depreciation	– 82	– 27	– 108	-	– 2,000	-	-	– 2,217
Book value as of Dec. 31, 2016	**91**	**47**	**270**	**487**	**972,867**	**190,145**	**7**	**1,163,914**
Costs as of Dec. 31, 2016	844	296	1,068	487	1,542,351	190,145	7	1,735,198
Accumulated amortization and depreciation	– 753	– 249	– 798	-	– 569,484	-	-	– 571,284

Notes to the financial statements

for the 12-month period ending December 31, 2016

General information

Klöckner & Co SE is the parent company of the Klöckner & Co Group and is domiciled in Duisburg, Germany. It is entered in the commercial register of Duisburg Local Court under HRB 20486. The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

Klöckner & Co SE is in charge of operating management of the Group. It directly holds the ownership interests in most management companies heading the Group's national and international country organizations, as well as in individual country operating companies themselves.

Since the initial public offering on June 28, 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard).

The annual financial statements and the consolidated financial statements are published in the Federal Gazette.

Accounting policies

The financial statements for the financial year January 1 to December 31, 2016 are prepared in accordance with the stipulations applying for large corporations in the German Commercial Code (HGB) as amended by the Accounting Law Modernisation Act (BilMoG) and in accordance with the German Stock Corporations Act (AktG).

Amendments enacted in the German Accounting Directive Implementation Act (BilRUG), which entered into force on July 23, 2015, applied for the first time in fiscal year 2016. The main changes relevant to Klöckner & Co SE are described in the accounting policies set out in the following.

Klöckner & Co SE prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The presentation of the financial statements is in accordance with Sections 266–278 HGB.

Assets

Acquired intangible assets and property, plant and equipment are normally carried at cost less accumulated amortization and depreciation recognized in accordance with commercial law. The option of recognizing self-generated intangible assets is not used. Moveable depreciable assets are depreciated on a straight-line basis. Minor assets are expensed in the year of purchase. If the attributable value of a depreciable asset is diminished as of the reporting date, a writedown for impairment is recognized. Other operating and office equipment is depreciated over between three and 13 years.

Financial assets are accounted for at cost of purchase and in case of other-than-temporary impairment at their lower attributable cost.

Receivables and other assets are normally measured at cost. Specific valuation allowances are recognized to account for identifiable risks. Foreign currency receivables are translated at the midpoint spot rate at the reporting date. Section 253 (1) sentence 1 and Section 252 (1) 4 HGB are not applied if the remaining maturity is less than one year.

Liabilities

Provisions for pensions are measured using the projected unit credit method (analogous to IAS 19). In accordance with the requirements under BilMoG, the parameters for valuation were 2.5% (2015: 2.5%) for salary increases and 1.75% (2015: 1.75%) for pension increases. As in the prior year, the biometric parameters are based on the Prof. Dr. Klaus Heubeck 2005 G tables. The obligation is discounted at the average market rate based on an assumed remaining maturity of 15 years as regularly published by the German Bundesbank. At the reporting date, this rate is at 4.01% (2015: 3.89%). Section 253 HGB was amended as of February 26, 2016 to the effect that ten years is now assumed for calculation of the average discount rate for pension obligations and not seven years as before. The resulting gain is not allowed to be distributed to shareholders. Ring-fenced assets that exclusively serve the purpose of meeting pension obligations are offset against the corresponding liability.

Other provisions account for all identifiable obligations and emerging risks. They are recognized at their settlement amount estimated with the due care and diligence of a prudent businessman. Provisions with a remaining maturity of more than one year are discounted to the reporting date. The discount rate is the past seven-year average market interest rate for congruent maturities as published by the German Bundesbank.

Liabilities are normally stated at their settlement amount. Foreign currency liabilities with a remaining maturity of up to one year are normally translated at the midpoint spot rate at the reporting date. Foreign currency liabilities with longer maturities are translated at the invoice date exchange rate or, if higher, the midpoint spot rate at the reporting date.

Derivative financial instruments are accounted for at fair value, determined on the basis of banks' quoted prices or by quantitive finance methods using standard banking models. Where market prices exist, these correspond to the price a third party 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 the value of hedged items. Positive fair values are presented in other assets and negative fair values in other liabilities.

In accordance with Section 254 HGB, financial instruments that match the volume and timing of risks on a hedged item are accounted for in a unit with the hedged item. They are measured at the price on inception, in application of the net hedge presentation method. Changes in value in respect of the hedged risk are not recognized on the balance sheet or in the statement of income.

Statement of income

The income statement is prepared using the nature of expense method of analysis (Section 275 (2) HGB).

A material change for Klöckner & Co SE in the annual financial statements for 2016 relates to the presentation of sales. A large proportion of what was presented until 2015 as other operating income is presented from the annual financial statements for 2016 as sales. Additionally, associated other operating expenses are presented as cost of purchased services. The comparative income statement items for 2015 have been restated to the effect that €13,796 thousand is now presented as sales and €9,470 thousand as cost of purchased services. Other operating income and other operating expenses decreased by the same amounts. Expense from the unwinding of the discount on pension obligations is accounted for in net interest income.

Fixed assets

Changes in fixed assets in the reporting year are presented in the movement schedule.

Additions to intangible assets relate in their entirety to purchased software.

In November 2016, Klöckner & Co SE acquired the shares in Buysmetal NV, Harelbeke, Belgium, from Kloeckner Metals France S.A., Aubervilliers, France. An impairment test on the carrying amount of the investment resulted in recognition of a writedown for impairment in the amount of €2,000 thousand.

A long-term loan to Klöckner USA Holding, Inc., Wilmington, Delaware, USA, in the amount of USD 235 million was paid into the capital of the company in order to increase its capital.

A listing of all subsidiaries and associates is presented in the appendix.

Receivable and other assets

(€ thousand)	2016	2015
Trade receivables	37	6
Receivables from affiliated companies	255,554	221,741
Other assets	3,432	5,028
	259,023	**226,775**

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

All receivables have a maturity of less than one year.

Other assets totaling €3,303 thousand (2015: €4,254 thousand) have a remaining maturity of more than one year and mainly relate to non-pledged pension liability insurance.

Prepaid expenses

The €18,434 thousand discount on the 2016 convertible bond issue was recognized as prepaid expenses to be amortized to the interest expense over the five-year minimum maturity period. The amount recognized as interest expense in fiscal year 2016 was €1,229 thousand.

Equity

The Company's share capital is €249,375,000, as in the prior year, and is divided into 99,750,000 shares. Each share notionally corresponds to €2.50 of the share capital.

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 a total of €124,687,500 against cash or non-cash contributions by the issue of 49,875,000 no-par-value registered shares. The corresponding provisions of the Articles of Association is Section 4 (3).

An amount of €18,434 thousand was credited to revenue reserves in the year under review in connection with the 2016 convertible bond issue.

Revenue reserves are not subject to any restriction on distribution to shareholders within the meaning of Section 268 (8) HGB.

Under Section 253 (6) HGB, the €9,583 thousand gain resulting from the change in the discount rate used in determining retirement benefit cost and included in unappropriated profits is not allowed to be distributed to shareholders.

Provisions for pensions and similar obligations

Pension obligations as of December 31, 2016 were €110,311 thousand (2015: €115,977 thousand).

Section 253 HGB was amended as of February 26, 2016 to the effect that ten years is now assumed for calculation of the average discount rate for pension obligations and not seven years as before. The resulting gain of €9,583 thousand is not allowed to be distributed to shareholders. At the previous seven-year average discount rate, pension obligations would have been €119,894 thousand.

Plan assets consist of pension liability insurance whose cost and fair value are identical. They are measured at the asset value of the pension liability insurance and amount to €18,103 thousand (2015: €14,827 thousand). Within the reported amount of pension provisions, plan assets at fair value are offset against pension obligations.

Expense from the unwinding of the discount on pension obligations in the amount of €4,501 thousand (2015: €4,209 thousand) is offset against returns on plan assets in the amount of €326 thousand (2015: €379 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2016	2015
Personnel expenses	11,676	6,783
Outstanding invoices	2,415	2,267
Miscellaneous other provisions	4,600	19,183
	18,691	**28,233**

Miscellaneous other provisions include an amount of €3,471 thousand (2015: €18,286 thousand) for obligations arising from a debtor warrant bond for Klöckner & Co Deutschland GmbH, Duisburg, Germany, as part of the ABS program, under which €17 million was paid out in the year under review.

Liabilities

(€ thousand)	December 31, 2016 up to 1 year	December 31, 2016 1 – 5 years	December 31, 2016 Total	December 31, 2015 up to 1 year	December 31, 2015 1 – 5 years	December 31, 2015 Total
Bonds	-	147,800	147,800	24,850	-	24,850
Liabilities to banks	293	-	293	350	-	350
Promissory notes	-	-	-	134,779	-	134,779
Trade payables	540	-	540	151	-	151
Liabilities to group companies	165,566	-	165,566	201,522	-	201,522
Miscellaneous liabilities	1,228	-	1,228	2,647	-	2,647
Liabilities	**167,627**	**147,800**	**315,427**	**364,299**	**-**	**364,299**

Klöckner & Co SE placed a €148 million senior unsecured convertible bond issue with non-US institutional investors on September 8, 2016. The bonds are convertible into shares in Klöckner & Co SE. The bond issue has a seven-year term. It has a coupon of 2.00% p.a. and a conversion price of €14.82. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option).

Liabilities due to banks include €273 thousand in interest payable on the Syndicated Loan. The liabilities under the sydicated credit facility, which was undrawn as of December 31, 2016, are uncollateralized.

All remaining promissory notes still outstanding (€133 million) were paid back in full on schedule in April 2016.

Other liabilities include:

(€ thousand)	2016	2015
Tax liabilities	1,215	2,628
Social security contributions	13	13
Miscellaneous other liabilities	-	6
Other liabilities	**1,228**	**2,647**

The tax liabilities mainly consist of value-added tax yet to be remitted.

Derivative financial instruments

The notional values and fair values of the derivative financial instruments as of December 31, 2016 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	250	2

Klöckner & Co SE manages central financing for the Klöckner & Co Group. Klöckner & Co SE is exposed to currency risk arising from the use of the financial instruments. This arises from foreign currency loans that are granted to finance Group companies as part of central Group financing and are fully hedged. Derivative financial instruments are entered into for this purpose.

Derivative financial instruments used to hedge cash flow risks and matching hedged items can be accounted for as a unit if a clear hedging relationship is demonstrated. Such a hedging relationship exists in the form of microhedges for eleven forward exchange contracts with a maximum maturity of three months. In these cases, the hedged items are recognized at the hedged rates and the derivative financial instruments are not recognized separately.

As a fundamental rule, Klöckner & Co SE only enters into derivative financial instruments that are in a hedge with a hedged item. Changes in value and cash flows fully cancel each other out due to matching terms and parameters in the hedged item and the hedge.

The following methods are used to determine fair (market) value:

Currency hedges
The fair value of forward exchange contracts is calculated on the basis of the midpoint spot rate at the reporting date, taking into account forward premiums and discounts for the respective remaining maturity of the contract relative to the contracted forward rate. Counterparty risk is taken into account in discounting.

Interest rate hedges
The fair value of interest rate swaps is measured by discounting the expected future cash flows. This is done on the basis of the market interest rates for the remaining maturity of the contracts and taking counterparty risk into account.

Commitments

Future minimum lease payments for long-term operating leases are €1,577 thousand for the following year (2015: €2,504 thousand), €7,526 thousand (2015: €7,576 thousand) for fiscal years 2018 to 2021 and €6,506 thousand (2015: €7,329 thousand) for fiscal years 2022 to 2025.

Sales

Sales consist of goods or services provided to subsidiaries and relate to the following:

(€ thousand)	2016	2015
Service fees ABS program	9,975	7,744
Group services rendered	3,619	3,271
Rental income	1,507	1,733
Insurance	601	657
Other income	377	391
Sales	**16,079**	**13,796**

Other operating income

Other operating income contains income attributable to prior periods of €112 thousand (2015: €2,100 thousand).

Other operating income includes €27,3 million relating to an increase in the carrying amount of the investment in Klöckner Participaciones S.A., Madrid, Spain, in connection with the sale of the company in January 2017.

Personnel expenses

(€ thousand)	2016	2015
Wages and salaries	16,092	11,036
Social securities	638	676
Retirement benefit cost	– 2,164	8,245
Welfare	5	11
	14,571	**19,968**

The statutory change in the calculation period for the average discount rate for pension provisions led to a once-only reduction in retirement benefit cost of €9,583 thousand, resulting in a net gain of €2,164 thousand (2015: expense of €8,245 thousand).

Average number of employees over the year:

	2016	2015
Salaried employees	63	64
Wage earners	2	2
	65	**66**

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the Management Report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated required in the remuneration report in accordance with the German Coporate Governance Code – pursuant to the stipulations of German commercial law:

(€ thousand)	Fixed components	Bonuses	Other remunerations[1]	Total excluding share-based compensation	Share-based compensation[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	1,424	41	2,325	-	2,325	-	1,061	5,708	– 864
	(860)	(812)	(41)	(1,713)	(397)	(2,110)	(120,900)	(10)	(6,572)	(2,860)
Marcus A. Ketter (CFO)	480	801	127	1,408	-	1,408	-	294	-	-
	(480)	(457)	(127)	(1,063)	(180)	(1,243)	(60,000)	(70)	(-)	(-)
Karsten Lork	480	801	29	1,310	-	1,310	-	294	413	– 67
	(480)	(457)	(29)	(965)	(180)	(1,145)	(60,000)	(70)	(480)	(296)
William A. Partalis	480	848	29	1,357	-	1,357	-	430	6,737	878
	(480)	(583)	(30)	(1,092)	(188)	(1,281)	(60,000)	(40)	(5,859)	(457)
Total	**2,300**	**3,874**	**226**	**6,400**	**-**	**6,400**	**-**	**2,079**	**12,858**	**– 53**
	(2,300)	**(2,308)**	**(226)**	**(4,834)**	**(947)**	**(5,780)**	**(300,900)**	**(190)**	**(12,911)**	**(3,613)**

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.

Statutory pension provisions for former Management Board members amount to €2,595 thousand (2015: €3,493 thousand). Pension payments to a former member of the Management Board were made in the reporting year in the amount of €118 thousand (2015: €117 thousand).

Transactions with members of the Management Board are restricted to transactions in their capacity as members of the Management Board as set out above.

If a threshold of 30% of voting rights is exceeded, members of the Management Board have the right to early termination of their service contracts. If exercised, the members of the Management Board are entitled to receive the annual target remuneration (including a target bonus) until the end of their contract term. The payment is limited to three times the total compensation received by the member of the Management Board in the last full fiscal year as of the date of termination. The personal investment requirement is waived. Any personal investment shares still vesting will be 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.

Other operating expenses

Remuneration for the Supervisory Board in fiscal year 2016 totaled €500 thousand (2015: €488 thousand).

Other operating expenses also include the auditing fees of the auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, Germany. Detailed information on audit fees is provided in Note 36 (Fees and services of the auditor of the consolidated financial statements).

Other operating expenses of €17 thousand (2015: €308 thousand) relate to prior periods.

Income from investments

(€ thousand)	2016	2015
Income from participations	5,928	31,144
Income from profit transfer agreements	73,072	29,291
Expenses from loss transfer agreements	– 648	– 19,185
Income from investments	**78,352**	**41,250**

Income from participations comprises dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland.

The income from profit transfer agreements relates to agreements with Becker Besitz GmbH, Duisburg, Germany, Becker Stahl-Service GmbH, Duisburg, Germany, Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany and Klöckner Shared Services GmbH, Duisburg, Germany.

The expense from loss absorption relates to Kloeckner Metals Europe GmbH, Duisburg, kloeckner.i GmbH, Berlin and kloeckner.v GmbH, Berlin.

Financial result

(€ thousand)	2016	2015
Income from long-term loans		
– affiliated companies	14,426	30,798
Other interest and similar income		
– affiliated companies	4,521	11,020
– other interest and and similar income	192	200
Interest and similar expenses		
– affiliated companies	– 1,320	– 4,822
– interest on provisions	– 4,175	– 3,830
– other interest and similar expenses	– 9,730	– 21,582
	3,914	**11,784**

Interest income from affiliated companies and income from long-term loans results from the Group financing. The interest expense on provisions exclusively relates to pension provisions.

Taxes

Taxes exclusively relate to taxes on income and affect the result from ordinary activities in their full amount.

The determination of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 (1) sentence 2 HGB, the Company elected not to recognize the net deferred tax asset. The tax expense consequently does not contain any deferred taxes. The net deferred tax asset not recognized amounts to €24,452 thousand (2015: €27,291 thousand) and results from deductible temporary differences with no opposite effect from taxable temporary differences (2015: €19 thousand). There are additionally tax loss carryforwards for which deferred tax assets could in principle be recognized and which would increase the amount of the net deferred tax asset not recognized.

Deductible temporary differences primarily relate to provisions for pensions, pension liability insurance plan assets, and goodwill. As in the previous year, deferred taxes were determined on the basis of a combined tax rate of 31.6% for corporate income tax, solidarity surcharge and trade tax.

Contingent liabilities

Klöckner & Co SE's contingent liabilities exclusively comprise guarantees in the amount of €14,243 thousand (2015: €32,725 thousand) relating to foreign Group company loans and to guarantees and credit support granted to secure the financing of affiliated companies.

To the best of our knowledge, all Group companies concerned are in a position to meet their obligations in their course of their activities. As such, we do not expect that the guarantees will be called in.

Subsequent events

As part of its One Europe strategy to further enhance focus on core markets, Klöckner & Co SE has sold its Spanish activities to Hierros Añón S.A., A Coruña, Spain. An agreement for the acquisition of Klöckner & Co's Spanish companies, including the operating business unit, Kloeckner Metals Ibérica S.A., was signed and put into effect by both parties in January 2017. With a workforce of around 350 the Kloeckner Metals Ibérica Group generated sales of €120 million in the year under review and thus accounted for some 2% of Klöckner & Co Group sales. Recently, its pretax earnings (EBT) were negative due to the ongoing difficult economic environment in Spain. The inflow of cash from the sale significantly reduces Klöckner & Co's net debt.

Other disclosures

Information pursuant to Section 160 (1) 8 of the German Stock Corporations Act (AktG)

As of the preparation date, as per notifications under Section 21 et seq. WpHG, shareholdings with 3% or more of the voting rights were as follows. The notifications are published verbatim on the Klöckner & Co SE website.

Notifier**	Domicile	Voting interest in percent	Date on which threshold was met
Black Rock, Inc.	Wilmington, Delaware, USA	3.03 *)	February 1, 2017
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	3.004 *)	January 20, 2017
SWOCTEM GmbH (Friedhelm Loh)	Haiger, Germany	25.245604	February 2, 2016
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3.07	March 2, 2015
Franklin Mutual Advisors, LLC	Wilmington, Delaware, USA	5.35 *)	March 14, 2014
Dimensional Holdings, Inc	Austin, Texas, USA	3.06 *)	February 2, 2012

* (Partly) attributed holding

** According to the German Act Implementing the Transparency Directive Amending Directive (Transparenzrichtlinie-Änderungsrichtlinie-Umsetzungsgesetz – TRL-ÄndRL-UmsG) the ultimate parent may publish solely one notification (as a group notification) covering its notifiable subsidiary undertakings; in this case these subsidiary undertakings are exempted from notification, but may voluntarily publish a notification (cf. section 24 Securities Trading Act (WpHG)).

A full listing of notifications of shareholdings reaching or crossing the notification thresholds pursuant to Section 21 et seq. WpHG is attached as an appendix to the Notes to the Consolidated Financial Statements.

Governing bodies

A list of the members of the Management Board and the Supervisory Board is attached as an appendix.

Declaration of Conformity

The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 16, 2016 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Proposal for the appropriation of net income

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's net income available for distribution for fiscal year 2016 of an amount of €19,950 thousand to shareholders as dividend and the appropriation of the remaining €54,939 thousand to other revenue reserves. At 99,750,000 eligible no-par-value shares, the dividend distribution corresponds to an amount of €0.20 per no-par-value share.

Duisburg, February 22, 2017

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, Germany, for the business year from January 1 to December 31, 2016. 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 22, 2017

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. Markus Zeimes
WIRTSCHAFTSPRÜFER

Ulrich Keisers
WIRTSCHAFTSPRÜFER

Declaration of the Management Board

To the best of our knowledge and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Klöckner & Co SE, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Duisburg, February 22, 2017

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	kloeckner Metals Europe 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., Wien, Austria	100.00	
11	Kloeckner Metals Austria GmbH & Co. KG, Wien, 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, Sennwald, Switzerland	100.00	
26	Metall Service Menziken AG, Menziken, Switzerland	100.00	
27	Debrunner Acifer Bläsi AG, Bern, Switzerland	100.00	
28	BEWETEC 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., Antwerpen, Belgium	99.91	
		0.09	
33	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
34	ODS Metering Systems B.V., Barendrecht, The Netherlands	100.00	
	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	99.00	
35		1.00	
36	ODS METERING SYSTEMS ASIA Pacific PTE. LTD., Singapore, Singapore	100.00	
37	ODS Middle East FZE, Dubai, UAE	100.00	
38	ODS Saudi Arabia LLC, Dammam, Saudi Arabia	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	2,962,513.38	18,495.72		-
	1	EUR	98,055.85	-	1)	12,385,616.04
	1	EUR	97,123.05	-	1)	-
	1	EUR	49,031.89	-	1)	-
	1	EUR	160,025,000.00	-	1)	-
	1	EUR	69,889.06	-	1)	13,944,086.46
	1	EUR	492,750.47	-4,560,087.39		2,328,722.51
	1	EUR	21,078,397.34	9,838,478.59	1)	801,653,496.51
	9	EUR	1,548,972.31	946,201.63		-
	10	EUR	12,990,003.04	3,011,302.80		85,192,418.45
	11	EUR	-205,144.13	-166,164.01		99,630.86
	1	EUR	81,473,763.43	-	1)	673,099,047.83
	13	EUR	596,545.80	-	1)	-
	1	EUR	25,000.00	-	1)	-
	13	EUR	4,467,470.64	-	1)	16,138,100.24
	13	EUR	100,000.00	-	1)	-
	1	EUR	197,402,262.04	29,151,249.23		-
	18	EUR	91,924,700.30	5,299,313.09		516,738,399.08
	18	EUR	8,809,476.97	7,008.18		45,916,743.47
	18	EUR	7,305,333.92	279,757.62		28,796,372.33
	18	EUR	23,848,440.69	1,699,225.47		146,431,656.54
	18	EUR	4,891,990.21	178,470.38		11,656,748.22
	18	EUR	106,998.09	-1,260.10		-
	18	EUR	7,729,836.25	738,228.36		1,368,138.80
	18	EUR	11,616,751.48	1,999,865.43		77,931,451.61
	18	EUR	20,224,615.50	722,106.69		53,729,637.86
	18	EUR	39,763,686.32	6,837,679.49		133,163,447.91
	1	EUR	32,775,215.57	-516,568.10		-
	1	EUR	2,698.62	-301.38		-
	29	EUR	26,542,774.68	1,748,561.32		140,258,716.69
	31	EUR	3,980,739.60	185,034.36		11,819,554.82
	29		-	-		-
	31	EUR	-	-		-
	31	EUR	11,609,470.45	4,863,244.25		27,729,262.82
	31		2,668,962.00	86,758.35		900,224.49
	29	EUR	0.00	0.00		-
	34	EUR	186,990.18	16,852.33		-
	29	EUR	-312,251.65	-321,352.17		1,560,727.49
	29	EUR	197,168.02	-53,082.03		-

Subsididary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent	
39	Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom	100.00	
40	ASD Limited, Leeds, United Kingdom	100.00	
41	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
42	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
43	ASD Westok Limited, Leeds, United Kingdom	100.00	
44	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
45	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
46	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
47	Kloeckner Metals France S.A., Aubervilliers, France	99.31	
48	KDI S.A.S., Aubervilliers, France	100.00	
49	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
50	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
51	Prafer S.A.S., Woippy, France	100.00	
52	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
53	AT2T Acier Transforme Targe Tournier S.A.S., La Grand-Croix, France	100.00	
54	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
55	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
56	Klöckner Participaciones S.A., Madrid, Spain	100.00	
57	Kloeckner Metals Iberica S.A., Madrid, Spain	100.00	
58	Kloeckner Metals Turia S.A., Valencia, Spain	80.00	
59	Kloeckner Peasa S.A., Zaragoza, Spain	100.00	
60	Kloeckner Producto Plano S.A., Valencia, Spain	100.00	
61	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00	
62	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
63	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
64	Kloeckner Metals Corporation, Wilmington, Delaware, USA	100.00	
65	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
66	Kloeckner Metals P.R. Inc., Wilmington, Delaware, USA	100.00	
67	California Steel & Tube LLC, Wilmington, Delaware, USA	100.00	
68	Kloeckner Metals de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
69	Kloeckner Metals Servicios de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
70	American Fabricators Inc., Nashville, Tennessee, USA	100.00	
71	KLOECKNER METALS BRASIL S.A., São Paulo, Brazil	100.00	
72	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	39,066,551.43	1,549,763.26		-
	39	EUR	16,810,717.37	-5,301,019.07		251,457,021.53
	39	EUR	23,359.57	-		-
	39	EUR	119.13	-		-
	39	EUR	7,527,622.70	2,454,217.27		24,716,848.49
	39	EUR	26,009,919.74	584,242.97		-
	39	EUR	116.80	-		-
	44	EUR	2,335,957.39	-		-
	1	EUR	167,816,357.00	-13,822,952.00		-
	47	EUR	25,686,330.00	-16,818,474.86		417,702,441.00
	48	EUR	1,095,636.69	11,651.76		43,393,749.00
	48	EUR	72,478,887.00	4,607,335.17		11,666,056.00
	48	EUR	3,198,925.00	70,885.00		7,307,840.00
	48	EUR	4,310,597.00	-43,408.00		25,914,774.00
	48	EUR	2,739,939.00	1,410,509.00		28,714,113.00
	47	EUR	19,663,512.00	343,457.00		31,890,484.00
	1	EUR	12,273,042.27	968,833.71		43,385,722.00
	9		-	-		-
	1	EUR	127,072,593.25	-35,600.00		-
	56	EUR	26,418,882.00	-936,697.22		77,365,204.62
	57	EUR	5,942,537.00	27,844.36		15,798,645.68
	57	EUR	4,905,729.00	-40,475.33		23,297,420.96
	57	EUR	7,363,972.00	-316,855.95		37,211,147.46
	57	EUR	3,006.00	-		-
	1	EUR	126,341,508.38	-515,271.87		-
	62	EUR	280,890,464.35	-		-
	63	EUR	446,350,937.93	2,323,492.10		2,085,191,280.45
	64	EUR	2,207,055.48	1,870.31		0.00
	64	EUR	416,810.26	87,424.29		1,235,690.31
	64	EUR	10,972,589.85	1,668,654.47		26,949,224.29
	64	EUR	14,133,223.06	3,090,160.91		48,324,780.79
	64	EUR	125,545.03	4,884.90		-
	64	EUR	34,686,450.59	-613,611.44		28,521,745.22
	29	EUR	8,626,379.27	-1,740,137.21		24,949,526.94
	71	EUR	34,578.97	-5,306.49		7,327.35
	29		-	-		-

Subsididary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent	
II.	**Non-consolidated affiliated companies**		
73	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00	
74	Reynolds Aluminium et Laiton, Paris, France	100.00	
III.	**Associates**		
75	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	2)	42,863.88
	45	EUR	26,956.00	-2,855.00		-
	-					
	-					
	19	EUR	879,661.02	13,901.08	2)	996,075.95

2) Based on financial statements dated December 31, 2015.

Information pursuant to Section 21 para 1 und Section 22 para 1 WpHG – Wertpapierhandelsgesetz (German Securities Trading Law)

The exact wording can be found on the Klöckner & Co SE website.

Notifier**	Domicile	Voting interest in percent	Date on which threshold was met
Reaching or exceeding a notification threshold			
SWOCTEM GmbH (Friedhelm Loh)	Haiger, Germany	25.245604	February 2, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	3.06 *)	November 8, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	3.146 *)	November 17, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	3.04 *)	December 22, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	3.004 *)	January 20, 2017
Black Rock, Inc.	Wilmington, Delaware, USA	3.03 *)	February 1, 2017
Falling below a notification threshold			
BNY Mellon Service Kapitalanlage-Gesellschaft mbH	Frankfurt am Main, Germany	2.86 *)	March 14, 2016
Franklin Templeton Investment Funds	Luxembourg, Luxembourg	2.97	April 6, 2016
Dr. Albrecht Knauf	Dortmund, Germany	2.51 *)	April 14, 2016
Federated Global Investment Management Corp.	Wilmington, Delaware, USA	4.894 *)	June 30, 2016
Federated International Leaders Fund, a series of Federated World Investment Series, Inc.	Wilmington, Delaware, USA	2.984	August 12, 2016
Federated Global Investment Management Corp.	Wilmington, Delaware, USA	2.923 *)	August 25, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	2.996 *)	November 15, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	2.995 *)	December 6, 2016
Ministry of Finance on behalf of the State of Norway	Oslo, Norway	2.97 *)	January 19, 2017

* (Partly) attributed holding
** According to the German Act Implementing the Transparency Directive Amending Directive (Transparenzrichtlinie-Änderungsrichtlinie-Umsetzungsgesetz – TRL-ÄndRL-UmsG) the ultimate parent may publish solely one notification (as a group notification) covering its notifiable subsidiary undertakings; in this case these subsidiary undertakings are exempted from notification, but may voluntarily publish a notification (cf. section 24 Securities Trading Act (WpHG)).

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/Germany, Member of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Member of the Board of Directors (until January 27, 2017)
- Kloeckner Metals Iberica S.A., Madrid/Spain, Member of the Board of Directors (until January 27, 2017)
- Klöckner Metals France 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/Germany, Chairman of the Supervisory Board
- Klöckner Participaciones S.A., Madrid/Spain, Chairman of the Board of Directors (until January 27, 2017)
- Kloeckner Metals Iberica S.A., Madrid/Spain, Chairman of the Board of Directors (until January 27, 2017)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors
- BEWETEC AG, Oberbipp/Schweiz, Chairman of the Board of Directors
- Kloeckner Metals France S.A., Aubervilliers/France, Chairman of the Supervisory Board (until May 18, 2016)
- 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)

Prof. Dr. Dieter H. Vogel, Chairman

MANAGING PARTNER, LINDSAY GOLDBERG VOGEL GMBH, DÜSSELDORF; GERMANY

- VDM Metals GmbH, Deputy Chairman of the Supervisory Board[1)]
- VDM Metals Holding GmbH, Deputy Chairman of the Advisory Board[2)]
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]
- denkwerk GmbH, Member of the Advisory Board[2)]
- Bertelsmann Verwaltungsgesellschaft mbH, Member of the Steering Committee[2)]
- Schur Flexibles Holding GesmbH, Austria, Member of the Advisory Board [2)] (since January 25, 2017)

Dr. Michael Rogowski, Deputy Chairman (until May 13, 2016)

FORMER CHAIRMAN OF THE MANAGEMENT BOARD, VOITH AG, HEIDENHEIM, GERMANY

- Vattenfall GmbH, Member of the Supervisory Board[1)]

Ulrich Grillo, Deputy Chairman

CHAIRMAN OF THE MANAGEMENT BOARD, GRILLO-WERKE AG, DUISBURG, GERMANY

- Deutsche Messe AG, Member of the Supervisory Board[1)] (until November 14, 2016)
- Rheinmetall AG, Member of the Supervisory Board[1)] (since May 10, 2016)
- Innogy SE, Member of the Supervisory Board[1)] (since September 1, 2016)

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., Belgium, Member of the Board of Managers[2)]

Prof. Dr. Karl-Ulrich Köhler (since May 13, 2016)

CEO OF RITTAL INTERNATIONAL STIFTUNG & CO. KG AND CHAIRMAN OF THE MANAGEMENT BOARD OF RITTAL GMBH & CO. KG, HERBORN, GERMANY

- Friedhelm Loh Group, Member of the Advisory Board[2)] (until June 30, 2016)

Prof. Dr. Tobias Kollmann

CHAIR OF E-BUSINESS AND E-ENTREPRENEURSHIP AT THE UNIVERSITY OF DUISBURG-ESSEN, GERMANY

- Mountain Partners AG, Switzerland, Member of the Board of Directors[2)]

Dr. Friedhelm Loh (since May 13, 2016)

ENTREPRENEUR, OWNER AND CHAIRMAN OF FRIEDHELM LOH STIFTUNG & CO. KG, HAIGER, GERMANY

– Deutsche Messe AG, Member of the Supervisory Board[1)]
– KUKA Aktiengesellschaft, Member of the Supervisory Board[1)] (until January 20, 2017)
– Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Senator[2)]

Group Mandates Friedhelm Loh Group:
– Cito Benelux B.V., Niederlande, Commissarissen[2)]
– Cito Benelux (Onroerend Goed) B.V., Niederlande, Commissarissen[2)]
– Rittal Corporation, USA, Chairman of the Board[2)]
– Rittal Electrical Equipment (Shanghai) Co. Ltd., China, Legal Representative and Chairman of the Board[2)]
– Rittal Electro-Mechanical Technology (Shanghai) Co. Ltd., China, Legal Representative and Chairman of the Board[2)]

Hauke Stars (until May 13, 2016)

MEMBER OF THE MANAGEMENT BOARD, DEUTSCHE BÖRSE AG, FRANKFURT AM MAIN, GERMANY

– GfK SE, Member of the Supervisory Board[1)]

Group Mandates Deutsche Börse AG:
– Eurex Frankfurt AG, Member of the Supervisory Board[1)]
– Eurex Zürich AG, Switzerland, Member of the Board of Directors[2)]
– Clearstream Services S.A., Luxembourg, Member of the Board of Directors[2)] (until March 1, 2016)

Dr. Hans-Georg Vater

FORMER MEMBER OF THE MANAGEMENT BOARD, HOCHTIEF AKTIENGESELLSCHAFT, ESSEN,GERMANY

– Athens International Airport S.A., Greece, Member of the Board of Directors[2)] (until May 31, 2016)

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

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).

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 a 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

Stands for the complete digitalization and integration of the industrial value chain. The integration of information and communication technology with automation technology to form the Internet of Things and Services enables ever greater degrees of networking within and between manufacturing facilities, from suppliers through to customers.

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.

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.

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.

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.

Important Adresses

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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.

Contact/Imprint

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FINANCIAL CALENDAR 2017

March 1, 2017

Annual Financial Statements 2016
Financial statement press conference
Conference Call with analysts

April 26, 2017

Q1 interim management statement 2017
Conference Call with journalists
Conference Call with analysts

May 12, 2017

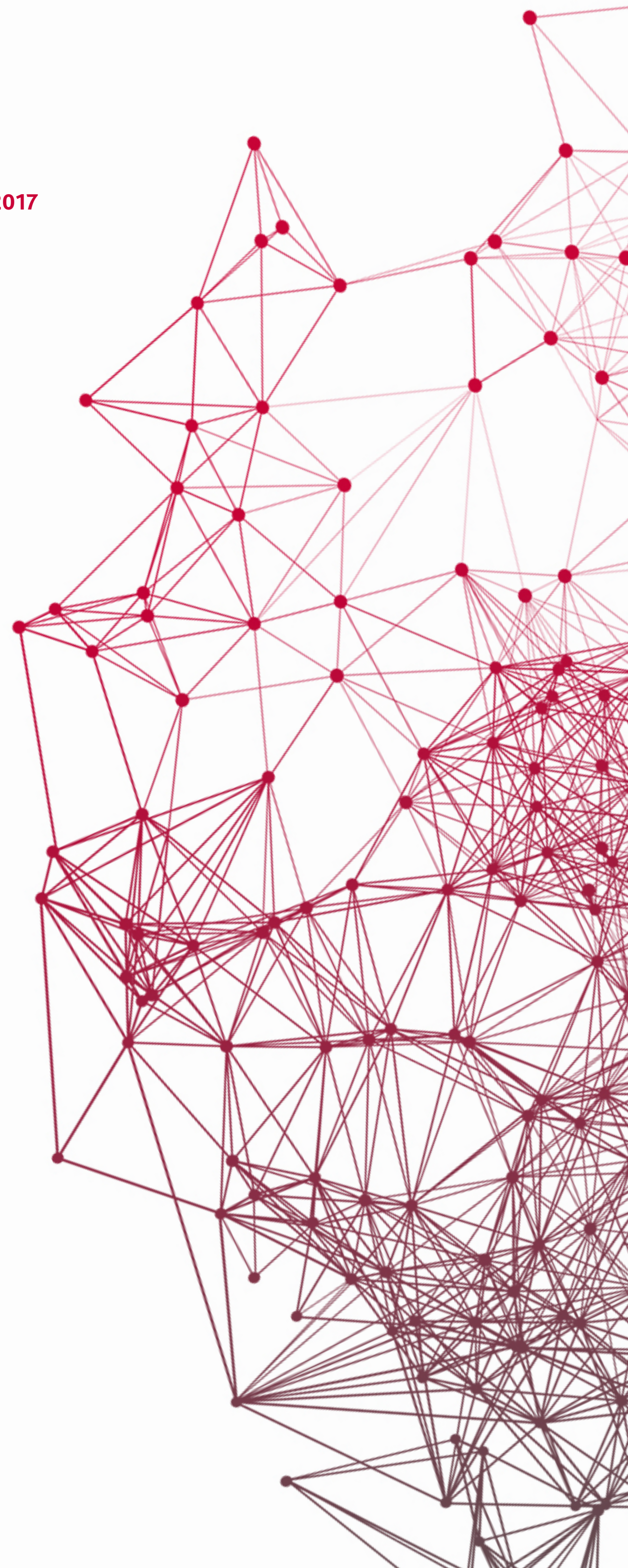
Annual General Meeting 2017, Düsseldorf

July 26, 2017

Q2 interim report 2017
Conference Call with journalists
Conference Call with analysts

October 25, 2017

Q3 interim management statement 2017
Conference Call with journalists
Conference Call with analysts



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