Report to the Annual General Meeting regarding agenda item 7

In connection with agenda item 7 of the Annual General Meeting of May 12, 2017 and pursuant to Sections 221 (4) sentence 2 and 186 (3) sentence 4 and (4) sentence 2 of the German Stock Corporation Act, the Management Board wishes to submit the following report on agenda item 7 on the grounds for the proposed authorization to issue warrant-linked and/or convertible bonds (“Bonds”) with the exclusion of shareholders’ subscription rights.

This report will also be available on the Internet at http://www.kloeckner.com/en/annual-general-meeting.html from the date on which the Annual General Meeting is convened. It will also be available for inspection at the business premises of the Company, Am Silberpalais 1, 47057 Duisburg, Germany, and in the meeting room during the Annual General Meeting. The report is as follows:

Under agenda item 6, the Company’s Annual General Meeting of May 24, 2013 authorized the Management Board to issue warrant-linked and/or convertible bonds and to grant warrants or conversion rights to a total of up to 19,950,000 registered no-par-value shares of the Company with a proportionate amount of the share capital of up to EUR 49,875,000.00. On the basis of this authorization, the Company through one of its Group companies issued a convertible bond with a simplified exclusion of subscription rights in September 2016, which entitles the creditors to subscribe for up to 9,973,000 shares in the Company (subject to possible adjustments based on the terms and conditions of such bonds). This corresponds approximately to half of Conditional Capital 2013. The Management Board and the Supervisory Board consider it appropriate to continuously enable the Company to issue warrant-linked and/or convertible bonds with simplified exclusion of subscription rights as well as in amounts higher than 10% of the share capital. Against this backdrop, they consider it appropriate to create a new authorization continuing to provide the Company with the necessary flexibility and, in particular, enabling the new issue of warrant-linked and/or convertible bonds with simplified exclusion of subscription rights. Since the authorization issued by the Annual General Meeting on May 24, 2013 can no longer be used flexibly, and, in particular, no longer allows simplified exclusion of subscription rights to a significant extent, the Management Board and the Supervisory Board consider it appropriate to cancel this authorization to the extent that it has not yet been exercised and to replace it with a new authorization.

In principle, shareholders are entitled to a statutory subscription right to the Bonds. To simplify the process, provision can be made for the Bonds to be issued to a credit or financial institution or a syndicate of such institutions with an obligation to offer the Bonds to shareholders for subscription in line with their current shareholdings (so called indirect subscription rights). The Management Board shall also, with the consent of the Supervisory Board, be authorized to exclude the statutory subscription rights of shareholders in the following cases.

– Shareholders' subscription rights should be allowed to be excluded if Bonds are issued against cash at an issue price that is not significantly lower than the theoretical market value of these Bonds determined in accordance with recognized actuarial methods. This enables the Company to take advantage of favorable market conditions quickly and at very short notice, and to achieve better interest rate terms and a better warrant or conversion price for the Bonds by fixing conditions in line with the market. This would not be possible if the statutory subscription rights were observed. Section 186 (2) of the German Stock Corporation Act permits disclosure of the subscription price (and of the conditions in the case of Bonds) as late as the third-to-last day of the subscription period. However, given the volatility of stock markets, several days of market risk would lead to safety margins when fixing the conditions of the Bonds and thus to conditions that are less in line with the market. Moreover, because of the uncertainty surrounding the exercise of statutory subscription rights, observing them jeopardizes the successful placement of Bonds with third parties or results in additional expenses. Finally, the length of the minimum two-week subscription period to be adhered to when observing statutory subscription rights slows the reaction to favorable or unfavorable market conditions, what may result in sub-optimal capital procurement.

In terms of this exclusion of subscription rights, shareholders' interests are protected by the fact that the Bonds may not be issued significantly under their theoretical market value, reducing the calculated value of the subscription right to virtually zero. The resolution thus provides that, before issuing the Bonds, the Management Board must have reached the conclusion that the intended issue price does not lead to an appreciable dilution of the value of the shares. If the Management Board considers it appropriate to obtain expert advice in the situation at hand, it may consult experts, e.g. the syndicate banks accompanying the issue, an independent investment bank or another expert, to confirm in an appropriate form that no appreciable dilution of the share value is to be expected. Irrespective of the examination by the Management Board, a determination of conditions in line with the market is guaranteed in the event of a bookbuilding procedure. As a result, the exclusion of subscription rights does not lead to any appreciable dilution of the value of the shares. Furthermore, this type of exclusion of subscription rights is restricted to Bonds with rights to shares comprising no more than a 10% portion of the share capital in issue at the time of the resolution or – if lower – at the time this authorization is exercised. Under these terms, the legislator deems it reasonable for shareholders to maintain their proportionate shareholdings through market purchases. However, this only applies insofar as the shares to be issued to service the warrants and conversion rights or obligations associated with the Bonds do not exceed a total of 10% of the Company's share capital in issue at the time of the resolution or – if lower – at the time when the authorization is exercised. The 10% threshold shall, with the exception of those shares intended to service convertible bonds issued on the basis of the resolution adopted as agenda item 6 of the Company's Annual General Meeting of May 24, 2013, include the proportionate amount of the share capital attributable to shares of Klöckner & Co SE that (i) are issued or sold by the Company with the exclusion of subscription rights in direct or analogous application of Section 186 (3) sentence 4 of the German Stock Corporation Act during the term of this authorization up to the time of its exercise, or (ii) are attributable to subscription rights based on warrant-linked and/or convertible bonds issued with the exclusion of subscription rights on the basis of authorizations other than the preceding pursuant to Sections 221 (4) sentence 2 and 186 (3) sentence 4 of the German Stock Corporation Act during the term of this authorization up to the time of its exercise.

- Excluding subscription rights in favor of the holders of any Bonds issued in the past or that may be issued in the future ensures that the holders of these Bonds are in the same position as rights from the Bonds would have been already exercised and the holders were already shareholders. This protection against dilution prevents the warrant or conversion price from ever being reduced for the Bonds already issued. The respective warrant or conversion price to be fixed must correspond to at least 80% of the market price determined at a time close to the issue of the Bonds.

- The envisioned exclusion of subscription rights for fractional amounts enables the requested authorization to be exercised for round amounts. This exclusion of subscription is reasonable and standard practice because, where fractional amounts are concerned, the costs of trading in subscription rights are usually unreasonably disproportionate to the related benefits for the shareholders. The dilution effect is negligible since this is restricted to fractional amounts. The Bonds thus excluded from subscription rights will be disposed of at the best possible price.

- Subscription rights should also be allowed to be excluded to issue Bonds against contributions in kind. This enables the Company to act flexibly and quickly, while at the same time conserving liquidity, when acquiring assets. The ability to offer Bonds as consideration can contribute considerably toward optimizing the Company's financing structure, for instance, in the acquisition of financing instruments issued by the Klöckner & Co Group or of receivables from the Company or a Group company against the issue of new Bonds. In addition, it provides the flexibility to acquire other assets, such as interests in companies, against the issue of Bonds.

  In every instance, the Management Board will carefully review whether to exercise the authorization to issue Bonds against contributions in kind while excluding shareholders' subscription rights and will only do so if, after taking all aspects into account, this is in the interest of the Company and its shareholders. In particular, it will ensure that the value of the contribution in kind is commensurate with the value of the Bonds.

- In addition, the total of the shares to be issued under the Bonds that are issued after May 12, 2017 based on this authorization or another authorization with the exclusion of subscription rights, including other shares sold or issued with the exclusion of subscription rights during the term of this authorization, must not exceed a proportionate amount of the share capital of EUR 49,875,000.00 (equivalent to 20% of the current share capital). This additional, voluntary limit protects shareholders against dilution.

Duisburg, March 2017

Gisbert Rühl	Marcus A. Ketter	Karsten Lork	William A. Partalis

Klöckner & Co SE

The Management Board

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