ANNUAL REPORT 2019

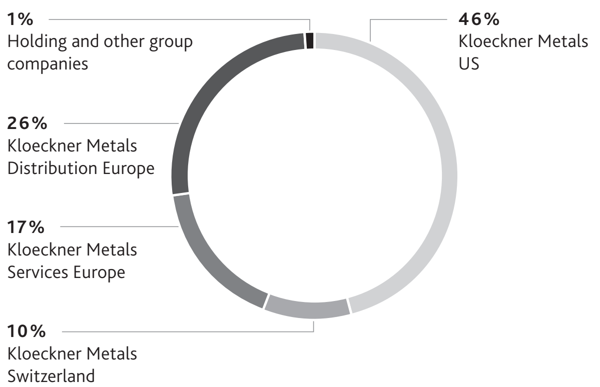
klöckner & co

Key figures
Klöckner & Co SE

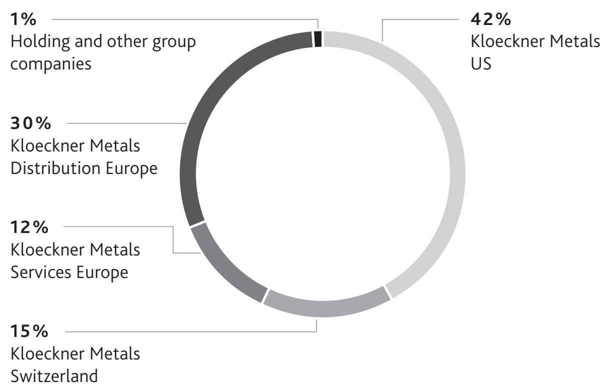
in € million		2019	2018	2017	2016	2015	Change 2019–2018
Shipments	Tto	5,648	6,107	6,135	6,149	6,476	–459
Sales		6,315	6,790	6,292	5,730	6,444	–475
EBITDA before material special effects		124	229	220	196	86	–105
EBITDA		139	227	220	196	24	–88
EBIT		2	141	130	85	–350	–139
EBT		–39	107	97	52	–399	–146
Net income		–55	69	102	38	–349	–124
Earnings per share (basic)	€	–0.56	0.68	1.01	0.37	–3.48	–1.24
Earnings per share (diluted)	€	–0.56	0.66	0.96	0.37	–3.48	–1.22
Cash flow from operating activites		204	60	79	73	276	+144
Cash flow from investing activities		3	–59	2	–52	–85	+62
Free cash flow		207	1	81	21	191	+206
Liquid funds		183	141	154	134	165	+42
Net working capital[1]		1,119	1,277	1,132	1,120	1,128	–158
Net financial debt		445	383	330	444	385	+62
Equity ratio	%	40.5	41.9	41.7	39.6	39.2	–1.4%p
Balance sheet total		2,916	3,061	2,886	2,897	2,841	–145
Employees as of December, 31		8,253	8,579	8,682	9,064	9,592	–326

[1] Inventories + trade receivables (incl. contract assets) + supplier bonus receivables ./. trade liabilities.

SHIPMENTS



SALES



Content

€139m
EBITDA

€6,315m
SALES

~8,300
EMPLOYEES

5,648 Tto
SHIPMENTS

32%
DIGITAL SALES
AS OF Q4 2019

€2,627m

SALES KLOECKNER METALS US

€971m

SALES KLOECKNER METALS SWITZERLAND

€768m

SALES KLOECKNER METALS SERVICES EUROPE

€1,903m

SALES KLOECKNER METALS DISTRIBUTION EUROPE

60

MAIN SUPPLIERS

~160

LOCATIONS

>100,000

CUSTOMERS

Gisbert Rühl

Dear Shareholders,
Ladies and Gentlemen,

We are not yet free from the constraints of sharp steel price fluctuations. Yet we are making progress, even if this is not yet reflected in our figures. Indeed, sharp steel price declines in the USA led to a significant year-on-year drop in operating income (EBITDA) before material special effects from €229 million in the prior year to €124 million in 2019. Net income also fell substantially from €69 million in the prior year to a net loss of €55 million in the year under review. In contrast, the cash flow trend was positive. Both free cash flow and cash flow from operating activities showed a clear year-on-year increase, reaching €207 million and €204 million, respectively. As a result of the net loss, we will recommend to the Annual General Meeting on May 20, 2020 that no dividend be distributed for the fiscal year 2019.

The negative result and the lack of a dividend are a major blow, which is also apparent in our disappointing share price performance. Although the share price was up 4% on the prior year at the end of the reporting period, it significantly underperformed the DAX and SDAX. We consider this performance unsatisfactory, even though we fared slightly better than our peer group.

So why are we looking ahead with optimism? First, we anticipate better price conditions and a slight recovery in demand in 2020. Most importantly, though, we are optimistic thanks to the successful implementation of our digitalization strategy. Given the progress already made, we are more convinced than ever before that the future of steel distribution – and thus of Klöckner & Co – is digital. We were the first of our peers to embrace digitalization, which we have continued to consequently implement ever since. This enabled us to increase the digital share of sales to 32% in the fourth quarter of 2019. While this puts us on the right track, we still have a way to go. We aim to ramp up our efforts over the next two years to achieve our target of generating 60% of total sales through digital channels in 2022.

In recent years, we focused primarily on digitalizing our frontends. The digital tools developed by our digital unit kloeckner.i, including Onlineshops, Contract Portals and Order history tools, are already being extensively used at many of our country organizations. This has made experience of working with Klöckner & Co particularly customerfriendly and given us a distinct edge over the competition.

The next step will be to turn our attention to the entire process from ordering to delivery to customers. Artificial Intelligence will play a significant role in this process. To be not reliant on our customers driving forward their own digitalization as consequently as we do, we developed the Kloeckner Assistant at the same pace as ours. The Kloeckner Assistant is a self-learning application that processes all requests and orders automatically, regardless of how they are sent to us – by fax, email, letter or telephone. Orders are automatically digitalized without the need for customers to adapt their own purchasing processes and systems. This means we are focusing on the needs of our customers and turning almost every one of them into a digital customer. Besides efficiency gains and considerable cost savings, we expect that being able to process requests and orders much more quickly will lead to market share growth. These effects will be reflected accordingly in earnings. Overall, we anticipate an additional contribution to EBITDA of more than €100 million by 2022.

Alongside the digital transformation of Klöckner & Co, scaling our open industry platform XOM Materials also has high priority. It is astounding that a number of competitors still think steel is somehow different and that platforms will not play a major role for the industry going forward. This is hard to understand, given that of the ten largest companies in the world by market capitalization, seven are platform companies. The automotive industry has also long held the belief that things will not be quick to change. Given that, in the future, a car’s core technology will be its operating system platform rather than its engine, this misconception has serious consequences. And this does not even take into account the impact of new mobility concepts. For the media and music industry, the disruption caused by platforms is already a thing of the past. The retail sector is in the middle of transformation, with B2B making great strides not far behind. Banks’ business models are being attacked on many levels. Ultimately, no industry or sector is untouched by this trend.

From the beginning of our digital transformation on, we have assumed that the steel industry supply chain will also shift away from the classic linear model to become a digital network. Benefits to the customer are the primary focus, which is also what is driving this trend. There is no better way for the customer than to have transparent access to all steel and metal products via one interface.

It was with this conviction that we founded XOM Materials two years ago. Here, too, we made great progress last year and moved much closer to our goal of becoming a leading B2B platform for steel and metal products as well as other industrial products.
XOM Materials has been growing in Europe since early 2018. In December 2019, the platform signed its fiftieth distributor, marking a fivefold increase in the number of distributors – from ten to 50 companies – within a single year. By now, the distributors offer the roughly 700 registered customers more than 22,000 different products – from traditional steel to plastic products. XOM Materials provides customers with a platform service similar to Kloeckner Assistant. There is no need for customers to change their processes to use XOM Materials, either, which means they can continue to send their requests by fax, email, letter or telephone as before. Products can, of course, also be ordered online directly via the platform.

XOM Materials is scaling up independently of Klöckner & Co also in countries where we have no branches, such as Spain where last year alone ten distributors already signed a contract to join the platform. The platform is also attracting more and more interest outside of Europe and launched in the USA last year.

Our digitalization measures coupled with setting up the independent industry platform XOM Materials mean that Klöckner & Co is no longer merely a steel distributor. Combining traditional steel distribution and digital platforms is something unique in our sector and offers investors an unprecedented opportunity to participate in the new direction the entire industry is taking.

At the same time, digital transformation is a key element of our sustainability strategy. Our digital platforms enable us to anticipate steel demand with ever greater accuracy, optimize logistics on an ongoing basis and thus further reduce CO_2 emissions. We were one of the first companies in Germany and among around 200 pioneer companies worldwide to sign up to the UN Global Compact Initiative “Business Ambition for 1.5°C”. The aim of this initiative is to limit global warming to 1.5°C.

Klöckner & Co is changing – and no one feels this change more than our employees. Day in, day out, it is they who dedicate all their efforts to drive the transition at Klöckner & Co. So we have been offering our employees a range of different training options for many years. This training not only imparts all the skills that digitalization brings about in the first place, but also lets our employees internalize our strategy. This is the only way we will be able to push forward our digital transformation in every corner of the Group. And it is working. Our most recent employee survey showed that over three out of four employees are familiar with our strategy and know how they can contribute to achieving the Company's goals. That cannot be taken as read and I would like to extend my sincere thanks to our employees for making it happen.

Our thanks also go to our shareholders who have remained loyal despite the sometimes difficult circumstances. We are doing our utmost to ensure that your loyalty is rewarded by steering our transformation to success – which will ultimately be reflected in our earnings and share price.

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, appointed until December 31, 2021. He is responsible for the coordination of the Management Board and functionally responsible for the divisions Corporate Communications, Corporate Development/M&A, Group HR, Investor Relations & Sustainability und Legal & Governance/Risk/Compliance. As part of his responsibility for Corporate Development Gisbert Rühl is in charge for implementing the digitalization strategy. As Chief Executive Officer Europe (CEO Europe), Gisbert Rühl additionally has been responsible for the operational business in Europe since August 1, 2019.

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD (CFO)

Born in 1962, Member of the Executive Board since August 1, 2019 and appointed until July 31, 2022. As Chief Financial Officer (CFO) he is responsible for Corporate Accounting & Taxes, Corporate Controlling, Corporate Treasury, Group IT and Internal Audit.

John Ganem

MEMBER OF THE BOARD (CEO AMERICAS)

Born in 1969, Member of the Management Board since August 1, 2019, and appointed until July 31, 2022. As Chief Executive Officer (CEO) Americas he is responsible for all North and South American Operations.

Report of the Supervisory Board

During the year under review, the Supervisory Board performed with due care the tasks required by law, the Company's Articles of Association and the Rules of Procedure. It supervised and regularly advised 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 or 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 and/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.

The Supervisory Board was involved on a timely basis in all matters of fundamental importance. To this end, the Management Board provided the Supervisory Board with information on planning, the Company's business and financial situation, and all transactions of importance to the Company and the Group, both during the Supervisory Board meetings and in the intervals between meetings. Supervisory Board meetings include regular 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, corporate strategy and the performance of the Klöckner & Co share price. Risk exposure, risk management, the internal control system and compliance (including data protection and information security) are also covered in detail. Among other matters, the December meeting included in-depth consultation on the corporate strategy. In addition, the corporate strategy and its implementation were also addressed at other Supervisory Board meetings during the reporting year. In all instances, the Supervisory Board was supplied with comprehensive documentation.

Both in plenary sessions and in 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. Written Management Board reporting again centered on the detailed monthly Board Reports in the year under review. Independently of this, the CEO, in some instances together with another member of the Management Board, held monthly meetings with the Chairman of the Supervisory Board to report on current business developments, salient issues and upcoming decisions, to discuss them with him and decide on the further course of action.

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 with three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Ralph Heck (Deputy Chairman), Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh and Ute Wolf. All Supervisory Board members have (in most cases longstanding) experience on management and/or supervisory bodies of various entities and, with their expertise, together optimally cover 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 in the version of February 7, 2017 (published in the German Federal Gazette on April 24, 2017; hereinafter 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. Dieter H. Vogel (Chairman), Dr. Ralph Heck and Prof. Dr. Friedhelm Loh. The Executive Committee also carries out the functions of a Personnel Committee and a Nomination Committee. The Audit Committee comprises Ute Wolf (Chairwoman), Prof. Dr. Vogel and Prof. Dr. Köhler. Ute Wolf is a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and further meets the requirements of Section 5.3.2 (3) of the Code. The Audit Committee also possesses the sectoral knowledge required under Section 324 (2) of the German Commercial Code (HGB). At the plenary meetings, the committee chairpersons 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 except the extraordinary meeting on July 22, 2019. The meetings of the Executive Committee were attended by the CEO (and the extraordinary meeting of the Executive Committee on July 20, 2019 was attended by the full Management Board), and the meetings of the Audit Committee were attended by the CFO (the March and April 2019 meetings were also attended by Gisbert Rühl as the then-designated new interim CFO). When necessary, the Supervisory Board met without the Management Board.

Meeting attendance
The Supervisory Board held a total of six plenary meetings in fiscal year 2019. In addition, the resolution on the new composition of the Management Board was adopted by circulation on July 29, 2019 (the date of confirmation of the resolution by the Chairman of the Supervisory Board). The Audit Committee met six times in fiscal year 2019, including three times in the form of teleconferences to discuss the half-yearly financial report and the quarterly statements prior to their respective publication. The Executive Committee likewise met six times in the reporting year.

A detailed member-by-member overview of meeting attendance during the year under review can be found on the Company's website (https://www.kloeckner.com/en/group/supervisory-board.html). Except for the meetings of the Executive Committee on July 22, 2019 and December 17, 2019, at each of which one member was unable to attend, and for the plenary meetings on the same days, which two members and one member, respectively, were unable to attend, all Supervisory Board and committee members attended all meetings in fiscal year 2019 (see Section 5.4.7 of the Code). The attendance rate for all Supervisory Board meetings, including committee meetings, was consequently a very good 93.1%.

Supervisory Board meeting agenda items and resolutions
The Supervisory Board regularly dealt with the business situation, strategy implementation and strategy development in the year under review. Multiple meetings also covered corporate governance matters (among others, the Declaration of Conformity), governance, risk and compliance issues and matters relating to the Management Board and the Supervisory Board, as well as reporting on current projects including Group financing.

The course of business for the entire Group in the reporting year was influenced by mostly falling steel prices, particularly in the USA, and the resulting "windfall losses". Added to this was a drop in demand, notably from the European automotive and mechanical engineering sectors. Regarding the overall economic situation, geopolitical tensions (examples include Brexit and trade disputes) even intensified in the year under review compared to 2018. This additionally affected the general economy and hence demand.

The Management Board took a number of measures in the reporting year to counter these developments and further improve efficiency. Those measures notably included restructuring and measures to optimize working capital management. In addition, broader responsibilities were devolved to the country organizations so that these can operate more autonomously and be more agile in responding to new developments. This also made it possible to reduce human resources requirements in the holding company.

The course of business and strategy were reported on in all meetings. Besides the difficult market and business situation and action to be taken in that regard, a further central topic was the Company's digital transformation. This notably offers scope for efficiency gains and a means of differentiating from competitors. Among other things, new digital tools – including with the use of artificial intelligence (AI) – for more efficient order processing were developed and put into (trial) operation in the year under review. Particularly worthy of mention is the Kloeckner Assistant which, in a fully automated process, will enable faster digitalization and AI-based processing of customer orders received via analog channels. The online shop is also steadily growing, not least thanks to the marketplace functionality implemented in the prior year for distributors of complementary products. As a result, the proportion of sales generated via digital channels went up in the year under review to 32% of total sales (Q4 2019). The XOM Materials open industry platform likewise continued to grow in the reporting year both in terms of the number of traders and the products on offer. Within the Company, the digital transformation is notably helped along by a wide range of employee development programs (such as the Digital Academy) as well as by bringing about a corresponding change in culture.

Alongside digitalization, further progress was also made with the other pillars of the corporate strategy (higher value-added business and efficiency improvement). Capital expenditure was thus incurred to expand processing services, including for laser and surface processing technologies. Various restructuring measures were also implemented or set in motion (including locational consolidation, streamlining of the holding company as well as a redistribution of sales territories in France, Switzerland and Germany). Furthermore, parts of accounting in Europe were contracted out on a business process outsourcing (BPO) basis and a corresponding BPO project was also implemented in the USA at the end of the reporting year. Lastly, the optimization programs, and especially "One US", delivered the planned efficiency gains.

The Supervisory Board kept a close watch on and analyzed the performance of the share price throughout the reporting year and discussed it with the Management Board at meetings. During the reporting year, the share price was affected by the weak earnings performance and general economic developments.

A further topic of examination was the financing side. The Supervisory Board continues to consider Group finances to be well diversified, solid and balanced. With regard to maturity profile, the syndicated loan was extended ahead of term. The terms and conditions – along with those for the European ABS program – were likewise amended to accommodate changes due to the new IFRS 16.

Significant topics dealt with at the Supervisory Board meetings included the following:
At its meeting on February 12, 2019, the Supervisory Board discussed, among other matters, the findings of the Supervisory Board's detailed efficiency review for which a survey of the Supervisory Board members and individual discussions with the Chairman of the Supervisory Board took place at the end of 2018. One outcome was that Supervisory Board meetings are also to be held at individual country organizations in the future so that the Supervisory Board can gain its own impression of the situation there. Written reporting to the Supervisory Board outside of meetings is also to be revised. Other notable topics at the meeting – alongside the current market and business situation and strategy – were compliance matters as well as current

programs and measures (including business process outsourcing for accounting processes). A further item on the agenda was Marcus A. Ketter's wish to accept the offer of an executive board office at another company and discussion of the arrangements for his succession (assumption of the office of CFO by Gisbert Rühl).

The meeting of March 7, 2019 was held at Becker Stahl-Service GmbH, Bönen, and was linked to a tour of the premises led by local management. In terms of substantive matters, the Supervisory Board approved, among other things, the Company's annual and consolidated financial statements for 2018 and the Group non-financial report. Furthermore, the Supervisory Board adopted the motions for the Company's 2019 Annual General Meeting, including the proposal for election of the auditors. Management Board matters were also discussed and related resolutions adopted (including on bonuses for 2018, targets for 2019 and Management Board contracts), and approval was granted for the extension of the syndicated loan ahead of term with amendments for changes due to the new IFRS 16 lease accounting standard.

The meeting of the Supervisory Board on May 15, 2019 was largely devoted to preparing for the Company's Annual General Meeting. Current market and business developments were also discussed and the Management Board reported on the status of certain projects. In addition, the Supervisory Board adopted a new schedule of responsibilities for the Management Board with a view to the departure of Marcus A. Ketter.

The main topic of the Supervisory Board meeting on July 22, 2019 was the new composition of the Company's Management Board. At that meeting, the Supervisory Board consulted in detail on the appointments to be made and held talks with Management Board candidates Dr. Oliver Falk and John Ganem. Gisbert Rühl also gave an overview of the market and business situation as well as the action being considered with regard to it and notably the projected greater decentralization of responsibilities within the Group.

Agenda items at the meeting of the Supervisory Board on October 9, 2019 included discussion of the findings of an employee survey and the commissioning of an external preliminary review of the Group non-financial report. The scheduled efficiency review of the Supervisory Board's activities was also carried out. Additionally, the Supervisory Board consulted in detail on the course of business and strategic matters. The meeting was held in Switzerland and included visits to several Swiss operating facilities together with presentations by local management.

At its meeting on December 17, 2019, the Supervisory Board addressed corporate planning and the budget for fiscal year 2020 (including the two subsequent years). As part of the consultations on country strategies, the Supervisory Board and the Management Board held discussions with the CEOs of the German, UK and French subsidiaries. The Supervisory Board also approved an amendment to the European ABS program to take into account the new IFRS 16 and granted approval for the relocation of the London site. Furthermore, the Supervisory Board and the Management Board jointly adopted the Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act. Finally, the Supervisory Board consulted on the extension of Gisbert Rühl's appointment as the Company's CEO.

Reports from the committees

Executive Committee:

The Executive Committee met a total of six times in 2019. Where these meetings were followed by a plenary meeting, they dealt among other matters with the agenda for the next Supervisory Board meeting.

Items discussed at the Executive Committee meeting on February 12, 2019 included strategy topics, evaluation of the Supervisory Board's detailed efficiency review carried out at the end of 2018 and Management Board matters (arrangement for finding a successor to Marcus A. Ketter as CFO).

At its meeting on March 7, 2019, the Executive Committee addressed topics including the variable annual bonus for Management Board members in fiscal year 2018 and submitted proposals to the plenary Supervisory Board for setting the variable annual bonus. The Executive Committee also drew up targets for the Management Board's variable annual bonus for fiscal year 2019. In its capacity as Personnel Committee, it also decided on the resolutions to be proposed to the Supervisory Board regarding Management Board matters.

The Executive Committee meetings on July 20, 2019 and July 22, 2019 dealt exclusively with Management Board matters, namely the departure of Jens M. Wegmann and the new composition of the Company's Management Board. For this purpose, talks were held at the meeting on July 22, 2019 with Management Board candidates Dr. Oliver Falk and John Ganem.

At its meeting on October 9, 2019, the Executive Committee addressed, among other matters, the corporate strategy and the annual efficiency review of the Supervisory Board's activities.

On December 17, 2019, the Executive Committee convened a preparatory meeting in advance of the Supervisory Board meeting on the same day for preliminary discussions on corporate governance matters (the Declaration of Conformity), the digitalization strategy and, in particular, the budget for 2020. In addition, the Executive Committee gave initial consideration to the extension of Gisbert Rühl's appointment as the Company's CEO.

Audit Committee:
The Audit Committee met six times in total, including three times by conference call.

At the face-to-face meeting on February 12, 2019, the Audit Committee primarily addressed questions relating to internal control at Klöckner & Co (the internal control system, risk management and risk report, internal audit findings and the 2019 audit plan), compliance and individual questions regarding financial reporting (among other things, enforcement priorities of the German Financial Reporting Enforcement Panel (FREP) and the specification of individual performance indicators). Other items of the agenda related to the internal organization of the Audit Committee (including amendment of the Rules of Procedure).

Significant topics at the face-to-face meeting on March 7, 2019 comprised discussion of the Company's annual and consolidated financial statements for 2018 as well as the Group non-financial report. At the same meeting, the Audit Committee discussed the proposal for the election of the auditors for 2019 and prepared the groundwork for the plenary Supervisory Board to issue the audit engagement. The Audit Committee saw no need to recommend to the Supervisory Board additional focal points for the auditors' activities beyond the statutory mandate. Individual financial reporting issues were also discussed (introduction of the new IFRS 16).

At the meetings on April 25, 2019, July 29, 2019 and October 24, 2019, which were held as teleconferences, the drafts of the half-yearly financial report and quarterly statements were discussed prior to publication. Focal issues were the development of the Group's business and financial situation, which the committee discussed on the basis of the key performance indicators with the CFO who was in attendance (in April 2019 with Gisbert Rühl as designated interim CFO), and the expected reactions of the capital market. The Audit

Committee brought up points and suggestions that were incorporated into the final versions of the half-yearly financial report and the quarterly statements. Other matters regularly addressed in connection with the quarterly and half-yearly reporting notably included governance (the internal control system, risk management, compliance, data protection and information security) as well as aspects of corporate financing and auditing of the financial statements.

The face-to-face meeting on December 17, 2019 primarily addressed matters relating to internal control (the internal control system, risk management and risk report, internal audit findings and the 2020 audit plan) as well as to compliance, data protection and information security. An additional item was the evaluation of the required biennial internal assessment on the work of the auditors.

Finally, at all of its meetings during the reporting year, the Audit Committee dealt with and approved the non-audit services provided by the auditors and/or audit network firms.

Corporate governance and Declaration of Conformity

On December 17, 2019, 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 complies in full with all recommendations of the Code. Further information on corporate governance can be found on page 26 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. They also take part in related consultation procedures as required.

Audit of the 2019 annual and consolidated financial statements including the Group non-financial report

Klöckner & Co SE's annual financial statements for fiscal year 2019 and the consolidated financial statements and combined management report were audited and issued with 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 315e of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The audit reports and further documentation relating to the financial statements, including the Group non-financial report, 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. In particular, the key audit matters described in the relevant audit opinion as well as the audit procedures applied were also discussed. 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 March 2, 2020 to approve the annual financial statements, the Chairwoman of the Audit Committee reported on the Audit Committee's consultations on the annual and consolidated financial statements and the combined management report. With regard to the risk early warning system, the auditors stated that the Management Board had taken the measures required in Section 91 (2) of the German Stock Corporations Act in an appropriate manner – in particular for establishing a monitoring system – and that the monitoring system was capable of promptly identifying developments threatening the Company's ability to continue as a going concern. The Supervisory Board received and approved the auditors' findings and the explanations provided by the Chairwoman of the Audit Committee. On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the combined management report, as well as in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on March 2, 2020, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted.

As part of its examination, the Supervisory Board also examined the Group non-financial report contained in the Annual Report (in the separate sustainability reporting section) that was required to be prepared in accordance with Section 315b of the German Commercial Code (HGB). In particular, the Supervisory Board's plausibility checks for this purpose encompassed the following aspects: (i) critical review and scrutiny of policies, (ii) review of the processes for data collection and preparation of the Group non-financial report and (iii) ascertainment of quality assurance measures. The Supervisory Board was supported in its examination by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart was requested to perform a limited assurance engagement on the Group non-financial report in accordance with ISAE 3000 and prepared a corresponding report which it submitted to the Supervisory Board, and reported on its activities verbally to the Supervisory Board. The report by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and the Group non-financial report were discussed and validated in detail both by the Audit Committee and by the plenary Supervisory Board. The Supervisory Board noted with approval the findings of the limited assurance engagement performed by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart and, following its own examination, came to the conclusion that the Group non-financial report meets the applicable requirements and that there are no objections to be raised.

Changes on the board
The composition of the Supervisory Board of Klöckner & Co SE did not change in fiscal year 2019. That also applies to the composition of the committees.

The composition of the Management Board of Klöckner & Co SE changed as follows in fiscal year 2019: Marcus A. Ketter stepped down from the Management Board of Klöckner & Co SE of his own accord on May 15, 2019 in order to pursue a new professional challenge. Jens M. Wegmann departed from the Management Board of Klöckner & Co SE as of July 31, 2019 in connection with the restructuring of the Management Board. In the same connection, Dr. Oliver Falk (as CFO) and John Ganem (as member of the Management Board) were newly appointed to the Management Board of Klöckner & Co SE effective August 1, 2019.
By resolution of January 30, 2020, the Supervisory Board extended the appointment of Gisbert Rühl as CEO of the Company for one year until the end of 2021.

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

Duisburg, Germany, March 2, 2020

Prof. Dr. Dieter H. Vogel
Chairman

Supervisory Board

Supervisory Board

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

Dr. Ralph Heck
Entrepreneur and Director Emeritus
McKinsey & Company, Meggen, Switzerland
(Deputy Chairman)

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

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

Prof. Dr. Friedhelm Loh
Entrepreneur, owner and chairman of Friedhelm Loh
Stiftung & Co. KG, Haiger, Germany

Ute Wolf
Chief Financial Officer of Evonik Industries AG,
Essen, Germany

Executive Committee

(also the Personnel Committee and the
Nomination Committee)

Prof. Dr. Dieter H. Vogel
Chairman

Dr. Ralph Heck

Prof. Dr. Friedhelm Loh

Audit Committee

Ute Wolf [1)]
Chairwoman

Prof. Dr. Karl-Ulrich Köhler

Prof. Dr. Dieter H. Vogel

[1)] Financial Expert within the meaning of Section 100 (5) German Stock Corporation (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

€6.28

Year-end closing price on December 30, 2019

SHARE PRICE PERFORMANCE

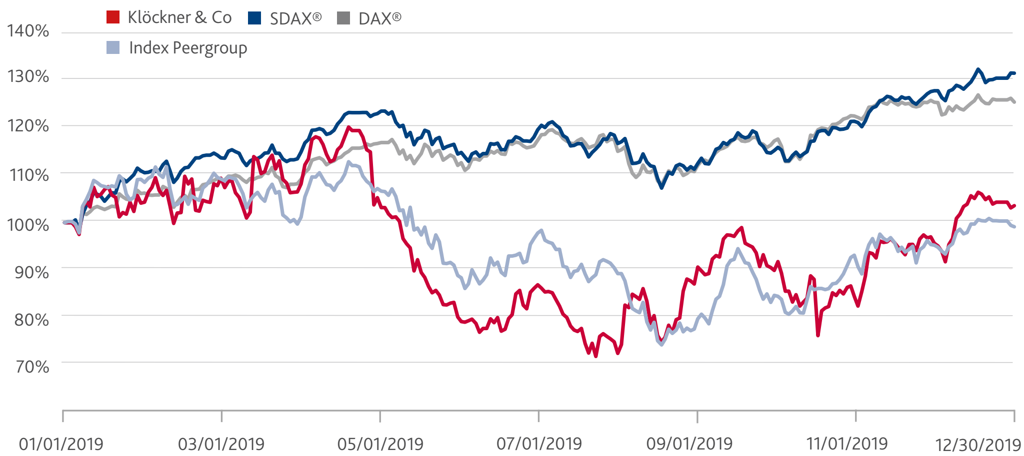
The Klöckner & Co share put in a positive performance at the beginning of 2019, reaching its high for the year of €7.29 on April 17. However, the share price then dropped sharply and trended downward until the middle of the year and reaching its lowest level for 2019 of €4.35 on July 22. Due to the poor economic situation, steeply declining steel prices – particularly in the USA – and weak demand, the share price remained under pressure. However, it began to recover in the second half of the year and closed at €6.28 on December 30.

KEY DATA – KLÖCKNER & CO SHARE

		2019	2018	2017	2016	2015
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 price (Xetra®, Close)	€	6.28	6.06	10.29	11.91	8.04
Market capitalization	€ million	626	604	1,026	1,188	802
High (Xetra®, Close)	€	7.29	11.62	12.89	12.91	10.12
Low (Xetra®, Close)	€	4.35	5.98	9.03	7.08	7.03
Earnings per share (basic)	€	– 0.56	0.68	1.01	0.37	– 3.48
Average daily trading volume	in shares	751,631	537,078	619,819	527,299	819,771
Dividend per share[1)]	€	-	0.30	0.30	0.20	-
Dividend yield based on closing stock price	%	-	5.0	2.9	1.7	-
Total dividend paid[1)]	€ million	-	29.9	29.9	20.0	-

[1)] In each case for the fiscal year. 2019: Proposal to the Annual General Meeting on May 20, 2020.

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

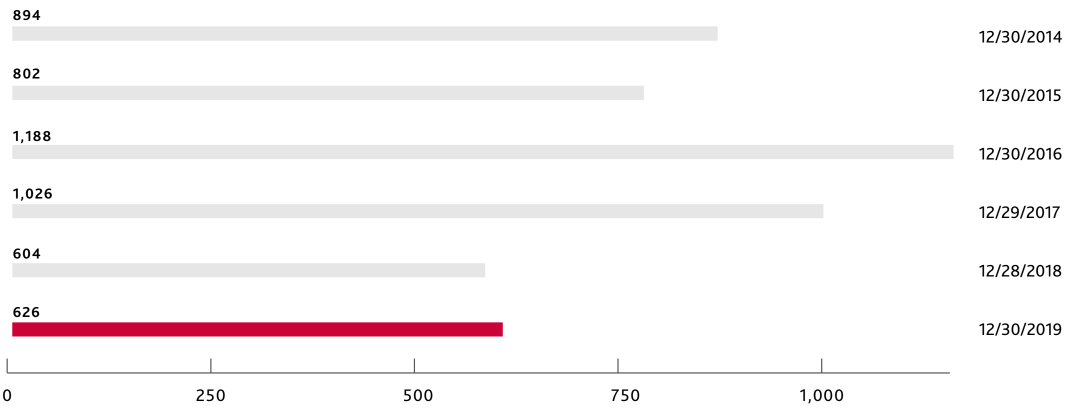


In fiscal year 2019, the Klöckner & Co share price was up by around 4% on the prior-year closing price. The Klöckner & Co share is benchmarked against an index made up of peer group companies ("Index Peergroup"), which shed some 1% in the reporting period. The peer group index tracks the share price performance of companies that are comparable to Klöckner & Co. Alongside thyssenkrupp, Salzgitter, Arcelor Mittal, Voestalpine and Schmolz + Bickenbach, the index also includes Reliance, Olympic Steel and Ryerson. The SDAX® recorded an increase of 32% on the prior year, and the DAX® went up by 25%. Klöckner & Co shares ranked 146th by free float market capitalization and 106th by trading volume in Deutsche Börse AG's December 2019 joint rankings of MDAX® and SDAX® stocks of a total of 160 companies.

MARKET CAPITALIZATION

The Company's market capitalization was approximately €626 million at the end of the reporting period, compared with €604 million as of December 28, 2018.

MARKET CAPITALIZATION
(in €m)



KLÖCKNER & CO CONVERTIBLE BOND: KEY DATA

	Convertible Bond 2016
Convertible Bond	2016
German securities code	A185XT
ISIN	DE000A185XT1
Issue volume	€147.8 million
Issue date	September 8, 2016
Maturity date	September 8, 2023
Coupon p. a.	2.00%
First Conversion price	€14.82

Convertible bond of approx. €148 million with a coupon of 2.00%

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BOND

Klöckner & Co SE launched a €148 million convertible bond issue in September 2016 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 coupon of 2.00% p.a. They are traded on the Open Market at the Frankfurt Stock Exchange (Open Market, ISIN DE000A185XT1). The initial conversion price was set at €14.82. The conversion price was most recently modified to around €13.33 in connection with the 2019 dividend payment. Klöckner & Co uses the proceeds from the issue for general business purposes.

On December 30, 2019, the 2016 convertible bond was trading at approximately 96.44%.

CONVERTIBLE BOND 2016

2019 ANNUAL GENERAL MEETING

The 13th Annual General Meeting of Klöckner & Co SE was held in Düsseldorf on May 15, 2019. Around 300 shareholders and shareholder representatives attended the meeting. In total, more than 54% of the voting capital voted on resolutions. Shareholders approved all of the resolutions proposed by the Supervisory and Management Boards, in each case by a large majority.

Annual General Meeting attendance more than 54%

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 among capital market participants. Klöckner & Co's shares were being watched and rated by 16 analysts at the end of 2019. In total, the analysts published more than 110 research reports. At the end of the year, seven securities houses gave our shares a "buy" recommendation, eight gave a "hold" recommendation and one recommended a "sell". The analysts at Credit Suisse added us to their coverage in the year under review, while the analysts at Baader Bank and UBS stopped covering the shares. We provide an up-to-date overview of investment recommendations on our website under Investors/Shares/Analysts.

16
analysts cover Klöckner & Co shares

Klöckner & Co shares were analyzed by the following banks and securities houses as of the end of 2019:

Bankhaus Lampe	Hauck & Aufhäuser
Citi	HSBC
Commerzbank	Independent Research
Credit Suisse	Jefferies International Equities
Deutsche Bank	Kepler Cheuvreux
DZ Bank	LBBW
Exane BNP Paribas	Metzler Equity Research
Goldman Sachs	NordLB

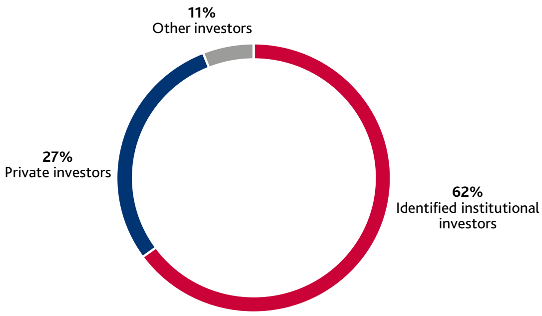
27%

of the share capital is held by private investors

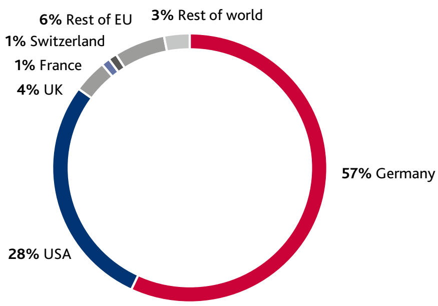
OWNERSHIP STRUCTURE

To gain a current overview of the regional distribution of its investors, Klöckner & Co again had shareholder identification analyses carried out on a regular basis in the reporting year. The findings are an aid in targeting investor relations activities to specific groups as well as in effective roadshow and conference planning. Around 92% of investors were identified in February 2020: Identified institutional investors held 62% of the share capital and private individuals 27%.

SHAREHOLDER STRUCTURE OF KLÖCKNER & CO SE



GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



According to voting rights notifications, our largest shareholder at the end of the year was SWOCTEM GmbH (Prof. Dr. Friedhelm Loh) with a shareholding of between 25% and 30%. This was followed by Dimensional Holdings Inc., Franklin Mutual Advisers LLC, Franklin Mutual Series Funds and Claas Edmund Daun with holdings of between 3% and 5% each.

OPEN AND CONTINUOUS COMMUNICATIONS

At Klöckner & Co, Investor Relations (IR) is all about transparent and continuous communications with private and institutional investors. Throughout 2019, members of the Management Board and the IR team once again kept domestic and international investors up to date on the results and the potential of the Klöckner & Co Group.

In-depth communications with institutional and private investors

Institutional investors were able to find out about Klöckner & Co SE at the Annual General Meeting, at 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 as well as global macroeconomic developments.

Klöckner & Co SE continued activities targeting private investors. At events held by shareholder protection organizations, among others, the Chairman of the Management Board and the IR team engaged in open and constructive dialog with existing and potential Klöckner & Co shareholders.

Our website is a key part of our financial market communications. Interested parties will find full information on Klöckner & Co shares and the convertible bond presented in the Investor Relations section of our website at www.kloeckner.com/en/investors.html. Topics include financial reports, forecast developments of key performance indicators, the financial calendar and current data on share performance. Visitors can also use an interactive tool to analyze our stock and key financial figures. In addition, we publish full information on the Annual General Meeting and our Capital Markets Day.

Interested capital market participants are able to find out about current issues as well as the latest news and interviews related to our share and capital market story via Twitter. You will find our Twitter channel at www.twitter.com/Kloeckner_IR.

Additionally we keep shareholders and other interested parties abreast of current developments at Klöckner & Co SE via email. You are welcome to sign up for this Company information via ir@kloeckner.com.

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

CONTACT

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Fax: + 49 (0) 203 307 5025
Email: 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. All references relate to the German Corporate Governance Code in the version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette). 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 paid close attention to meeting the recommendations and suggestions of the Code. The last annual Declaration was submitted in December 2019. 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.

2019 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporations Act on the German Corporate Governance Code

Klöckner & Co SE had complied with the recommendations of the German Corporate Governance Code in the version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette) since the last Declaration of Conformity dated December 20, 2018 and will comply with the recommendations of the German Corporate Governance Code in the mentioned version in future without any exceptions.

Duisburg, Germany, December 17, 2019

The Supervisory Board The Management Board

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 applying the recommendations and suggestions of the Code as our guidance, Klöckner & Co advances 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 February 7, 2017 were complied with in the year under review. The Management Board and Supervisory Board fundamentally treat suggestions in the German Corporate Governance Code no differently from recommendations. With two exceptions, all suggestions in the Code as amended on February 7, 2017 were complied with in the year under review.

Section 3.7 of the Code states that in the event of a takeover offer, the Management Board should convene an extraordinary General Meeting at which shareholders will discuss the takeover offer and, if appropriate, decide on corporate actions. 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 the Annual General Meeting is not required to vote on such matters. For this reason, extraordinary General Meetings shall be convened only in appropriate cases.

In accordance with Section 4.2.3 (2) sentence 9 of the Code, Management Board members should not receive early disbursements of multiple-year, variable remuneration components. At Klöckner & Co SE, Management Board members receive a multiple-year, variable remuneration component in the form of their personal investments in Company shares with a three-year vesting period. Although it is not entirely clear to the Company whether the end of the vesting period for the personal investment in shares counts as a "disbursement" within the meaning of the aforementioned suggestion, we are taking the precaution of declaring our non-compliance with such suggestion given that we intend to continue deciding on a case-by-case basis regarding the best method for releasing a personal investment in Company shares of Management Board members leaving the Board. It could well be in the fundamental interest of the Company to come up with its own comprehensive, final settlement for handling cases in which a Management Board member leaves the Board early. In addition, the Company would like to retain the flexibility in other conceivable scenarios (such as a change of control or a delisting) to stipulate in agreements with its Management Board members that the personal share investment of a member leaving the Board may be released from the vesting restriction. The reasoning for the suggestion made in Section 4.2.3 (2) sentence 9 of the Code indicates that it is intended to act as a malus clause based on an assumption of "personal misconduct" by the departing Management Board member. However, this neglects to consider that, for one thing, the law supplies sufficient tools of recourse for the Company other than malus provisions, such as options to claim damages or to assert claims of unjustified enrichment. There are also other reasons why a Management Board member might leave the Board apart from poor performance or breaches of duty of care. Moreover, personal investments in company shares such as exist at Klöckner & Co SE are not suited to the application of malus clauses due to their structure. Finally, the suggestion does not take adequate account of the fact that once a member has left the Board, that individual can no longer exercise influence on the future performance of the Company.

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 promote the Company's interests. Maintaining a trusting, intensive and ongoing dialog between the two bodies provides a sound basis for responsible and efficient corporate management.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE bears full responsibility for management of the Group and the Group holding company, taking into account the needs of all stakeholders. 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 responsibilities on their own 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 responsibilities. The Chairman coordinates the work of the Management Board and, in particular, organizes and chairs the Management Board meetings. 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). It also ensures adequate risk management and risk control.

In the past fiscal year, the Management Board of Klöckner & Co SE comprised three individuals until May 15, 2019, two individuals from May 16, 2019 to July 31, 2019, and then three individuals again from August 1, 2019, 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: Chairman of the Management Board and CEO Europe Gisbert Rühl, Chief Financial Officer (CFO) Dr. Oliver Falk and Management Board member and CEO Americas John Ganem (both Management Board members since August 1, 2019), as well as former Management Board members Marcus A. Ketter (who left the Management Board on May 15, 2019) and Jens M. Wegmann (who left the Management Board on July 31, 2019).

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 state the responsibilities in each Management Board portfolio, matters that are reserved for the full Management Board, decision-making procedures as well as the rights and obligations of the Chairman of the Management Board. They also contain rules on reporting to the Supervisory Board and a list of transactions for which the Management Board requires Supervisory Board approval. Such approval is necessary for all significant, high-risk or unusual transactions as well as for decisions of fundamental importance to the Company. The Rules of Procedure require the Management Board 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 18 meetings and seven written resolutions in the year under review, the members of the Management Board held coordinating discussions on numerous occasions and met or held conference calls with the management teams of the major segment country organizations.

SUPERVISORY BOARD

The Supervisory Board of Klöckner & Co SE regularly 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, the combined management report and the consolidated non-financial 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 the Company's adherence to legal provisions, official regulations and corporate guidelines (compliance), and dealing with the internal control system. Moreover, the Supervisory Board is responsible for appointing and dismissing members of the Management Board and allocating their responsibilities.

The Supervisory Board of Klöckner & Co SE comprises six members, all of whom represent shareholders and are generally elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel; his deputy is Dr. Ralph Heck. As with all members of the Supervisory Board, both have extensive experience in managing and/or 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 borne by the Company. All Supervisory Board members are independent within the meaning of Section 5.4.2 of the German Corporate Governance Code in the version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette, hereinafter referred to as the "Code").

The Management and Supervisory Boards work closely and trustfully 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 development and the status of strategy implementation. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings of the plenary Supervisory Board. In the year under review, regular meetings of the Supervisory Board were conducted in German up to and including July and then, following the appointment of the new Management Board member and CEO Americas John Ganem, the October and December meetings were conducted in English. The committee meetings were all conducted in German. The Supervisory Board maintains an ongoing, intensive dialog 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 financial performance of the Group and its 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. The Supervisory Board regularly reviews the structure of the Board Reports agreed with the Management Board. This was adjusted in relation to a few key figures in the reporting year. Items on the agenda at Supervisory Board meetings regularly include the overall economic situation, the industry situation, the business performance of the Group and its operating segments and the performance of Klöckner & Co's share price relative to 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 with no opposing votes in the year under review.

Once a year, the Supervisory Board evaluates and reviews the efficiency of its activities in the form of a self-evaluation, with a detailed evaluation every two years. The most recent detailed evaluation was carried out in 2018. Consequently, a summary evaluation was carried out in the reporting year. This took the form of an open discussion of the efficiency of the Supervisory Board's organization and working methods, which was prepared by the Executive Committee. The Supervisory Board does not consider any changes to be necessary in the preparation, procedure or agendas of its meetings, or in the manner in which tasks are delegated between the plenary Supervisory Board and its committees. 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. 12 et seq.).

SUPERVISORY BOARD COMMITTEES

The plenary work of the Supervisory Board is supplemented by its committees. The Supervisory Board has established the following committees: a three-member Executive Committee and an Audit Committee, which also has three members. The Executive Committee additionally serves as Nomination Committee and Personnel Committee. 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' chairpersons 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 Dr. Ralph Heck, Deputy Chairman of the Supervisory Board, and Prof. 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 appointing them as members of 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. 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.

With regard to long-term succession planning for the Management Board, the Executive Committee regularly consults with the Chairman of the Management Board, among other things. At the end of the reporting year, negotiations began with the Chairman of the Management Board regarding the extension of his service agreement. In January of this year, the extension of his mandate and service agreement for a further year, i.e. until the end of 2021, was agreed and implemented.

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 verification of the 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, and fee arrangements), and compliance, as well as the preparation of the Supervisory Board review of the consolidated non-financial report. The Supervisory Board has also entrusted the Audit Committee with discussing the half-year financial group report and the quarterly statements with the Management Board ahead of publication and preparing the Supervisory Board resolution on approval of the annual and consolidated financial statements. The Chairwoman of the Audit Committee, Ute Wolf, 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 respectively and, based on multiple years of service as Chief Financial Officer of a listed major international chemicals group, has specific expertise and experience in applying financial reporting principles and internal control systems. Alongside Committee Chairwoman Ute Wolf, the other members of the Audit Committee are Supervisory Board Chairman Prof. Dr. Dieter Vogel and Prof. Dr. Karl-Ulrich Köhler. The Audit Committee has the necessary sector expertise within the meaning of Section 324 of the German Commercial Code.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board holds at least four, and the Executive Committee usually three regular meetings each year. The Audit Committee regularly meets five times a year, but no fewer than four times. Three of those meetings are to discuss the half-year financial report and the quarterly statements. Those bodies also hold meetings on an ad-hoc basis as needed. The relevant documentation is always made available at the meetings of the Supervisory Board and its committees. The Supervisory Board held six meetings in the year under review, the Executive Committee six and the Audit Committee six.

PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS

In accordance with Section 5.4.1 of the Code, 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.

The Supervisory Board has prepared a profile of skills and expertise to ensure this requirement is met. The profile is intended to ensure that Supervisory Board members collectively have the skills and professional expertise that are essential for the Company's activities. Such skills and expertise include, inter alia, experience with and knowledge of managing a large or medium-sized, internationally operating company, experience with and knowledge of distribution/sales, digitalization/e-commerce, accountancy and accounting, financial controlling, risk management, internal audit and compliance.

Taking into account the interests of the Company, diversity is also a consideration in the composition of the Supervisory Board. The Supervisory Board should therefore also include members: (a) who are female; (b) live or work primarily in a country (other than Germany) that is of particular relevance to the Klöckner & Co Group; (c) are under the age of 60; and/or (d) are a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act.

Another objective laid out in the Rules of Procedure is that two-thirds of the members of the Supervisory Board should be independent within the meaning of Section 5.4.2 of the Code, taking into account the ownership structure. 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]). In addition, to avoid potential conflicts of interest, the Supervisory Board members should not be employed by customers, suppliers, lenders or other comparable third parties (particularly significant business partners or competitors of the Klöckner & Co Group) unless such parties are controlling shareholders of the Company. Furthermore, no more than two former members of the Company's Management Board should be part of the Supervisory Board and the Supervisory Board member who chairs the Audit Committee must be independent and must not be a former member of the Company's Management Board whose appointment ended less than two years earlier.

Finally, Supervisory Board members should usually not be appointed beyond the age of 75. The overall term of service as a Supervisory Board Member shall generally not exceed 15 years.

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.

STATUS OF IMPLEMENTATION OF THE PROFILE OF SKILLS AND EXPERTISE AND OF COMPOSITION TARGETS/INDEPENDENT MEMBERS OF THE SUPERVISORY BOARD

In the opinion of the Supervisory Board, the criteria and objectives set out above as well as the profile of skills and expertise for the entire Supervisory Board are met with the current composition of the Supervisory Board. The members of the Supervisory Board possess the requisite knowledge, skills and professional experience. With regard to the profile of skills and expertise, almost all members of the Supervisory Board are in management positions at large or medium-sized companies operating internationally, and hold or have held a variety of responsibilities covering distribution/trading, accounting and financial reporting, controlling, risk management, internal audit and compliance. Furthermore, Prof. Dr. Tobias Kollmann is also regarded as an identified digitalization expert. The diversity criterion of internationality has also been met: Dr. Heck is a Belgian national whose permanent residence is in Switzerland. Ute Wolf, as CFO of Evonik Industries AG, is the financial expert on the Group's Supervisory Board.

Finally, the Supervisory Board also has an appropriate number of independent members. In the assessment of the Supervisory Board, not only two-thirds – as stipulated in the Supervisory Board's Rules of Procedure – but all members of the Supervisory Board are independent within the meaning of Section 5.4.2 of the Code; namely, Prof. Dr. Dieter H. Vogel, Dr. Ralph Heck, Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh and Ute Wolf.

DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD AND OF THE SUPERVISORY BOARD

Diversity plays a key role in Klöckner & Co's personnel policy. This also applies to the composition of the Management Board and Supervisory Board. This aspect is already stipulated either by law (in the Act on Equal Participation of Women and Men in Leadership Positions) or in the German Corporate Governance Code. Klöckner & Co's concept of diversity in the Management Board and Supervisory Board is described in the following.

DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

The diversity policy for the composition of the Management Board takes into account the following diversity aspects, although it should be noted that, on new appointments, account naturally has to be given to executive market conditions with due regard for industry-specific circumstances.

Age:
In accordance with the Supervisory Board's Rules of Procedure, members of the Management Board should generally not be appointed beyond the age of 67. The Supervisory Board has additionally resolved that, on reappointment of Management Board members who have reached the age of 60 at the time of reappointment, appointments are to be limited to one year as a rule, with members permitted to be reappointed multiple times.

Gender:
The target for the percentage of women in the Management Board is 0% (see also the section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 36).

Educational/professional background:
By law, the Articles of Association and the Rules of Procedure, the Management Board is tasked with orderly management of the business. This gives rise to certain requirements that must be satisfied by the Management Board as a whole and by the individual Management Board members. These notably include management experience and leadership skills. Further requirements may also arise from the position in question itself – diversity with regard to educational and professional background therefore also necessarily follows from the differing responsibilities of the respective Management Board members.

Internationality:
A further criterion is that of internationality. This can already be part of the educational/professional background where a Management Board member has spent part of his or her career and/or education abroad.

OBJECTIVES OF THE DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

With regard to the age of Management Board members, the objective is to attain an appropriate and balanced age structure. The standard retirement age serves a twin purpose here: Firstly, it is intended to enable the retention of incumbent Management Board members for as long as possible so that they can continue to contribute their professional and personal experience to the benefit of the Company. Secondly, the age limit is directed at ensuring regular renewal of the Management Board. Additional flexibility is provided in this regard by the arrangements for reappointing Management Board members.

The target for the percentage of women on the Management Board has been introduced by the Act on Equal Participation of Women and Men in Leadership Positions and is intended to help increase the percentage of women executives. As the target for the Management Board, the Supervisory Board set a figure of 0% in fiscal year 2017 based on the size and composition of the Management Board at that time. No new appointments or changes of appointments were then planned or foreseeable. The Supervisory Board is aware of the importance of this topic. However, it is severely constrained here by market and industry conditions. This was also the case with regard to the changes of appointment in the Management Board in the reporting year, particularly as it was intended to appoint internal candidates. The Personnel Committee investigated the possibility of appointing a woman, but was unable to identify any suitable candidates. In light of this, the target remained unchanged.

In terms of educational and professional background, the Supervisory Board believes that diversity is necessary for two reasons: Firstly, to ensure proper fulfillment of the Management Board's duties and obligations as required by law, the Articles of Association and the Rules of Procedure. Secondly, diversity has the effect of ensuring the widest possible range of approaches in management as a corollary of differing perspectives and experiences. Special emphasis is placed here on management experience and the ability to further advance the digitalization and development of Klöckner & Co.

Finally, internationality must notably be seen against the backdrop of Klöckner & Co SE's global activities with its core markets in Europe and America. This criterion should be met in particular with regard to Management Board members for whom it is necessary to their work.

The aforementioned objectives are generally to be construed relative to, and met by, the Management Board as a whole. Given the size and structure of the Management Board, the Supervisory Board does not consider it appropriate to set specific targets.

IMPLEMENTATION OF THE DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

The Management Board is appointed by the Supervisory Board. In this connection, the Supervisory Board's supervisory and advisory function, ongoing dialog with the Management Board and, in particular, its involvement in strategy place it in a position to include the strategic, economic and factual situation of the Company in its assessment.

Within the Supervisory Board, human resources and succession planning is the responsibility of the Executive Committee which, acting in its capacity as Personnel Committee, submits proposals to the full Supervisory Board. The Executive Committee, and the Supervisory Board itself, regularly consults with the Chairman of the Management Board on any suitable internal and external candidates, including with a view to successions. In addition, the Executive Committee and the Supervisory Board hold their own consultations and also discuss these in the absence of the Management Board. In all of this – to the extent that the executive market allows – the diversity aspects described above are also taken into account in the Supervisory Board's decisions on Management Board appointments, alongside other requirements in terms of personality and qualifications. The interests of the Company, taking into account all circumstances in each individual case, always form the cornerstone of the decision made. In view of this and given the small size of the Management Board, the Supervisory Board does not consider specific target ratios to be constructive and does not set such targets, except where required by law.

OUTCOMES FOR THE MANAGEMENT BOARD IN FISCAL YEAR 2019

In the opinion of the Supervisory Board, the current members of the Management Board ensure an appropriate degree of diversity on the Management Board, in particular through their careers as well as their respective educational and professional backgrounds. Internationality was further strengthened by the appointment of John Ganem to the Management Board. Due to the changes of Management Board appointments in the reporting year, there was a change in the length of service. However, this should be viewed in light of the decades of service at the Company of the new Management Board members, who also have extensive corporate governance experience as well as special industry and Company expertise thanks to their work in two of the major country organizations. Diversity has also been improved with regard to age structure. Finally, the current Management Board composition is also consistent with the existing target ratio for women on the Management Board of 0%.

At present, the Supervisory Board sees no acute need for action in terms of diversity on the Management Board.

Further information on the members of the Management Board is provided in the CVs on the Company's website and in announcements following the related Supervisory Board resolutions.

DIVERSITY POLICY FOR COMPOSITION OF THE SUPERVISORY BOARD

In accordance with the Supervisory Board's Rules of Procedure, its members must, as a general rule, possess the knowledge, skills and professional experience required for the proper execution of their duties. Taking into consideration the interests of the Company, the aspect of diversity also has to be taken into account, with the aim of attaining a Supervisory Board that is as diverse as possible in terms of age and gender as well as educational and professional background. The requirements profile for nomination of a Supervisory Board member is largely driven by which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's composition at the time (see also the section, "PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS", on page 31).

OBJECTIVES OF THE DIVERSITY POLICY FOR COMPOSITION OF THE SUPERVISORY BOARD

The age limit and regular term of service are intended to contribute to a balanced age structure and an appropriate rejuvenation and constant renewal of the Supervisory Board. The specific upper limits take into account the interest of the Company in finding and retaining suitable candidates with sufficient professional experience and personal aptitude for office. They further ensure the requisite continuity with a view to ongoing support for corporate development.

With regard to the participation of women in leadership positions, the Supervisory Board set a target of 16.6% in 2017 (see also the section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 36).

The remaining goals with regard to composition (such as industry knowledge, professional background and internationality) reflect the requirements placed on the Supervisory Board in view of its advisory and supervisory role. Where possible, specific characteristics of the Company must be taken into account here. Due consideration of shareholdings in the Company is a further aspect.

IMPLEMENTATION OF THE DIVERSITY POLICY FOR THE SUPERVISORY BOARD

Members of the Supervisory Board are elected by the Company's Annual General Meeting. For this purpose, the Supervisory Board makes nominations for election that are in turn prepared by the Executive Committee (acting in its capacity as Nomination Committee).

In this connection, the Supervisory Board gives consideration to the aforementioned diversity aspects – taking into account the interests of the Company and the individual circumstances, as well as the requirements of the law, the Code and the Rules of Procedure.

The Supervisory Board also undergoes regular efficiency reviews in the form of a self-evaluation that includes aspects relating to its composition.

OUTCOMES FOR THE SUPERVISORY BOARD IN FISCAL YEAR 2019

Ute Wolf's membership of the Supervisory Board means that it currently meets its self-selected target of 16.6% for the percentage of women members which has to be achieved by June 30, 2022, and the Supervisory Board's composition thus also meets the statutory requirements in this regard.

With respect to the age structure of the Supervisory Board, Prof. Dr. Vogel exceeds the regular age limit of 75. However, allowance must be made for the fact that the limit is merely intended as a guide and that extensive changes were made on the Supervisory Board between 2015 and 2018. In this light, the continuity represented by Prof. Dr. Vogel is to be welcomed. His professional and personal qualifications are beyond any doubt. Moreover, the age range of 49 to 78 for the entire Supervisory Board is considered balanced and appropriate. The same applies to the length of service of the individual members (approx. 2 to 13 years).

From the point of view of the Supervisory Board, its composition meets the selected diversity targets. In particular, its members present a welcome mix of industries as well as occupational and educational backgrounds, as can be seen from their CVs, which are published on the website and updated annually. The diversity criterion of internationality has also been met: Dr. Heck is a Belgian national whose permanent residence is in Switzerland. The age structure and the length of service on the Supervisory Board are balanced. At present, the Supervisory Board thus sees no acute need for further action with regard to diversity on 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 established targets for women on the Supervisory Board and the Management Board and (ii) the Management Board established targets for women at the upper two leadership levels below Management Board level. The date for reaching the targets has been set for June 30, 2022.

The Supervisory Board set a target of 16.6% for women on the Supervisory Board and 0% for women on the Management Board in fiscal year 2017. The targets must be met by June 30, 2022 and are currently achieved.

The Management Board established the following targets for women at the upper two leadership levels below Management Board level in fiscal year 2017: 33.3% for level 1 and 20% for level 2. Both targets are also to be met by June 30, 2022. Level 1 generally comprises head of corporate department functions, while level 2 consists of department head functions. As of December 31, 2019, the percentage of women was 29% at level 1 and 0% at level 2. Neither target was met in the 2019 reporting year. The reasons for this were twofold: firstly, a female executive from the holding company was promoted to a country organization (as CFO) and, secondly, a female expatriate left to take up a management position at her original country organization. This once again demonstrates that we as a Company are sustainably supporting gender diversity, including beyond the holding company level.

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 15, 2019. The next will likewise be held in Düsseldorf, on May 20, 2020. The Management Board and Supervisory Board have determined 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 Chairman of the Management Board's speech and the report by the Supervisory Board are broadcast live on our website and are made available there in recorded form after the Annual General Meeting.

MANAGERS' TRANSACTIONS (PREVIOUSLY: DIRECTORS' DEALINGS)

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, notably derivatives, insofar as the value of the transactions reaches or exceeds a total of €5,000 in a single calendar year (with effect from January 1, 2020, the above amount was increased to €20,000 by a General Administrative Act of the German Federal Financial Supervisory Authority [BaFin]). 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 at https://www.kloeckner.com/en/investors/legal-announcements/managers-transactions.html.

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 annual and consolidated financial statements. By law, the auditor of the annual 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 2019 for fiscal year 2019 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Christoph Velder (from 2018, two signatures) and Ulrich Keisers (from 2016, four signatures) are the key audit partners. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (or, until 2009, its subsidiary, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been the auditor for Klöckner & Co SE (or its legal predecessors) since fiscal year 2005. Further information on the proposal made to the Annual General Meeting on the election of the auditors of the annual financial statements and consolidated financial statements for fiscal year 2020 will be published together with the invitation to the 2020 Annual General Meeting on our website at www.kloeckner.com.

The audit mandate for the annual and consolidated financial statements is prepared by the Audit Committee and then discussed and issued by the Supervisory Board.

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 and the quarterly statements published after the first and third quarters. A financial statements press conference as well as an analysts' and investors' conference call are held on publication of the Annual Report. On publication of the quarterly statements and half-year report, 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. Information directly related to Klöckner & Co SE that is likely to have significant influence on the price of Klöckner & Co shares or other financial instruments issued by or associated with the Company is additionally published in ad-hoc announcements as required by the Market Abuse Regulation (EU) No 596/2014. 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. Klöckner & Co SE considers itself to be bound in this connection not only by statutory and other legal provisions. Voluntary obligations and ethical principles are likewise integral to our corporate culture.

The Code of Conduct published on the Company website and elsewhere and revised in fiscal year 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 are required to lead by example and have heightened responsibility for ensuring that the Code of Conduct is put into practice. Moreover, all employees are called upon to contribute actively in applying and adhering to these principles across their areas of responsibility and to act with integrity in their work within our Company. We require our suppliers and service providers to adhere to the same principles and values. To this end, we approved a Supplier Code of Conduct in fiscal year 2017, which all of our major suppliers and service providers are required to recognize. Presentation of a code of conduct of the supplier or service provider that is comparable to Klöckner & Co SE's Code of Conduct is deemed equivalent to acknowledgement of the Supplier Code of Conduct.

To ensure compliance, a compliance management system has been installed. It was last reviewed for suitability and effectiveness by an independent expert at the end of fiscal year 2016 and was updated in fiscal year 2017. Focus areas still include antitrust law, anti-corruption, anti-money laundering, export controls, and prevention of involvement in human rights violations.

An organization has been established to manage and implement compliance and further its development. Compliance officers keep employees informed at regular intervals about material applicable legal provisions and internal policies. They serve as points of contact for individual questions as they arise. All Group employees are required to participate in a Group-wide training program to raise awareness of our Code of Conduct. The training program is divided into various modules for the different target groups, whose knowledge is kept up to date through regular refresher training sessions. In fiscal year 2019, training focused on the topics of anti-discrimination, fraud prevention, information security and the submission of a new declaration of commitment to our Code of Conduct.

All employees and business partners have the possibility 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, extensive measures have been taken to ensure adherence notably to antitrust, anti-corruption and anti-money laundering 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 compliance violations in "Tone at the top" published on the Company intranet and website. Antitrust, anti-corruption and anti-money laundering violations are subject to a zero tolerance policy and 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. The top two levels of management and all board members are subject to integrity screening before engagement or appointment. The screenings are repeated at regular intervals.

Other compliance measures relate to areas such as supply chain compliance (monitoring conflict minerals, restricting the use of certain hazardous substances in electrical and electronics devices [ROHS: Restriction of Hazardous Substances], 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. Individuals who have access to insider information as part of their work are registered on an insider list as stipulated in the Market Abuse Regulation.

2.2 Data protection

[We are conscious of the high standards to which we are held by our customers, our employees and not least the suppliers in our online marketplaces with regard to personal data security. Fully meeting these expectations and gaining the trust that goes hand in hand with this is an integral part of our digitalization strategy. In data protection, as elsewhere, customer needs and wishes are at the center of everything we do.

In light of this and within the context of the EU's General Data Protection Regulation (GDPR), we fully overhauled our existing data protection management system and modified organizational structures and reporting lines, while adapting them to the needs arising from ongoing digitalization of the Klöckner & Co Group. Group Data Protection, together with Information Security, is a stand-alone unit within Governance, Risk & Compliance and has a direct reporting line to the Management Board. A rolling international training program and extensive communication on data protection issues through our internal social network and intranet ensure our employees have a high level of data protection awareness.

Klöckner & Co also systematically focuses on digitalization with regard to the organization of data protection itself. Data protection within the Group is thus organized and managed using data protection management software. In addition to presenting and accelerating internal processes and documentation requirements, the software also allows service providers to directly upload certificates and directives regarding data protection or to access a self-assessment of their data protection status based on our requirements. In this way, data protection is efficiently and practically implemented at Klöckner & Co.]

2.3 Remuneration Report

The Remuneration Report reproduced below summarizes the salient features of the remuneration systems for the Management Board and the Supervisory Board and describes the structure and the amounts of the remuneration provided. The report takes into account the recommendations of the German Corporate Governance Code in the version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette, hereinafter referred to as the "Code").

Management Board compensation

The remuneration system applicable during the reporting period to members of the Management Board of Klöckner & Co SE was approved at the Annual General Meeting on May 13, 2016 with a majority of 87.03% of votes cast. As required by the new German Act to Transpose the Shareholder Rights Directive II (SRDII), the Company will vote on the remuneration system for the Management Board and Supervisory Board (in accordance with Sections 87a, 113 (3), 120a (1) of the German Stock Corporations Act (AktG), as amended, in conjunction with Section 26j (1) of the Introductory Act to the Stock Corporations Act (EGAktG), as amended) at the Annual General Meeting held in 2021.

Remuneration 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. In the reporting period, the performance-related component of Management Board remuneration consisted of a variable annual bonus.

The current annual fixed salary of ordinary members of the Management Board is €420,000 (2018 and up to July, 31 2019: €480,000) and that of the Chairman of the Management Board is €1,090,000 (2018 and up to May 31, 2019: €930,000). The annual fixed salary for former Management Board members Ketter and Wegmann remained unchanged at €480,000.

The variable annual bonus for ordinary members of the Management Board is €600,000 at 100% target attainment (2018 and up to July 31, 2019: €720,000), subject to a maximum of €1,200,000 (2018 and up to July 31, 2019: €1,440,000). The variable annual bonus for the Chairman of the Management Board is currently €1,620,000 (2018 and up to May 31, 2019: €1,380,000), subject to a maximum of €3,240,000 (2018 and up to May 31, 2019: €2,760,000).

The maximum amounts correspond in each case to 200% target attainment. Total annual remuneration (fixed salary plus bonus) at 100% target attainment is therefore currently €1,020,000 (2018 and up to July 31, 2019: €1,200,000) for ordinary members of the Management Board and €2,710,000 (2018 and up to May 31, 2019: €2,310,000) for the Chairman of the Management Board.

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 offers mainly long-term performance incentives, gearing the remuneration structure toward the sustained growth of the Company. The size 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, 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 year under review, these related to (i) the earnings impact of the VC^2 action plan, (ii) further implementation of the digitalization strategy (among other things, by further increasing digital sales as a percentage of total sales and integrating more third-party providers into the online shops) and (iii) reducing the lost time injury frequency (LTIF) across the Company.

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 accomplishment. In total, however, the special bonus and annual bonus may not exceed the cap on the annual bonus stated above. No special bonus has been awarded since 2010, including during the year under review.

Compensation for the members of the Management Board – fixed salary and bonus (including the aforementioned discretionary bonus) – is subject to a cap. The cap is €1,620,000 for ordinary members of the Management Board and €4,330,000 for the Chairman of the Management Board.

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 remuneration components set out above, Management Board members Mr. Rühl and Mr. Wegmann (until July 31, 2019) 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 dependents. Management Board member Mr. Ganem 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. Management Board member Dr. Falk has a defined benefit pension plan in accordance with the rules of Essener Verband (continuation of his pension plan as an employee of Klöckner & Co Deutschland GmbH before his appointment as a member of the Management Board), and receives a fixed amount each year that he must use to provide for his own retirement income (a defined contribution pension plan). Instead of pension benefits, former Management Board member Mr. Ketter received a fixed amount in the reporting year that he was required to use to provide for his own retirement income (a defined contribution pension plan). Former Management Board member Mr. Wegmann also received an accommodation allowance of €1,500 per month and was reimbursed for the cost of two return flights between Nuremberg and Düsseldorf (economy class) each month until his departure on July 31, 2019.

Other arrangements

Management Board contracts provide for compensation on early termination other than for cause. This compensation depends on the remaining term of the contract, but is capped at two years' annual remuneration. If a threshold of 30% of voting rights is exceeded, the Chairman of the Company's Management Board has the right to early termination of his service contract ("change-of-control" provision). Should he exercise that right, he will be entitled to payment of his budgeted salary up to the end of his contract term, capped at three times the total remuneration received in the last full fiscal year prior to termination of his service contract. 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) p.a. 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 insurance 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. John Ganem's employment contract includes a stable-value clause for his bonus to limit effects of potential changes in the US dollar exchange rate. Changes in the exchange rate could thus result in a higher euro amount being paid.

Appropriateness

Criteria determining the appropriateness of Management Board remuneration include the individual Management Board member's responsibilities, his or her personal performance, the business situation, earnings and future prospects of the Company, the extent to which the remuneration matches that of industry peers and the remuneration structure adopted by the Company. Both positive and negative developments are taken into account in the performance-related remuneration components. Remuneration levels are set overall to be internationally competitive and to give incentives geared to the Company's sustainable growth and a sustained increase in enterprise value in a dynamic environment. To aid the Supervisory Board in setting the current remuneration system, a horizontal comparative survey of remuneration was carried out. Among other factors, the study was based on an independently compiled study of remuneration paid to regular management board members and chairs of management boards 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 remuneration with that of other companies for the purpose of establishing the current remuneration system showed Klöckner & Co SE tended to be below the average of comparative figures regarding the amount and structure of remuneration. In addition, a vertical comparison with the remuneration for senior management and the Group workforce as a whole was carried out. In this case, the Supervisory Board determined that the structure and the amount of the total remuneration paid to the Management Board members was commensurate with their duties and performance, the remuneration structures in the Company and the situation of the Company, was geared to the Company's sustainable growth and did not exceed normal levels. Regular checks are made to ensure that these findings remain up to date.

Compensation for 2019

The tables below show the individual remuneration entitlements of Management Board members for 2019 as provided for in the German Corporate Governance Code:

Granted compensation	Gisbert Rühl (CEO)				Dr. Oliver Falk (CFO since August 1, 2019)			
(€ thousand)	2018	2019	2019 (Min.)	2019 (Max.)	2018	2019	2019 (Min.)	2019 (Max.)
Fixed compensation	930	1,023	1,023	1,023	-	175	175	175
Ancillary benefits[3)]	41	41	41	41	-	28	28	28
Total	**971**	**1,064**	**1,064**	**1,064**	**-**	**203**	**203**	**203**
One year's variable compensation	1,380	1,520	-	3,040	-	250	-	500
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**2,351**	**2,584**	**1,064**	**4,104**	**-**	**453**	**203**	**703**
Postemployment benefits[5)]	717	766	766	766	-	219	219	219
Total compensation	**3,068**	**3,350**	**1,830**	**4,870**	**-**	**672**	**422**	**922**

Granted compensation	John Ganem (since August 1, 2019)				Marcus A. Ketter (CFO until May 15, 2019)			
(€ thousand)	2018	2019	2019 (Min.)	2019 (Max.)	2018	2019	2019 (Min.)	2019 (Max.)
Fixed compensation	-	175	175	175	480	180	180	180
Ancillary benefits[1)]	-	22	22	22	178	68	68	68
Total	**-**	**197**	**197**	**197**	**658**	**248**	**248**	**248**
One year's variable compensation[4)]	-	250	-	500	720	270	-	540
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**-**	**447**	**197**	**697**	**1,378**	**518**	**248**	**788**
Postemployment benefits[5)]	-	2,441	2,441	2,441	-	-	-	-
Total compensation	**-**	**2,888**	**2,638**	**3,138**	**1,378**	**518**	**248**	**788**

Granted Compensation	Jens M. Wegmann (COO until July 31, 2019)				Karsten Lork (until February 28, 2018)			
(€ thousand)	2018	2019	2019 (Min.)	2019 (Max.)	2018	2019	2019 (Min.)	2019 (Max.)
Fixed compensation	480	280	280	280	80	-	-	-
Ancillary benefits	36	32	32	32	5	-	-	-
Total	**516**	**312**	**312**	**312**	**85**	**-**	**-**	**-**
One year's variable compensation	720	420	420	420	120	-	-	-
Multi-year variable compensation[2]			-					
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**1,236**	**732**	**732**	**732**	**205**	**-**	**-**	**-**
Postemployment benefits	348	190	190	190	30	-	-	-
Total compensation	**1,584**	**922**	**922**	**922**	**235**	**-**	**-**	**-**

1) For Marcus A. Ketter including €56,250 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) The virtual stock option program ended in 2015. Further information on the program can be found in the Annual Report 2015.
3) For Dr. Oliver Falk including €20,833 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
4) In the case of John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.
5) The post-employment benefits for Management Board members Dr. Oliver Falk and John Ganem, who joined part-way through the year, includes the service cost for the full year 2019. In the case of John Ganem, €2,282 thousand relates to past service cost which also concerns his service as CEO of Kloeckner Metals Corporation, Delaware, USA before his appointment to the Management Board.

Proceeds	Gisbert Rühl (CEO)		Dr. Oliver Falk (CFO since August 1, 2019)	
(€ thousand)	2018	2019	2018	2019
Fixed compensation	930	1,023	-	175
Ancillary benefits[3]	41	41	-	28
Total	**971**	**1,064**	**-**	**203**
One year's variable compensation	1,258	1,746	-	287
Multi-year variable compensation[2]				
- Virtual stock option plan	-	-	-	-
Total	**2,229**	**2,810**	**-**	**490**
Postemployment benefit[5]	717	766	-	219
Total compensation	**2,946**	**3,576**	**-**	**709**

Proceeds	John Ganem (since August 1, 2019)		Marcus A. Ketter (CFO until May, 15 2019)	
(€ thousand)	2018	2019	2018	2019
Fixed compensation	-	175	480	180
Ancillary benefits[1]	-	22	178	68
Total	**-**	**197**	**658**	**248**
One year's variable compensation[4]	-	287	657	310
Multi-year variable compensation[2]				
- Virtual stock option plan	-	-	-	-
Total	**-**	**484**	**1,315**	**558**
Postemployment benefit[5]	-	2,441	-	-
Total compensation	**-**	**2,925**	**1,315**	**558**

Proceeds	Jens M. Wegmann (COO until July 31, 2019)				Karsten Lork (until February 28, 2018)			
(€ thousand)	2018	2019			2018	2019		
Fixed compensation	480	280			80	-		
Ancillary benefits	36	32			5	-		
Total	**516**	**312**			**85**	**-**		
One year's variable compensation	657	420			120	-		
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-			-	-		
Total	**1,173**	**732**			**205**	**-**		
Postemployment benefit	348	190			30	-		
Total compensation	**1,521**	**922**			**235**	**-**		

1) For Marcus A. Ketter including €56,250 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) The virtual stock option program ended in 2015. Further information on the program can be found in the Annual Report 2015.
3) For Dr. Oliver Falk including €20,833 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
4) In the case of John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.
5) The post-employment benefits for Management Board members Dr. Oliver Falk and John Ganem, who joined part-way through the year, includes the service cost for the full year 2019. In the case of John Ganem, €2,282 thousand relates to past service cost which also concerns his service as CEO of Kloeckner Metals Corporation, Delaware, USA before his appointment to the Management Board.

Remuneration related to the termination of Management Board activities

Marcus A. Ketter resigned from the Management Board and left the Company of his own accord on May 15, 2019, to pursue a new professional challenge. In accordance with the termination agreement, he was granted the contractually agreed remuneration up to this date, including the variable annual bonus already earned for fiscal year 2019 up until his departure; the latter was subject to only three-eighths of the variable annual bonus for fiscal year 2019 being due and this amount being paid out at the same time as the bonus for the still serving Management Board members. The requirement to personally invest in shares of the Company was waived with regard to the portion of the bonus to be paid out for fiscal year 2019; the blocking period for personal investment shares already acquired remains in place. The non-competition agreement was waived. The virtual stock options already issued to Mr. Ketter under the now discontinued VSO program continue to exist and may be exercised subject to the corresponding vesting period.

Jens M. Wegmann also resigned from the Management Board by mutual agreement on July 31, 2019, as a result of the new composition of the Management Board. In accordance with the termination agreement, he was granted and paid the contractually agreed remuneration up to this date, including the variable annual bonus already earned for fiscal year 2019 up until his departure, with this proportion of the variable annual bonus determined as a pro rata amount of the target bonus (100% target attainment). There is no obligation to make a personal investment in shares of the Company associated with this pro rata variable annual bonus for fiscal year 2019. Due to the early termination as of July 31, 2019 by mutual agreement of Jens M. Wegmann's service contract, which was due to run until November 30, 2020, termination benefits of €2,201 thousand were agreed with him. These primarily consist of a severance payment of €1,660,000 for the fixed and variable remuneration components lost (paid out on August 15, 2019) as well as compensation related to pension entitlements (under recognition of corresponding provisions by the Company). For the purposes of pension provision, Mr. Wegmann is considered as though he were to remain a member of the Management Board until November 30, 2020. Furthermore, ownership of his company car was transferred to Mr. Wegmann, all of the shares in the Company acquired by him as a personal investment were unlocked and the non-competition agreement was waived.

Supervisory Board

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

Remuneration consists mainly of fixed remuneration allocated pro rata temporis in the event of personnel changes during the fiscal year. An attendance fee is also paid; reasonable out-of-pocket expenses and value added tax are reimbursed. The Company covers the cost of external training for Supervisory Board members via expense accounts. The fixed remuneration is €40,000 per fiscal year. 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 remuneration.

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 (single-entity financial statements), Supervisory Board remuneration totaled €523,000 in 2019 (2018: €457,000). The table below shows the individual remuneration entitlements of Supervisory Board members for 2019 pursuant to Section 5.4.6 (3) sentence 1 of the Code. All payments are due after the close of the Annual General Meeting in 2020.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	72,000	172,000
Dr. Ralph Heck (Deputy Chairman)	60,000	25,000	85,000
Prof. Dr. Karl-Ulrich Köhler	40,000	24,000	64,000
Prof. Dr. Tobias Kollmann	40,000	12,000	52,000
Prof. Dr. Friedhelm Loh	40,000	20,000	60,000
Ute Wolf	50,000	40,000	90,000
Total	**330,000**	**193,000**	**523,000**

No remuneration or benefits for services rendered on an individual basis – particularly consulting or agency services – were granted to Supervisory Board members in the year under review.

GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report[1] for Fiscal Year 2019

[1] For the Remuneration Report and the Corporate Governance Statement pursuant to Section 289f and Section 315d of the German Commercial Code (HGB), which are integral parts of the Group Management Report, please see the Corporate Governance section on pages 26–45 of this report.

1. Fundamental information about the Group

The statements marked in the management report with this parenthesis [ ] are unaudited voluntary contents that have been critically read by the auditor.

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 segments "Kloeckner Metals US", "Kloeckner Metals Services Europe", "Kloeckner Metals Switzerland" and "Kloeckner Metals Distribution Europe" with their respective operational country organizations, and the "Holding and other group companies" segment.

Reporting was thus changed as against the prior year, with segment reporting amended accordingly and the former "Europe" and "Americas" segments replaced.

In the course of the reorganization of the Management Board, which following the departure of Marcus A. Ketter and Jens M. Wegmann is now composed of Gisbert Rühl, Dr. Oliver Falk and John Ganem, the structure of the holding company was changed. In line with the new decentralization strategy, greater operational responsibility now lies with the country organizations, which have taken on the bulk of the holding company functions of Kloeckner Metals Operations GmbH (KMO).

Further minor adjustments to segment reporting were made for the new fiscal year. The "Holding and other Group Companies" segment, which alongside the holding company previously included other activities, such as the Brazilian distribution business, XOM Materials, kloeckner.i, kloeckner.v and the Dutch metering business, is being restructured. Starting from January 1, 2020, the Brazilian distribution business is allocated to the "Kloeckner Metals US" segment and the metering business to the "Kloeckner Metals Distribution Europe" segment.

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

Around 160 distribution and service locations in 13 countries

Klöckner & Co SE is one of the [largest producer-independent] distributors of steel and metal products and one of the world's leading steel service center companies. We act as a connecting link between steel producers and consumers. As we are not tied to any particular steel producer, our customers benefit from our wide range of national and international sourcing options spanning some 60 main suppliers worldwide. [We also have an outstanding procurement network and work exclusively with companies of above-average reputation.] 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 with a focus on Europe and the USA, our global network provides customers with local access to some 160 distribution and service locations. The high availability levels for our roughly 200.000 products largely eliminate the need for customers to hold inventory. Concentrated mainly in the construction industry as well as the machinery and mechanical engineering industries, our customer base comprises more than 100.000 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. For example, we use a variety of digital tools and portals to enable us to offer our customers and business partners a broader spectrum of steel and metal products as well as services, and we are constantly refining the range of products and services offered together with our customers. [We have thus taken on a pioneering role in the digitalization of steel distribution. The rising number of users of our online applications and the XOM Materials platform as well as the continuously increasing share of sales generated through digital channels prove that our newly developed tools offer innovative and previously unheard-of added value to the steel industry].

Our approximately 8,300 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. About 70% of our workforce is employed in Europe and 30% in the Americas.

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 North American market. In Europe and the USA, our market share is approximately 7%, putting us among the [top three distributors and steel service centers] in both regions.

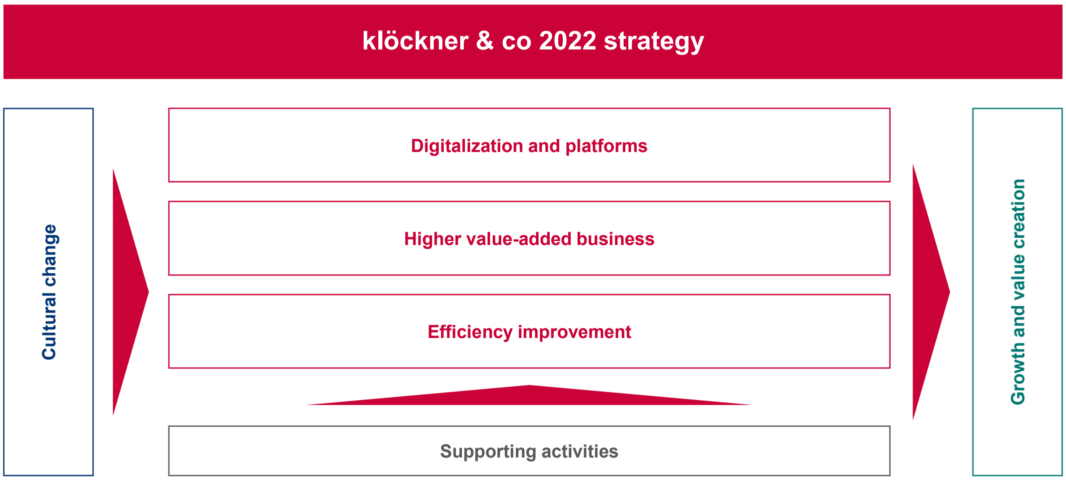
1.3 Corporate strategy

["Klöckner & Co 2022" – our strategy

Implementation of our "klöckner & co 2022" strategy

We have been rigorously driving forward Klöckner & Co's digital transformation for more than five years, with the result that we already generated some 32% of Group sales through digital channels by the fourth quarter of 2019. After initially focusing on customer interfaces, digitalization of the end-to-end process from ordering to delivery to customers is now moving to center stage. We expect that this will contribute more than an additional €100 million to operating income by 2022.

Further pillars of the "Klöckner & Co 2022" strategy include expansion of the higher value-added business and efficiency improvement. All three strategic pillars are supported by our transformation to a digital corporate culture marked by greater openness, agility and customer centricity.



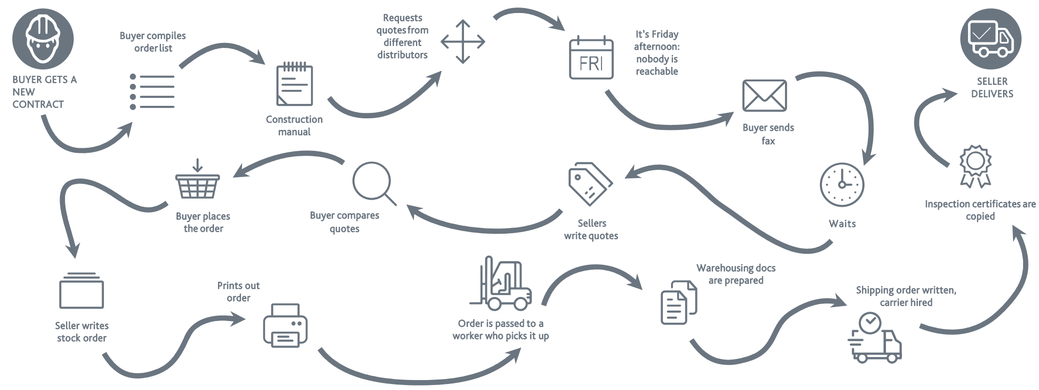
Shortcomings in the steel and metal distribution value chain

Steel and metal distribution continues to be characterized by volatile prices and tough competition. Rigidly linear supply chains and lack of transparency also make the business highly inefficient.

Operating environment continues to be challenging

Linear supply and value chain:

Steel distribution still has the classic linear supply and value chain, from producer to distributor to processor. Orders are mostly placed by phone, fax or email, with manual intervention needed at many points along the way. This results in long delivery times, incorrect deliveries and unnecessarily high inventory levels. The quotation process is also highly time-consuming and effort-intensive. On top of that, only a fraction of quotations lead to an order.



Insufficient information and data interchange:

The steel industry lacks effective information and data interchange, such as on available inventory and lead times. There are frequent breaks in the information flow, resulting in a severe lack of transparency along the entire supply chain. Suppliers, distributors and processors consequently have to buy in large quantities to make up for the lack of information about demand, supply and prices.

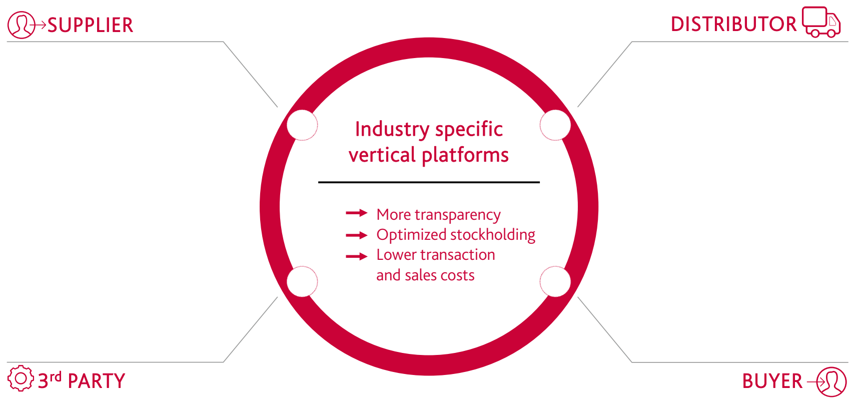
Overcapacity, volatile steel prices and narrow margins:

The steel industry suffers overcapacity at all levels. This causes frequent large price swings, which make it hard to plan ahead and hit profitability. Especially with commodity steel products, strong competition also drives margins down to very low levels among both producers and suppliers.

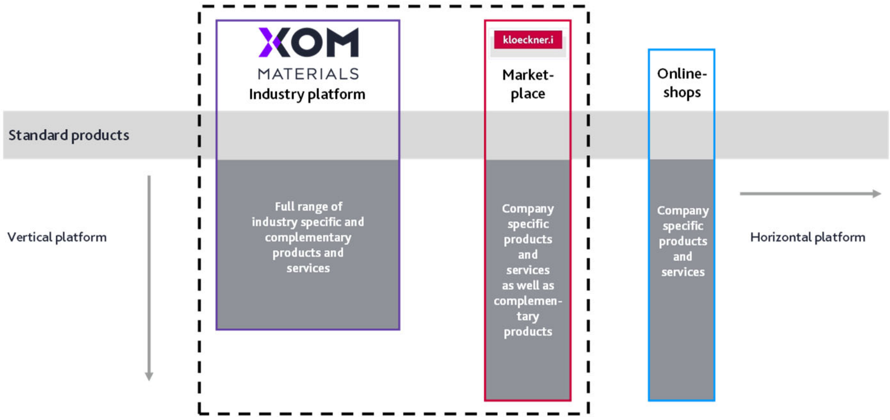
Platforms to cut out inefficiencies

Platforms as the solution

Digital platforms break up linear supply and value chains by connecting market players. They cut out the inefficiencies due to lack of transparency and supply chain linearity to optimize stockholding as well as reduce transaction and sales costs.



Klöckner & Co is very well positioned with its digital platforms. As a basic distinction, platforms can be horizontal or vertical.



Platforms, Marketplaces and Onlineshops

Vertical platforms like XOM Materials primarily feature industry specific products and services. XOM Materials aggregates the ranges of numerous market players and thus offers a broad product portfolio with a high level of transparency on price and availability.

Horizontal platforms, by contrast, mainly offer standard products for different industries. The range does not include any customer specific or extended services. Unlike vertical platforms, they therefore contribute little to addressing the challenges in the materials business.

Marketplaces offer products and services beyond the Company's own portfolio. The Klöckner & Co Marketplaces allow our customers to purchase specialized products and services from our own portfolio as well as products from complementary third-party vendors.

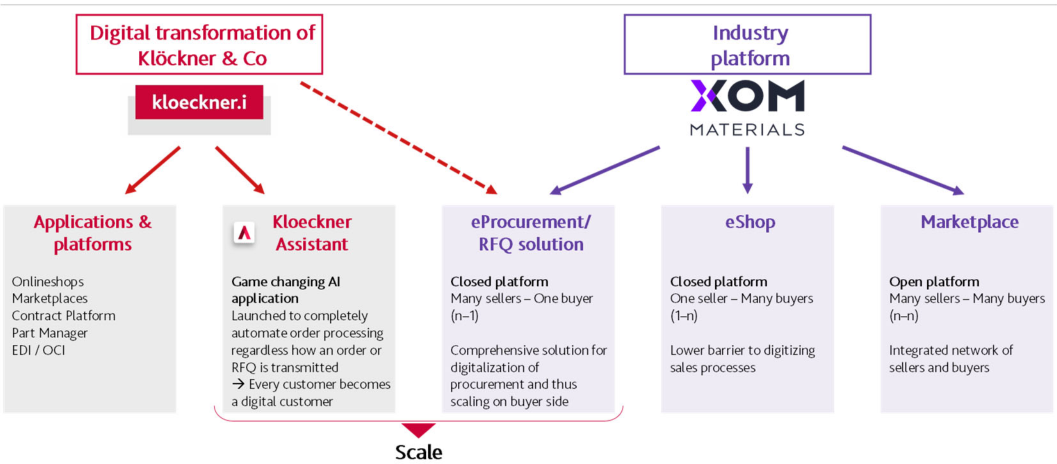
In the **Onlineshops**, customers are offered a strictly proprietary product range. Years ago, this is how Klöckner & Co took its first step into this arena. The benefits for customers are very limited, however.

Scaling as a major challenge in B2B

The big challenge is scaling platforms exponentially. Key requirements include meeting the highly diverse customer-needs, breaking resistance to change and solving the hen-and-egg problem.

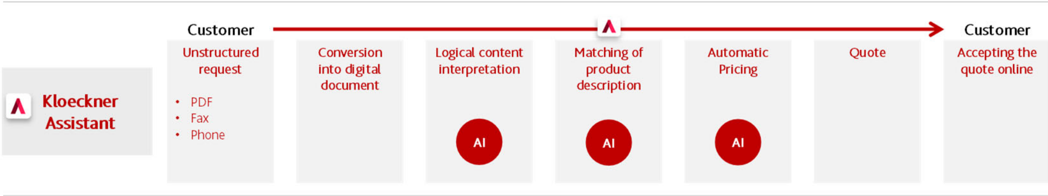
Customer-needs	Typical "Amazon-type" Onlineshops or marketplaces do not scale because only a small and mostly not so important part of the necessary processes would be covered. However, **customer-needs** in the steel industry are very **diverse** due to the wide range of customers served. Larger buyers require different processes than medium or smaller ones, contract customers have other needs than spot buyers, automotive customers have different requirements than construction companies etc. Some buyers need only one item which they buy on the spot, whereas others need more than hundreds of items for what they request quotes from different suppliers. → There is no "one fits all solution" which makes B2B clearly more complex than B2C
Change-resistance	Onlineshops, marketplaces or platforms have to **address a significant pain point** to convince customers to join the platform. Furthermore, requirements for changing established processes have to be low, because **resistance to change** is typically high in traditional industries. → For customer satisfaction in B2B, services need to offer a **clear benefit** with **low change requirements**
Hen-and-egg problem	Steel and metal distribution is typically a **multi-local business** which makes **scaling much more challenging,** because the network effect has to kick-in in every local market. Scaling is therefore not comparable to "Amazon-type" businesses that could ship products everywhere. Instead, it is more comparable to mobility platforms with the need to provide local offerings. → The solution of the hen-and-egg problem requires sufficient local offerings

With our XOM Materials open industry platform and our proprietary marketplaces, we are the sole competitor in the industry to meet fundamentally all contemporary customer needs and thus to have paved the way for marketplace and platform scalability.



Revolutionary application: Kloeckner Assistant

Kloeckner Assistant and the XOM eProcurement solution are key to our ability to scale up our platforms. The **Kloeckner Assistant** turns all customers into digital customers without them having to change their procurement processes. They can send requests for quotes or orders to Klöckner & Co by email with PDF attachments, by fax or phone as before and receive an offer or order confirmation in real time. Going forward, processing will be fully automated. This will not only significantly reduce manual effort, but also considerably accelerate the entire ordering process from quotation request to offer preparation and order placement.

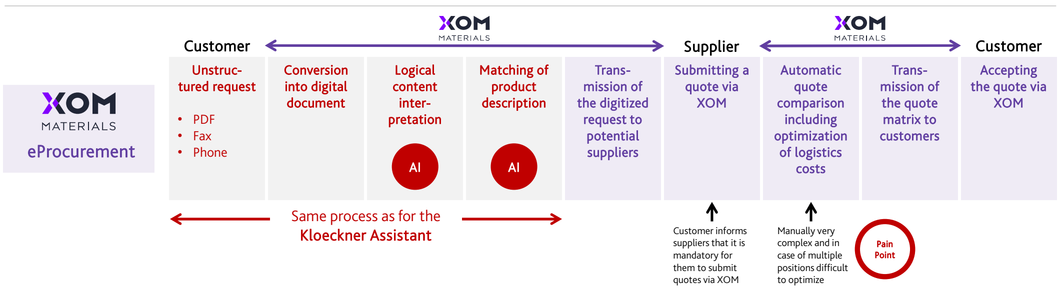


Open platform XOM Materials

In contrast to the Klöckner & Co marketplaces, **XOM Materials** is a procurement and sales platform for all products and services associated with the manufacturing industry that is also open to competitors. The platform optimizes the materials management with intuitive and efficient digital processes and flexible IT solutions.

Via the **XOM Marketplace**, XOM Materials can ultimately connect any number of suppliers and customers at every level of the value chain. One focus is on steel and metal products, for which extended processing services are offered. In principle, however, other materials such as plastics can also be traded on XOM Materials. The platform can additionally be used as an **eShop solution** with proprietary branding, which frequently makes it easier for suppliers to enter online selling.

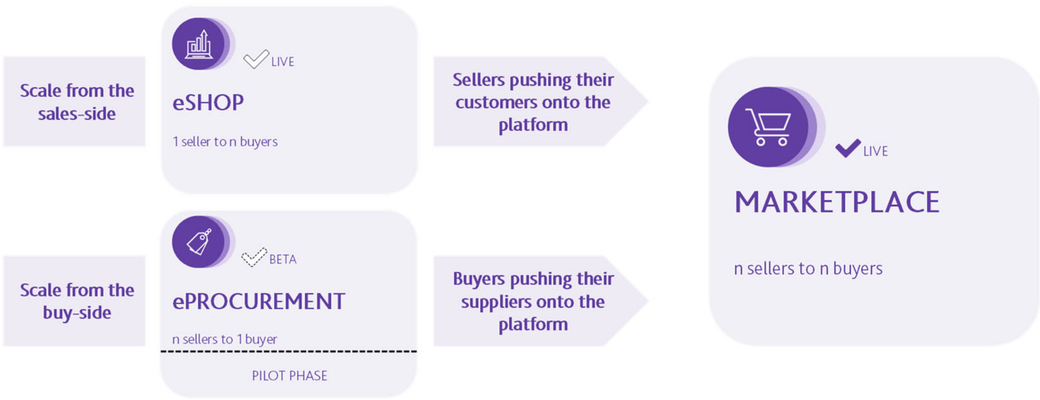
New to XOM Materials is an **eProcurement solution**, which considerably simplifies procurement and requirements planning for customers by reducing the workload to just a few mouse clicks. The solution not only automates the reconciliation of materials supply and demand, but also supports contract negotiations, data retrieval and access to current information on availability and orders. Using this application, XOM Materials customers can almost fully automate their procurement processes while gaining valuable data-driven insights into their procurement transactions.



The eShop and eProcurement solutions will significantly enhance scalability for XOM Materials. The more market players join a platform, the greater the benefits it generates. The solutions prompt buyers and sellers to motivate each other to join. As of December 31, 2019, more than 50 employees worked for XOM Materials at the Berlin, Duisburg and Atlanta locations.

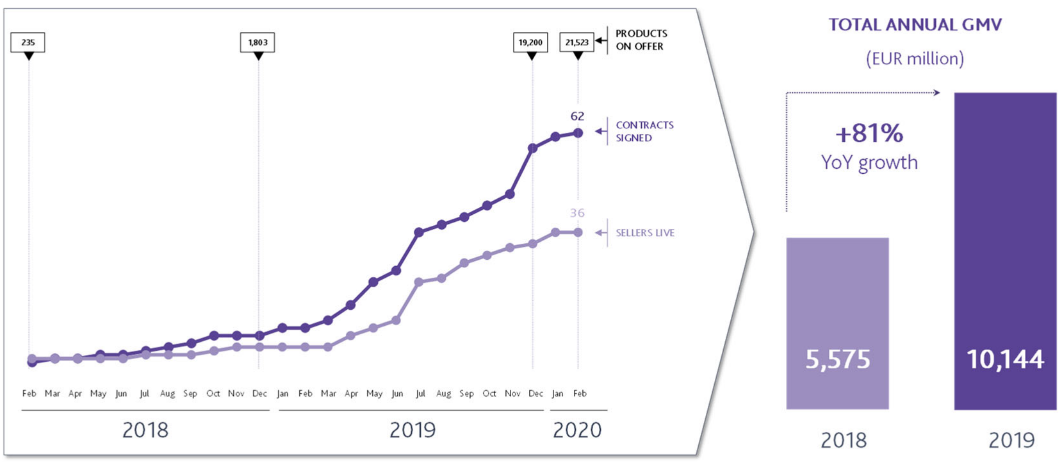
Value generation through scaling

Solving the hen-and-egg problem through specific offerings for the buy- and sales-side



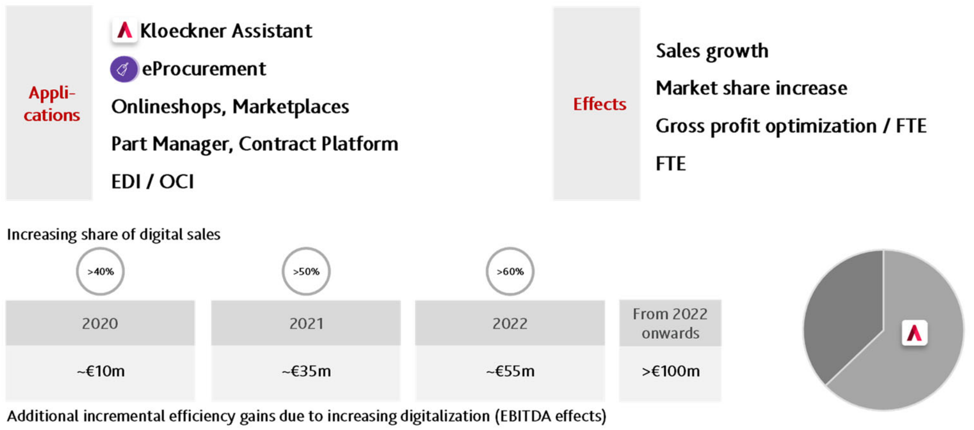
Over 60 suppliers with some 22,000 products and around 700 customers were already registered with XOM Materials by the end of January this year. The volume of sales transacted on XOM Materials also rose steeply last year, by 81% to above €10 million.

XOM Materials with exponential growth



More than €100 million earnings contribution from digitalization by 2022

Overall, we expect the efficiency gains achieved through the Kloeckner Assistant, XOM eProcurement and other digital applications to contribute more than an additional €100 million to EBITDA by 2022, by which time we aim to generate over 60% of Group sales through digital channels.



As well as expanding our own digital services, Klöckner & Co also invests in start-ups capable of adding value to the onward refinement of our platforms and marketplaces. We connect up with external start-ups via our venture capital entity, kloeckner.v. In the reporting period, we invested an additional €1.5 million each in a Visionaries Club seed fund and growth fund. Investing in this way secures Klöckner & Co access to highly promising start-ups and ideas.

Digital transformation with kloeckner.i

Our innovative way forward

For Klöckner & Co's digital transformation, we chose an innovative path from an early stage. We were among the first tradition-rich companies to have our own digital hub by launching kloeckner.i in Berlin back in 2014. In kloeckner.i, we have combined Klöckner & Co's more than century-long experience as an international steel and metal distributor with the agile working methods of a start-up. From here, we drive forward all projects and initiatives related to digitalization and digital networking at the Company. Some 90 employees now work there in Product Management, Software Development, Data Science/AI, Business Intelligence/Analytics, Online Marketing and User Experience/Design.

Many such hubs launched by tradition-rich companies fail due to a non-ideal calibrated relationship with the parent company. Some are too far away to successfully transform innovations into the core business, while others are too close to advance ideas independently using new methods. One of kloeckner.i's key success factors is striking the right balance relative to the core business. With its location in Berlin, kloeckner.i is sufficiently independent to develop digital applications and platforms using agile start-up methods. Conversely, the relationship is close enough for kloeckner.i to benefit from Klöckner & Co's broad-based expertise as well as its customer and supplier relationships in order to develop solutions and thus drive forward Klöckner & Co's digital transformation.

Artificial intelligence (AI) is playing an ever more important role – not just in Kloeckner Assistant and XOM eProcurement. Klöckner & Co has for some years been working on other AI projects with Arago, one of the leading providers in this field. A new joint project, for example, targets AI-supported automation of order block processing and other SAP-based processes. The initial findings already show efficiency gains coupled with a significant decline in manual effort within the processes. As a result, the project has been nominated for the SAP Innovation Award. Going forward, access to improved data analytics incorporating a wide variety of factors will make it possible to predict demand for steel and price trends with much greater accuracy and open up additional growth opportunities through a more detailed analysis of customer behavior.

Cultural change as a key element

Digitalization goes hand in hand with change – also at Klöckner & Co. The digital transformation is closely tied to a fundamental change in culture. Our employees understand our digitalization strategy and need to adapt to the accompanying momentum. We are going all out to anchor innovative working methods employed in the start-up scene also in other divisions, as well as fostering in-depth dialog between kloeckner.i and the divisions in the various country organizations.

Nor are we leaving our employees to tackle this major change alone: About the transformation is openly communicated by both the Management Board and the management at the operating organizations, and online training is provided by Klöckner & Co Digital Academy to get our workforce in shape for the digital age. New ideas and innovative communication channels are actively encouraged – for example, discussion across country and divisional borders through our internal social network, Yammer. This promotes an open, hierarchy-free dialog, which in turn generates motivation and inspires trust.

Learn and failure culture		Digital **enabling of employees** through online courses during working hours and initiatives like “Failure Sessions”
Connected company		**Hierarchy-free communication** to promote horizontal and vertical communication
Engaged employees		Many additional initiatives and events throughout the company to **inspire employees for change**

Alongside the numerous digitalization measures, we are, as mentioned above, also exploring two other strategic areas.

Higher value-added business

Investment in higher value-added business

Improving our customers' efficiency over the long term is a priority for Klöckner & Co – not only with our digital solutions, but also by analog means. Time and again, we find that many of our customers still carry out tasks using conventional methods. We add value here, for example, through our investment in 3D lasers, which we can use to combine several tasks such as drilling, sawing and slitting at an attractive price and with significant precision gains. In the UK, for instance, we have built what is the country's second-largest 3D laser center near Dudley. The first machines have also come into operation in other countries. Group-wide, we already have a total of 16 3D lasers in operation, successfully positioning us in this niche.

At the same time, we are expanding our higher-margin business with higher value-added products. In the reporting period, for instance, we significantly increased the volume for aluminum flat products at our service center in Bönen, North Rhine-Westphalia.

Our US country organization, Kloeckner Metals Corporation (KMC), uses a new product line with an innovative coating process of sheets and profiles for both private architectural and industrial applications. Furthermore, KMC has added to its range of other complex finishing processes for alloy and stainless steel sheet as well as fabricated metal products.

Efficiency improvement

Measures to improve efficiency

Our decentralized approach with regard to the operating business is also mirrored in measures and projects to enhance efficiency. These are increasingly launched and managed by the respective country organizations in order to secure even faster, more efficient implementation of our strategy.

During the reporting period, we reduced the number of employees in the core functions of the Group holding organizations by some 40% and responded to the ongoing difficult market environment in Europe by launching improvement initiatives. In France, for example, this included a significant concentration of our location network and the partial outsourcing of logistics. Activities in Switzerland have been combined under uniform management to streamline structures there. We also attained efficiency gains in the USA during the fiscal year under review. Three product divisions resulting from multiple acquisitions have been pooled in a single unit. A new structure now amplifies the regional focus.

This year, we are going to further improve our business in Germany by concentrating locally on selected services and adjusting our product range. In the USA, projects geared to outsourcing booking and logistics services will help improve efficiency. There are many other initiatives in our country organizations, such as an optimization of logistical processes in the sale of technical products in Switzerland, which is also being managed locally in view of its local impact. Implementing efficiency programs reduces costs while strengthening the focus on our core competencies.]

1.4 Control system

Financial performance indicators

Most significant key performance indicators under German Accounting Standard 20 (GAS 20)

The most significant key performance indicators (KPIs) used in the management of Klöckner & Co's business in the year under review were shipments, sales, operating income (EBITDA – earnings before interest, taxes, depreciation and amortization and impairments and impairment reversals on intangible assets and property, plant and equipment) and the cash flow from operating activities. These central KPIs were reported and monitored at the level of the Group as a whole as well as at segmental level.

Shipments are a key performance indicator used in management of the distribution business. This indicator is used to monitor growth in the core business as well as to determine capacity utilization, which is important for planning personnel and machine resources. In the medium term, our strategy of increasingly marketing higher value-added products and processing services and expanding our business model further into online and platform services, including for third parties, shall take our sales to a higher level with smaller fluctuations. We are therefore constantly monitoring our sales and margin growth. The most significant KPI for results of operations is operating income (EBITDA), or, if there are major special effects (for example, restructuring programs or significant non-operating effects or effects relating to other periods), EBITDA before material special effects.
The reconciliation of EBITDA before material special effects to EBITDA including material special effects is presented in section 4.6.

Fixed asset intensity ratios tend to be low in steel distribution, while the funds tied up in net working capital (sum of inventories plus trade receivables less trade payables) tend to be very significant. Alongside operating income, net working capital is the primary driver of cash flow from operating activities. This cash flow thus forms an objective basis for measuring the performance of our business activities.

Other key figures

In addition to these primary key performance indicators, we also monitor other important KPIs. Gross profit is sales less cost of goods sold and is thus an indicator of the Company's value creation. 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. 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 our Company's value. For that reason, we constantly monitor gearing (net financial debt/equity), equity and the leverage ratio (net financial debt/EBITDA).

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

Focus on injury frequency rate

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, for example, our Group-wide "Safety 1st" program. The measures aim 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. Our LTIF target for fiscal year 2020 is to reduce accident frequency to an LTIF value of less than or equal to 10.0 Group-wide.

2. Economic report

2.1 Macroeconomic conditions

Economic environment

Macroeconomic situation

The global economy continued to face major economic and geopolitical challenges in 2019. The trade policy conflicts between the USA and China, as well as other countries and confederations, stirred up uncertainty among economic players and impacted global trade. Global economic growth was increasingly hampered as a consequence of the trade barriers. The European economic landscape was shaped by the European elections and the government crisis in Italy as well as notably by the Brexit negotiations and the parliamentary elections in the United Kingdom, which further exacerbated economic uncertainty. Consequently, the global economy grew by just 2.9% in the reporting period, the lowest level since the global financial crisis.

Global GDP growth in 2019: 2.9%

Growth in the eurozone declined, in particular as a result of weak exports. The effects of the trade disputes coupled with the uncertainty surrounding the Brexit negotiations negatively impacted economic growth. Due to the considerable decline in automotive production, especially in Germany (– 9%), and the stagnation of the mechanical engineering sector, the eurozone saw growth of just 1.2%.

In the USA, the economy recorded robust growth, albeit lower than the prior-year level. The developments related to the trade disputes, especially with China, had an increasingly negative impact on investment. However, private consumption was strong enough to continue bolstering the economy. In an environment marked by an extremely tight labor market, economic growth stood at 2.3%.

Economic growth also slowed in China in 2019. The more restrictive regulatory debt reduction measures and the macroeconomic impact of the trade dispute with the USA weighed on the economy. The negative trend was countered by government measures to shore up the economy. China's gross domestic product (GDP) growth reached 6.1%.

Development of GDP (in percent)	2019 vs. 2018
Europe*)	**1.2**
Germany	0.5
United Kingdom	1.3
France	1.3
Belgium	1.4
Netherlands	1.7
Switzerland	0.8
China	6.1
USA	**2.3**
Brazil	1.2

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

Industry-specific situation

Global crude steel production up by 3.4%

The market environment in the steel industry remains challenging. According to the World Steel Association, global production of crude steel increased by 3.4% year on year to 1,870 million tons in 2019. Production in the EU contracted by approximately 4.9%. US and Chinese output went up by 1.5% and 8.3%, respectively.

The steel industry still faces the problem of massive excess capacity, notably in China and Europe, with current demand levels continuing to result in structural underutilization. At the end of December 2019, analysts estimated that steel producers worldwide were operating at only 77% capacity. There is still significant excess capacity at the distribution level. This results in intense competition long-term.

Steel production

(in million tons)	2019	2018	Variance
France	14.5	15.4	– 6.1%
Germany	39.7	42.4	– 6.5%
Great Britain	7.2	7.3	– 0.6%
EU-28, total	**159.4**	**167.7**	**– 4.9%**
Rest of Europe	**39.0**	**42.4**	**– 8.0%**
C.I.S.	**100.4**	**100.9**	**– 0.5%**
United States	87.9	86.6	1.5%
Rest of North America	32.1	34.3	– 6.4%
North America total	**120.0**	**120.9**	**– 0.8%**
South America	**41.2**	**44.9**	**– 8.4%**
Africa	**17.0**	**17.4**	**– 2.3%**
Middle East	**45.3**	**38.0**	**19.2%**
China	996.3	920.0	8.3%
Rest of Asia	345.3	349.8	– 1.3%
Asia total	**1,341.6**	**1,269.8**	**5.7%**
Oceania	**6.2**	**6.3**	**– 2.9%**
Global	**1,869.9**	**1,808.4**	**3.4%**

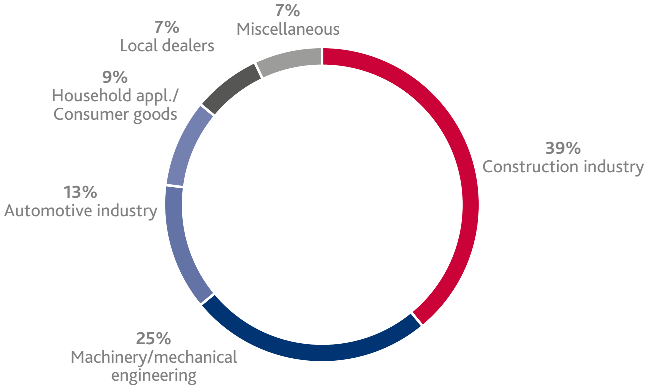
Source: World Steel Association (as of January 2020; preliminary figures for 2019).

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 39% of sales, followed by machinery and mechanical engineering (25%) and the automotive industry (13%).

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

The construction industry is the world's biggest steel processor and its performance is therefore a major determinant of steel demand. According to estimates by industry association EUROFER, European construction activity grew by approximately 4% in 2019. This growth was attributable to the still low financing costs, which led to a healthy order situation. Although construction spending in the USA was low at the beginning of the year, it recovered as the year progressed. Overall, spending in the USA remained at the prior-year level.

Machinery and mechanical engineering

EUROFER estimates that the European machinery and mechanical engineering sector stagnated relative to the prior year. The slump in orders in major EU markets caused by the continuing trade disputes and lower investments fueled this negative trend. In the USA, mechanical engineering production increased by just 2% due to a slowdown in equipment investments.

Automotive industry

The past year was a highly challenging one for the international automotive industry. According to the German Association of the Automotive Industry (VDA), global demand for passenger cars declined sharply compared with the previous year (–5%). Although overall unit sales on the European market were up by around 1% year on year, automotive production in Germany slumped by 9%. Unit sales on the US market were down 1% on the prior year. Development on the Chinese market, which shrank by about 10% year on year and thus also fell well short of expectations, was significantly more negative.

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

Markets recorded weaker than expected

Our guidance for the reporting period set out in the Annual Report 2018 was based on the assumption of higher overall steel prices and slight growth in real steel demand in Europe and the USA, the two regions of importance to our business. However, the weak economic trend in Europe in the past fiscal year led to a negative development in real steel demand, while demand in the USA remained constant at most. Also contrary to our expectations, steel prices in the USA dropped sharply during the year.

At the beginning of the year, we forecast a slight increase in shipments for the Kloeckner Metals US segment. However, shipments actually decreased slightly due to the slowdown in market dynamic in the USA during the year, coupled with sharp price declines. We anticipated a stable trend for the Kloeckner Metals Switzerland and Kloeckner Metals Distribution Europe segments as well as a considerable increase in shipments for the Kloeckner Metals Services Europe segment. Contrary to expectations, shipments dropped considerably in all three segments. This was attributable to the generally negative market environment in Europe in the past fiscal year, as well as the significant decline in demand in the automotive and mechanical engineering sectors and in the reinforcing steel product group in Switzerland. Group shipments amounted to 5.6 million tons, well below the prior-year level, against our expectations.

At Group level, sales declined considerably to €6,315 million, compared with the significant rise we had expected. The collapse of steel prices in the USA led to a slight decline in sales in the Kloeckner Metals US segment, despite the positive exchange rate movement, whereas we had previously forecast a significant increase. In the Kloeckner Metals Switzerland segment, sales declined slightly with a similarly positive exchange rate trend, whereas a slight rise had been expected. For the Kloeckner Metals Services Europe and Kloeckner Metals Distribution Europe segments, we forecast a significant and slight increase, respectively, at the beginning of the year. However, both segments saw strong sales decrease markedly due to the slump in demand in the automotive and mechanical engineering sectors.

At Group level, EBITDA before material special effects declined considerably to €124 million. The positive effect from the change in lease accounting (IFRS 16) only partly offset the decline. In the Kloeckner Metals US and Kloeckner Metals Services Europe segments, operating income before special effects declined significantly. This was primarily due to the collapse of steel prices in the USA and the associated negative price effects (windfall effects), as well as the lower demand in the automotive sector, particularly in Germany. Both the Kloeckner Metals Switzerland and Kloeckner Metals Distribution Europe segments recorded a considerable increase in operating results, solely due to the change in lease accounting (IFRS 16).

Contrary to the expected slight increase, cash flow from operating activities at Group level rose considerably to €205 million. This positive development is attributable to the substantial decline in steel prices in the USA and the resulting reduction in net working capital, as well as the effect of the change in lease accounting (IFRS 16). Kloeckner Metals Switzerland and Kloeckner Metals Distribution Europe developed as expected. Cash flow from operating activities was up significantly in both segments. In the Kloeckner Metals US and Kloeckner Metals Services Europe segments, a significant and a slight increase were recorded, respectively, whereas we had forecast a considerable decline at the beginning of the year.

	Turnover (Tto)		Sales (€ million)	
	Development 2019	Previous year's forecast for 2019	Development 2019	Previous year's forecast for 2019
Kloeckner Metals US	Slight decrease	Slight increase	Slight decrease	Considerable increase
Kloeckner Metals Switzerland	Considerable decrease	Constant	Slight decrease	Slight increase
Kloeckner Metals Services Europe	Considerable decrease	Considerable increase	Considerable decrease	Considerable increase
Kloeckner Metals Distribution Europe	Considerable decrease	Constant	Considerable decrease	Slight increase
Holding and other group companies				
Group	**Considerable decrease**	**Slight increase**	**Considerable decrease**	**Considerable increase**

	EBITDA before material special effects (€ million)		Cash flow from operating activities (€ million)	
	Development 2019	Previous year's forecast for 2019*)	Development 2019	Previous year's forecast for 2019*)
Kloeckner Metals US	Considerable decrease	Considerable decrease	Considerable increase	Considerable decrease
Kloeckner Metals Switzerland	Considerable increase	Considerable increase	Considerable increase	Considerable increase
Kloeckner Metals Services Europe	Considerable decrease	Considerable increase	Slight increase	Considerable decrease
Kloeckner Metals Distribution Europe	Considerable increase	Considerable increase	Considerable increase	Considerable increase
Holding and other group companies				
Group	**Considerable decrease**	**Slight increase**	**Considerable increase**	**Considerable increase**

*) Including effects of IFRS 16 Leases.
"Constant" corresponds to a change of 0–1%, "slight" >1–5% and "considerable" >5%.

2.5 Workplace injury frequency

We measure the frequency of workplace injuries using the key performance indicator of lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. Our LTIF target is to reduce average accident frequency to an LTIF value of less than or equal to 10.0 Group-wide in fiscal year 2020. In 2019, we clearly achieved our annual target of 11.7 with an LTIF value of 10.3.

2.6 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 2019 – as presented under "Control system" on page 59 – are set out in the following. Comparability with the prior year is restricted by the introduction of the new lease accounting standard, IFRS 16. More detailed information can be taken from note 5 to the consolidated financial statements.

The consolidated financial statements are prepared in euros. Deviations from the unrounded amounts may arise.

MOST SIGNIFICANT KEY PERFORMANCE INDICATORS ACCORDING TO GAS 20

(€ million)	2019	2018	Variance		
				thereof IFRS 16	
Shipments (Tto)	5,648	6,107	– 459	-	– 7.5%
Sales	6,315	6,790	– 475	-	– 7.0%
EBITDA before restructuring expenses*)	124	229	– 105	50	– 46.0%
EBITDA	139	227	– 88	50	– 38.8%
Cash flow from operating activities	204	60	144	45	n.a.

*) 2019: Restructuring expenses (€27 million), income from sale of a property in London (€36 million) and a property in Switzerland (€7 million).
2018: BPO (€7 million) and compensation received for the Deepwater Horizon accident (€5 million).

OTHER KEY PERFORMANCE INDICATORS

(€ million)	2019	2018	Variance		
				thereof IFRS 16	
Gross profit	1,158	1,328	– 170		– 12.8%
Gross profit margin	18.3%	19.6%			
OPEX*)	– 1,019	– 1,101	82	– 50	7.4%
EBIT	2	141	– 139	-	n.a.
EBT	– 39	107	– 146	– 5	n.a.
Net income	– 55	69	– 124	– 5	n.a.
Net financial debt	445	383	62	199	16.2%
Gearing (Net financial debt / shareholders' equity**))	38%	31%			7%p
Leverage (Net financial debt / EBITDA)	3.2x	1.7x			1.5x

*) OPEX = Other operating income less personnel expenses less other operating expenses.
**) Consolidated equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2019.

Shipments and sales

The operating segments performed as follows in terms of shipments:

Shipments totaled 5.6 million tons in fiscal year 2019, marking a decline of 7.5% relative to the prior-year period. The decrease affected all segments.

In the Kloeckner Metals US segment, the shortfall was less pronounced at 2.5%. The decline in volume was below the general market trend. There was also a market-driven fall in demand at Kloeckner Metals Switzerland, with a reduction of 6.4%. The weaker volume of shipments at Kloeckner Metals Services Europe is due to structural problems in the automotive industry. A continuation of the poor economic environment faced by the Kloeckner Metals Distribution Europe segment meant that shipments there went down by 16.0%. The main reasons were weak demand in Germany, reduced shipments to a major customer and the focus on higher value-added business in France and the UK.

SALES BY SEGMENTS

			Variance			
(€ million)	2019	2018	Total	Currency effects	Net of currency effects	
Kloeckner Metals US	2,627	2,706	– 79	137	– 216	– 8.0%
Kloeckner Metals Switzerland	971	1,008	– 37	36	– 73	– 7.2%
Kloeckner Metals Services Europe	749	806	– 57	-	– 57	– 7.1%
Kloeckner Metals Distribution Europe	1,903	2,211	– 308	-	– 308	– 13.9%
Holding and other group companies	65	59	6	-	6	6.9%
Group sales	**6,315**	**6,790**	**– 475**	**173**	**– 648**	**– 9.6%**

Despite the appreciation of the US dollar, Group sales fell by 7.0% to €6.3 billion. Currency-adjusted sales went down by 9.6%. It should be taken into account in the analysis that, in the prior year, we benefited especially in the United States from a positive price environment that was above the average.

Currency-adjusted decrease in sales slightly larger than fall in shipments

Sales in the Kloeckner Metals US segment showed a correspondingly large shortfall of 8.0% (currency-adjusted). However, the remaining operating segments also recorded sales losses, in some cases on a substantial level. In the Kloeckner Metals Switzerland segment, currency-adjusted sales fell by 7.2% on account of lower volumes. Due to the ongoing weakness of the automotive industry mentioned above, sales in the Kloeckner Metals Services Europe segment were likewise significantly down on the prior year (6.2%). Mainly because of the decrease in shipments, sales in the Kloeckner Metals Distribution Europe segment dropped by 13.8%.

GROSS PROFIT SIGNIFICANTLY DOWN

At €1,158 million, gross profit was significantly below the prior-year level. On a currency-adjusted basis, the decrease was even more pronounced at €202 million. This was mainly due to negative windfall effects in the USA compared with the prior year, to pressure on margins and lower volume in the German market as well as to the weakness of the automotive industry. As a result of higher procurement prices, the gross profit margin deteriorated accordingly from 19.6% in the prior year to 18.3%.

OPEX

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

			Variance			
(€ million)	2019	2018	Total	Currency effects	Net of currency effects	
Other operating income	76	31	45	-	45	n.a.
Personnel expenses	– 627	– 606	– 21	– 16	– 5	0.7%
Other operating expenses	– 469	– 524	55	– 11	66	12.4%
Impairment losses trade receivables	1	– 2	3	-	3	n.a.
OPEX	**– 1,019**	**– 1,101**	**82**	**– 27**	**109**	**9.9%**

Comparability of OPEX with the prior year is restricted by material special effects from sales of properties (€43 million), restructuring expenses (€27 million) and first-time application of the new IFRS 16 lease accounting standard (€50 million).

Other operating income, at €76 million, was €45 million higher than in the prior year. Of the increase, €36 million relates to the sale of a property in London and €7 million to a property in Switzerland. The prior-year figure included €5 million in damages from the 2010 Deepwater Horizon accident in the USA.

Personnel expenses went up from €606 million to €627 million. Exchange rate changes account for €16 million of the increase. It also includes €24 million in redundancy plan expenses from restructuring measures at Kloeckner Metals Europe Distribution and at the holding company, compared with €6 million in the prior year. Adjusted for these items, operating personnel expenses went down.

Other operating expenses fell from €524 million to €469 million. On a currency-adjusted basis, was a decrease of €64 million, of which €48 million related to introduction of the new lease accounting standard (IFRS 16).

The lower gross profit and the OPEX effects referred to above meant that EBITDA, at €139 million, was significantly lower than the prior-year figure of €227 million.

GROSS PROFIT AND ADJUSTED EBITDA BY SEGMENT

(in € million)	2019 Gross profit	2019 Gross profit margin	2018 Gross profit	2018 Gross profit margin
Kloeckner Metals US	411	15.7%	529	19.6%
Kloeckner Metals Switzerland	270	27.8%	267	26.5%
Kloeckner Metals Services Europe	100	13.0%	121	14.8%
Kloeckner Metals Distribution Europe	360	18.9%	395	17.8%
Holding and other group companies	17	20.2%	16	20.5%
Klöckner & Co Group	**1,158**	**18.3%**	**1,328**	**19.6%**

(in € million)	2019 EBITDA	2019 thereof IFRS 16	2019 EBITDA margin	2018 EBITDA	2018 EBITDA margin
Kloeckner Metals US	47	15	1.8%	150	5.5%
Kloeckner Metals Switzerland	55	8	5.7%	47	4.7%
Kloeckner Metals Services Europe	26	-	3.4%	42	5.1%
Kloeckner Metals Distribution Europe	20	24	1.0%	11	0.5%
Holding und weitere Konzerngesellschaften	– 24	3	-	– 21	-
Adjusted EBITDA of the Klöckner & Co Group	**124**	**50**	**2.0%**	**229**	**3.4%**
Net adjustments	15		-	– 2	-
Klöckner & Co Group	**139**	**50**	**2.2%**	**227**	**3.3%**

The adjusted EBITDA can be reconciled to the EBITDA before adjustments as follows:

(€ million)	2019	2018
EBITDA including material special effects	**139**	**227**
Material property disposal gains	– 43	-
Indemnification payment Deepwater Horizon accident	-	– 5
Restructuring expenses		
– Personnel expenses	24	6
– Other restructuring expenses	4	1
EBITDA before material special effects	**124**	**229**

Marked negative gross profit performance in operating segments

In the Kloeckner Metals US segment, gross profit decreased to €411 million, compared with €529 million in the previous year, mainly due to negative price effects ("windfall losses") resulting from significantly lower market prices in all major product groups. Lower OPEX, mainly in personnel, and the efficiency programs had a positive impact on EBITDA. Implementing IFRS 16 had a further positive effect of €15 million. Overall, however, adjusted EBITDA decreased significantly from €150 million to €47 million.

Adjusted EBITDA in the Kloeckner Metals Switzerland segment went up from €47 million in the prior year to €55 million, €8 million of which relates to the introduction of IFRS 16. The mostly volume-driven losses in gross profit were compensated for by lower OPEX.

The economic environment for the Kloeckner Metals Services Europe segment remained challenging due to the sustained weak demand in the automotive sector. Consequently, adjusted EBITDA fell from €42 million to €26 million; the €5 million lower OPEX offset only a small part of the substantial decrease.

In the Kloeckner Metals Distribution Europe segment, adjusted EBITDA was up on the prior-year figure, at €20 million. However, this included a €24 million positive effect from implementing the new lease accounting standard (IFRS 16). The fall in gross profit due to low volumes was offset only to a minor extent by reduced OPEX and efficiency programs.

Adjusted EBITDA at the holding company and the other Group companies was a negative €24 million (2018: negative €21 million).

RECONCILIATION TO NET INCOME

(€ million)	2019	2018	Variance		
				thereof IFRS 16	
EBITDA	**139**	**227**	**– 88**	**50**	**– 38.8%**
Depreciation, amortization and impairments	– 137	– 86	– 51	– 50	– 60.3%
EBIT	**2**	**141**	**– 139**	**-**	**– 98.8%**
Financial result	– 41	– 34	– 7	– 5	– 17.9%
EBT	**– 39**	**107**	**– 146**	**– 5**	**n.a.**
Income taxes	– 16	– 38	22	-	58.6%
Net income	**– 55**	**69**	**– 124**	**– 5**	**n.a.**

Higher depreciation and amortization due to IFRS 16

Depreciation and amortization, at €137 million, was significantly higher than the prior-year figure of €86 million, mainly due to the additional depreciation (€50 million) of right-of-use assets as a result of the change in lease accounting (IFRS 16). EBIT, at €2 million, was consequently down on the prior-year figure of €141 million.

Financial result down on prior year

Implementing the new lease accounting standard also resulted in an increase in net finance expense from €34 million to €41 million. IFRS 16 accounted for €5 million of the increase.

EBT was a negative €39 million, compared with €107 million in the prior-year period. Tax expense amounted to €16 million (2018: €38 million). The fact that there is a tax expense despite negative EBT is due to the lack of a cross-border loss offset as well as to impairments on deferred tax assets and temporary differences.

Net income €–55 million

The bottom line comprises net income of €–55 million, down from €69 million in the previous year.

Basic earnings per share came to €–0.56, compared with €0.68 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. In the eurozone, a cross-border cash pooling system is used for this purpose. 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

A central component of Group financing is our syndicated loan (a revolving credit facility).

Syndicated loan extended early to May 2022 in amend and extend process

In April, our syndicated loan was extended ahead of term by one year to May 2022 in an amend and extend process. This further improves the maturity profile of Klöckner & Co's Group finances. An option to extend the term in two steps up to May 2024 with prior approval of the banks was also once again incorporated in the credit documentation. The volume of the facility remained unchanged at €300 million.

Adjustments were also made to the loan terms in order to neutralize the effects of first-time application of IFRS 16. This notably included an adjustment to the gearing ratio, which is of key importance as a financial covenant. The newly negotiated contractual documentation now stipulates that gearing, calculated as net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill resulting from acquisitions subsequent to May 23, 2019, may not exceed 165% (previously 150%).

ASSET-BACKED SECURITIZATION PROGRAMS

Long-term ABS programs with a volume of €300 million in Europe and USD 275 million in the USA

Since July 2005, the Klöckner & Co Group has operated a European ABS program. Most recently in September 2018, the European ABS program was extended ahead of term to September 2021 on slightly improved terms while retaining the €300 million loan amount. The terms of contract were amended in December 2019 in order to neutralize the effects of first-time application of IFRS 16.

The ABS program in the US was most recently extended ahead of term in 2016 and now matures in March 2021. The volume of the ABS program remains unchanged at USD 275 million.

Utilization under both of the two programs totaled €239 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

Convertible bond with a volume of €148 million

In September 2016, Klöckner & Co placed a €148 million convertible bond issue with institutional investors.

The coupon on the bonds was set at 2.00% p.a. and the conversion premium at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. The conversion price was most recently modified to €13.33 in connection with the 2019 dividend payment. The term of the convertible bonds is seven years. Under the bond terms, holders have an investor put option under which they can demand early redemption after five years at par value plus accrued interest. The issuer does not have an early call option during the first five years. It does have such an option thereafter provided the market price of Klöckner & Co shares exceeds 130% of the conversion price over certain stipulated periods.

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

The bilateral credit facilities in an amount of approximately €415 million, excluding leases, were around 10% drawn at the end of 2019. The facilities include a USD 275 million asset-based lending facility at our US country organization that expires in March 2021 and our CHF 150 million bilateral credit lines in Switzerland.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

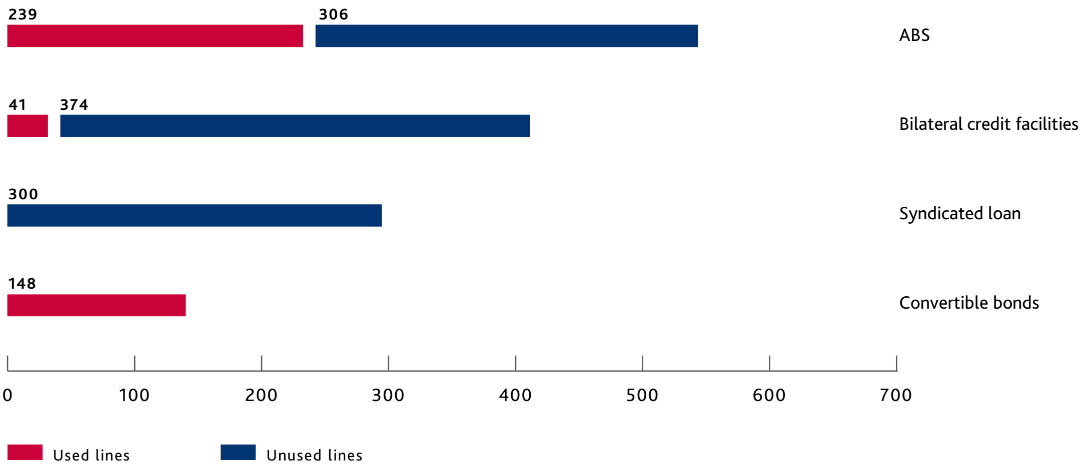
The Group uses an international cash pooling system to handle inter-company settlements and manage liquidity. Our country organizations in Switzerland, the United Kingdom and the USA are not part of the cash pooling system as they are financed by intra-Group loans or have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2019.

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Klöckner & Co maintains credit facilities, excluding leases, totaling approximately €1.4 billion. As shown in the following table, drawing on these facilities totaled only around €0.4 billion as of December 31, 2019.

Financial headroom remains ample at €1.4 billion

FINANCIAL VOLUME
(in € million)



As of: December 31, 2019

LEASING

Financial liabilities include lease liabilities in the amount of €205 million (2018: €26 million). First-time application of IFRS 16 accounts for almost all of the increase.

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

NET FINANCIAL DEBT

(€ million)	December 31, 2019	December 31, 2018	Variance Total	Variance Currency effects	Variance Net of currency effects	
Net financial debt	445	383	62	8	54	14.2%
Gearing (Net financial debt / shareholders' equity*))	38%	31%	7%p			
Leverage (Net financial debt / EBITDA)	3.2x	1.7x	1.5x			

*) Consolidated equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2019

Gearing was 38% as of the fiscal year-end, well within the 165% limit under the syndicated loan and the European ABS program. Leverage deteriorated from 1,7x to 3,2x due to the lower EBITDA and the higher net debt resulting from introduction of the new IFRS 16 lease accounting standard.

*Gearing 38%
Leverage 3.2x*

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 through rigorous inventory and receivables management as well as 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. Foreign currency exposure at Group companies is generally hedged against currency risk at corporate level, or, where applicable, via local forex trading lines with banks having impeccable credit ratings. We also centrally monitor and hedge any 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 141 as part of the consolidated financial statements. Cash and cash equivalents reported in the consolidated statement of cash flows correspond to cash and cash equivalents shown in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	2019	2018	Variance	
Cash flow from operating activities	204	60	144	n.a.
Cash flow from investing activities	3	– 59	62	n.a.
Free Cash flow	**207**	**1**	**206**	**n.a.**
Cash flow from financing activities	– 169	– 15	– 154	n.a.

Marked rise in cash flow from operating activities due to strict net working capital management and the introduction of IFRS 16

Partly due to the strict net working capital management, which released €177 million in funds, cash flow from operating activities amounted to €204 million and was significantly higher than €60 million in the prior year despite significantly declining operating income. Introduction of the new lease accounting standard also improved cash flow from operating activities by €45 million.

Investing activities resulted in a net cash inflow of €3 million in fiscal year 2019 (2018: net cash outflow of €59 million). In the year under review, there were proceeds of €55 million from the disposal of property, plant and equipment and financial assets, of which €37 million related to the sale of a property in London and another €9 million to the sale of a property at the Landquart location in Switzerland. Payments for intangible assets, property, plant and equipment totaled €52 million (2018: €65 million).

Capital expenditure by segment was as follows:

(€ million)	2019	2018
Kloeckner Metals US	12	15
Kloeckner Metals Switzerland	16	13
Kloeckner Metals Services Europe	4	10
Kloeckner Metals Distribution Europe	12	15
Holding and other group companies	8	12
Klöckner & Co-Group	**52**	**65**

Accordingly, free cash flow came to €207 million, compared with €1 million in the prior year.

Free cash flow positive, supported by sales of properties

Cash flow from financing activities was a negative €169 million (2018: negative €15 million) and includes a €30 million cash outflow for dividend payments to shareholders of Klöckner & Co SE, €46 million in repayments of lease liabilities and €85 million in other net new borrowing. Furthermore, cash flow from financing activities also includes €6 million (2018: €7 million) in payments relating to extensions and settlements of currency hedges as part of the Group headquarters financing arrangements.

FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet (*€ million*)	December 31, 2019	December 31, 2018	Variance Total	Currency effects	Net of currency effects	
Non-current assets	968	832	136	21	115	13.9%
Current assets						
Inventories	1,043	1,241	– 198	19	– 217	– 17.5%
Trade receivables	580	717	– 137	11	– 148	– 20.7%
Contract assets and supplier bonuses	95	87	8	1	7	8.3%
Other current assets	47	43	4	-	4	8.9%
Liquid funds	183	141	42	3	39	27.7%
Total assets	**2,916**	**3,061**	**– 145**	**55**	**– 200**	**– 6.5%**
Equity	1,182	1,282	– 100	21	– 121	– 9.3%
Non-current liabilities						
Financial liabilities	564	501	63	16	47	9.3%
Provisions for Pensions	285	260	25	2	23	9.1%
Other non–current liabilities	60	62	– 2	1	– 3	– 4.5%
Current liabilities						
Financial liabilities	61	19	42	1	41	n.a.
Trade payables	599	768	– 169	12	– 181	– 23.6%
Other current liabilities	165	169	– 4	2	– 6	– 3.3%
Total equity and liabilities	**2,916**	**3,061**	**– 145**	**55**	**– 200**	**– 6.5%**

Total assets stood at €2.9 billion as of December 31, 2019 and thus showed a decrease on the prior year (€3.1 billion). It should be taken into account in the analysis that the change in balance sheet items includes currency translation effects relating to our international subsidiaries – for the most part our US activities. Adjusted for currency translation, total assets were 6.5% down on the prior year.

Total assets at €2.9 billion; on a currency-adjusted basis 6.5% down on prior year

Non-current assets amounted to €968 million, significantly higher than the level as of December 31, 2018 (€832 million). An amount of €199 million of the increase relates to right-of-use assets recognized due to the change in lease accounting under IFRS 16, which resulted in on-balance sheet accounting for leases. Other capital expenditure on property, plant and equipment came to €42 million, which was countered by €105 million in depreciation and amortization (including depreciation of right-of-use assets) and €7 million in disposals. Conversely, intangible assets went down from €148 million to €131 million, mostly due to amortization.

Increase in non-current assets due to introduction of new IFRS 16 accounting standard

While the optimization and restructuring measures undertaken are already delivering significant contributions to earnings, the Kloeckner Metals Distribution Europe segment continues to face a very difficult economic environment. Consequently, the carrying amounts of the cash generating units in the UK, in France, in the steel distribution business in the Netherlands and (except for Becker Stahl-Service GmbH) in Germany continue to exceed their value in use pursuant to IAS 36. Detailed information on this is provided in Note 15 ("Intangible assets and property, plant and equipment").

Net working capital changed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2019	December 31, 2018	Variance			
			Total	Currency effects	Net of currency effects	
Inventories	1,043	1,241	– 198	19	– 217	– 17.5%
Trade receivables*)	675	804	– 129	12	– 141	– 17.7%
Trade payables	– 599	– 768	169	– 12	181	23.6%
Net Working Capital	**1,119**	**1,277**	**– 158**	**19**	**– 177**	**– 13.9%**

*) including contract assets and supplier bonus receivables.

Net working capital was €1,119 million as of December 31, 2019, compared with €1,277 million a year earlier. On a currency-adjusted basis, extremely strict net working capital management led to a reduction by €177 million.

As a result, cash and cash equivalents rose from €141 million in the prior year to €183 million.

Equity decreased from €1,282 million to €1,182 million, mainly due to the negative net income (€–55 million), dividend payments (€–31 million) and adjustments to pension obligations recognized in equity (€–34 million) and, in the opposite direction, positive effects from the translation of foreign subsidiary financial statements (€23 million).

Equity ratio of 41% roughly at prior-year level

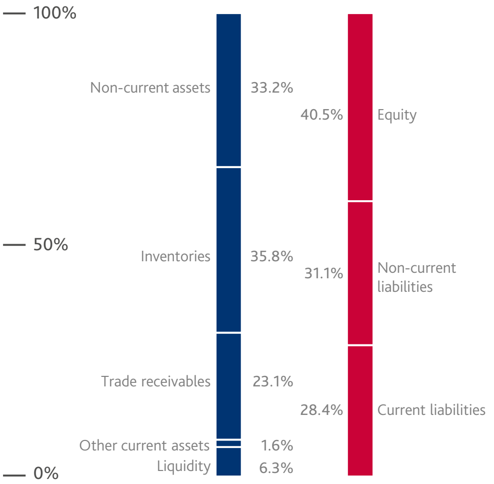
The equity ratio is a solid 41%, broadly unchanged compared with the prior year.

The excess of equity and non-current liabilities over non-current assets amounted to €1,123 million, compared with €1,273 million in 2018.

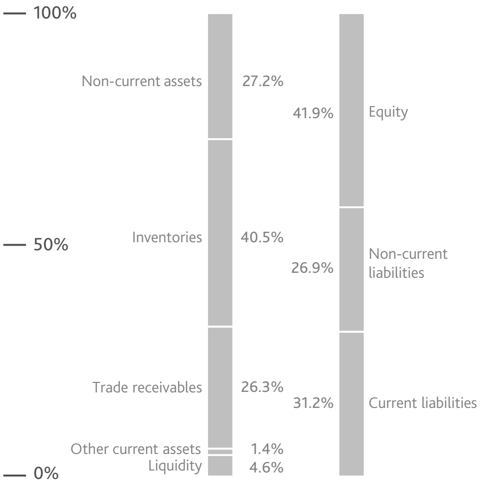
Financial liabilities, at €625 million, exceeded the prior-year figure of €521 million by €104 million – primarily due to the effect of first-time application of the new lease accounting standard – and include €239 million in drawings under the ABS programs, €141 million for the debt component of the convertible bond issue and €39 million in bilateral facilities and lease liabilities. The syndicated loan was undrawn as of the year-end.

Pension provisions increased in the reporting year from €260 million to €285 million. The higher level was the result of lower discount rates compared with the prior year.

BALANCE SHEET TOTAL 2019: 2,916
(in € million)



BALANCE SHEET TOTAL 2018: 3,061
(in € million)



2.7 Overall assessment of the business situation

Weak economy and negative price environment in the USA

The Klöckner & Co Group's operating income (EBITDA) was significantly down in fiscal year 2019. Key drivers behind the deterioration in earnings were, firstly, that demand was hit by the weak economy and, secondly, sharply falling steel prices, especially in the USA. Internal optimization measures and net positive material special effects slightly mitigated but did not fully offset these factors.

The fall in operating income resulted in a net loss in 2019.

Solid finances and financial position

Our finances remain very stable. Financing for the Group is based on a widely diversified portfolio of funding instruments. We have extended the €300 million syndicated loan ahead of term to May 2022 in an amend and extend process. While net financial debt went up on introduction of the new lease accounting standard, our financing instruments provide sound financial leeway. The equity ratio remains very solid at approximately 41% as of the 2019 year-end.

Substantial positive cash flow

Cash flow from operating activities was significantly higher than in the prior year due to very strict working capital management and the positive effects of the change in lease accounting (IFRS 16). Further supported by sales of properties, we consequently generated a substantial positive free cash flow.

3. Single-entity financial statements of Klöckner & Co SE

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

As the holding company, Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group and coordinates the Group's central financing. The financial statements are prepared in euros. Deviations from the unrounded amounts may arise.

BALANCE SHEET OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	December 31, 2019	December 31, 2018	Variance	
Intangible assets and property, plant & equipment	3	3	-	0.0%
Non-current investments	1,084	1,115	– 31	– 2.9%
Fixed assets	**1,087**	**1,118**	**– 31**	**– 2.9%**
Receivables from affiliated companies	215	327	– 112	– 34.5%
Other receivables	3	3	-	0.0%
Cash and cash equivalents	56	49	7	14.4%
Current assets	**274**	**379**	**– 105**	**– 27.5%**
Prepaid expenses	8	12	– 4	– 34.8%
Total assets	**1,369**	**1,509**	**– 140**	**– 9.3%**
Equity	**1,099**	**1,236**	**– 137**	**– 11.1%**
Provisions for pensions and similar obligations	96	94	2	2.2%
Other provisions	11	14	– 3	– 22.4%
Bonds	148	148	-	0.0%
Liabilities to affiliated companies	13	8	5	68.4%
Other current liabilities	2	9	– 7	– 76.7%
Total equity and liabilities	**1,369**	**1,509**	**– 140**	**– 9.3%**

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

Financial position reflects holding company status

Klöckner & Co SE's financial position reflects its status as holding company and its function as the Group's central financing company. The opportunities and risks of Klöckner & Co SE correspond to those of the Group and primarily impact the carrying amounts of investments and future dividend payout potential. 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, investments in individual country operating organizations and long-term loans to those companies.

Klöckner & Co SE's equity ratio was 80% as of December 31, 2019 (2018: 82%).

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2019	2018	Variance	
Revenues	17	26	– 9	– 34.4%
Other income	4	4	-	– 9.2%
Cost of purchased services	– 11	– 18	7	41.5%
Personnel expenses	– 30	– 23	– 7	– 29.6%
Other operating expenses	– 15	– 16	1	6.7%
Impairments of investments	– 83	– 13	– 70	n.a.
Income from investments	9	22	– 13	– 60.3%
Interest income, net	2	2	-	1.8%
Result from ordinary activities	**– 107**	**– 16**	**– 91**	**n.a.**
Taxes	-	1	– 1	n.a.
Net loss	**– 107**	**– 15**	**– 92**	**n.a.**
Retained profit prior year	30	203	– 173	– 85.2%
Withdrawals from capital reserves	107	-	107	n.a.
Dividends	– 30	– 30	-	n.a.
Withdrawals from other revenue reserves	-	45	– 45	n.a.
Appropriation to other revenue reserves	-	– 173	173	n.a.
Unapproppriated profits	**-**	**30**	**– 30**	**n.a.**

Sales mainly comprise services for Group companies.

The decrease in cost of purchased services principally relates to lower consulting expenses.

Most of the increase in personnel expenses relates to severance and redundancy payments in connection with the reduction in the workforce.

To strengthen the capital base of our subsidiary Kloeckner Metals France Holding S.A.S., Aubervilliers, France, a capital increase was carried out in the fiscal year under review in the amount of €48 million, on which an impairment loss was recognized immediately on account of the company's weak earnings.

Likewise due to negative earnings performance, an impairment loss (of €35 million) was recognized on the carrying amount of the investment in Klöckner Netherlands Holding B.V., Amsterdam, The Netherlands.

Investment income at Klöckner & Co SE consists of profit distributions and profit transfers from subsidiaries. Income from profit transfer agreements mainly related to Becker Besitz GmbH, Duisburg and Klöckner Shared Services GmbH, Duisburg. The dividend income related to Debrunner Koenig Holding AG, St. Gallen, Switzerland. In 2019, the figure additionally included assumed losses, largely relating to Klöckner & Co Deutschland GmbH, Duisburg.

Overall, there was consequently a net loss of €107 million in 2019 (2018: €15 million).

As a holding company, the earnings performance of Klöckner & Co SE is materially determined by the performance and dividend policies of its holdings. Contrary to the prior-year expectation of a positive bottom line, the year under review closed with a loss of €107 million. This was mainly due to the loss transfer from Klöckner & Co Deutschland GmbH, Duisburg, lower profit transfers from Becker Stahl-Service GmbH, Duisburg, and impairment losses recognized on the capital increase in France and on the carrying amount of the investment in the Netherlands.

In light of the potential for distribution of reinvested profits at subsidiaries and the profit transfer agreements we have in place, we expect – after the net loss in 2019 – to be back in positive figures with net income in 2020 in the lower double-digit million € range.

Due to the net loss, the Management Board and Supervisory Board will propose to the Annual General Meeting that no dividend be paid for fiscal year 2019.

The complete annual financial statements of Klöckner & Co SE, including the auditor's unqualified opinion, are published in the company register. Interested parties can request the annual financial statements from the Company's headquarters or access them on the Internet at www.kloeckner.com.

3.2 Takeover disclosures

REPORT PURSUANT TO SECTIONS 289a (1) AND 315a (1) OF THE GERMAN COMMERCIAL CODE IN CONJUNCTION WITH SECTION 176 (1) SENTENCE 1 OF THE GERMAN STOCK CORPORATIONS ACT AND ARTICLE 9 (1) (c) (ii) OF THE EUROPEAN COMPANY REGULATION

COMPOSITION OF SUBSCRIBED CAPITAL

As of December 31, 2019, Klöckner & Co SE's subscribed capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares carry 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. However, the members of the Management Board are subject to a vesting period before selling their personal investment shares.

INTERESTS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2019, the following direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of the voting rights were reported to the Company in accordance with the German Securities Trading Act (WpHG): SWOCTEM GmbH (Prof. Dr. Friedhelm Loh), Haiger, 25.25% as of February 2, 2016.

SHARES WITH SPECIAL CONTROL RIGHTS

No shares with special control rights exist.

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 Company's Articles of Association. Under Article 59 (1) of the European Company Regulation, amendments to the Articles of Association require, in priciple, 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 capital majority is mandatorily required by law. For resolutions that require a three-quarter capital majority under the German Stock Corporations Act, a three-quarter majority of share capital represented is consequently 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 on or before May 11, 2022 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 2017).

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 on or before May 11, 2022, on one or more occasions, in one or more separate tranches, and to grant holders of said bonds option or conversion rights 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 by up to €49,875,000 (Conditional Capital 2017), which may be carried out insofar as conversion rights are exercised and/or bonds are converted in fulfillment of conversion obligations with respect to bonds issued by the Company or its subsidiaries under authorization of the Annual General Meeting of May 12, 2017 but also in case of an adjustment of the conversion ratio of the 2016 Convertible Bond. For further details, see Section 4 (7) of the Articles of Association.

Authorization has further been granted for a contingent capital increase by up to €24,932,500 by issuing up to 9,973,000 no-par-value registered shares (Conditional Capital 2013), which may only be carried out for the fulfillment of conversion rights of the holders of convertible bonds issued by the Company or a Group company in accordance with the authorization of the Company's Annual General Meeting of May 24, 2013, adopted under agenda item 6 (this relates solely to the 2016 Convertible Bond). For further details, see Section 4 (6) of the Articles of Association.

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 12, 2017, the Company is also authorized to acquire treasury stock in a volume 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 12, 2017 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 may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization is valid until May 11, 2022.

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 €300 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 those 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) in the event of a voluntary takeover offer as defined by the Securities Acquisition and Takeover Act, the bidder holds at least 30% of the voting rights in the Company, 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 either been met or waived.

For additional information, please refer 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 REMUNERATION IN THE EVENT OF A TAKEOVER BID

If a threshold of 30% of voting rights is exceeded, the Chairman of the Company's Management Board has the right to early termination of his service contract. Should he exercise that right, he will be entitled to payment of his budgeted salary (fixed component plus budgeted bonus) up to the end of his contract term, capped at three times the total remuneration received in the last full fiscal year prior to termination of his service contract. There will no longer be the requirement to hold own investments. Any personal investment shares still vesting will be unlocked and released.

Virtual stock options granted to senior executives 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

In general, Klöckner & Co SE follows a dividend policy of distributing 30% of net income before non-recurring items.

In view of the net loss of €55 million, the Management Board and Supervisory Board are proposing that no dividend be distributed for 2019.

4. Macroeconomic outlook including key opportunities and risks

4.1 Expected global economic growth

Expected global economic growth in 2020: 3.3%

The International Monetary Fund (IMF) expects growth of 3.3% for the global economy in 2020, largely supported by improved performance of emerging economies in Latin America and the Middle East. A notable counteractive factor would be an estimated economic growth slowdown in China and the USA. Ongoing trade conflicts, renewed uncertainty connected to the post-Brexit negotiations, heightened geopolitical tensions and impacts of increasing social unrest could also disrupt economic activity and constrain investment and growth. Other factors adding uncertainty to the growth forecast include the conduct of the US administration in connection with the presidential election campaign and the monetary policy pursued by major central banks.

The IMF projects that the eurozone economy will grow by 1.3% in 2020. Economic activity is expected to pick up marginally with projected slight improvements in external demand and as temporary factors such as new emission standards affecting automotive production in Germany continue to taper off. In conjunction with supportive monetary policy, the forecast is for slight growth in the economy.

The IMF predicts growth of 2.0% for the USA in 2020. This is below the prior-year level due to the absence of positive fiscal stimuli and as trade disputes are likely to continue negatively impacting the economy. However, the positive labor market situation and the upturn in consumption are likely to provide ongoing support for economic momentum in the course of the year.

Economic growth of 6.0% is expected in 2020 for China. Growth in China is projected to inch down. This is in part due to demographic causes and in part to the alignment of per-capita income. Further escalation of the trade dispute with the USA and the uncontrolled spread of the coronavirus harbor additional risks for growth projections.

Expected development of GDP (in percent)	2020
Europe[*)]	**1.3**
Germany	1.1
United Kingdom	1.4
France	1.3
Belgium	1.0
Netherlands	1.5
Switzerland	1.3
China	6.0
United States	**2.0**
Brazil	2.2

*) Eurozone.
Source: IMF, Bloomberg.

Expected steel sector trend

The World Steel Association predicts that global steel consumption will grow by 1.7% in 2020. The forecast indicates growth of 1.1% for the European Union, 0.8% for the North American Free Trade Agreement (NAFTA) region, 3.9% for South and Central America and 1.0% for China.

4.2 Expected trend in our core customer sectors

Construction industry

EUROFER estimates that the European construction industry will grow by around 1% in 2020. The residential construction market is expected to remain relatively buoyant, but overall construction industry growth is forecast to be lower than the prior year due to the weaker economic momentum. Consequently, the cycle is thought to have already topped out in many EU countries. The US construction industry is forecast to grow by 2%. This is slightly above the prior-year level. The forecast overall is that the low interest rate environment and low unemployment will favor construction spending in 2020, especially in residential construction.

Machinery and mechanical engineering

Steel industry association EUROFER continues to anticipate that EU machinery and mechanical engineering output will be only constant in 2020. Business conditions are expected to improve slightly, partly due to the ongoing favorable financing environment, which supports additional investment. The persistent trade conflicts and the economic slowdown nonetheless negatively impact the sector. Growth of around 1% is projected for the USA.

Automotive industry

In view of the challenges in connection with the transformation of the entire automotive industry and the lack of growth impetus in China, the USA and Europe, the German Association of the Automotive Industry (VDA) expects that the global passenger car market will contract by around 1% in 2020. The VDA forecasts that unit sales will fall by 2% in Europe and China and by 3% in the USA.

4.3 Risks and opportunities

The dominant macroeconomic risks – above all the US-Chinese trade dispute and uncertainty surrounding Brexit – remain unaltered.

The US and China struck a “Phase One” trade agreement in their trade dispute in mid-January and the UK parliamentary elections in December delivered a stable majority for the Brexit deal negotiated with the EU. Nonetheless, the trade dispute remains current, primarily because of the approaching US presidential election in November, and continues to be a major source of uncertainty, partly because of the possibility of the EU also being hit by punitive tariffs. The focus in the UK will mainly be on striking a yet-to-be-negotiated trade deal with the EU by the end of 2020.

Geopolitical risks, and especially developments in the Middle East, continue to harbor high risk potential. A crisis in the Middle East, for example, could drive up the oil price for an extended period and further slow down global economic growth.

Overall, global economic growth is expected to recover slightly after 2019, when growth was at its lowest level since the financial crisis. Steel demand is also expected to stabilize. The outlook for the construction sector continues to be fundamentally positive. Mechanical engineering output in Europe and the USA is no more than stable, with a reduced order intake in Germany. The automotive industry anticipates a further slight fall in demand. Output cuts by steel producers and an end to inventory rundown should bring supply and demand better into line and lead to a moderate rise in steel prices. New capacity coming onto market in the USA in the second half, however, could put steel prices under pressure again. On the other hand, expectations are that both sides in the US election campaign will announce substantial stimulus packages. Whether such growth impetus actually materializes, however, essentially depends on the subsequent balance of majorities in the US Congress.

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 policy and comprehensive annual updating of the risk inventory at both country and corporate department level in Klöckner & Co SE 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. Its flexible architecture allows for adaptation to changing company requirements and continuous improvement of the system itself. 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, 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 above all early detection and active reduction of potential going concern risk. Any identified significant risks are continually monitored in our risk management system, enabling us to prevent or limit their potential negative impact.

The RMS, which has been implemented Group-wide, 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. Continuous revision of the RMS further enhances risk transparency and information quality.

In February 2019, an independent auditing firm completed a voluntary review of the appropriateness and effectiveness of Klöckner & Co SE's risk management system on the basis of IDW Auditing Standard 981. The review found our system to be appropriate and effective.

Risk management structure and tasks

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 assesses the risk strategy and the RMS.

Risk owners identify, assess and carry responsibility for their respective risks and responses. As the link between the 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 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 the various 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 predefined 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 country and corporate department level. All risks are analyzed with regard to their impact over a one-year period. In addition, we notably analyze all material risks and going concern risks with regard to their long-term impact. The result of this process is a risk inventory, which is updated at regular intervals.
2. The relevance of each risk is assessed using a five-level scale. A risk's relevance represents its overall significance and thus combines various aspects such as expected value, realistic maximum loss and risk duration. Relevance is used to classify identified risks and show 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 (i.e. on a gross basis): We also include risks such as impairment losses, interest rate risk, currency risk and tax risk that do not impact EBITDA but on the basis of prudent business judgment could have a significant effect on liquidity, equity or the Group's net income.

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 level and at corporate department level at Klöckner & Co SE, which are combined into risk groups and further aggregated into primary risks in accordance with the underlying reference target (EBITDA). Identified individual risks are analyzed with regard to both their impact on the relevant primary risk items and the 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. 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 of Klöckner & Co SE 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

Identified risks are documented in a half-yearly risk report. The Corporate Risk Management Department supplements this reporting as and when necessary with ad-hoc reporting on any material risks emerging at short notice and any material changes in risks already identified. The report addresses risks for the overall Group as well as for individual country organizations and is primarily intended for the Management Board and the Supervisory Board.

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, among other things, the related risks and opportunities.

Internal control system

The internal control system (ICS) encompasses 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 seggregation of duties. 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 Legal & GRC/Personnel & Insurances 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. 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 Company's organizational structures and processes, thereby supplementing the system of process-integrated monitoring measures. Our compliance with international quality standards for internal auditing is regularly confirmed in quality assessments carried out by an independent auditing firm. This is done in accordance with standards laid down by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Deutsches Institut für Interne Revision e.V. [DIIR]).

The Supervisory Board's Audit Committee reviews the effectiveness of the internal control system once annually 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) emphasizes value-driven management based on ethical and law-abiding conduct. It is our clear goal 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 suppliers and service providers are likewise expected to comply with our Supplier Code of Conduct or to implement and comply with an equivalent code of conduct of their own. The implementation and effectiveness of our CMS are subject to 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 on the basis of 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 of our Code of Conduct. We demonstrate a clear, unambiguous stance on ethical, law-abiding conduct both internally and externally, among other things to help prevent risk.

The Management Board of Klöckner & Co SE has, both internally and externally, unequivocally expressed its zero-tolerance attitude toward antitrust violations and corruption in its "Tone from the top." In the event of violations, Klöckner & Co will take action under labor law against the employees involved and may hold them personally liable for any losses incurred. We notify our employees that kickbacks and other bribery or corruption offenses may also be subject to criminal prosecution. All employees are called upon to work actively toward preventing compliance violations 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	Insufficient strategy for a sustainably profitable business model		
	High level of dependence on profitability from US, Swiss and Becker Stahl-Service business units		
	Dependence on commodity products and construction, automotive and mechanical engineering industries		
	Political risks		
		Renewed financial crisis	
		Lack of success in future acquisitions	
			Threat from disruptive market participants
			Excessive sovereign debt as a trigger for sovereign debt and/or liquidity crises
Market risk	Economic situation/economic downturn in target markets		
	Demand and price development		
		Competitive situation	
Financial risk		Impairments on non-current assets 1)	
			Year-over-year decrease in discount rate for pension obligations 2)
			Future longer-term weak profitability
			Credit rating downgrades
			Unfavourable development of the share price
Legal/ Compliance risks		Antitrust violations	
			Changes in tax legislation or administrative interpretation of tax matters
IT risk		Cyber risks	
Personnel risk			Loss of key personnel

1) Do not impact the key performance indicator EBITDA but do 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 the potential lack of an adequate strategy for a sustainably profitable 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 commodity products and on the cyclic construction, automotive and mechanical engineering industries, together with increased political risk. Further significant risks comprise another financial crisis and potential underperformance by future acquisitions. We rate as intermediate risks the potential threat posed by disruptive market players and excessive sovereign debt in many industrialized countries, which could lead to a sovereign debt and/or liquidity crisis and additionally burden the economic situation in our markets.

Regarding the potential lack of an adequate strategy for a sustainably profitable business model, we are gradually moving away from the traditional steel distribution business model, which is potentially no longer sustainable, by increasingly digitalizing our supply and value chain, developing our independent industry platform XOM Materials in both Europe and the USA, and continuing to step up efforts to increase the percentage of sales generated by 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 – as with the integration of our Dutch and Belgian country organizations into Benelux at the beginning of 2019 – in order to unlock synergies, save costs and enable faster, more efficient implementation of our strategy. Most notably, our leading role in digitalizing the steel distribution value chain is expected to deliver enhanced market differentiation and hence competitive advantages. In this connection, we believe that the Kloeckner Assistant currently being implemented holds great potential for reaping efficiency gains and a cost edge to set us apart from the competition. Our ongoing investment in higher value-added products and processing services additionally makes an important contribution to improving earnings from steel distribution. This accelerates our corporate development and supports continuous improvement. In the United States, we continue to strengthen our business with completion of the One US program.

We are effectively devising new digital services together with customers to create added value for customers and make our mark in the competitive arena. To counter our dependence on the construction industry, the automotive supply business as well as machinery and mechanical engineering, we are diversifying our international presence, targeting other customer sectors such as industrial customers – including household appliance producers and the furniture industry – or shipbuilding in Europe and heavy industry along with the hospitality/food industry in the USA, and, not least, streamlining our portfolio in the low-margin construction business.

By political risks, we mean the growing trend toward unilateralism and nationalism, resulting among other things in “America first” and “buy American” policies as well as global trade conflicts and political decisions such as Brexit. For Klöckner & Co, such uncertainties affect the business climate and business decisions. Political risks can lead to ownership risks, such as with foreign direct investments, transfer risks due to currency restrictions and also operating risks due to breaches of contract. To mitigate these serious risks, we pursue regional and international diversification while monitoring political events and analyzing their potential impact on Klöckner & Co in order to take preventive action as far as possible.

We consider the risk of another financial crisis to be significant. This risk has recently been reduced by monetary policy stimulus and an easing of financial conditions by central banks in the USA and Europe. We address the nevertheless ongoing risk of potential upheaval on the financial and capital markets and the consequences of any such upheaval for our Company by maintaining solid balance sheet ratios and a diversified financing portfolio. This is demonstrated by our stable equity base and our comparatively low net financial debt in relation to equity. Our available working capital facilities ensure that we are able to finance our operating activities and cover our liquidity requirements. We also had adequate holdings of cash and cash equivalents as of the year-end 2019. These are invested on a short-term basis with the Group's core banks, which have at minimum an investment grade rating. With regard to performance indicators, please see under "Cash flows, financing and liquidity" in the "Economic report" section of the Management Report.

As with all M&A activities, acquisitions are governed by a comprehensive M&A policy. Compliance with the policy is monitored centrally. When selecting acquisition targets, we do not enter into any going concern risk. All acquisitions undergo thorough due diligence prior to purchase. No later than three years after an acquisition, the Corporate Internal Audit Department carries out a review of the investment. 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 rule out negative developments entirely, as the business situation of acquisition targets is subject to the same strategic risks as our other activities.

We meet the potential risk of disruptive market players, which is currently rated as an intermediate risk, by [taking on a leading 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 back 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 start-up community. Commencing January 2019, kloeckner.i also provides services regarding digital transformation for customers and partners. Complementing these activities, Kloeckner.v sounds out the market and invests in either venture capital funds or directly in start-ups that support our digitalization strategy with their potentially disruptive business models. Another of our objectives is to digitalize the metal industries in Europe and the USA and to develop the leading independent industry platform in those markets. For that purpose, we set up Berlin-based XOM Materials GmbH in 2017. The XOM Materials platform is also open for resources and materials other than metals. A subsidiary in the USA went live in 2019.

We currently rank a sovereign debt crisis in the markets relevant to us as an intermediate risk. In order to improve our resilience to negative influences from such a crisis on our business environment, we back up our solid financing with ongoing efforts to optimize workflows and processes in our business operations. This is why we pressed ahead with the efficiency programs in order to harness substantial further efficiency gains at the companies concerned, accelerate their development and promote sustained, continuous improvement.

Market risk

A serious market risk to Klöckner & Co in 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 magnitude of our US business, which accounts for 46% of Group shipments, any economic slowdown there would represent a particular market risk. Klöckner & Co is additionally subject to significant market risk resulting above all from trends in demand and prices, and especially from the highly competitive situation, which will only intensify as digitalization advances.

Current cyclical risks relate in particular to the possible negative economic impact of uncertainties relating to the trade conflicts between the USA and China and to a potentially increasing extent between the USA and Europe. The geopolitical situation in the Middle East could also drive up the oil price and fuel added uncertainty. In Europe, the weak profitability of European banks could have a notable procyclical effect. Another government crisis in Italy could also weaken the European economy. Whether the UK and the EU will be able to strike a trade deal by the end of the year is a further source of uncertainty. With regard to the coronavirus currently spreading, primarily in China, it is impossible to predict how severely, or for how long, this may impact economic growth. Nevertheless, since the Chinese economy is so important for global demand and supply chains are so interconnected globally, there is growing risk of a negative impact on world economic growth, at least in the short term.

A solid pillar of the economy in the USA continues to be private consumption aided by a resilient labor market with an unemployment rate close to its 50-year low. Business investment activity is, however, somewhat subdued in the run-up to the November presidential elections, which are increasingly taking center stage. Yet both real and expected inflation are low, remaining below the US Federal Bank's inflation targets. While government reform efforts in France continue to meet with fierce resistance, successful implementation of the reform policies could release significant growth impetus. Increasingly critical attitudes toward globalization in many countries could result in rising barriers to trade and, via falling global investment activity, to a drop in steel demand.

Demand is currently subject to high risk in our core sectoral markets comprising the machinery and mechanical engineering industry as well as the automotive industry. An important sector for steel consumption, the automotive industry showed a sharp weakening in demand for steel during 2019. While demand on the global passenger car market is expected to dip only slightly in 2020, the industry faces risks due to a structural transformation that calls for high levels of investment. Order intake in the mechanical engineering sector is also expected to be down in 2020 as the various uncertainties in the business environment make companies reluctant to invest. With regard to the construction industry – the customer sector accounting for the lion's share of our shipments – there is a strong dependence on the general cyclical trend, meaning that there are likewise risks in the event of a marked economic slowdown.

We counter cyclical risks by being as broad-based as possible across a range of customer industries. In addition, we keep a close watch on the development of the general economy and our customer industries in order to identify cyclical and industry risks from leading indicators at an early stage and to address such risks with countermeasures.

We sell most of our products at spot market prices. The time lag of up to several months between the setting of procurement prices, stockholding 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 windfall effect on current earnings when selling prices are falling. Earnings can also be impacted if it is necessary to adjust the carrying amount of inventories to the detriment of earnings when preparing the financial statements. Given the ongoing major global surplus capacity in steel production, prices are frequently liable to fall, which would have a negative impact on earnings performance each time. Interdependencies between price trends in different markets around the world could be temporarily affected by anti-dumping duties and further government intervention such as the punitive tariffs on steel and aluminum imposed by the US administration and the safeguard measures applied in response by the European Commission. In early 2019, the European Commission decided to turn the provisional solution in the form of the temporary safeguard measures into longer-term measures lasting until July 2021.

Other factors such as, for instance, devaluation of the yuan or another drop in raw material prices could also adversely affect any sustained price recovery. There are still no signs of any major capacity adjustment. The structural imbalance between production capacity and actual demand will therefore persist for the time being. Consequently, prices and margins can come under pressure time and again.

There is also overcapacity in steel distribution, which has led to intensification of the competitive situation. In both Europe and the USA, the top four distributors have over 25% market share. The top five distributors in Europe even have almost 30%. At the same time, we have about 3,000 small market players in Europe and about 1,200 in the USA. In this market environment, excess inventories or downward price trends can prompt individual competitors to introduce special offers, leading to additional price pressure in the market, which may have a negative impact on earnings. We therefore monitor our competitive environment very closely. In addition, 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 a medium-term possibility that competition will further intensify, pressure on prices will become even greater and individual competitors exit the market.

To respond to changes in the market as swiftly as possible – such as by taking specific measures in inventory management – we analyze trends and leading indicators along with the available forecasts. The main leading 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 compete even better with small to medium-sized enterprises. We have made significant progress here, both with our efficiency programs and with continuous improvement measures. Another key factor in minimizing market risk is our increasing differentiation in relation to competitors. The core elements in this connection are digitalizing the supply and value chain coupled with continuing to develop our XOM Materials 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 our pricing.

To combat the risks arising from demand and price trends, our Group continues to place special emphasis on price and inventory risk management, supported by a comprehensive set of tools and very close, continual monitoring of price trends in regional, national and international markets. We use a price information system to collect data on prices, which is then shared online within the Group. Further enhanced coordination of procurement across national borders and product lines enables us to respond quickly to changing situations in the procurement market. In this way, we are able to optimize our portfolio of suppliers and make even greater use of pooled procurement to obtain preferential prices, quantities and terms. A key element in procurement coordination is our country-specific monitoring of product ranges, demand and inventories. Price trends are also identified regularly in order to determine the risk of inventory write-downs on individual products. This information is incorporated into the quarterly inventory valuation.

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

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 treasury policy that stipulates scopes of action, responsibilities and the necessary controls.

In recent years, we have acquired several companies on the basis of Klöckner & Co's growth strategy. In measuring the value of those companies, we made assumptions regarding their future business performance. There is a risk of actual developments diverging from these assumptions. As of December 31, 2019, non-current intangible assets from acquisitions in North America totaled €68 million. A significant reduction in the value in use of those assets would result in further impairment losses. Even though it does not affect our key performance indicator EBITDA, this is rated a significant risk overall as it has a major impact on net income. Notable countermeasures include the continuous optimization of our North American activities, as under the "One US" program, 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. Such expenditure 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 become 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, a falling discount rate relative to the prior year would have a considerable impact on the measurement of our obligations given the low interest rate environment. A potential further reduction 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 an intermediate risk, even though this does not impact our EBITDA performance metric, 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. We make decisions on the allocation of funds to pension schemes centrally in the Group Management Board. New commitments are on a defined contribution basis only so as to minimize the financial risk arising from pension commitments.

Poor profitability over longer periods would therefore limit our future scope for refinancing. Following a positive earnings trend in 2017 and 2018, we had weak earnings performance in recent quarters. In anticipation of a slightly weakening economy in Europe and the USA with moderate steel price levels and reduced demand, we see an intermediate risk of Klöckner & Co facing poor long-term profitability.

Operating earnings power is also a key criterion in the assessment of our creditworthiness by third parties. Alongside banks, these mainly comprise credit insurance companies and business partners such as suppliers. A fall in Klöckner & Co SE's credit standing could, for instance, raise the cost of borrowing or restrict purchasing opportunities. We regard the risk of a downgrade in our rating as an intermediate risk.

Influenced by marked steel price erosion over the last 18 months and by weak demand, the Klöckner & Co SE share price has fallen very sharply. Ongoing poor share price performance would limit our borrowing options, as individual financing instruments such as convertible bond and comercial papers require a certain minimum share price level for an issue to be successful and make financial sense.

We counter this finance risk in the ongoing difficult market environment with our continuous efficiency program under our "Klöckner & Co 2022" strategy in order to improve profitability on a lasting basis. In addition, we continue to invest in higher value-added products and services to reduce the relative share of cyclically sensitive commodity business and improve profitability. Furthermore, we are improving our services for customers, including with the aid of digitalization, in order to boost customer loyalty and enhance customer satisfaction.

Legal, tax and compliance risks

Steel distribution is a sector in which legal risk generally tends to be lower than in many other sectors. We do not see any significant or intermediary risk in this respect at present.

In the area of compliance, however, we continue to view 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. Alongside classroom training, one notable measure to counter this risk is an e-learning tool that is mandatory throughout the Group. Among other things, this provides information on the main points of our Code of Conduct, which is published throughout the Group and on the Internet, and on compliance-relevant Group policies, notably also on antitrust law.

In the area of taxes, the risk of changes in tax legislation or in the administrative interpretation of tax matters continues to pose 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 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 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 have added resources and know-how to Klöckner Group IT and have established a Group Data Protection Officer and an Information Security Officer. We also deploy various technical and organizational preventive measures, training and awareness campaigns – for instance, against system failure and employee carelessness, in addition to specific protection from cyber attacks. In 2019, outside experts once again carried out a cyber security review of systems and applications at selected Group companies.

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. It has moreover proved increasingly difficult to find qualified employees in a timely manner in the countries in which we operate. The main reason for this is that countries such as the USA, Germany and Switzerland are operating at near full employment. Employment levels are also very high in the other European countries.

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, they ensure that our resources are transparent. Moreover, we regularly identify potential personnel risks through our internal monitoring process. We also have our executives undergo an evaluation by external experts when the need arises and conduct Group-wide employee surveys at regular intervals. Our "Mehrwertmacher" ("Value Creators") employer branding campaign had the goal of positioning Klöckner & Co even more strongly as an attractive employer within the Company in order to present us as a strong employer brand to the outside world.

Opportunities and opportunity management

The systematic identification as well as the coordination and control sides of opportunity management are the responsibility of management at country level and the Management Board. Financing and implementation of the opportunities resulting from our corporate strategy are supported by the corporate departments. The resulting projects are managed and monitored together with the holding company.

A secure financial structure, effective procurement and inventory management, optimized sales processes, human resources management that promotes innovation potential and, most notably, the digitalization of our business for sustained efficiency gains provide the basis for leveraging opportunities at Klöckner & Co.

Strategic opportunities

The continued focus of our “Klöckner & Co 2022” growth strategy is above all on digitalization and disruption in steel and metal trading via an independent industry platform. Our other two strategic pillars comprise increasing the proportion of sales generated by higher value-added business and additional efficiency gains. In higher value-added business, we plan to achieve organic growth with the goal of reducing volatility and raising profitability. This is expected to additionally boost our efforts to digitalize our business model to be more forward-looking, create added value and be less prone to risk. Acquisitions remain an option, assuming they are well aligned with our existing business and add value, for instance, through synergies.

To stay ahead in the long term, we are, for example, investing in 3D lasers so that we can continue to provide higher value-added products and services. Following up on the second-largest 3D laser center in the UK, we also successfully occupy a niche in the German market. Furthermore, this business has been successfully rolled out in the USA, such as at our Dallas location. Expansion of our 3D laser capacity will continue across Europe in order to make efficient use of our network.

With regard to aluminum, a key material for the future, we have systematically expanded our activities for processing aluminum flat products at our service center operated by Becker Aluminium-Service in Bönen, Germany, and also have three special facilities for coating aluminum sheet and sections in the United States. The process used improves both product functionality as well as surface finish and is of particular interest for architectural and catering applications. We have not only secured access to this technology in the United States, but also the exclusive distribution rights there and in Brazil with our Chinese cooperation partner.

Successful implementation of our One Europe and One US initiatives delivered added efficiency improvements for a sustained earnings increase in our core business. In Europe, for example, we amalgamated our Dutch and Belgian activities into Benelux under common management. This enhances the integration of our business, enabling us to save costs while at the same time leveraging synergies in areas such as procurement and logistics. Additionally, it will help us to secure even faster and more efficient implementation of the “Klöckner & Co 2022” strategy. Further restructuring measures were undertaken in France in the year under review in response to local market developments. The activities in Switzerland have been combined under uniform management and thus more strongly centralized while streamlining the existing structures in order to be more agile and further extend our leading competitive position. In the USA, product lines have been combined and the regional focus underscored thanks to a new structure in order to promote regional cooperation and provide customers with a central point of contact. For greater entrepreneurial freedom, we have devolved previously centralized responsibilities to our country organizations with a corresponding reduction in the core functions of the Group holding organizations by more than 30 employees.

Overall, the purpose of all these programs and measures is not only to reap synergies, but also to make our organization leaner so as to secure efficiency improvements, respond more rapidly to changes in the market environment and further accelerate implementation of our digitalization strategy and the expansion of higher value-added business.

Alongside growth in the areas mentioned, the main focus of our strategy is on digitalization – not only of the customer interface, but of our entire supply and value chain process from order to shipment – together with the phased development of an open industry platform as a further element in differentiation from competitors. We are the pioneers in our industry here and have been for several years. Increasingly, we are translating this competitive edge into a cost advantage, and we expect the total contribution to operating income to exceed €100 million by 2022. This is primarily driven by newly developed tools such as the Kloeckner Assistant. Our digitalization strategy aims to eliminate information asymmetries in the steel industry by digitally connecting all market participants in order to clearly increase efficiency for all. The goal here is for Klöckner & Co to provide the entire range of products and services via all sales channels.

Another key ongoing component is our vertical independent industry platform, XOM Materials, featuring a broad product portfolio and providing great transparency in prices and availability across multiple suppliers. The eProcurement solution additionally enables customers to optimize their procurement process. XOM Materials successfully went live in the United States in 2019. We also plan to leverage our expertise on cross-sector horizontal platforms operated by third parties to offer standardized products without any add-on services and thus reach customers who make infrequent purchases of smaller quantities. Commencing over a year ago, kloeckner.i also offers our digital transformation expertise as a consulting service to help customers and partners succeed in their own digital transformation.

Operational opportunities

Our “Klöckner & Co 2022” strategy brings with it numerous opportunities from operational-level changes. To further leverage our two key strategic approaches for enhanced differentiation from the competition – digitalization and expansion of our business in higher value-added products and services – we have embedded them into our organizational structures in Europe and the USA.

We continue to consolidate locations, including as part of a realignment in Switzerland, and also in optimizing our network in Germany and France. In addition, we are implementing various measures and projects to improve workflows and processes in our operating business. Alongside streamlining and focusing procurement and logistics, a notable emphasis in Europe is on more differentiated pricing and other measures to boost effectiveness and efficiency in sales, such as better sales control. With regard to logistics activities, in a major project during the year under review, we reorganized and optimized stockholding logistics in our Benelux organization in order to even better deliver on our customer promise as an agile, service-minded, digitalized supplier. 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.

The primary objective of our efficiency enhancement strategy in the USA is to further improve collaboration in sales and other operating functions in order to provide customers with seamless service. To this end, a regional structure ensures that customers have access to our entire range of products and services from a single source. This brings us closer to leveraging the full potential of our customers in all product areas.

To achieve greater differentiation from competitors, we plan to maintain our broad product portfolio as well as to offer customers more 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 supply a broader portfolio of steel and metal products, especially in comparison with smaller and mid-size competitors, without adding to inventories.] In procurement, we will continue to systematically leverage the economies of scale we have over many competitors. We target major scale economies by focusing quantity requirements on suppliers who grant commensurate terms and by making intensive use of global procurement options. Both in Europe and soon also in the USA, this similarly applies not only to materials procurement, but also to procurement of non-merchandising items and services in order to combine and optimize these across national borders, regions and locations.

At the same time, digitalization enables us to apply the working methods and tools of business start-ups so as to be more agile, faster and more effective in our operations as well as to create added value for customers. With this in mind, we have a diverse range of digital tools in deployment across our various country organizations. Based on such solutions, we are committed to making all processes simpler and more efficient along the entire value chain. To this end, we launched kloeckner.i, our digitalization hub in Berlin, back in 2014 to develop and test digital solutions before rolling them out across the Group. This unit provides a platform for in-house knowledge transfer, maintains a network with the start-up scene and is active in the areas of product innovation, software development, online marketing and business analytics. For example, kloeckner.i works jointly with our country organizations to develop digital applications using agile methods while involving customers from an early stage to test functionality and customer benefit step by step.

On the sales side, we have successfully rolled out contract portals and online shops to customers, among other activities. We are furthermore progressively opening up our online shops to vendors of complementary products in order to develop them into a marketplace. This will enable us to offer our customers a considerably wider range of products without having to invest in expanding our product portfolio. In procurement, we have full electronic digital interchange with wholesalers and major steel producers.

While kloeckner.i operates like an internal start-up, it is through our venture capital company kloeckner.v, which we launched in 2015, that we establish links with external start-ups. kloeckner.v invests via selected venture capital firms and also makes direct investments in start-ups that support our digitalization strategy with disruptive approaches.

A further source of leverage for our Group's ongoing digital transformation is our artificial intelligence (AI) innovation partnership with Arago GmbH. Our aim in this is to drive forward the digital transformation of Klöckner & Co by using AI. Alongside partial automation of our IT infrastructure, the main current focus is on SAP-based processes such as automating credit checks. Further potential application areas for AI – besides efficiency gains, process acceleration and improved analytical accuracy – include forecasting customer behavior, steel demand and price trends.

Exploiting process optimization opportunities is another key step toward sustainably improving the earnings situation. A new Corporate Digital Transformation department has been established, which works in close coordination with our Corporate IT, our digitalization hub kloeckner.i and other IT service providers on the increasingly important task of also digitalizing internal processes. Various projects geared to optimizing processes in sales and distribution, procurement logistics and processing are consequently under way in a number of countries as well as transnationally. The projects hold substantial potential for leveraging opportunities to enhance service quality, efficiency and effectiveness. Examples in sales and distribution include dynamic pricing, sales cockpit and CRM projects. In procurement, the XOM eProcurement project is a key driver for supplier integration, reducing manual effort on both sides. A focus in logistics is on continuous improvement of processes and workflows at our stockholding locations as well as in transport management. Occupational safety and health also continues to be a high priority. Support for and liaison with the country organizations by Digital Transformation is overseen in ongoing consultation and subject to clear-cut project prioritization.

[Finally, 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 development 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 (4) and Section 315 (4) 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, Corporate Treasury, Corporate Controlling & Development/M&A and Internal Audit departments, assisted by the Legal & GRC/Personnel & Insurances and Corporate 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 material risks in the context of the consolidated financial statements prepared under IFRS and the single-entity financial statements prepared under 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 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 or 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 country organizations 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 intercompany 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 and reliably. Transactions are recorded in the consolidated and the single-entity financial statements in accordance with legal requirements. The accounts of the entities included in the consolidated financial statements are kept in compliance with generally accepted accounting principles. Inventories are systematically verified by stocktaking. Other assets and liabilities are recognized correctly 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 to 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 at the Company, such as in business activities, from 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, laid down by the Corporate Accounting Department, ensure that the IFRSs 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 online 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 additional information required to be 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 all of the data fed into the Group accounting software from Group reporting packages. In addition to the 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.

As part of business process outsourcing (BPO) for certain accounting activities, existing control activities have been adjusted, risk control matrices implemented and corresponding key controls identified to ensure adequate monitoring of all risks relevant to financial reporting. The external service provider's internal control system has been audited by its auditors and confirmation obtained of the system's adequacy and effectiveness.

The Corporate Accounting and the Corporate Controlling & Development/M&A Departments carry out annual goodwill impairment tests and, when there is a triggering event, impairment tests of other non-current assets under IAS 36 on a centralized basis. We thus ensure a uniform approach when it comes to measuring cash-generating units and applying management judgment. Share-based payment is also determined centrally, with the assistance of an external expert. Pension obligations are computed locally with the assistance of actuarial experts. The calculation parameters are approved by the Corporate 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 judgments, the possibility of errors in implementing controls and deliberate avoidance through 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 presented 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 the Group's 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.

5. Group forecast

For our core markets of Europe and the USA, we expect a slightly positive development of real steel demand in 2020, with a corresponding slight increase in Group shipments. Despite this slight rise in shipments, we anticipate sales will remain at their prior-year level due to marginally lower average selling prices.

Last year's result was marked by substantial burdens due to sharply falling prices (windfall losses). As no such impact is forecast this year, and with the additional support of cost and efficiency measures, we expect a considerable increase in operating result (EBITDA) before material special effects. We expect substantial earnings improvements year on year, notably in the Kloeckner Metals US, Kloeckner Metals Switzerland, Kloeckner Metals Service Europe and Kloeckner Metals Distribution Europe segments. This is partly due to structural cost and efficiency improvements resulting from the restructuring measures undertaken in the year under review.

Regarding cash flow from operating activities, we anticipate a significant decrease relative to the prior year, both for the Group and for all operating segments. Whereas we were able to release substantial funding by reducing net working capital in the year under review, we do not foresee any material effect of a similar kind in the fiscal year ahead.

	Turnover (Tto)		Sales (€ million)	
Forecast by segment (excl. IFRS 16 effects)	2019	Forecast 2020	2019	Forecast 2020
Kloeckner Metals US	2,610	Considerable increase	2,627	Constant
Kloeckner Metals Switzerland	574	Slight increase	971	Slight increase
Kloeckner Metals Services Europe	948	Slight increase	749	Slight increase
Kloeckner Metals Distribution Europe	1,466	Constant	1,903	Slight increase
Holding and other group companies	50		65	
Group	**5,648**	**Slight increase**	**6,315**	**Constant**

	EBITDA before material special effects (€ million)		Cash flow from operating activities (€ million)	
	2019	Forecast 2020	2019	Forecast 2020
Kloeckner Metals US	47	Considerable increase	69	Considerable decrease
Kloeckner Metals Switzerland	55	Considerable increase	68	Considerable decrease
Kloeckner Metals Services Europe	26	Considerable increase	54	Considerable decrease
Kloeckner Metals Distribution Europe	20	Considerable increase	30	Considerable decrease
Holding and other group companies	– 24		– 17	
Group	**124**	**Considerable increase**	**204**	**Considerable decrease**

"Constant" corresponds to a change of 0–1%, "slight" >1–5% and "considerable" >5%.

Duisburg, Germany, March 2, 2020

The Management Board

SUSTAINABILITY REPORTING

of Klöckner & Co SE

1. Klöckner & Co SE sustainability reporting 2019

[Klöckner & Co is one of the largest producer-independent distributors of steel and metal products worldwide. 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 around 60 key suppliers across the globe. These include the world's largest steel producers and their distribution arms. Sustainability is an issue of special importance at every link in the steel value chain. Although the steel industry's large environmental impact has already shrunk considerably in recent years, production in particular is still associated with high levels of resource use. However, we as a distributor and important link in the value chain also see it as our duty to continuously improve processes in order to minimize the adverse effects of our business activities. Our workforce of some 8,300 apply their skills and enthusiasm day in, day out to meeting our customers' needs and wishes. At Klöckner & Co, we provide customers with all key product-related services: consulting, procurement, stockholding, processing as well as distribution of steel and metals. Furthermore, we are increasingly digitalizing processes from sales to order fulfillment. With our know-how and technical capabilities, we develop and deliver comprehensive solutions – for companies of all sizes and industries of all kinds. Through our distribution and service network comprising around 160 locations in 13 countries, both in Europe and on the American continent, we serve more than 100,000 customers. Concentrated mainly in the construction as well as the machinery and mechanical engineering industries, our customer base consists primarily of small to medium-sized steel and metal consumers. In addition, we supply intermediate products for the automotive, shipbuilding, consumer goods industries and other small sectors.

Responsible conduct plays a central role in relation to our business model and our self-perception as a tradition-rich company. For us, responsibility means aligning our entire enterprise around good ethical behavior, social responsibility, environmental compatibility as well as commercial success. This ethos is enshrined in our Group-wide Klöckner & Co Principles, which ensure that we share a common understanding and provide specific guidance for our conduct on a day-to-day basis.

Group non-financial report in accordance with Section 315b of the German Commercial Code

The following sustainability reporting for 2019 includes the Group non-financial report of Klöckner & Co SE in accordance with Section 315b of the German Commercial Code (HGB). In the Group non-financial report, we present the non-financial issues of major relevance to our business activities together with the impact of those activities on aspects comprising environmental issues, employee issues, respect for human rights as well as anti-corruption and bribery. In addition, we provide transparent reporting in the following on our broader engagement with regard to sustainability.

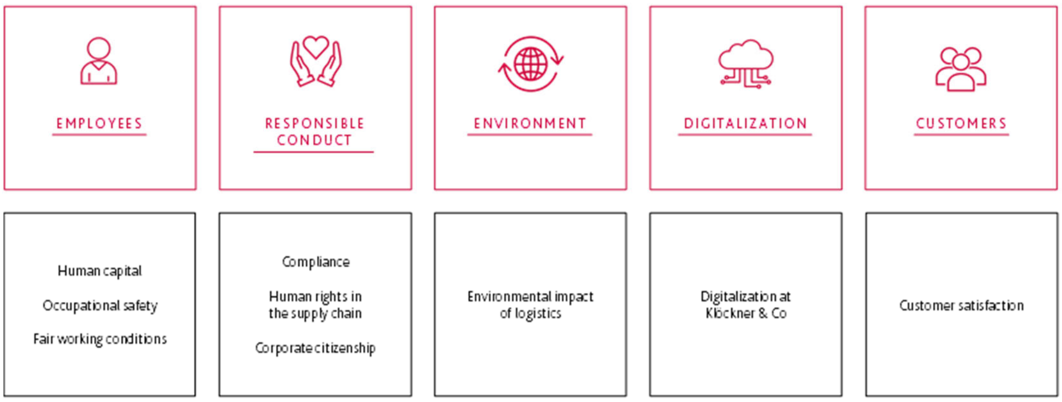
The reporting period for the Group non-financial report is fiscal year 2019. Unless otherwise specified, the information covers all fully consolidated companies of the Klöckner & Co SE Group. Following re-evaluation, we decided against using a framework in the preparation of the Group non-financial report, as we do not require a framework to present the relevant information in a structured and stringent manner. However, verification of the use of a framework is regularly carried out.

Ernst & Young GmbH was engaged to provide a limited assurance review of the information items marked with the […] √ symbol in the German PDF version of the report for the period January 1, 2019 to December 31, 2019. The marked, audited sections of the text form part of the mandatory non-financial report and must be distinguished from the remaining, voluntary disclosures within the sustainability reporting.] √

Materiality analysis

[The topics to be included in the Group non-financial report are specified and formulated within the context of our sustainability management. In order to identify the material content, we conducted a comprehensive Group-wide materiality analysis in 2017. Potential sustainability topics were initially identified in a working group comprising selected departmental and functional managers. The findings were subsequently confirmed in dialog with internal and external stakeholders. The prioritization of the issues reflects their importance in terms of business relevance (results of operations, financial position and net assets, innovation and reputation) as well as the impacts of our business activities and the upstream supply chain. In this context, only topics that are both highly relevant to our business and have a strong impact on reporting-related aspects were categorized as material. The results were coordinated with the CEO to ensure comprehensive and integrated reporting for the Group.] √

Our five action areas



Five action areas and six material topics

[Our sustainability strategy and sustainability management are arranged around the five action areas of employees, responsible conduct, environment, digitalization and customers.

In addition, these are further divided into subsections. The topics are reviewed in a regular process and refined where necessary. As in the prior year, material topics for reporting under the CSR Directive Implementation Act are human capital, occupational safety, compliance, human rights in the supply chain, environmental impacts of logistics and digitalization at Klöckner & Co. In addition, we also report on other topics in our sustainability reporting for 2019 that are of relevance to Klöckner & Co in connection with sustainability.] √

Risk assessment

No reportable risks

[A risk assessment has been conducted for all material issues under the CSR Directive Implementation Act. This investigated whether our business activities or our supply chain give rise to material risks to reportable aspects under Section 315b read in conjunction with Section 289c (2) of the German Commercial Code. The investigation took into account the probability of occurrence and the scale of negative impacts on each aspect. No reportable risks were identified.] √

Sustainability management

Economically, ecologically and socially responsible management

As a tradition-rich company, Klöckner & Co considers it its duty to ensure its own future viability by means of long-term, strategic goals. In this process, responsibility for the bulk of internal and external stakeholders plays an important role that follows from the size and international presence of our business activities. To shape these relationships in the long term and in a responsible manner for the benefit of all, we bundle all relevant activities in a Group-wide sustainability management system that covers the three dimensions of sustainability – economic, environmental and social. The member of the Management Board with responsibility for this thematic area is the CEO, Gisbert Rühl. Responsibility for sustainability management, coordinating all sustainability activities and compiling the Group non-financial report lies with the Investor Relations, Internal Communications & Sustainability department. In addition, a Sustainability Committee was set up at the end of 2016, composed of managers from Investor Relations, Internal Communications & Sustainability, Legal & Compliance/Personnel & Insurance, Group HR and Digital Transformation. Logistics & Operations assumes responsibility for sub-sections of the former Safety, Health, Environment and Quality (SHEQ) Management in the Digital Transformation unit. The Sustainability Committee determines the main pillars of the sustainability strategy and, regarding its implementation, coordinates its activities closely with the respective departments across the Klöckner & Co SE Group.

Alongside the expertise bundled in our Sustainability Committee, we purposefully harness our employees' innovative drive. In the reporting year, our employees submitted 36 ideas and suggestions via the Company-wide social network Yammer. These were subsequently aggregated and their feasibility evaluated by the Investor Relations, Internal Communications & Sustainability department as well as relevant experts. At the same time, we developed an internal sustainability campaign to ensure that everyone at the Company is sensitized to this issue in their professional and private lives. Engaging all staff members outside of hierarchical structures results in significantly stronger identification with the issue of sustainability. The commitment shown to the campaign as a whole by employees from different countries and spheres of activity is testimony to how seriously every single Klöckner & Co staff member takes our Company's forward sustainable development. By way of example, the frequent calls to minimize the use of paper are worth mentioning. In addition to recommendations for reducing printing and opting in favor of recycled paper, we have introduced a digital invoicing system. Billers have been asked to send paperless invoices via e-mail.

EMPLOYEES

The Employees action area *includes the two topics of human capital and occupational safety that are material to the Group non-financial report. This section also contains reporting on the topic of fair working conditions.*

We create added value

A qualified, motivated and healthy workforce paves the way for Klöckner & Co to generate added value – for employees, for the Company and ultimately also for our customers. If we are to keep the entire workforce motivated, nurture talent from within our own ranks, recruit new talent and secure employee loyalty, we need a working environment characterized by long-term security, supportiveness, professionalism and mutual respect. Such a working environment is vital to Klöckner & Co's success – and for every employee to be able to develop and realize their full potential.

This is also reflected in our Klöckner & Co Principles for all employees, which guide our day-to-day conduct and which clearly delineate responsibilities. Our leadership principles geared to sustainable value creation and continual performance improvements are integrated into the new Klöckner & Co Principles. These are: We take responsibility. We create added value. We are team players. We develop. We discover new things. We make things possible. Rather than just telling our employees what to do, our executives aim to develop their teams and empower them to take decisions independently. Our employees take personal responsibility and actively put forward their own proposals. Regular dialog and feedback – including across hierarchical levels – thus generate added value for the Company and development opportunities for each individual.

Human capital

Targeted employee development

[Dedicated and qualified employees are a key factor in our success as a service provider. That is why we offer employees a wide variety of further training and personal development opportunities. Another focus is on nurturing new talent. Particularly with a view to demographic change, recruiting and securing talent for the long term is central to our corporate success.

Our activities are directed at continually refining and enhancing workforce qualifications and skills – notably with regard to digitalization – and promoting talent from within our own ranks. The vast majority of country organizations perform these activities locally and have their own HR developers. In addition to individual targets, target agreements for managerial staff and HR developers include long-term targets for implementation of the Group-wide HR strategy.

The CEO is updated via ongoing exchange about developments in and outcomes of such activities, and ensures that the thematic areas covered by the Group-wide HR strategy are driven forward. Our HR strategy is based on the pillars of leadership and corporate culture, systematic performance, talent and succession management as well as improvements to make us an even more attractive employer. As the latest employee survey shows, the workforce views these five thematic pillars in a predominantly positive light. At the start of the year, we once again conducted a Group-wide employee survey. Almost all of the organizations participated. Much like with the previous survey in 2015, the results provide the springboard for developing new human capital measures. Besides the response rate of some 60%, we are especially gratified by the levels of employee satisfaction and trust in management. A total of 78% of respondents said they are happy to work for Klöckner & Co. And 83% feel they are treated with respect. More than three out of four (77%) are familiar with the Klöckner & Co strategy and 78% know how they can contribute to reaching corporate goals.

In-house Online Academy

To promote the personal development of employees throughout the Group and prepare them for a digital future, Klöckner & Co offers an extensive range of online training courses through our “Digital Academy”. Staff at every location can take these courses during working hours. In 2019, our further training focused on such topics as digitalization basics, coding, online marketing and digital business models.

Klöckner & Co additionally provides individual support for training taken on employees’ own initiative. In the reporting year, we optimized our employee appraisal process so that virtually all country organizations conduct reviews on an annual or in some cases even a six-monthly basis. The new appraisal process is not only more employee-focused and flexible, but is also conducted via a user-friendly software interface. Employees receive feedback on their performance and individual wishes and training courses are incorporated as part of target agreements. These procedural changes are a response to the January 2019 employee survey, in which 19% of respondents indicated that they do not receive regular feedback. We concluded that improvements were needed in this regard.

The “CLEAR Sales – selling through the eyes of your customer” training course remains part of our training portfolio throughout Europe. Rolled out in the 2018 fiscal year, the course was very well received by participants and country CEOs. With its focus on communications as well as building and strengthening customer relationships, this sales training teaches participants how to better identify our customers’ needs and offer them tailored solutions.

Training tailored to our digital transformation

In parallel, there are internal measures to foster young talent, such as the Emerging Leaders Program – a global development program for tomorrow’s aspiring executives. The program both teaches and acts as a refresher for expertise essential to the digital era and the future of the Group. Topics range from contemporary business administration knowledge, leadership and change management skills to agile working methods, and serve as an effective toolkit for innovative and customer-centric business practices tailored to our digital transformation. The promotion rate for the first Emerging Leaders from 2015/2016 is 62%. The second cohort completed the program at the end of 2017 and already successfully hold branch manager or operating leadership positions. To date, 64% of this cohort have climbed a step up the career ladder. With the third intake, which started its journey in the reporting year, the Group-wide assessment center was for the first time run exclusively online via a digital platform. This meant the assessors enjoyed greater procedural flexibility and were able to conduct more candidate selection interviews.

Following the first successful pilot program in Germany, a Country Talent Pool Program was launched in all country organizations in 2018. Young talent is selected and provided with targeted support and training over a period of twelve months. Participants complete five modules, each in a different location. This program has been launched in all countries and the second cohort in Germany have already completed the program.

For career starters and students, Klöckner & Co offers Group-wide internships and working student positions, where they can apply and consolidate content from their studies in real-life business situations. Our German activities in this connection follow the quality standards of the "Fair Company" initiative, for which Klöckner & Co reaffirms its commitment each year.

In the reporting year, we participated once again in the prestigious Ruhr Fellowship Program. This exchange program allows students from elite US universities, such as Princeton, Harvard and Yale to spend several weeks in Germany's Ruhr region. After completing an academic and cultural program comprising talks, courses and excursions, participants undertake an internship at a local business, such as Klöckner & Co.

We also offer a large number of apprenticeships and equivalent programs to provide young people with a career entry point while ensuring that Klöckner & Co is able to secure well-qualified young talent. In Germany, apprentices accounted for 6.1% of our entire workforce in the reporting year. We recently added an apprenticeship for e-commerce merchants – a training occupation which was accredited on August 1, 2019.

The fact that our further training activities are well received is demonstrated, for instance, by the results of our employee survey and the consistently positive feedback regarding our Emerging Leader Program as well as our kununu rankings, where we are regularly rated a top employer. In the "FOCUS employer awards" (which are held in cooperation with the statistics website Statista, the career portal Xing and kununu, Europe's biggest employer ranking portal), we were again recognized as one of Germany's top employers in 2019. According to a study by the F.A.Z. Institute and the IMWF Institute for Management and Economic Research, Klöckner & Co was also one of Germany's most attractive employers in 2019. The results of the study take into account the following factors: employer performance, profitability, product and service offerings, sustainability and management leadership.]√

Occupational safety

[Occupational safety is a key issue for us as a steel distributor with a high percentage of wage earners employed at our branches. A healthy and safe working environment both protects our employees and ensures smooth process workflows. Compliance with occupational safety regulations and laws forms the basis for safe and healthy workplaces.

Safety 1st. Always.

Over and above the legal requirements, the topic of occupational safety is addressed at various levels of Klöckner & Co.

At a **corporate strategic level**, all our occupational safety activities in Europe have been brought together under the "Safety 1st" initiative since 2013 and similar initiatives at our American country organizations. These are always being expanded with a view to continual improvement. A global "Safety Perception" survey, for instance, was carried out jointly with the management consultancy DuPont in late 2018 and the individual countries' respective safety action plans were called.

LTIF value reduced to 10.3 in 2019

The Group-wide goal of our occupational safety initiatives and activities is a consistent reduction in occupational accidents as measured by the "Lost Time Injury Frequency" (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. We take accidents into account from the first working day lost. Changes in the LTIF are a firm feature of regular Management and Supervisory Board meetings and are captured in monthly reports. In the 2019 reporting year, the LTIF was reduced to 10.3, as compared with a value of 13.3 in the previous year. Our target for 2020 is to permanently reduce the average Group-wide accident frequency to an LTIF value of 10.0[1].

To ensure regular exchanges on the topic of occupational safety in Europe **within the Group**, we have established a committee comprising experts from the European country organizations. It meets twice a year and is responsible for monitoring the overall activities and coordinating our occupational safety strategy. The committee liaises closely with the US country organizations and reports directly to the managers responsible for operations.

All European country organizations with the exception of Belgium have already implemented occupational health and safety certification, usually under the international standard OHSAS 18001/ISO 45001.

At country and branch level, SHEQ teams at each of our country organizations work continuously to systematically reduce the risk of accidents and to raise occupational safety awareness among the workforce. Officers at each country organization are responsible for the regional rollout of adopted measures, subject accident causes to plausibility checking, perform risk analysis and coordinate cross-location training.

Local occupational health and safety officers sensitize employees at individual branches. This is done by such means as training courses and training videos as well as by visual means including posters, accident reports and a safety card that memorably presents key rules of conduct in credit card format. In addition, all visitors are required to wear helmets, safety shoes and high-visibility vests. Our operational processes are also optimized on an ongoing basis with individual improvements according to context. As early as 2018, a new series of educational videos was created, which was continued with a fourth episode in the reporting year. We also introduced a "Safety 1st e-learning course" that has been a firm feature of the onboarding process for every employee since the start of the year.

Accidents are always avoidable and preventive action enables us to avert loss or harm to employees or our business in advance. In the event that an accident does happen, the occupational health and safety officer analyzes it together with those concerned in local teams in order to identify measures for improvement and systematically avoid a repeat occurrence. The country organization officer files a detailed accident report to the holding company's occupational health and safety officer via our reporting system. Additional specific action is taken in the event of any unusual occurrences such as a spate of similar accidents at one country organization or location.]√

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[1] The LTIF applies solely to Klöckner & Co employees. Commuting accidents are not included.

Fair working conditions

For Klöckner & Co, fair working conditions are the basis for the motivation, and hence productivity, of our employees. A working environment characterized by mutual respect and free from discrimination of any kind is a necessary precondition for motivation and creativity.

In accordance with our Code of Conduct, we have undertaken to ensure, among other things, that our colleagues, applicants and business partners are met with respect and judged according to their qualifications, skills and performance. We respect diversity of cultural, ethical and religious backgrounds and are committed to the principle of equality. Detailed rules of conduct for our employees are set out in our Code of Conduct on our website.

In general, we strive to increase diversity in our workforce as well as to foster creativity and an innovative spirit in the Company with employees of differing cultural backgrounds, lifestyles and values. For us as an international Group, serving our customers day in, day out in numerous countries around the world calls for a strong global team with a high level of diversity. In total, we employ people from some 70 different nationalities in our Group. Recruitment criteria are based exclusively on professional aptitude. In accordance with collective agreements, we also do not differentiate in terms of pay.

However, diversity of nationality is not the only important consideration for Klöckner & Co. We also aim to appoint women to specialist and management positions. We have not only set our sights on increasing the number of women in management roles throughout the Group but have already incorporated and begun implementing it in our strategy. So far, the percentage of women employed at management levels one to three below board level has already been raised from 8% in 2011 to 14% in 2014 and on to 17% by the end of 2019. The aim is to have 22% of management positions held by women by the year 2022.

The success of our approach to promoting women in managerial positions is demonstrated by the findings of the 2015 to 2018 iterations 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, which was released in the first quarter of 2019, Klöckner & Co was singled out for the fourth time in a row as one of the top ten companies out of over 160 participants.

Klöckner & Co was also awarded five out of five possible stars in the 2019 Brigitte study, investigating the best employers for women in Germany. Factors weighed in the study included the compatibility of professional and family life, workplace flexibility, career entry support, positions in top management, value placed on promoting women in the company and transparency. In that regard, Klöckner & Co received a special mention because we prescribe that, in HR consultants’ recruitment searches for new employees, a minimum of 30% of the candidates put forward must be women.

Constructive and respectful working environment

Diversity, mindfulness and mutual respect are not only good for the working environment. They also create the right setting for the creation of marketable ideas and innovations. CEO Gisbert Rühl has emphasized that, “Neutrality and openness with regard to gender, origin, age and appearance are our overriding principles in mutual dealings. We are pleased to say that most colleagues abide by this. Discriminatory behavior is completely unacceptable to us both from a human and from a business perspective and is in no way tolerated.” For management, this means resolving critical situations, supporting affected employees and thus ensuring a constructive and respectful working environment. To do justice to its importance, the topic of respectful interaction was included in the Group-wide compliance training for all employees.

For Klöckner & Co, consideration of our employees' differing backgrounds and wishes represents a further factor of respect. This is notably reflected in a supportive, flexible and mobile approach to work. At the holding company of Klöckner & Co SE, provision has been made since 2017 for employees to work from a home office in order to organize their roles more flexibly both in terms of working hours and the space used. Similar programs are also recommended for our country organizations. In this way, we aim to make it possible for our employees to better harmonize their personal and professional lives as well as to improve quality and productivity. By giving employees greater autonomy with regard to how they arrange and carry out their work, we also intend to generate a higher level of satisfaction with the work itself and the results achieved.

RESPONSIBLE CONDUCT

The **Responsible Conduct action area** *encompasses two topics material to the Group non-financial report, namely compliance and human rights in the supply chain, as well as Klöckner & Co's corporate citizenship, which is also reported on within this section.*

Klöckner & Co takes a holistic approach to responsible conduct. Consequently, although it is defined here as a single action area, it may also be regarded as an overarching concept that encompasses all other action areas. This is because, for Klöckner & Co, responsible conduct based on ethical convictions paves the way for long-term business success and hence also for sustainability.

Underscoring this aspiration, we have also publicly committed to a responsible leadership culture. Accordingly, in January 2017, CEO Gisbert Rühl co-signed the "Compact for Responsive and Responsible Leadership" sponsored by the International Business Council of the World Economic Forum. Klöckner & Co is also among the signatories of the "German Industry's Code of Responsible Conduct for Business" and thus gave its commitment as long ago as May 2011 to both success-oriented and value-oriented leadership in the spirit of the social market economy.

Comply with the Code of Conduct on own responsibility

An integral part of our corporate culture is compliance on the part of our employees and business partners, constituting the basis of corporate responsibility. Alongside consistent respect for human rights, adherence to our fundamental corporate values and principles is of central importance to us. We have formulated those values and principles in our Code of Conduct. Compliance with this is the direct responsibility of each individual and cannot be delegated.

As a tradition-rich company, Klöckner & Co also regards it as its duty to contribute to the wellbeing of society. Active involvement in the immediate vicinity of our headquarters and branches is a key aspect and an identity-building factor for our Group.

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 interactions with business partners, as well as to establish responsible relationships.

We aim to avoid potentially corrupt and antitrust situations as a fundamental rule and to counteract potential violations at an early stage. Every employee is called upon to actively help implement the Klöckner & Co compliance program within their sphere of responsibility.

One of Klöckner & Co's fundamental principles is that our employees act in accordance with prevailing competition law. We are committed to free competition and the recommendations of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of December 17, 1997. Klöckner & Co also endeavors to comply with all anti-corruption laws of the countries in which we do business, including the UK Bribery Act and the US Foreign Corrupt Practices Act.

All Board members, managerial staff and employees must be aware of the extraordinary risks that can be involved in any antitrust or corruption case, both for Klöckner & Co and for the individual. Klöckner & Co expects employees at all levels of the Company, regardless of their hierarchical position, to comply with prevailing competition rules and antitrust laws. The Management Board has unequivocally expressed in its "Tone at the Top" that antitrust violations and corruption are not tolerated at Klöckner & Co and any infringements are systematically pursued. Our employees are provided with a frame of reference and guidance in the form of our Group-wide Code of Conduct together with internal Group guidelines and procedural instructions on topics such as adherence to antitrust rules, the engagement of intermediaries, anti-money laundering, export controls and anti-corruption in business dealings. We expect external business partners to comply with the ethical values and principles enshrined in our Code of Conduct, Supplier Code of Conduct or a comparable code of their own and to implement them effectively in their organization.

Compliance management system: prevent corruption and money laudering

To support compliance with these stipulations, we have established a compliance management system based on the OECD Principles of Corporate Governance. Focal areas of this system include competition law, anti-corruption and the prevention of money laundering. For the onward development, control and implementation of the compliance management system, we have set up a compliance organization that provides employees with regular information and training on relevant statutory provisions as well as internal guidelines and procedural instructions. In addition, the Chief Compliance Officer reports to the entire Management Board each month on current developments and immediately escalates ad hoc reports to the CEO.

The compliance organization conducts regular compliance risk assessments with the country organizations. As part of risk analysis, the compliance organization evaluates individual compliance risks together with the managing directors of the various country organizations and takes precautionary action. During the reporting year, no need for action was identified in the risk areas of antitrust law and corruption beyond the measures already taken.

In cooperation with the Corporate Internal Audit Department, compliance audits are also carried out in our country organizations as part of the scheduled ICS audit to verify adherence to the compliance tools and rules implemented.

To prevent corruption, we established strict criteria for the engagement of intermediaries as long ago as 2010 and subject intermediaries to compliance screening before entering into a contract with them. Klöckner & Co makes use of an external service provider for this purpose. The screening is repeated at set intervals and according to risk. All level 1/level 2 managerial employees are additionally subjected to independent integrity screening supplemented with regular self-disclosure questionnaires.

In the interest of all employees and to avert damage to the Company, procedural instructions are provided that detail permissible conduct. The country organizations publish the Group guidelines and procedural instructions in their area of responsibility and adopt the measures needed to implement the respective requirements. For this purpose, use is made among other things of the Corporate Compliance Office's Compliance SharePoint, where all relevant compliance documents are provided online as a "Single Point of Truth" for all Group employees. A new e-learning course aimed at renewing compliance declarations, together with awareness training on various forms of CEO fraud, was developed and rolled out in the reporting year. Within the scope of the e-learning program, employees were updated on changes and submitted a new version of the declaration.

Classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of, for instance, compliance-related issues such as antitrust law, corruption risks, money laundering risks and fraud. We first separate employees into different target groups which receive training tailored to their specific areas of work. New hires must complete Code of Conduct training when they join. In addition to all new employees, we started registering all industrial workers in Europe for Code of Conduct training in the reporting period. Prior to 2019, industrial workers were not included in Code of Conduct training for new hires, which is why they are receiving instruction starting this year. In the reporting period, some 940[2] employees underwent training.

On starting work for the Group, employees in certain target groups, especially those who come into contact with officials, customers, suppliers and service providers, must complete basic compliance training in addition to Code of Conduct training. In the reporting period, we also expanded the number of employees registered for basic compliance training to roughly 610[2].

Additionally, 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. In the reporting year, basic compliance training was expanded to include a new module on CEO fraud. All previously mentioned mandatory and other training options remain on offer and available this year.

If they have a question about ethical conduct or doubts about the legal position 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. Our employees and business partners additionally have the option of directing information on potential compliance violations and/or breaches of our Code of Conduct directly to the Corporate Compliance Office. 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.

The effectiveness of our compliance management system is reflected in the figures: We had no serious breach of our guidelines to report this year, and none of our 13[2] reviews of individual business locations by Internal Audit identified material antitrust risks or corruption or bribery infringements.] √

Human rights in the supply chain

[Klöckner & Co SE and its country organizations pay attention to ethically correct and compliant behavior in business dealings. This concerns both our own Company and all upstream parts of our value chain. We expect everyone in our supply chain to follow the same principles.

As stated in our Code of Conduct and moreover in our Group human rights policy, Klöckner & Co does not tolerate any violation of the principles set out in them. Alongside observance of laws and human rights, these principles include the prohibition of child labor and ensuring workforce health and safety as well as compliance with the statutory minimum wage and working hours.

[2] Data for the period October 1, 2018 to September 30, 2019.

In order to clearly convey this expectation to our suppliers, we introduced a Supplier Code of Conduct in fiscal year 2018, which is available on our website and was also sent out to all key suppliers. By signing this document, suppliers commit to observing the applicable laws, sustainability and the ethical values of Klöckner & Co. If a supplier has its own equivalent company code of conduct, the Corporate Compliance Office verifies the equivalence of the requirements. If this verification uncovers major discrepancies in the areas mentioned and the supplier declines to acknowledge our Supplier Code of Conduct, further purchases from that supplier are blocked. The verification process did not determine any discrepancies in the reporting year.

We generally seek long-term relationships with suppliers and work together with them wherever possible to deliver improvements and sustainable solutions. Two-thirds of our key suppliers have been supplying Klöckner & Co for more than five years and have shown themselves to be reliable business partners.

Prudent and responsible product procurement is of special importance to Klöckner & Co. For example, a key goal in the procurement process is to ensure that minerals contained in our products are not from conflict states.

Reviewing our product portfolio for conflict minerals

A particularly important concern for us as a distributor is the origin of the minerals incorporated in the products we sell. The importance of this topic is also reflected in requirements laid down by our international customers, who expect us to provide clear proof of origin. Of particular interest in this regard are conflict minerals such as columbite tantalite (coltan), cassiterite, gold, wolframite and derivatives, which include tantalum, tin and tungsten. The annual review of our product portfolio in fiscal year 2019 showed that less than 1% of our products possibly contain tantalum, tin or tungsten.

Since the entry into force of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as notably the Conflict Minerals Rule, Klöckner & Co analyzes every year whether conflict minerals are used in the manufacture of the products concerned and, if so, whether they originate from the Democratic Republic of the Congo or neighboring states. Those neighboring states today comprise Angola, Burundi, the Central African Republic, the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

If suppliers manufacture components, parts or products using the minerals in question, we require that those materials are not sourced from the aforementioned states. We use the Responsible Reporting Initiative's "Conflict Minerals Reporting Template" to systematically track the provenance of conflict minerals for all relevant suppliers if our customers request corresponding proof. We expect our suppliers, together with their subcontractors, to trace conflict minerals at least to where they were smelted and to commit to standard reporting processes. Klöckner & Co reserves the right to demand supply chain verification from its suppliers and, where appropriate, to trace conflict minerals back to the mine of origin. For their part, suppliers should also formulate and implement conflict minerals policies and principles. If possible, they should require their upstream suppliers to adopt and follow corresponding policies and principles.

We expect our suppliers to retain the relevant documentary proof for five years and to submit it to Klöckner & Co on request. Should a supplier fail to provide proof of origin for conflict minerals, further purchases from that supplier are systematically blocked. The same applies if the supplier does not acknowledge the above principles regarding the source of conflict minerals. In the 2019 reporting year, no suppliers needed to be blocked for failure to provide proof.] √

Corporate citizenship

Active, local community engagement

Klöckner & Co operates in 13 countries worldwide, maintains some 160 locations and employs around 8,300 people. This gives rise to responsibility not only for our employees, but also toward the regions in which our headquarters and branches are located. We consequently give our commitment to the immediate surroundings of our locations and, in this way, play our part in meeting social challenges.

Our goal is for the financial support we provide to benefit those who really need it. Donation and sponsoring activities are conducted autonomously by our country organizations as they are best placed to judge individual needs in their region. They are provided with a framework in the form of Group-wide procedural instructions through which we ensure that our activities have a common thrust while being tailored to individual market conditions. The focus of our activities is on supporting selected scientific, sports, art and cultural projects along with ongoing promotion of education initiatives and the integration of refugees into our society.

In order to avoid conflicts of interest, we do not as a matter of principle donate to political parties, individuals, for-profit organizations or organizations whose goals conflict with our corporate governance principles or could harm our reputation.

REGIONAL AID PROJECTS

Klöckner & Co has a clear strategy for supporting non-profit projects in Germany: Our aim is to improve educational opportunities for disadvantaged children who live in our immediate vicinity over the long term. To achieve this goal, our contribution centers on local projects to educate children and young people or cater to their basic needs in Duisburg, where our headquarters are located.

Focus on neighborhood work in the Marxloh area of Duisburg

For ten years now, we have focused on neighborhood work in the Marxloh area of Duisburg, where a large number of residents have a migrant background.

In this area, we work with schools, children's and youth services as well as regional charities. Klöckner & Co's engagement in the area is organized around five strategic pillars to support tomorrow's young professionals and thus make a significant contribution to strengthening the region. Our many years of support provide continuity and sustainability.

1. Basic needs: Klöckner & Co helps organizations in Marxloh to prepare healthy meals so that children and young people can concentrate at school and socialize with each other by sharing a meal, irrespective of their backgrounds.

2. Essential renovation works: In the past, we have already renovated a youth center and renewed the school yard canopy at an elementary school in cooperation with the City of Duisburg. We provided another elementary school where space was tight with multifunctional rooms. In addition, a school's grand piano was re-inaugurated in the reporting year following its refurbishment thanks to co-financing from Klöckner & Co.

3. Strong network: Klöckner & Co frequently makes use of its strong network to enable Marxloh organizations to participate in exclusive projects, such as the annual "Wagner für Kinder" (Wagner for children) costume competition staged by the Bayreuth Festival in cooperation with the Fair Play foundation. Katharina Wagner, great-granddaughter of the composer Richard Wagner, joined with CEO Gisbert Rühl to visit Klöckner & Co's partner schools in Duisburg. Together they designed costumes for the children's opera in Bayreuth. Students at one of the partner schools again got to travel to Bayreuth to see the costumes they had designed on stage during the premiere of the children's opera.

4. School education projects: Since 2013, Klöckner & Co has 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. In this way, we significantly contribute to removing barriers to equal opportunities among people of different social backgrounds. A partner school in Marxloh is also a beneficiary of Teach First Deutschland gemeinnützige GmbH's "Fellow" project, through which college graduates provide support to disadvantaged school students in their regular lessons. In the reporting year, we expanded our involvement with the "Tausche Bildung für Wohnen e.V." program, in which six teaching mentors support elementary-school children during lessons, study time and their after-school programs, and also give other neighborhood children a helping hand with their challenging lives outside of their school activities.

5. Music and creative development: Joining forces with the Ruhr Piano Festival Foundation, we developed an education project to foster children's musical and artistic development at different types of schools. First implemented with two schools in 2012, the program has since grown to include six schools with 650 students. In the 2018/2019 school year, the children and teens had 22 performances with audiences totaling nearly 5,000, more than ever before. A total of 730 workshops offered the students opportunities to expand their skills in music and dance. Our musical education work has earned supraregional recognition: After garnering the "Echo Klassik" award presented by Deutsche Phono-Akademie in the "Fostering Young Talent" category in October 2016, as well as the "Junge Ohren Preis" in November 2014, the education program was awarded the renowned "MIXED UP Preis" in 2018. The prize awarded by the Bundesvereinigung Kulturelle Kinder- und Jugendbildung e.V. (German Federation for Cultural Youth Education) and the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth praised the long-term cooperation across institutions and sectors in the "Long-runner" category. These and other awards are proof positive of our successful cooperation, which is to remain part of our activities going forward. The Ruhr Piano Festival Foundation also tackles pressing challenges such as the shortage of teachers, and invited 100 teachers-in-training to a study day in the reporting year in order to call their attention to career perspectives in the local schools.

In addition, Klöckner & Co makes an effort to step up for children on special occasions, including initiatives such as giving all elementary-school children in Marxloh gifts and school supplies at Christmas.

REFUGEE INTEGRATION

Creating employment opportunities

The integration of refugees into our society is another highly important concern for us. This particularly includes creating employment opportunities. One area with an especially large number of vacancies is the IT sector, which often makes it hard for companies to find qualified programmers. To help refugees with IT skills enter the job market, the knowledge they bring with them needs to be enhanced and supplemented in line with the needs of the German labor market in general and our business in particular. Under the umbrella of the "We together" German Industry Integration Initiative, Klöckner & Co therefore supports the ReDI School of Digital Integration in Berlin as main sponsor and provides premises for the project.

ReDI is short for Readiness and Digital Integration. Its students are provided with laptops and can attend beginning and advanced programming courses free of charge. 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 and Munich start-up scenes. We also have our own presence in Berlin with kloeckner.i, our Group Center of Competence for Digitalization. When filling new positions, we place special emphasis on recruiting ReDI School graduates. Internships prepare ReDI students for potential permanent employment at kloeckner.i, our digital subsidiary in Berlin.

UNIVERSITY EDUCATION

In Germany, we maintain close contact with the European Business School (EBS) and with the University of Duisburg-Essen, where Gisbert Rühl serves as president of the booster club. In addition to high-ranking executives from our Company giving lectures at these two higher education institutions, we take part in dialog events and answer students' questions. Furthermore, we offer students internships during which they can apply content from their studies to real business situations.

For some years now, 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.

ENVIRONMENT

Environmental impact of logistics

[One of the greatest challenges in the **Environment action area** *and of our times is climate change, and Klöckner & Co regards it as its duty to counter related risks with a suitable contribution to protecting the environment.*

Environmental protection is an important part of our SHEQ policy – our internal occupational safety, health, environment and quality policy. Governance functions related to SHEQ fall under the purview of Logistics & Operations within the Digital Transformation central department. All other functions lie with the country organizations, which have their own logistics departments. The Management Board receives reports on the developments from the central department at the holding company as a matter of course.

Goal: reducing our delivery fleet's CO_2 emission

A significant part of our business model involves shipping products to customers by truck. Klöckner & Co's key task in the Environment action area is therefore optimizing the environmental impact of logistics processes along our value chain. The Group-wide objective of our projects and measures in this area is to maintain our current high service level with fewer trucks, thereby both cutting costs and reducing CO_2 emissions.

To this end, we endeavor to influence the environmental impact of logistics at three levels in our value chain as a matter of principle – receipt of goods, internal transport and delivery to our customers.

At the first level, we strive to optimize the management of incoming goods. The products are mainly delivered to our locations by suppliers. Through the targeted coordination of suppliers at level one coupled with enhanced inventory management at level two, we aim to reduce the internal transport between our locations. This is achieved, for example, through optimized inventory allocation.

In addition, our internal networks in each country organization are checked on an ongoing basis. By monitoring and reporting relevant KPIs such as transport, warehousing costs and shipments, we can see where networks require adjustment.

In the pilot project region in eastern Germany, the warehouse structure was improved, which has further reduced our internal transport from other regions of Germany. France is pursuing the same aim by opening a new central warehouse in Paris to replace two existing ones. Switzerland is also undergoing further consolidation, with eleven steel warehousing locations being reduced to three regional centers. Seven warehousing locations are already closed down, and the eighth and final site will follow in early 2020. In addition to the existing central warehouse in Birsfelden, key warehouses for steel have been set up in St. Gallen and Crissier. This consolidation to a small number of locations increases truck capacity utilization. In addition, all locations at our country organization Kloeckner Metals UK and our German company Becker Stahl-Service are already certified to the ISO 14001 environmental standard, which also covers logistics.

Moreover, Kloeckner Metals UK attained BES 6001[3] certification for responsible sourcing in the reporting year.

At the third level, the goods are delivered to customers from our roughly 100 warehouse locations in Europe. Here, we pay particular attention to efficient delivery route planning, where key quality aspects include adherence to delivery dates along with ongoing optimum utilization of truck capacity and optimized route planning. Consequently, we launched the universal rollout of transportation planning software back in 2017. This is in operation throughout our EU country organizations with the exception of France. The transportation planning software delivers data we aim to harness to reduce the fuel consumption of the trucks we use. This can include tactics such as avoiding empty runs and fine-tuning delivery frequencies.

Several country organizations deploy state-of-the-art on-board computers that provide continuous feedback on driving behavior, vehicle speed and engine speed, thus helping to reduce truck fuel consumption and hence CO_2 emissions. In Germany, the drivers operating our modern fleet are provided with road training and regular feedback on their driving behavior. At Kloeckner Metals UK, too, the "Safe & Fuel Efficient Driving" program has been in place since 2017.

In addition, our UK organization replaced its own vehicles, and the modern fleet helped to further reduce diesel consumption.

With these measures, and above all the improved delivery route planning, we meet the ever increasing challenges – including smaller consignment sizes – faced in transportation logistics. By way of universally deploying the transportation planning software, we remain firmly focused on meeting our targets for cutting transportation costs while reducing CO_2 emissions through more efficient routes.] √

[3] BES 6001 is an independent certification system that rates and assesses manufactured products in terms of their responsible sourcing. The standard covers organizational governance, supply chain management and management requirements for sustainable development such as social and economic impacts.

DIGITALIZATION

Digitalization at Klöckner & Co

[The use of digital tools has become essential for every trading company the world over. This naturally also applies to us as a steel distributor. Alongside the obvious commercial opportunities, ongoing digitalization also presents new challenges for our employees. We tackle these with the measures taken in our **Digitalization action area.**

The digitalization strategy developed by Klöckner & Co aims to eliminate information asymmetries by digitally connecting all market participants in order to increase efficiency for all. To this end, Klöckner & Co founded a digital unit, kloeckner.i, in Berlin in 2014, which now has around 90 employees. Besides the systematic digitalization of internal and external processes, an essential component of this digital transformation is a profound cultural shift within the Company. Our employees therefore need to incrementally develop their digital mindset, which is crucial to our shared migration to Industry 4.0. We have set ourselves goals for the implementation of our digitalization strategy: By 2022, we aim to generate 60% of all Group sales via digital channels. In order to achieve that, we have developed measures that aim to embed contemporary, digital ways of working and thinking in the Company and thus drive forward our internal cultural shift.

Manage and implement digitalization centrally and locally

All members of the Klöckner & Co SE Management Board are working together to advance our digitalization strategy. However, the CEO has particular responsibility for strategy implementation and receives regular status and progress updates from the relevant functional managers. Operational implementation of the strategy is managed by Digital Transformation together with kloeckner.i, Group IT and external partners, among others. Group-wide, the central departments coordinate the digitalization activities in each country. In Europe, the central departments work with the local digitalization representatives to implement the strategy at the individual branches. They coach their colleagues on digital tools, performing part-time and full-time tasks ranging from weekly update calls to firmly established event formats.

To ensure that everyone embraces and sees themselves as part of the changes, we have prepared a broad range of measures offering all employees the opportunity to acquire digital know-how at their own speed. Employees have access to job-specific, in-house training and language courses via our Group-wide Digital Academy in order to selectively broaden their digital skills. This enables them to take part in online training on a voluntary basis during office hours on our premises or from a home office. The academy offers numerous online courses for users, mostly with the aim of enhancing digital skills. More than 3,100 employees have already signed up for the courses the Digital Academy has to offer, around 2,200 of them in 2019. When things got started in 2016, there were only a few hundred users. Participants' feedback and requests are also taken into account in the development of new course topics so that they have a hand in shaping future training packages. In 2019, new courses were created in the areas of platform thinking, artificial intelligence and agility to specifically address the needs of our employees. Notably the course on agile working, which teaches methodology, stands out for its large number of participants.

In order to provide more in-depth practical knowledge of digital work methods, we have also implemented the Group-internal "Digital Experience" exchange program within our country organizations. Participants' digital and individual skills are further enhanced in a several-week stay at our digital unit kloeckner.i in Berlin. In return, the exchange with colleagues who are mostly involved in business operations gives kloeckner.i first-hand expertise in steel. While in recent years the international exchange program was directed primarily at sales staff, participation was opened up to other areas of the Company, such as HR and apprentices, in the reporting year.

Another key driver of our cultural change is in-depth internal communication to highlight for employees the need for digital transformation and to alleviate any concerns.

As early as 2014, Klöckner & Co introduced the Yammer social network throughout the Company. Today, some 70% of employees use the hierarchy-free communications portal to exchange ideas, enter into discussions and as a valuable information resource. The CEO invites all employees to engage in open dialog on Yammer and uses the tool – in addition, for instance, to regular town hall meetings – as an information channel to communicate on the progress of our digitalization strategy, among other things.

Group-wide collaboration tools

In order to enhance cooperation within the Group, promote agility and inspire enthusiasm for innovations, Klöckner & Co continued with the rollout and refinement of #DigiDesk in the reporting year. This lets the workforce make use of all Microsoft Office 365 applications via the cutting-edge intranet. A hub structure connects all individual #DigiDesks, which are a source of local insights, so that employees can effortlessly exchange experiences, files and news around the world. Toward the end of summer, we also migrated the Digital Academy to the SharePoint environment.

Agility is a key prerequisite for speeding up internal processes and responding instantly to customers' changing wishes – and thus gaining an edge over competitors in the marketplace. By applying agile working methods, we design digital solutions for our customers and partners in the shortest possible time. The Group is continually expanding its agile methods expertise. Two-day scrum courses run by external trainers teach our holding company employees the basics of the agile methodology. Afterwards, a test can be taken to certify the course participant as a scrum master or product owner. In order to also reach employees unable to participate in the courses, we launched an agility campaign on Yammer in 2018 that vividly illustrates the different principles and methods of agile working and thinking. The videos and images proved so popular that we created a poster summarizing the key principles of agility in the reporting year. Furthermore, five branches were invited to enter a competition in the employee magazine with the chance to win a whiteboard as well as agile training on the Kanban method. For Klöckner & Co, the goal is to establish an open learning and failure culture within our Group in order to become faster and more agile as well as less perfectionist in our work. Once again in 2019, colleagues reported in Failure Sessions on projects or experiences that were not successful, and what they learned from them.

This lets us meet the challenges of digital transformation and forge a link between the internal cultural shift and the operational objectives of our digitalization strategy. The growing number of employees registered at our Digital Academy and active in the corresponding Yammer group is testament to our employees' improved digital skills and new way of thinking. This is similarly reflected in the constructive suggestions and ideas put forward by employees with regard to optimizing the speed and quality of our processes.] √

CUSTOMERS

Customer satisfaction

In the Customers action area*, both customer satisfaction and customer loyalty are key factors for us that secure Klöckner & Co's long-term market success.*

As an international steel and metal distributor, we aim to offer customers the highest quality and optimum service. Reliable service strengthens our position as the connecting link between customers and suppliers on a lasting basis. High product quality, an extensive range of services and our digital solutions make us a reliable partner to customers from all industries.

Klöckner & Co prioritizes high levels of customer satisfaction and enhancement of our customer focus. This is why, in keeping with the design thinking approach, we always conceptualize products and services, sales channels and innovations from the customer perspective. Accordingly, we actively involve our customers in the process and selectively analyze their personal wishes and needs.

Focusing on customers when developing products and tools

We make use of various agile working methods from the start-up world for this purpose. To keep product development moving forward and on target, we conduct results-driven interviews with customers and use new insight methods such as mapping "customer journeys". These involve visualizing the customer experience, from initial contact with the product through the entire use process to long-term product adoption. The resulting insights help us fine-tune our products, tools and services. On this basis, we first develop what is referred to as a "minimum viable product" – one that initially meets just the most basic requirements. In the past, our development of such products or tools involved significantly greater effort and expense. Every conceivable feature and business contingency had to be catered for in the quest for perfection. In consequence, too much time was spent on product development coupled with high cost and dissatisfaction on all sides. That is why we have adopted the lean start-up approach, also in a variety of in-house projects. This approach makes us significantly faster in that we meet only the most important requirements in an initial stage. Improvements can always be added progressively later on. That way, we also avoid the risk of tying up capacity for new product features that ultimately offer no added value for customers.

Our digital unit in Berlin, kloeckner.i, keeps regularly in touch with customers to obtain information on their requirements and satisfaction levels and to gear development of the digital product portfolio to their needs. In response to requests from our customers, we improved the user-friendliness of our online marketplace by introducing various new features in the reporting year. The Kloeckner Sales Cockpit – a long desired tool – was completed in 2019. Sales and customer service staff can log in as a customer in order to better provide assistance. In this way, they get a detailed view of issues from the customer's perspective and are able to find a tailor-made solution as quickly as possible. The contract platform has been integrated into the online shop so that now customers need only access a single portal for all they require (online shop, overview of orders, offer tool and contract platform).

In addition, customers who contact our customer service department in Berlin are asked whether they are satisfied with the service provided by Klöckner & Co . The accumulated customer feedback helps to continuously improve the digital system landscape and workflows. On average, our customers were very satisfied.

Optimizing systems and processes with the help of customer surveys

To ensure the effectiveness of our working approaches and gain insights into how they are being received, we conduct regular customer surveys in our country organizations. All customers of our German and Austrian country organizations are asked to give their opinions on various aspects through annual surveys. Aspects covered include availability, product range, product quality, product availability, the processing range, employee proficiency, delivery time, delivery punctuality, order documentation and complaint handling. In 2019, Klöckner & Co Deutschland received an overall grade of 2.25 and our Austrian country organization a grade of 1.75.

To obtain meaningful opinions on the Part Manager – a digital platform customers can use to conveniently order and track parts – as well as its influence on perceptions of the company as a whole, a customer survey aimed at determining customer loyalty through a net promoter score (NPS) was conducted in the USA. Responses to the key question about whether respondents would recommend the Part Manager averaged out at 8.61 out of 10 points. Kloeckner Metals Corporation's total net promoter score, which also takes into account other factors such as organizational data and customer characteristics, was 50 on a scale of –100 to +100.

We use these surveys to constantly improve our systems and workflows and initiate measures to enhance customer loyalty. For Klöckner & Co, satisfied customers pave the way for sustained, long-term growth.

Independent Auditor’s Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2019 of Klöckner & Co SE Group. The following text is a translation of the original German Independent Assurance Report.

To Klöckner & Co SE, Duisburg

We have performed a limited assurance engagement on the non-financial report of Klöckner & Co SE group according to § 315b HGB (“Handelsgesetzbuch”: German Commercial Code), whose disclosures are marked with the symbol „√“ in the Sustainability Report for the reporting period from 1 January 2019 to 31 December 2019 (hereafter non-financial report). Our engagement exclusively relates to the information marked with the symbol „√“ in the German PDF version of the Sustainability Report. Our engagement did not include any disclosures for prior years.

MANAGEMENT'S RESPONSIBILITY

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY CONTROL

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between November 2019 and March 2020, we performed amongst others the following assurance and other procedures:

- Inquiries of employees and inspection of documents regarding the selection of topics for the non-financial report, the risk assessment and the concepts of Klöckner & Co SE for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial report,
- Identification of likely risks of material misstatement in the non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, aggregating and validating data in the relevant areas in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the non-financial report,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data and disclosures,
- Evaluation of the presentation of disclosures in the non-financial report.

ASSURANCE CONCLUSION

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of Klöckner & Co SE for the period from 1 January 2019 to 31 December 2019 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with Klöckner & Co SE. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

ENGAGEMENT TERMS AND LIABILITY

The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, Germany, 2 March 2020

Ernst & Young GmbH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Nicole Richter
WIRTSCHAFTSPRÜFERIN
(GERMAN PUBLIC AUDITOR)

Annette Johne
WIRTSCHAFTSPRÜFERIN
(GERMAN PUBLIC AUDITOR)

FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements

Consolidated statement of income

for the 12-month period ending December 31, 2019

(€ thousand)	Notes	2019	2018
Sales	7	6,314,719	6,790,492
Changes in inventory	16	– 11,003	8,724
Own work capitalized	15	1,526	-
Other operating income	8	76,286	30,806
Cost of materials	9	– 5,146,991	– 5,471,167
Personnel expenses	10	– 626,701	– 606,308
Depreciation and amortization	15	– 137,298	– 85,639
thereof impairment losses	*15*	*– 4,111*	*– 440*
Other operating expenses	11	– 469,371	– 523,954
Impairment losses trade receivables		563	– 1,493
Operating result		**1,730**	**141,461**
Finance income		848	1,614
Finance expenses		– 41,606	– 36,171
Financial result	**12**	**– 40,758**	**– 34,557**
Income before taxes		**– 39,028**	**106,904**
Income taxes	13	– 15,848	– 38,251
Net income		**– 54,876**	**68,653**
thereof attributable to			
– shareholders of Klöckner & Co SE		*– 56,158*	*67,776*
– non-controlling interests		*1,282*	*877*
Earnings per share (€/share)	14		
– basic		–0.56	0.68
– diluted		–0.56	0.66

Statement of comprehensive income

for the 12-month period ending December 31, 2019

(€ thousand)	2019	2018
Net income	**– 54,876**	**68,653**
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	– 29,592	7,192
Related income tax	– 3,920	171
Gain/loss from equity instruments	**– 2,502**	**499**
Total	**– 36,014**	**7,862**
Other comprehensive income reclassifiable		
Foreign currency translation	22,550	29,800
Gain/loss from cash flow hedges	5	– 147
Reclassification to profit and loss due to sale of foreign subsidiaries	-	8
Total	**22,555**	**29,661**
Other comprehensive income	**– 13,459**	**37,523**
Total comprehensive income	**– 68,335**	**106,176**
thereof attributable to		
– shareholders of Klöckner & Co SE	*– 69,540*	*105,295*
– non-controlling interests	*1,205*	*881*

Consolidated statement of financial position

as of December 31, 2019

ASSETS

(€ thousand)	Notes	December 31. 2019	December 31. 2018
Non-current assets			
Intangible assets	15 (a)	130,507	147,945
Property, plant and equipment	15 (b)	801,861	638,914
Other financial assets	18	14,987	16,535
Other non-financial assets	18	9,523	5,215
Current income tax receivable	13	4,150	6,156
Deferred tax assets	13	6,534	17,502
Total non-current assets		**967,562**	**832,267**
Current assets			
Inventories	16	1,042,651	1,240,544
Trade receivables	17	579,825	716,492
Contract assets	17	31,607	23,453
Commissions, discounts and rebate receivables	17	63,827	64,046
Current income tax receivable	13	10,583	6,327
Other financial assets	18	11,935	14,150
Other non-financial assets	18	25,730	22,732
Cash and cash equivalents	19	182,520	141,344
Total current assets		**1,948,678**	**2,229,088**
Total assets		**2,916,240**	**3,061,355**

EQUITY AND LIABILITIES

(€ thousand)	Notes	December 31, 2019	December 31, 2018
Equity			
Subscribed capital		249,375	249,375
Capital reserves		575,060	682,412
Retained earnings		345,569	324,638
Accumulated other comprehensive income		5,550	18,935
Equity attributable to shareholders of Klöckner & Co SE		**1,175,554**	**1,275,360**
Non-controlling interests		6,912	6,282
Total equity	**20**	**1,182,466**	**1,281,642**
Non-current liabilities			
Provisions for pensions and similar obligations	22	284,558	260,180
Other provisions and accrued liabilities	23	17,313	16,422
Financial liabilities	24	563,961	500,845
Other financial liabilities	26	144	156
Other non-financial liabilities	26	-	3
Deferred tax liabilities	13	42,163	45,876
Total non-current liabilities		**908,139**	**823,482**
Current liabilities			
Other provisions and accrued liabilities	23	96,954	98,730
Income tax liabilities	13	10,400	12,156
Financial liabilities	24	60,742	19,740
Trade payables	25	599,248	768,484
Other financial liabilities	26	24,431	21,118
Other non-financial liabilities	26	33,860	36,003
Total current liabilities		**825,635**	**956,231**
Total liabilities		**1,733,774**	**1,779,713**
Total equity and liabilities		**2,916,240**	**3,061,355**

Consolidated statement of cash flows 2019

(€ thousand)	2019	2018
Net income	- 54,876	68,653
Income taxes	15,848	38,251
Financial result	40,758	34,557
Depreciation, amortization and impairments of non-current assets	137,298	85,639
Other non–cash income/expenses	- 138	299
Gain on disposal of non–current assets	- 47,283	- 2,212
Change in net working capital		
Inventories	214,552	- 136,247
Trade receivables incl. Contract assets and Commissions, discounts and rebates receivables	144,010	- 15,455
Trade payables	- 181,083	80,546
Change in other operating assets and liabilities	- 14,838	- 35,044
Interest paid	- 33,094	- 27,020
Interest received	1,064	1,705
Income taxes paid	- 17,984	- 33,474
Cash flow from operating activities	**204,234**	**60,198**
Proceeds from the sale of non–current assets	54,900	5,356
Proceeds from the sale of financial assets	-	1,116
Payments for intangible assets, property, plant and equipment (incl. financial assets)	- 51,816	- 64,997
Payments for investments in consolidated subsidiaries	-	- 1,109
Cash flow from investing activities	**3,084**	**- 59,634**
Dividend payments to shareholders of Klöckner & Co SE	- 29,925	- 29,925
Dividend payments to non–controlling interests	- 1,053	- 1,238
Borrowings	5,075	313,525
Repayment of financial liabilities	- 136,790	- 290,656
Proceeds from derivates	- 6,458	- 6,904
Cash flow from financing activities	**- 169,151**	**- 15,198**
Changes in cash and cash equivalents	**38,167**	**- 14,634**
Effect of foreign exchange rates on cash and cash equivalents	3,009	2,417
Cash and cash equivalents at the beginning of the period	141,344	153,561
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**182,520**	**141,344**

Cash and cash equivalents (including €2 million short-term deposits) came to €183 million at the year-end 2019 (2018: €141 million).

See Note 33 for notes on the cash flow statement.

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, 2018	**249,375**	**682,412**	**282,873**
Adjustments on initial application of IFRS 9 (net of tax)	-	-	2,131
Adjustments on initial application of IFRS 15 (net of tax)	-	-	2,130
Other comprehensive income			
Foreign currency translation	-	-	-
Gain/loss from equity instruments	-	-	-
Gain/loss from net investment hedges	-	-	-
Actuarial gains and losses (IAS 19)	-	-	-
Related income tax	-	-	-
Reclassification to profit and loss due to sale of foreign subsidiaries	-	-	-
Other comprehensive income	**-**	**-**	**-**
Net income	-	-	67,776
Total comprehensive income	**-**	**-**	**-**
	-	-	– 346
Change of non–controlling interests	-	-	– 1
Dividends	-	-	– 29,925
Balance as of December 31, 2018	**249,375**	**682,412**	**324,638**
Balance as of January 1, 2019	**249,375**	**682,412**	**324,638**
Other comprehensive income			
Foreign currency translation	-	-	-
Gain/loss from equity instruments	-	-	-
Gain/Loss from cash flow hedges	-	-	-
Actuarial gains and losses (IAS 19)	-	-	-
Related income tax	-	-	-
Other comprehensive income	**-**	**-**	**-**
Net income	-	-	– 56,158
Total comprehensive income	**-**	**-**	**– 56,158**
Change of non–controlling interests	-	-	– 338
Dividends	-	-	– 29,925
Withdrawal from capital reserves	-	– 107,352	107,352
Balance as of December 31, 2019	**249,375**	**575,060**	**345,569**

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
121,907	**– 138,555**	**– 1,936**	**1,196,076**	**6,235**	**1,202,311**
-	-	-	2,131	48	2,179
-	-	-	2,130	-	2,130
29,800	-	-	29,800	-	29,800
-	-	499	499	-	499
-	-	– 147	– 147	-	– 147
-	7,186	-	7,186	6	7,192
-	173	-	173	– 2	171
8	-	-	8	-	8
29,808	**7,359**	**352**	**37,519**	**4**	**37,523**
-	-	-	67,776	877	68,653
-	**-**	**-**	**105,295**	**881**	**106,176**
-	-	-	– 346	235	– 111
-	-	-	– 1	121	120
-	-	-	– 29,925	– 1,238	– 31,163
151,715	**– 131,196**	**– 1,584**	**1,275,360**	**6,282**	**1,281,642**
151,715	**– 131,196**	**– 1,584**	**1,275,360**	**6,282**	**1,281,642**
22,547	-	-	22,547	3	22,550
-	-	– 2,502	– 2,502	-	– 2,502
-	-	5	5	-	5
-	– 29,490	-	– 29,490	– 102	– 29,592
-	– 3,942	-	– 3,942	22	– 3,920
22,547	**– 33,432**	**– 2,497**	**– 13,382**	**– 77**	**– 13,459**
-	-	-	– 56,158	1,282	– 54,876
22,547	**– 33,432**	**– 2,497**	**– 69,540**	**1,205**	**– 68,335**
– 3	-	-	– 341	478	137
-	-	-	– 29,925	– 1,053	– 30,978
-	-	-	-	-	-
174,259	**– 164,628**	**– 4,081**	**1,175,554**	**6,912**	**1,182,466**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2019

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

The consolidated financial statements of Klöckner & Co SE, as the ultimate parent company, and its subsidiaries (the Klöckner & Co Group) were authorized for submission to the Supervisory Board by resolution of the Management Board on March 2, 2020. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it approves the consolidated financial statements.

(2) Basis of accounting

The consolidated financial statements as of December 31, 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional requirements under Section 315e (1) of the German Commercial Code (Handelsgesetzbuch/HGB). All binding IFRS and the associated interpretations of the IFRS Interpretations Committee (IFRIC) as of December 31, 2019 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 and pension obligations 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 it controls (subsidiaries).

The financial statements of subsidiaries acquired or divested during the fiscal year are included in the consolidated financial statements from the date when control is obtained to the date when control is lost.

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:

	2019	2018
Consolidated entities at the beginning of the financial year*)	69	69
+ business combinations	-	2
+ newly formed/consolidated companies	-	2
– mergers	– 2	– 2
– disposals and liquidations	– 2	– 2
Consolidated entities at the end of the financial year	**65**	**69**
thereof domestic entities including Klöckner & Co SE)*	*13*	*13*

*) Including consolidated special-purpose entities.

As in the prior year, two subsidiaries that do not have a significant impact on the Group's net assets, financial position and results of operations 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

Special-purpose entities exist in connection with the Group's European asset-backed securitization program (ABS program). The interests in these special-purpose entities are held by independent and privately owned service companies that are responsible for accounting in the parent. The entities purchase merchandise receivables from the subsidiaries participating in the ABS program on contractually agreed terms. They are financed by conduit credits refinanced by commercial paper issues or loans granted by the banks involved. The rating required for the commercial paper is ensured by maintaining accounts receivable reserves and meeting performance indicators.

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

Klöckner & Co SE is 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 €85 million (2018: €155 million).

For the ABS program in the USA, there is a special-purpose entity (NC Receivables Corporation, Wilmington, Delaware, USA) which is wholly owned by Kloeckner Metals Corporation, Wilmington, Delaware, USA and included in the consolidated financial statements based on the associated control. The special-purpose entity purchases merchandise receivables from the subsidiaries in the USA and Mexico, which transfer the receivables. The NC Receivables Corporation in turn resells them to a conduit either issuing commercial paper to investors or utilizing a liquidity fund for financing purposes.

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

(4) Acquisitions and disposals

The group structure changed, as listed below, as a result of the following acquisitions and disposals during fiscal years 2019 and 2018, with corresponding impacts on the presentation of the net assets, financial position and results of operations.

ACQUISITIONS

2019

There were no acquisitions in 2019.

2018

On November 30, 2018, ODS Metering Systems B.V., Rotterdam, Netherlands, acquired 80% of the shares in the GSD Group consisting of Global Systems Development BVBA, Essen, Belgium, and its subsidiary GSD Technics BVBA, Essen, Belgium, for a purchase price of €1.1 million.

DISPOSALS AND LIQUIDATIONS

2019

As of January 1, 2019, American Fabricators, Inc., Nashville, USA, was merged with Kloeckner Metals Corporation, Wilmington, Delaware, USA.

On May 22, 2019, GSD Technics BVBA, Essen, Belgium, was merged with GSD System Development BVBA, Essen, Belgium.

ASD Interpipe Limited, Leeds, United Kingdom and ASD Multitubes Limited, Leeds, United Kingdom were liquidated in November 2019.

2018

There were no disposals in 2018. Liquidation of Metall- und Service-Center Hungária Kft., Budapest, Hungary, was completed in fiscal year 2018. This resulted in a €131 thousand deconsolidation loss.

Frefer Metals Plus Estruturas Metálicas Ltda., São Paulo, Brazil was liquidated on December 27, 2018.

(5) Significant accounting policies

Currency translation

Transactions in foreign currency are translated at the transaction date exchange rate. Monetary items are translated at the reporting date exchange rate. 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. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency is the local currency in each case. The assets and liabilities of subsidiaries are translated at the reporting date closing exchange rate. Income and expenses are translated at the transaction date exchange rate, approximated as the average exchange rate for the reporting period. All translation differences are recognized in other comprehensive income and are not recognized in profit or loss until the period of a subsidiary's disposal.

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

	Closing rate		Average rate	
€1=	December 31, 2019	December 31, 2018	Jan. 1 - Dec. 31, 2019	Jan. 1 - Dec. 31, 2018
Brazilian Real (BRL)	4.5157	4.4440	4.4134	4.3085
Pound Sterling (GBP)	0.8508	0.8945	0.8778	0.8847
Swiss Franc (CHF)	1.0854	1.1269	1.1125	1.1550
US–Dollar (USD)	1.1234	1.1450	1.1195	1.1810

Revenue recognition

Revenues from sales of goods are recognized when control has transferred to the buyer. This mostly coincides with the delivery date. Revenues from contracts with customers are only recognized otherwise than at the time of delivery if the buyer already has control before delivery or if control transfers over time. Sales are reported net of allowances such as commissions, trade discounts and rebates.

The Klöckner & Co Group mainly sells steel and metal products in sales from stockyards, back-to-back transactions and sales from processing.

Stockyard sales generally consist of selling material, with little or no processing, to customers out of a stockyard. Revenue from such transactions is recognized on delivery or collection of the goods. This also includes Revenue recognition

Back-to-back transactions are sales where goods are delivered straight to a customer without going through a Klöckner & Co stockyard. In these transactions, the Klöckner & Co Group is responsible for fulfillment and has the inventory risk up to delivery to the customer. Separate prices are negotiated with the supplier and with the customer. This means Klöckner & Co is generally the principal in back-to-back transactions and revenue is recognized on delivery to the customer.

Higher value-added products and processing services are characterized by the fact that goods are normally processed before delivery to a customer. This involves the use of special machines such as 3D lasers. Revenue from such transactions is recognized on delivery of the processed goods to a customer.

Service center sales primarily entail the processing of coil into various sheet metal products.

The contract durations are less than 12 months. Use is therefore made of the practical expedient under IFRS 15.121 and the transaction price is not allocated to unsatisfied performance obligations.

Payment terms vary from customer to customer. Frequent payment terms are 30 days net, 60 days net and the 15th of the month following delivery. In many cases, discounts are available for faster payment.

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.

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.

Income taxes

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

Current tax expense is calculated on the basis of taxable income for the fiscal year. Tax liabilities are measured at the amount for which payment to the taxation authorities is expected. The liabilities are measured at the tax rates that have been enacted by the reporting date.

Deferred taxes are calculated using the balance sheet liability method. They result from differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax base (temporary differences) and from consolidation entries. No deferred taxes are recognized for goodwill on initial consolidation. Deferred taxes are measured based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is also recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each 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 balance sheet date and a previously unrecognized deferred tax asset is recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The measurement of deferred tax assets and deferred tax liabilities 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 current tax assets and tax liabilities are intended to be settled 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 such cases, they are also charged or credited to equity or other comprehensive income.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and 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 intangible assets	1–15

The useful life is reviewed annually and changed as necessary in accordance with future 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 and impairments. The cost of self-constructed assets comprises all direct costs and attributable overheads. Administrative costs are only included in the cost of an asset to the extent that they relate to its construction. Property, plant and equipment subject to depreciation is normally depreciated on a straight-line basis. Maintenance and repair costs are expensed as incurred.

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

ACCOUNTING UNTIL DECEMBER 31, 2018

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.

ACCOUNTING FROM JANUARY 1, 2019

The Group has applied IFRS 16 Leases (as published by the IASB in January 2016) from the fiscal year under review.

IFRS 16 introduces new or modified requirements for lease accounting. There are significant changes in lease accounting by lessees, in that a distinction is no longer made between operating leases and finance leases and, with the exception of short-term leases and leases of low-value assets, a right-of-use asset and a lease liability is recognized at the inception of every lease. In contrast to lease accounting by lessees, the requirements for lessors remain largely unchanged. Effects of first-time application of IFRS 16 on the consolidated financial statements are explained under “New accounting standards and interpretations”.

The date of initial application of IFRS 16 for the Group is January 1, 2019.

As the Group applied IFRS 16 using the modified retrospective approach, comparative information has not been restated.

IMPACTS ON LEASE ACCOUNTING BY THE LESSEE

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. For all leases in which the Group is lessee, the Group recognizes a right-of-use asset and a corresponding lease liability. Exceptions to this are short-term leases (defined as leases with a term of 12 months or less) and leases of low-value assets (such as tablets, personal computers, small items of office furniture and telephones). For these leases, the Group recognizes lease payments as other expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

The lease liability is initially recognized at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is determined on the basis of external sources. These are adjusted to take account of the lease terms and the type of asset.

Lease payments are included in measurement of the lease liability as follows:

- Fixed lease payments (including in-substance fixed payments), less any incentives receivable;
- Variable lease payments based on an index or rate, initially measured using the index or rate at the commencement date of the lease;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

For subsequent measurement of the lease liability, the carrying amount is increased to reflect interest on the lease liability (applying the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group carries out a remeasurement of lease liabilities and adjusts the corresponding right-of-use asset accordingly in the following cases:

- There is a change in the lease term or there is a significant event or significant change in circumstances resulting in a change in the assessment of an option to purchase. In such cases, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- There is a change in future lease payments resulting from a change in an index or a rate or a change in the amounts expected to be payable under a residual value guarantee. In these cases, the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in floating interest rates, in which case a revised discount rate is used).
- There is a lease modification and the lease modification is not accounted for as a separate lease. In such cases, the lease liability is remeasured on the basis of the modified lease term by discounting the revised lease payments using a revised discount rate at the effective date of the lease modification.

The Group has made no such adjustments in the periods presented.

Initial measurement of the right-of-use assets comprises any lease payments made at or before the commencement date, less any lease incentives received, plus any initial direct costs incurred. Subsequent measurement is at cost less any accumulated depreciation and any accumulated impairment losses.

If the Group has an obligation to dismantle or remove the asset underlying a lease or to restore the asset or site on which it is located to the condition required by the terms and conditions of the lease, a provision is recognized and measured in accordance with IAS 37. If such costs relate to a right-of-use asset, they are recognized as part of the cost of the right-of-use asset.

Right-of-use assets are normally depreciated over the lease term. However, if the useful life of the underlying asset is shorter than the lease term, the right-of-use asset is depreciated over the useful life of the underlying asset. The same applies if the lease transfers ownership of the underlying asset or if the Group is reasonably certain to exercise a purchase option agreed in the lease and the exercise price is therefore already included in the cost of the right-of-use asset. Depreciation begins on commencement of the lease.

Right-of-use assets are presented as a separate item in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any impairment loss as described in the accounting principles for property, plant and equipment.

Variable lease payments that do not depend on an index or rate are not included in measurement of the lease liability and the right-of-use asset. Such payments are recognized in profit or loss in the period in which the event or condition that triggers the payments occurs.

Among the practical expedients provided for in IFRS 16, a lessee can elect not to separate non-lease components from lease components and instead to account for each lease component and any associated non-lease components as a single agreement in accordance with IFRS 16. The Group applies this practical expedient for leases of technical equipment and machinery and for leases of operating and office equipment. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component based on the relative stand-alone selling price of the lease component and the aggregate stand-alone selling prices of the non-lease component(s).

In the case of right-of-use assets that do not meet the definition of investment property, the Group presents right-of-use assets in property, plant and equipment and lease liabilities in financial liabilities.

THE GROUP AS LESSOR

Klöckner & Co does not act as lessor to any significant extent.

Impairments

The Group assesses at each reporting date whether there is any indication that intangible assets or property, plant and equipment 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 greater of fair value less costs of disposal and value in use. In the event that a recoverable amount for the specific asset cannot be estimated, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. 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.

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. In the Klöckner & Co Group, the two CGUs Becker Stahl-Service GmbH (BSS) and Switzerland have a goodwill asset. Goodwill is tested for impairment in the fourth quarter of each fiscal 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 greater 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 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 (b) (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.

Government grants and government assistance

Grants 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. 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

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, lease liabilities and derivative financial instruments with negative fair values.

The Klöckner & Co Group recognizes all regular-way contracts as of the settlement date, regardless of their classification. For derivative financial instruments classified as held for trading, the Group applies trade date accounting.

The fair value option provided by IFRS 9 (Financial Instruments) 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. Subsequent measurement of financial assets is carried out using the categories under IFRS 9 (Financial Instruments) according to business model and contractual cash flow characteristics. This results in measurement at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. Financial liabilities are measured at amortized cost or at fair value through profit or loss.

a) Non-derivative financial assets and financial liabilities and equity instruments issued by Klöckner & Co
Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value. 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 that are designated hedging instruments to which hedge accounting is applied. Such assets are presented as other assets in the statement of financial position.

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.

Equity investments within the scope of IFRS 9 are measured at fair value through profit or loss. The Klöckner & Co Group makes use, on a case-by-case basis, of the option of measuring a portion of equity investments at fair value through other comprehensive income. Any gains or losses realized on disposal or write-off are reclassified to retained earnings. Fair value changes on investments for which the aforementioned option is not exercised are recognized in profit or loss.

All identifiable risks are accounted for by recognizing appropriate valuation allowances for expected credit losses taking into account any credit insurance. These are determined on the basis of weighted probabilities and applied to financial assets measured at amortized cost or at fair value through other comprehensive income.

The three-stage impairment model is generally applied. A risk allowance is recognized in the amount of the expected 12-month credit losses (Stage 1) or in the amount of the expected lifetime credit losses if the credit risk has increased significantly since initial recognition (Stage 2) or if financial assets are credit-impaired (Stage 3). Financial assets are considered to be credit-impaired if there is objective evidence such as substantial financial difficulty on the part of the obligor, knowledge of an insolvency filing or overdue obligations. In the event that a financial asset is categorized as bad debt, it is written off, including the amount of the impairment.

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. Subsequent accounting of the liability component as a financial liability is on an amortized cost basis until conversion or maturity of the bond. Applying the with-and-without method, the remaining difference represents the equity component, which is accounted for in 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 as 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. After initial recognition, other financial liabilities are generally measured at amortized cost 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 cash flows under the new terms differs from the discounted present value of the remaining cash flows under the original terms by more than 10%.

b) Derivative financial instruments
The Group uses a variety of derivative financial instruments to manage its exposure to interest and foreign exchange rate risks. These include forward exchange transactions, currency swaps, cross-currency swaps, interest rate swaps and interest rate caps.
Further information is disclosed in Note 29 (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 net investment 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 profit or loss.

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 profit or loss.

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
With regard to hedge accounting, Klöckner & Co makes use of the option of accounting for hedges in accordance with IAS 39 until further notice.

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 Company's 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 29 (Derivative financial instruments); changes in the reserve for fair value adjustments of financial instruments within other comprehensive income 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 directly 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 other comprehensive income from changes in the fair value of the derivative remains in other comprehensive income and is reclassified to profit or loss when the forecast transaction is recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately recognized in profit or loss.

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

Non-current assets or groups of 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.

Depreciation and amortization are no longer recognized on non-current 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 the period in which they arise. They are presented separately in the statement of comprehensive income. The statement of financial position consequently shows the full scale of the obligation while avoiding earnings fluctuations in the income statement as a result of changes in measurement parameters.

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 and the reduction of future contributions to the plan.

Past service cost is recognized in profit or loss.

Employer contributions to defined contribution plans under which the 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.

They are recognized at the expected settlement amount and not net of any reimbursement rights. 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 in connection with settlement of the obligation is material, provisions are discounted at rates that reflect current market assessments of the time value of money and the risks specific to the liability.

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.

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.

In contrast to the prior year, supplier bonus receivables, which in the prior year were included in other financial assets, are presented as a separate item in the statement of financial position. Prepayments are no longer accounted for as part of inventories and are now included in other non-financial assets. Non-consolidated equity investments are no longer presented separately on the statement of financial position but as part of other financial assets. The provisions for pending purchase invoices are now included in trade payables. The prior-year figures have been restated accordingly.

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. Actual amounts may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period of the change if the change affects that period only. If more than one period is affected, the change is reflected in the period of the revision and subsequent periods.

Material judgments, estimates and assumptions are required in the following areas:

	Note
Judgements	
- Determination of scope of consolidation in relation to special-purpose entitites, where there is no majority of voting rights or capital	3
- Assessment of intangible assets and property, plant and equipment for triggering events for an impairment	15 (a), (b), (c)
Estimates and assumptions	
- Measurement of intangible assets and property, plant and equipment acquired in a business combination within the meaning of IFRS 3	4
- Measurement of the net realizable value for inventories	16
- Recognition and Measurement of tax receivables related to the estimation if sufficient taxable income is available	13
- Assumptions regarding discount rates, mortality rates and, where applicable, expected returns on plan assets for the measurement of provision for pensions and similar obligations	22
- Recognition and measurement of other provisions	23

New accounting standards and interpretations

The following standards were applied for the first time in fiscal year 2019:

Standard/Interpretation
Annual Improvements to IFRSs 2015-2017
Amendments to IFRS 9 (Prepayment Features with Negative Compensation)
IFRIC 23 (Uncertainty over Income Tax Treatments)
Amendments to IAS 28 (Long-term Interests in Associates and Joint Ventures)
Amendments to IAS 19 (Plan Amendment, Curtailment or Settlement)
IFRS 16 (Leases)

The Annual Improvements to IFRSs (2015-2017) amended IFRS 3 (Business Combinations), IFRS 11 (Joint Arrangements), IAS 12 (Taxes) and IAS 23 (Borrowing Costs).

Amendments to IFRS 9 (Prepayment Features with Negative Compensation) relate to a narrow-scope change in the criteria relevant to the classification of financial assets. In certain circumstances, financial assets having a prepayment feature with negative compensation may be accounted for at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss.

IFRIC 23 clarifies the application of the recognition and measurement rules in IAS 12 in the event of uncertainty about the income tax treatment. Recognition and measurement require estimates and assumptions about such questions as to whether uncertain tax treatments are considered separately or together, whether the most likely value or the expected value method is used to resolve the uncertainty and whether there have been changes relative to the prior period. Detection risk is immaterial to the accounting of uncertain financial statement items. They are accounted for on the basis of the assumption that the tax authorities investigate the matter in question and have full knowledge of all relevant information.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures clarify that IFRS 9 is to be applied to long-term interests in an associate or joint venture to which the equity method is not applied.

Except for the impacts of IFRS 16 Leases presented in the following, first-time application of the new standards did not have any material impact on the consolidated financial statements of Klöckner & Co SE.

IFRS 16 (Leases) was published on January 13, 2016. Klöckner & Co has applied the standard since January 1, 2019. 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. 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.

The Klöckner & Co Group is almost exclusively a lessee. On transition to IFRS 16 the Klöckner & Co Group decided to apply the relief provision to retain which transactions are leases. IFRS 16 was only applied to agreements that were not identified as leases under IAS 17 and IFRIC 4. Agreements that were not identified as leases under IAS 17 and IFRIC 4 were not reviewed to determine whether they qualify as leases under IFRS 16. Therefore, the definition of a lease according to IFRS 16 was only applied to agreements concluded or amended on or after 1 January 2019.

On the commencement date of the lease or on modification of a contract that contains a lease component, the consideration in the contract is allocated on the basis of the relative standalone prices. For vehicle leases, however, an election is made not to separate non-leasing components and instead to account for lease and associated non-lease components as a single lease component.

The majority of leases were previously classified under IAS 17 as operating leases. On transition, the lease liabilities for these leases were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at January 1, 2019. Right-of-use assets were recognized in the same amount as the lease liabilities.

The effects of first-time application of IFRS 16 are presented in the tables below.

(€ thousand)	December 31, 2018	Adjustments IFRS 16	January 1, 2019
Non-current assets			
Property, plant and equipment	638,914	198,999	837,913
Other non-current assets	193,353	-	193,353
Total non-current assets	**832,267**	**198,999**	**1,031,266**
Total current assets	**2,229,088**	**-**	**2,229,088**
Total assets	**3,061,355**	**198,999**	**3,260,354**
Equity	1,281,642	-	1,281,642
Non-current liabilities			
Financial liabilities	500,845	163,217	664,062
Other non-current liabilities	322,637	-	322,637
Total non-current liabilities	**823,482**	**163,217**	**986,699**
Current liabilities			
Financial liabilities	19,740	35,782	55,522
Other non-current liabilities	936,491	-	936,491
Total current liabilities	**956,231**	**35,782**	**992,013**
Total liabilities	**1,779,713**	**198,999**	**1,978,712**
Total equity and liabilities	**3,061,355**	**198,999**	**3,260,354**

The impacts of the introduction of IFRS 16 on the statement of income for the fiscal year are as follows:

(€ thousand)	according to IAS 17	Adjustments	according to IFRS 16
Sales	6,314,719	-	6,314,719
Changes in inventory	– 11,003	-	– 11,003
Own work capitalized	1,526	-	1,526
Other operating income	76,286	-	76,286
Cost of materials	– 5,146,991	-	– 5,146,991
Personnel expenses	– 626,701	-	– 626,701
Depreciation and amortization	– 87,321	– 49,977	– 137,298
thereof impairment losses	*– 1,498*	*– 2,613*	*– 4,111*
Other operating expenses	– 519,581	50,210	– 469,371
Impairment losses trade receivables	563	-	563
Operating result	**1,497**	**233**	**1,730**
Finance income	848	-	848
Finance expenses	– 36,604	– 5,002	– 41,606
Financial result	**– 35,756**	**– 5,002**	**– 40,758**
Income before taxes	**– 34,259**	**– 4,769**	**– 39,028**
Income taxes	– 16,309	461	– 15,848
Net income	**– 50,568**	**– 4,308**	**– 54,876**
thereof attributable to			
– shareholders of Klöckner & Co SE	*– 51,870*	*– 4,288*	*– 56,158*
– non-controlling interests	*1,302*	*– 20*	*1,282*

The incremental borrowing rates applied as the discount rate for leases previously qualifying as operating leases ranged around 2.55%.

(€ million)	Jan. 1, 2019
Operating lease liability as of December 31, 2018 according to IAS 17	224,534
Discounting at the borrowing rate as of January 1, 2019	-28,031
Present value of the operating lease liability	**196,503**
Recognition exemption for low value leases	-8,709
Recognition exemption for short-term leases	-1,936
Extention options reasonably certain to be exercised	13,141
Additional lease liabilities due to the initial application of IFRS 16	**198,999**
Finance lease liability as of December 31, 2018	26,095
Lease liability at January 1, 2019	**225,094**

Right-of-use assets were recognized as follows as of January 1, 2019 (including €24,664 thousand from finance leases retained unaltered from 2018), as against lease liabilities of €225,094 thousand (including €26,095 thousand from finance leases retained unaltered from 2018).

(€ million)	January 1, 2019
Land and buildings	150,191
Technical equipment and machines	10,172
Other equipment, operating and office equipment	63,299
	223,662

First-time application of IFRS 16 affected EBITDA and cash flow from operating activities as follows:

(€ thousand)	EBITDA	Cashflow from operating activities
Kloeckner Metals US	15,121	12,298
Kloeckner Metals Switzerland	7,877	7,466
Kloeckner Metals Services Europe	363	349
Kloeckner Metals Distribution Europe	24,319	22,644
Holding and other group companies	2,530	2,451
Klöckner & Co Group	**50,210**	**45,208**

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	
Amendments to IAS 1 and IAS 8 (Definition of Material)	2020
Amendments to References to the Conceptual Framework in IFRS Standards	2020
EU endorsement outstanding	
Amendments to IFRS 3 (Definition of a Business)	2020
IFRS 17 (Insurance Contracts)	2021
Amendments to IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	indefinite
Amendment to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform)	2020

Amendments to IAS 1 and IAS 8 (Definition of Material) were published on October 31, 2018. The amendments establish a uniform and more precise definition of material with regard to the information included in financial statements and provide supplementary examples. They align the definition of material in the Conceptual Framework with that in IAS 1, IAS 8 and IFRS Practice Statement 2 *Making Materiality Judgements*. Amendments to References to the Conceptual Framework in IFRS Standards were published on March 29, 2018. They relate to changes in references to the IFRS Conceptual Framework in various standards and interpretations.

On March 29, 2018, the IASB published the revised Conceptual Framework, consisting of a new introductory section headed “Status and purpose of the conceptual framework” and what are now eight main chapters. The chapter on financial statements is now “Financial statements and the reporting entity”, there is an additional “Presentation and disclosure” chapter and the recognition chapter has been supplemented to include “Recognition and derecognition.” There are also substantive changes, such as the fact that income is no longer divided into revenues and gains. The new Conceptual Framework was accompanied by amendments to references to the Conceptual Framework in various standards.

On October 22, 2018, the IASB published Amendments to IFRS 3 (Business Combinations). In the amendments, the IASB clarifies that a business is a set of activities and assets that include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Moreover, output is defined with reference to the provision of goods and services to customers; the reference to provision of the ability to lower costs has been removed. The new stipulations also include an optional “concentration test” for simplified identification of a business.

On May 18, 2017, the IASB published IFRS 17 (Insurance Contracts). IFRS 17 replaces IFRS 4 and, for the first time, stipulates uniformly on recognition, measurement and presentation of and notes disclosures for insurance contracts, reinsurance contracts and discretionary investment contracts.

The published amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

IFRS 10 requires the gain or loss on the sale of a subsidiary to be recognized in full in profit or loss on loss of control. Under IAS 28.28 as it currently stands, however, the gain or loss on sale transactions between an investor and a jointly controlled entity that is accounted for by the equity method – an associate or joint venture – is only recognized to the extent of the unrelated investors’ interests in the jointly controlled entity.

In the future, the full amount of the gain or loss from a transaction may only be recognized if the sold or contributed assets constitute a business within the meaning of IFRS 3. This applies to both share and asset deals. If the assets do not constitute a business, recognition is limited to the extent of the unrelated interests.

The Amendments to IFRS 9, IAS 39 and IFRS 7 published on September 26, 2019 relate to prevailing uncertainties in connection with the IBOR reform. Under the existing hedge accounting rules, the upcoming interest rate benchmark reform would, in many cases, have resulted in hedging relationships being terminated. The amendments now make it possible to continue hedge accounting for existing hedging relationships. For this purpose, the amendments provide for selective mandatory exceptions to the previous hedge accounting requirements, such as for assessing the “highly probable” requirement for forecast transactions in cash flow hedges.

Early application of these standards is permitted but not planned. Klöckner & Co does not expect that the new standards, interpretations and amendments will have any material impact on the consolidated financial statements.

Notes to the consolidated statement of income

(6) Special items affecting the results

2019

Comparability between the fiscal year 2019 results and the prior year is impacted by the following material one-off effects:

Material one-off gains on the sale of property outside of the ordinary course of business

In February 2019, Silverton Homes Limited exercised an option that it had been granted to purchase our Thames Wharf, London property for a purchase price of €37 million (GBP 33 million). The transaction generated a gain of €36 million. A property in Landquart, Switzerland, was additionally sold in December, generating a gain of around €7 million.

Earnings impact of restructuring measures at Kloeckner Metals Distribution Europe and the holding company

Extensive restructuring measures were launched or implemented in the reporting year as part of ongoing portfolio streamlining and cost structure management.

The measures related to the closure of unprofitable locations, redundancies and adjustments in administrative areas. In the French country organization, for example, nine location closures were set in motion or completed. Corresponding measures were also implemented in Germany, the Netherlands, the United Kingdom and the holding company. Around 280 employees were affected in total. The measures incurred expenses of €27 million, comprising €24 million for redundancies and €3 million for other closure costs.

Adjusted for these items, EBITDA is as follows:

(€ thousand)	2019	2018
EBITDA including material special effects	**139,028**	**227,100**
Material property disposal gains	– 42,801	-
Indemnification payment Deepwater Horizon accident	-	– 5,348
Restructuring expenses		
– Personnel expenses	23,986	5,753
– Other restructuring expenses	3,463	1,613
EBITDA before material special effects	**123,676**	**229,118**

2018

Accounting activities in the Europe segment were outsourced to a service provider in 2018 on the basis of business process outsourcing (BPO). Measures implemented in consequence resulted in a €7.4 million impact on earnings. Most of this expense was recognized in personnel expenses.

Damages in the amount of €5.3 million were awarded as a result of the 2010 Deepwater Horizon accident in the USA. The resulting income related to the Kloeckner Metals US segment.

(7) Sales

Under the new management structure, the reporting system and thus segment reporting was revised as of January 1, 2019, so that the Europe segment was replaced in the year under review by the "Kloeckner Metals Services Europe", "Kloeckner Metals Switzerland" and "Kloeckner Metals Distribution Europe" segments. The Americas segment only includes the activities of Kloeckner Metals Corporation and therefore is named "Kloeckner Metals US". Other activities – such as the Brazilian distribution business or XOM Materials – are assigned to the holding company, which is now referred to as the "Holding company and other group companies".

The Group's external sales are broken down by region (customer headquarters) as follows:

	Kloeckner Metals US		Kloeckner Metals Switzerland		Kloeckner Metals Services Europe		Kloeckner Metals Distribution Europe		Holding and other Group Companies		Total	
(€ thousand)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Germany	33	-	5,652	6,828	578,362	617,778	851,556	1,011,571	4,311	2,592	1,439,914	1,638,769
EU excluding Germany	3,523	6,264	2,806	3,124	161,606	178,684	1,015,473	1,156,439	12,882	7,210	1,196,290	1,351,721
Switzerland	-	-	951,897	985,952	6,229	7,996	859	947	967	1,133	959,952	996,028
Rest of Europe	-	-	10,224	10,876	408	284	6,259	7,875	1,117	297	18,008	19,332
USA	2,558,610	2,644,875	-	154	-	161	2,489	375	14	– 145	2,561,113	2,645,420
Rest of North America	2,010	2,047	-	-	-	30	51	167	273	2	2,334	2,246
Central and South America	62,327	52,891	358	343	2,240	467	3,334	3,793	32,405	36,807	100,664	94,301
Asia/Australia	212	151	69	591	62	28	3,400	3,722	10,361	11,809	14,104	16,301
Africa	-	-	-	-	279	219	20,019	25,639	2,042	516	22,340	26,374
Sales	**2,626,715**	**2,706,228**	**971,006**	**1,007,868**	**749,186**	**805,647**	**1,903,440**	**2,210,528**	**64,372**	**60,221**	**6,314,719**	**6,790,492**

The Group's sales by type of business are as follows:

(€ thousand)	Kloeckner Metals US 2019	Kloeckner Metals US 2018	Kloeckner Metals Switzerland 2019	Kloeckner Metals Switzerland 2018	Kloeckner Metals Services Europe 2019	Kloeckner Metals Services Europe 2018	Kloeckner Metals Distribution Europe 2019	Kloeckner Metals Distribution Europe 2018	Holding and other Group Companies 2019	Holding and other Group Companies 2018	Total 2019	Total 2018
Stockholding	1,064,051	1,003,281	228,876	232,742	-	-	1,421,548	1,637,128	32,265	35,630	2,746,740	2,908,781
Direct business	36,500	48,900	23,715	27,838	-	-	175,264	208,380	-	-	235,479	285,118
Processing	339,236	411,453	398,086	426,824	-	-	182,531	215,730	-	-	919,853	1,054,007
Service Center	1,186,928	1,242,594	-	-	749,186	805,647	16,206	16,971	-	-	1,952,320	2,065,212
Other contracts	-	-	320,329	320,464	-	-	107,891	132,319	32,107	24,591	460,327	477,374
External sales	**2,626,715**	**2,706,228**	**971,006**	**1,007,868**	**749,186**	**805,647**	**1,903,440**	**2,210,528**	**64,372**	**60,221**	**6,314,719**	**6,790,492**

(8) Other operating income

(€ thousand)	2019	2018
Gain on sale of land and buildings	47,881	2,017
Reversal of provisions	5,559	7,575
Indemnification payments received	3,012	6,195
Foreign currency exchange gains	2,307	2,649
Income from written-off receivables	2,205	235
Gain on sale of other non-current assets and assets held for sale	368	739
Other income	14,954	11,396
Other operating income	**76,286**	**30,806**

Of the gain on sale of land and buildings in the prior year, €36 million is accounted for by the sale of a property in London and a further €7 million by the sale of a property at the Landquart location in Switzerland.

Indemnification payments in the prior year related to the 2010 Deepwater Horizon accident in the USA in the amount of €5 million. The figures for the reporting year include a €2 million insurance payout for storm damage at the location in Houston, Texas, USA that has not so far been offset by repair expenses.

Other income mainly relates to derecognition of statute-barred supplier payables.

(9) Cost of materials

(€ thousand)	2019	2018
Cost of materials, supplies and purchased merchandise	5,141,643	5,465,762
Cost of purchased services	5,348	5,405
Cost of materials	**5,146,991**	**5,471,167**

(10) Personnel expenses

(€ thousand)	2019	2018
Wages and salaries	496,203	478,410
Social security contributions (including welfare benefits)	97,394	97,254
Retirement benefit cost	33,104	30,644
Personnel expenses	**626,701**	**606,308**

Most of the increase in wages and salaries (€24 million) relates to severance and redundancy payments in connection with the restructuring measures. Further information is included in Note 6 (Special items affecting the results).

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:

	2019	2018
Salaried employees	4,310	4,519
Wage earners	3,856	3,861
Apprentices	237	234
Employees	**8,403**	**8,614**

(11) Other operating expenses

(€ thousand)	2019	2018
Forwarding cost	152,252	151,818
Third-party services	96,326	96,713
Supplies	49,100	46,436
Repair and maintenance	45,280	45,583
Other taxes	19,600	18,906
Rental and leasing expenses	15,952	65,561
Audit fees and consulting	15,662	22,294
Travel expenses	14,580	15,103
Other insurance	9,066	7,794
Postal charges and telecommunication	7,494	7,200
Advertising and representation expenses	6,217	7,927
Bad debt expenses	3,530	1,790
Restructuring expenses	3,463	1,613
Credit insurance	2,621	3,538
Foreign currency exchange losses	1,445	3,402
Other expenses	26,783	28,276
Other operating expenses	**469,371**	**523,954**

The prior-year figure for legal and consultancy expenses included non-recurring expenses for the development of measures as part of our continuous improvement program.

Restructuring expenses include closure costs in Germany, the United Kingdom and France. Further information is included in Note 6 (Special items affecting the results).

The other expenses mainly relate to fringe benefits, office supplies, membership fees, commissions and incidental bank charges.

(12) Financial result

(€ thousand)	2019	2018
Other interest and similar income	848	1,614
Interest and similar expenses	– 31,709	– 29,772
Interest cost for leases	– 5,002	– 1,213
Interest cost for post–employment benefits	– 4,895	– 5,186
Financial result	**– 40,758**	**– 34,557**

The financial result includes net interest expense of €36,054 thousand (2018: €29,381 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)	2019	2018
Current income tax expense (+)/benefit (–)	**13,712**	**33,567**
thereof related to prior periods	*– 225*	*– 1,122*
thereof related to current period	*13,937*	*34,689*
Domestic	– 69	– 787
Foreign	13,781	34,354
Deferred tax expense (+)/benefit (–)	**2,136**	**4,684**
thereof related to temporary differences and loss carry forwards	*– 10,521*	*860*
thereof related to tax rate changes	*– 2,671*	*– 550*
thereof related to prev. unrecognized losses, tax credits or temp. differences	-	-
thereof related to write-downs	*15,328*	*4,374*
Domestic	15,308	6,612
Foreign	– 13,172	– 1,928
Income tax expense/benefit	**15,848**	**38,251**

The combined income tax rate is 31.8% (2018: 31.8%), comprising corporate income tax (including solidarity surcharge) of 15.8% and trade tax for Klöckner & Co of 16.0%. Foreign tax rates vary between 10.0.% and 34.0%.

The Company incurred current income tax of €13,712 thousand (2018: €33,567 thousand). However, it has to be considered that the cross-border offsetting of tax income and tax losses is not possible. In particular, tax losses in individual European countries cannot be offset against tax profits in other European countries.

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 estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their realization is probable. The 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 assessed once again at each reporting date.

IFRIC 23 clarifies the application of the recognition and measurement rules in IAS 12 in the event of uncertainty about the income tax treatment. Recognition and measurement require estimates and assumptions about such questions as to whether uncertain tax treatments are considered separately or together, whether the most likely value or the expected value method is used to resolve the uncertainty and whether there have been changes relative to the prior period. Detection risk is immaterial to the accounting of uncertain financial statement items. They are accounted for on the basis of the assumption that the tax authorities investigate the matter in question and have full knowledge of all relevant information.

The notes contain the following information on the estimates, assumptions and discretionary decisions. In addition, information on the potential effects of the uncertainty must be disclosed as a tax-related contingent liability in accordance with IAS 12.88.

There are no material effects on the consolidated financial statements of Klöckner & Co SE.

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

(€ thousand)	2019	2018
Expected tax rate	**31.8%**	**31.8%**
Income before taxes	**– 39,028**	**106,904**
Expected tax expense/benefit at domestic tax rate	– 12,410	33,996
Foreign tax rate differential	– 3,408	– 7,256
Tax rate changes	– 2,721	– 581
Tax reduction due to tax free income	– 194	– 1,172
Tax increase due to non–deductible expenses	6,509	3,762
Current income tax levied or refunded for prior periods	– 225	– 1,122
Tax reduction due to a valuation allowance of deferred tax assets on temporary differences and on loss carryforwards	15,328	-
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 2,554	– 97
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	12,875	9,122
Other income taxes	2,050	2,301
Other tax effects	598	– 702
Effective income tax benefit/expense	**15,848**	**38,251**
Effective tax rate	**-40.6%**	**35.8%**

The actual tax rate of -40.6% in the fiscal year under review is above the expected combined income tax rate of 31.8%. This mainly relates to higher tax due to impairment of deferred tax assets on tax loss carryforwards and temporary differences at the German companies (€15,328 thousand), non-recognition of deferred tax assets on tax losses in France, in Germany and in the German start-up XOM Materials GmbH (€13,984 thousand in total) as well as non-deductible expenses, primarily in the USA.

The effect in other income taxes relates to the French territorial economic contributions (CET and CVAE) and BEAT in the USA.

Taxes recognized directly in other comprehensive income

Current and deferred taxes are normally recognized in profit or loss, with the exception of taxes relating to items accounted for in other comprehensive income.

(€ thousand)	December 31, 2019	December 31, 2018
Change in deferred tax assets and liabilities (net), not affecting net income	**– 5,120**	**– 1,859**
thereof reported		
– in other comprehensive income	*– 5,120*	*– 977*

Deferred taxes on adjustments of pension provisions in other comprehensive income in accordance with IAS 19, net investment hedges and changes in the fair values of derivative financial instruments designated in hedge accounting are reported in other comprehensive income. In the prior year, there were adjustments in equity in connection with first-time application of IFRS 9 and IFRS 15 that were not included in the statement of comprehensive income.

The deferred tax assets relating to items accounted for in equity totaled €11,649 thousand at the end of the reporting year (2018: €14,710 thousand). In the reporting year, these relate in their entirety to pension obligations.

Deferred tax assets and liabilities

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

	As of January 1, 2019		
(€ thousand)	Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 41,085*	*2,293*	*– 5,658*
Intangible assets	– 4,465	– 1,985	– 189
Property, plant and equipment	– 42,938	4,839	– 1,816
Non-current investments	4,128	– 6,876	175
Inventories	– 9,694	– 147	– 410
Receivables	– 5,622	3,549	– 238
Other current assets	2,561	– 6,449	108
Provisions for pensions and similar obligations	32,112	– 9,611	– 2,562
Other provisions and accrued liabilities	569	250	24
Financial liabilities	– 2,854	3,441	– 121
Other liabilities	– 14,883	15,282	– 629
Tax loss carryforwards/interest carryforwards	*12,710*	*– 4,428*	*538*
Net amount (before offsetting)	**– 28,375**	**– 2,136**	**– 5,120**
Offsetting	-		
Deferred tax assets/liabilities	**– 28,375**		

	As of January 1, 2018		
(€ thousand)	Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 40,872*	*3,177*	*– 2,261*
Intangible assets	– 4,267	333	– 284
Property, plant and equipment	– 43,907	3,891	– 2,922
Non-current investments	3,248	664	216
Inventories	– 11,908	– 3,270	– 507
Receivables	– 271	1,540	– 18
Other current assets	1,555	902	104
Provisions for pensions and similar obligations	26,144	4,055	1,913
Other provisions and accrued liabilities	– 1,508	2,177	– 100
Financial liabilities	– 3,532	913	– 235
Other liabilities	– 6,426	– 8,029	– 428
Tax loss carryforwards/interest carryforwards	*19,288*	*– 7,862*	*1,284*
Net amount (before offsetting)	**– 21,584**	**– 4,685**	**– 977**
Offsetting	-		
Deferred tax assets/liabilities	**– 21,584**		

			As of December 31, 2019		
Recognized directly in equity	Aquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	Net balance	Deferred tax assets	Deferred tax liabilities
-	-	-	*– 44,449*	*55,553*	*– 100,002*
-	-	-	– 6,639	973	– 7,612
-	-	-	– 39,915	1,099	– 41,014
-	-	-	– 2,573	3,259	– 5,832
-	-	-	– 10,251	1,312	– 11,563
-	-	-	– 2,311	3,123	– 5,434
-	-	-	– 3,780	3,389	– 7,169
-	-	-	19,939	27,943	– 8,003
-	-	-	843	6,667	– 5,824
-	-	-	467	1,263	– 796
-	-	-	– 230	6,525	– 6,755
-	-	-	*8,820*	*8,820*	-
-	**-**	**-**	**– 35,629**	**64,373**	**– 100,002**
			-	– 57,839	57,839
			– 35,629	**6,534**	**– 42,163**

			As of December 31, 2018		
Recognized directly in equity	Aquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	Net balance	Deferred tax assets	Deferred tax liabilities
– 882	*– 247*	-	*– 41,086*	*63,861*	*– 104,946*
-	– 247	-	– 4,465	1,642	– 6,107
-	-	-	– 42,938	1,708	– 44,646
-	-	-	4,128	4,128	-
5,991	-	-	– 9,694	3,957	– 13,651
– 6,873	-	-	– 5,622	1,365	– 6,987
-	-	-	2,561	8,222	– 5,661
-	-	-	32,112	32,123	– 11
-	-	-	569	5,785	– 5,216
-	-	-	– 2,854	4,364	– 7,218
-	-	-	– 14,883	566	– 15,449
-	-	-	*12,710*	*12,710*	-
– 882	**– 247**	**-**	**– 28,375**	**76,571**	**– 104,946**
			-	– 59,069	59,069
			– 28,375	**17,502**	**– 45,877**

In accordance with IAS 12.39, no deferred tax liabilities were recognized for taxable temporary differences associated with investments in subsidiaries (outside basis differences) in the amount of €6.2 million (2018: €4.8 million). The amount of the related deferred tax liabilities is €1.9 million (2018: €1.5 million).

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

(€ million)	December 31, 2019	December 31, 2018
Unrecognized tax losses		
– Corporate income tax	676	602
– Trade tax and similar taxes	284	209
– Interest carry forward	6	-
Temporary differences	78	91

The majority of the unrecognized tax 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 tax loss carryforwards that are subject to a maximum carryforward period expire as follows:

(€ million)	December 31, 2019	December 31, 2018
until December 31, 2020	-	-
until December 31, 2031	89	26
after December 31, 2031	98	75

Temporary differences are deductible indefinitely.

(14) Earnings per share

Earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the period. In accordance with IAS 33.41, 10,861 thousand potential dilutive shares under the convertible bond issues were not included in the computation of diluted earnings per share for fiscal year 2019 as this would have resulted in higher earnings per share.

		2019	2018
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	– 56,158	67,776
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**– 0.56**	**0.68**
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)		67,776
Interest expense on convertible bond (net of tax)	(€ thousand)		4,726
Net income used to determine diluted earnings per share	(€ thousand)		72,502
Weighted average number of shares	(thousands of shares)		99,750
Dilutive potentiel shares from convertible bond	(thousands of shares)		10,367
Weighted average number of shares for dilutive earnings per share	(thousands of shares)		110,117
Diluted earnings per share	**(€/share)**	**– 0.56**	**0.66**

Notes to the consolidated statement of financial position

(15) Intangible assets and property, plant and equipment

a) Intangible assets

(€ thousand)	Intangible assets (without Software/ Goodwill)	Software	Goodwill	Total intangible assets
Cost as of January 1, 2018	406,185	100,555	309,868	816,608
Accumulated amortization and impairments	– 296,427	– 76,417	– 281,015	– 653,859
Balance as of January 1, 2018	**109,758**	**24,138**	**28,853**	**162,749**
Exchange rate differences	4,418	432	898	5,748
Additions from business combinations	836	-	-	836
Additions	2,855	2,989	-	5,844
Disposals	– 76	– 2	-	– 78
Depreciation and amortization	– 17,585	– 9,569	-	– 27,154
Transfers	– 284	284	-	-
Balance as of December 31, 2018	**99,922**	**18,272**	**29,751**	**147,945**
Cost as of December 31, 2018	424,171	103,916	319,975	848,062
Accumulated amortization and impairments	– 324,249	– 85,644	– 290,224	– 700,117
Balance as of January 1, 2019	**99,922**	**18,272**	**29,751**	**147,945**
Exchange rate differences	2,105	243	928	3,276
Additions	3,530	3,981	-	7,511
Disposals	– 102	– 37	-	– 139
Impaiments	-	– 6	-	– 6
Depreciation and amortization	– 17,970	– 10,110	-	– 28,080
Transfers	– 582	582	-	-
Balance as of December 31, 2019	**86,903**	**12,925**	**30,679**	**130,507**
Cost as of December 31, 2019	432,647	108,752	320,486	861,885
Accumulated amortization and impairments	– 345,744	– 95,827	– 289,807	– 731,378

Intangible assets include €8.5 million for self-developed software at kloeckner.i GmbH and XOM Materials GmbH. Research and development expenses came to €2.6 million. The own work capitalized in the amount of €1,526 thousand relates to intangible assets at kloeckner.i GmbH.

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 calculated as value in use using a discounted cash flow method, which is based on bottom-up planning. Planning generally covers a three-year period. The last year of the detailed planning period is used to extrapolate the expected future cash flows. Klöckner & Co utilizes a uniform planning model for all CGUs.

The projected cash inflows largely depend on expected shipments and future gross profit per ton. This is prognosticated on the basis of normalized gross profit. Shipments are estimated taking into account macroeconomic and industry-specific trends. Other major factors affecting the sustainable level of future cash inflows comprise the expected development of operating expenses (OPEX) and the determination of discount rates, including the future growth rate assumed in perpetuity. OPEX is determined on the basis of individual business budgeting and on assessment of macroeconomic developments (such as adjustments for inflation).

The discount rates are based on the Capital Asset Pricing Model (CAPM). Its main inputs are the risk-free rate of return, the beta factor of the Klöckner & Co share, and the return on equity, which includes assumptions about leverage and the market risk premium.

Growth rates between 0.5% and 1.0% were used in determining the expected future cash flows (2018: uniform growth rate of 1%).

Assumptions used in impairment testing of material goodwill

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

CGU	Shipments	Gross profit per ton	OPEX
Switzerland	constant	constant	constant
Becker Stahl-Service GmbH (BSS)	considerable increasing	slightly increasing	slightly increasing

Impairment testing of goodwill allocated to the CGUs

The carrying amounts of goodwill totaled €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 10% decrease in EBITDA in perpetuity would not result in an impairment of the two CGUs. A 100 basis point increase in the interest rate would not result in an impairment for the Switzerland CGU; for the Becker Stahl-Service CGU, it would result in a goodwill impairment of €3.5 million.

Value in use was measured for the Switzerland CGU on the basis of a pretax WACC of 6.0% (2018: 6.9%) and for the Becker Stahl-Service CGU on the basis of a pretax WACC of 8.5% (2018: 8.6%).

Impairment testing of other intangible assets

Management is required to assess other intangible assets at each reporting date for triggering events indicating that the assets may be impaired. If triggering events are identified, the recoverable amount of the asset or CGU must be estimated.

Of the carrying amount of other intangible assets (without Software/Goodwill) of €87 million, €68 million relate to intangible assets (mainly customer relationships) from business combinations in the USA amortized on a straight-line basis over their expected useful life.

Klöckner & Co SE's market capitalization was less than equity as of December 31, 2019. There was thus a triggering event within the meaning of IAS 36.12 (d) that may be an indication of impairment. The impairment test carried out in consequence largely confirmed that intangible assets were not impaired.

b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and con-struction in progress	Total property, plant and equipment
Cost as of January 1, 2018	738,392	380,337	329,950	35,288	1,483,967
Accumulated amortization and impairments	– 366,504	– 240,648	– 252,999	-	– 860,151
Balance as of January 1, 2018	**371,888**	**139,689**	**76,951**	**35,288**	**623,816**
Exchange rate differences	10,264	4,194	1,889	777	17,124
Additions from business combinations	-	3	32	-	35
Additions	2,806	18,199	13,263	25,374	59,642
Disposals	– 541	– 556	– 727	– 1,394	– 3,218
Impairments	-	– 440	-	-	– 440
Depreciation and amortization	– 16,588	– 24,482	– 16,975	-	– 58,045
Transfers	16,533	12,224	3,579	– 32,336	-
Balance as of December 31, 2018	**384,362**	**148,831**	**78,012**	**27,709**	**638,914**
Cost as of December 31, 2018	769,393	414,135	335,015	27,709	1,546,252
Accumulated amortization and impairments	– 385,031	– 265,304	– 257,003	-	– 907,338
Balance as of January 1, 2019	**384,362**	**148,831**	**78,012**	**27,709**	**638,914**
Recognition of right of use from the first-time application of IFRS 16	137,207	5,733	56,059	-	198,999
Adjusted balance as of January 1, 2019	**521,569**	**154,564**	**134,071**	**27,709**	**837,913**
Exchange rate differences	11,069	2,569	2,836	539	17,013
Additions	7,996	10,128	27,811	17,688	63,623
Disposals	– 5,932	– 763	– 780	-	– 7,475
Impairments	– 3,011	– 329	– 765	-	– 4,105
Depreciation and amortization	– 39,074	– 25,869	– 40,165	-	– 105,108
Transfers	1,937	16,060	9,446	– 27,443	-
Balance as of December 31, 2019	**494,554**	**156,360**	**132,454**	**18,493**	**801,861**
Cost as of December 31, 2019	911,619	433,862	401,625	18,493	1,765,599
Accumulated amortization and impairments	– 417,065	– 277,502	– 269,171	-	– 963,738

Property, plant and equipment includes right-of-use assets (IFRS 16) in the amount of €198,431 thousand.

Property, plant and equipment with a carrying amount of €56,999 thousand (2018: €59,564 thousand) was pledged as security in the form of liens for financial liabilities.

Impairment testing of other non-current assets

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

In fiscal year 2019, European steel distribution activities continued to fall short of profitability targets in the United Kingdom because of the impending Brexit and to generate losses in France due to lower demand as a result of streamlining of the dealer network. However, the medium-term budget indicates that profitability has also not yet regained satisfactory levels in Germany (with the exception of Becker Stahl-Service) and the Netherlands. In addition to the external triggering event, there is thus an internal indication that assets in the consolidated financial statements may be impaired. The values in use measured for the remaining CGUs exceeded their respective carrying amounts. There were consequently no internal indications of impairment.

The carrying amounts of the tested non-current assets of the CGUs in question before impairment testing were as follows as of December 31, 2019:

(€ thousand)	Germany	United Kingdom	France	Netherlands	Brazil
Other intangible assets	137	46	89	-	6
Land and buildings	18,352	14,544	21,781	14,116	19
Technical equipment and machinery	16,249	6,478	5,323	1,446	99
Other equipment, operating and office equipment	11,655	5,470	2,287	1,531	31
Payments on account	1,660	5	140	1,222	-
Right-of-Use Assets	16,524	21,411	44,520	1,809	516
	64,577	**47,954**	**74,140**	**20,124**	**671**

Germany, Netherlands, United Kingdom 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 these CGUs was not performed.

Any impairment must be allocated in a second step to the assets in the CGUs (IAS 36.104). In allocating the impairment loss, 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 fair values of the individual assets were therefore determined.

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.

For plant and equipment as well as 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.

We determined the fair values of right-of-use assets in accordance with IFRS 16 on the basis of benchmark lease payments and price developments for comparable assets.

The fair values thus determined largely exceed the carrying amounts of the assets of each CGU. However, impairments on non-current assets in the Germany CGU (€408 thousand), the France CGU (€182 thousand) and the United Kingdom CGU (€249 thousand) were determined and recognised as impairments in the Kloeckner Metals Distribution Europe segment. The recoverable amounts were €39 million for Germany, €11 million for France and €23 million for the United Kingdom. In addition, impairment losses of €2,098 thousand were recognised on right-of-use assets from rental agreements for three closed sites in France.

It is thus determined that the non-current assets are not impaired under the assumption of individual disposal or an alternative use (e.g. through subleasing). Depending on future changes in their fair values, however, the necessity for additional impairment losses and impairment reversals cannot be ruled out.

For the Brazil CGU, we elected on materiality grounds not to determine the fair value of the assets and recognized an impairment including intangible assets of €671 thousand accordingly.

In addition, an impairment loss of €502 thousand was recognised in the USA due to storm damage to a building.

c) Leases

The Group primarily leases stockyard and office premises, trucks, cars and machinery. These leases typically have ten-year terms and an extension option. Lease payments are renegotiated every five years to reflect market rates. Some leases provide for additional lease payments based on changes in local price indices.

The stockyard and factory leases were entered into many years ago as combined leases of land and buildings. Except for two properties and one machine, these were previously classified under IAS 17 as operating leases.

The Group leases trucks and cars under various leases that were classified under IAS 17 as operating leases.

IT equipment is leased by the Group with lease terms of between one and three years. These are short-term leases and/or leases of low-value assets. The Group has elected not to recognize right-of-use assets or lease liabilities for these leases.

Information on leases in which the Group is lessee is presented in the following.

a) Right-of-use assets

Right-of-use assets relating to leased property that does not meet the definition of investment property are presented in property, plant and equipment (see Note 15(c)).

(€ thousand)	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
January 1, 2019	150,191	10,172	63,299	223,662
Depreciation	– 23,644	– 2,298	– 22,658	– 48,600
Impairments	– 2,472	– 141	-	– 2,613
Additions Right-of-Use	4,423	430	17,217	22,070
Disposals Right-of-Use	-	-	– 99	– 99
Foreign currency adjustment	2,659	102	1,250	4,011
December 31, 2019	**131,157**	**8,265**	**59,009**	**198,431**

b) Amounts recognized in profit or loss

(€ thousand)	
2019 - Leases according to IFRS 16	
Interest expense for leasing agreements	5,002
Expenses for short term leases	8,709
Expenses for leases of an asset of minor value	1,936
Income from subleases	– 17
2018 - Leases according to IAS 17	
Lease expenses	65,561
Income from subleases	– 1,019

c) Amounts recognized in the statement of cash flows

Cash outflows for leases totaled €60,759 thousand.

d) Extension options

A number of leases for property, trucks and cars contain extension options exercisable up to one year before the end of the non-cancelable period of the lease. Where possible, the Klöckner & Co Group seeks to have extension options included in new leases for operational flexibility. Such extension options can only be exercised by Klöckner & Co and not by the lessor. An assessment is made at the commencement date as to whether the extension option is reasonably certain to be exercised. Should a significant event or a significant change in circumstances that is within Klöckner & Co's control occur, the assessment as to whether the extension option is reasonably certain to be exercised is made again.

Klöckner & Co estimates that the potential future lease payments if extension options are exercised would result in a lease liability of €35,301 thousand.

There were no significant sale-and-lease-back transactions on the balance sheet date.

(16) Inventories

(€ thousand)	December 31, 2019	December 31, 2018
Raw materials and supplies	318,373	430,640
Work in progress	4,623	5,222
Finished goods and merchandise	719,655	804,682
Inventories	**1,042,651**	**1,240,544**

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.

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

Of the inventories as of December 31, 2019, €263,498 thousand (2018: €339,663 thousand) are carried at net realizable value. Write-downs to net realizable value were recognized as expense in the amount of €32,038 thousand (2018: €28,775 thousand). The change in (addition to) write-downs recognized through profit or loss in the fiscal year was €2,790 thousand (2018: €2,859 thousand). The amount recognized as expense for inventories corresponds to the cost of materials, supplies and purchased merchandise.

In addition to reservations of title in the ordinary course of business, inventories with a carrying amount of €417,543 thousand (2018: €523,804 thousand) are pledged as security for financial liabilities. Drawings on these credit lines were €137 thousand as of December 31, 2019 (2018: undrawn).

(17) Trade receivables and contract assets

a) 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, 2019 amounts to €454 million (2018: €570 million).

For further information on the ABS programs, see Note 24 (Financial liabilities) and Note 3 (Basis of consolidation and consolidation methods).

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

TRADE RECEIVABLES AND CONTRACT ASSETS

(€ thousand)		Of which overdue by days as of the reporting date*)						
Gross trade receivables	Of which not overdue as of the reporting date	1-30 days	31-60 days	61-90 days	91-120 days	> 120 days	Write–downs	Carrying amount
December 31, 2019								
626,660	484,769	108,020	16,815	5,092	1,789	10,175	– 15,228	611,432
December 31, 2018								
755,844	577,101	131,238	24,342	6,737	2,949	13,477	– 15,899	739,945

*) Including contract assets: €31,607 thousand (2018: €23,453 thousand).

As of December 31, 2019, trade receivables of companies not participating in the ABS programs were pledged in the amount of €2,537 thousand (2018:€5,869 thousand) as collateral for loan liabilities.

b) Contract assets

Contract assets, which relate to sales under consignment stock contracts and construction contracts, changed as follows in fiscal year 2019:

(€ thousand)	2019	2018
Contract assets as of January 1	23,453	28,424
Additions/ Disposals	8,399	-5,297
Exchange rate differences	-245	326
Contract assets as of December 31	**31,607**	**23,453**

c) Supplier bonus receivables

Supplier bonus receivables are determined on the basis of contractual agreements and accepted shipments.

(18) Other financial and non-financial assets

	December 31, 2019		December 31, 2018	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial assets	**11,935**	**14,987**	**14,150**	**16,535**
Investments	-	8,572	-	8,320
Non-current loans and securities	-	259	-	254
Receivables from insurance companies	196	1,215	415	2,380
Fair value of derivative financial instruments	1,622	-	854	-
Miscellanous other non-financial assets	10,117	4,941	12,881	5,581
Other non-financial assets	**25,730**	**9,523**	**22,732**	**5,215**
Receivables from social security carriers	385	-	620	-
Reinsurance claims from pension obligations	-	3,860	-	3,923
Prepaid pension cost	-	5,638	-	1,250
Claims of other taxes	13,625	-	11,882	-
Prepaid expenses	9,302	25	8,566	42
Advance payments	2,418	-	1,664	-
Other assets	**37,665**	**24,510**	**36,882**	**21,750**

Miscellaneous other non-financial current assets include, among other things, debit balances in accounts payable of €4,806 thousand (2018: €2,748 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) 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

By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized to acquire, by or before May 11, 2022, 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 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was 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 Group companies or by third parties acting on the Company's account or on the account of Group companies. 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 2013

The conditional capital in an initial total amount of €49,875,000 established by resolution of the Annual General Meeting of May 24, 2013 (Conditional Capital 2013) was adjusted in the Annual General Meeting of May 12, 2017 such that the Company's share capital is subject to a smaller conditional increase of up to €24,932,500 by the issue of up to 9,973,000 new no-par-value registered shares. The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. Section 4 (6) sentence 1 of the Articles of Association was reworded accordingly.

CONDITIONAL CAPITAL 2017

By resolution of the Annual General Meeting of May 12, 2017, 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 (Conditional Capital 2017). The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. The Conditional Capital 2017 serves to grant subscription and/or conversion rights and/or obligations to the holders of warrant-linked and/or convertible bonds that are issued by the Company or a Group company in accordance with the authorization under agenda item 7 of the Annual General Meeting of May 12, 2017. Furthermore, it serves the purpose of issuing shares to creditors of convertible bonds issued based on the resolution under agenda item 6 of the Company's Annual General Meeting of May 24, 2013 in case of an adjustment of the conversion ratio. The corresponding provision of the Articles of Association is Section 4 (7).

Authorized capital

AUTHORIZED CAPITAL 2017

By resolution of the Annual General Meeting on May 12, 2017, the Management Board was authorized until May 11, 2022 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 2017).

b) Capital reserves

After the withdrawal to cover the loss, capital reserves were €575,060 thousand as of December 31, 2019, compared with €682,412 thousand in the prior year.

c) Retained earnings

Retained earnings include the accumulated undistributed earnings of the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, as well as effects on equity from consolidation.

d) Accumulated other comprehensive income

Accumulated other comprehensive income comprises translation differences from translation of the financial statements of foreign subsidiaries, changes in the fair value of cash flow 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.

f) Proposal for the appropriation of net income

Due to the net loss in the fiscal year under review, the Management Board and Supervisory Board will propose to the Annual General Meeting that no dividend be paid for fiscal year 2019.

(21) Share-based payments

The Klöckner & Co Group has operated cash-settled share-based payment programs since 2006. The beneficiaries are the Management Board and selected members of senior management throughout the Group. 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 €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 at the latest in 2023.

Senior management programs
In the first half of the fiscal year, 635,000 (2018: 679,966) virtual stock options were allocated and issued to selected members of senior management. The conditions are largely identical to the Management Board program at Klöckner & Co SE. However, the vesting period is uniformly 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	**568,468**	**2,911,666**	**3,480,134**
Granted	-	635,000	635,000
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at the end of the reporting period	**568,468**	**3,546,666**	**4,115,134**
thereof exercisable at the reporting date	*468,168*	*1,524,000*	*1,992,168*
weighted average remaining contractual lifetime (months)	*34*	*46*	*45*
range of strike prices (€/VSO)	*7.53–8.97*	*6.51–10.53*	*6.51–10.83*
weighted average strike price (€/VSO)	*8.35*	*8.45*	*8.44*

*) Including options held by former members of the Management Board.

Detailed information for the members of the Management Board serving in fiscal year 2019 is provided in the following table:

(Number of virtual stock options)	Gisbert Rühl	Marcus A. Ketter*)
Outstanding at the end of the reporting period	**241,800**	**100,001**
thereof exercisable at the reporting date	*201,500*	*80,001*
weighted average remaining contractual lifetime (months)	*48*	*24*
range of strike prices (€/VSO)	*7.53-8.97*	*7.53-8.97*
weighted average strike price (€/VSO)	*8.32*	*8.29*

*) Resigned as of May 15, 2019.

No virtual stock options were exercised in fiscal year 2019 (2018: 227,334).

The provision recognized pro rata temporis for stock options granted to the Management Board and senior management amounts to €4,960 thousand as of the reporting date (2018: €3,250 thousand); the intrinsic value of virtual stock options exercisable as of the reporting date was €0 thousand (2018: €0 thousand). The expense for additions to provisions amounted to €1,710 thousand (2018: €3,400 thousand income from reversals).

The fair value of the virtual stock options is measured for the determination of provisions using Monte Carlo simulation with the following parameters:

in %	December 31, 2019	December 31, 2018
Risk-free rate of return	-0,7 to -0,4	-0,7 to -0,2
Expected volatility	49.3	41.6

The expected volatility is based on market-traded options on the shares.

(22) 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 entrants after 1979, a fixed capital amount scaled by salary band for each qualifying year of service. There are also individual entitlements for executive staff in accordance with various Essener Verband benefit 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.

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).

In the United Kingdom, 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 (moved to defined contribution plan). Governance of each plan is 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. The current investment strategy has a strong focus on corporate bonds and other fixed-income investments.

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 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 D&A Group pension fund, Pensionskasse der D&A-Gruppe, is a Swiss-law trust domiciled in St. Gallen, Switzerland. It has the purpose of providing old-age, survivors' and disability benefit plans for company employees. These plans are provided by the fund on a mandatory basis under the Swiss Occupational Pensions Act (BVG), for which purpose it is listed in the occupational benefit plans register. The Board of Trustees, as the main decision-making body under Article 29 of the fund's charter, comprises at least six members elected from among plan members. Among other tasks, the Board of Trustees administers the fund's assets. Management in turn produces a written annual report that must be made available to plan members in a suitable form.

In the USA, pension benefits are provided in the form of a defined contribution plan and several defined benefit plans. A 401 (k) plan gives employees the option to pay a set percentage of their basic salary into a fund, thus entitling them to a subsidy from the employer. Employees who joined the Company by December 31, 2013, participate in a defined benefit plan that provides a life annuity equaling a set percentage of eligible salary for each qualifying year of service, or a fixed amount for unionized employees. Alongside 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. Under US law, employers must pay funding contributions to a plan if a special solvency assessment shows funding to fall short of 100%. 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.

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 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 €9,166 thousand (2018: €9,257 thousand). This does not include employer contributions to the statutory pension insurance scheme. These amounted to €7,929 thousand in Germany (2018: €7,704 thousand).

In the fiscal year, for countries with material pension obligations, the following actuarial assumptions were used in the actuarial calculations performed by third-party actuaries:

2019

in %	Germany	Switzerland	United Kingdom	France	United States
Discount rate	0.80	0.30	2.10	0.80	3.24
Salary trend	2.50	0.50	1.90	1.75	3.50
Pension trend	1.75	0.00	2.80	1.25	0.00

2018

in %	Germany	Switzerland	United Kingdom	France	United States
Discount rate	1.70	0.80	3.00	1.70	4.20
Salary trend	2.50	0.50	2.05	1.75	3.50
Pension trend	1.75	0.00	3.00	1.25	0.00

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

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

	2019	2018
Germany	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2015	BVG 2015
United Kingdom	SAPS	SAPS
France	INSEE 12-14; TGH05	INSEE 10-12; TGH05
United States	Retirement Plan 2019	Retirement Plan 2018

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)	2019	2018
Reimbursement rights as of January 1	**3,924**	**3,273**
Expected return	65	50
Actuarial gains (losses)	94	824
Benefits paid	– 223	– 223
Reimbursement rights as of December 31	**3,860**	**3,924**

The actual return on reimbursement rights was €159 thousand in the fiscal year (2018: €875 thousand).

The net provision changed as follows:

(€ thousand)	Defined benefit obligation 2019	Defined benefit obligation 2018	Fair value of plan assets 2019	Fair value of plan assets 2018	Net provision/assets 2019	Net provision/assets 2018
As of January 1	1,035,020	1,060,377	– 776,090	– 781,183	258,930	279,194
thereof fully or partly funded	833,541	850,834				
Included in statement of income						
Service cost	16,537	17,517	-	-	16,537	17,517
Interest cost for pension plans	19,493	17,094	-	-	19,493	17,094
Interest income from plan assets	-	-	– 14,533	– 11,858	– 14,533	– 11,858
Administration expenses	-	-	1,632	1,589	1,632	1,589
Settlements/amendments	5,180	1,604	-	-	5,180	1,604
	41,210	**36,215**	**– 12,901**	**– 10,269**	**28,309**	**25,946**
Included in other comprehensive income						
Actuarial losses (gains) due to change in demographic assumptions	– 2,526	– 3,772	-	-	– 2,526	– 3,772
Actuarial losses (gains) due to change in financial assumptions	111,952	– 38,833	-	-	111,952	– 38,833
Experience losses (gains)	3,557	7,163	-	-	3,557	7,163
Revaluation of plan assets	-	-	– 83,297	29,075	– 83,297	29,075
Foreign currency exchange rate differences	28,563	27,880	– 27,053	– 26,211	1,510	1,669
	141,546	**– 7,562**	**– 110,350**	**2,864**	**31,196**	**– 4,698**
Other						
Employee contributions	16,485	11,955	– 16,485	– 11,955	-	-
Employer contributions	-	-	– 28,790	– 24,818	– 28,790	– 24,818
Benefits paid	– 66,750	– 65,965	56,213	49,271	– 10,537	– 16,694
Transfers	3,255	-	– 3,443	-	– 188	-
	– 47,010	**– 54,010**	**7,495**	**12,498**	**– 39,515**	**– 41,512**
As of December 31	**1,170,766**	**1,035,020**	**– 891,846**	**– 776,090**	**278,920**	**258,930**
thereof included in consolidated statement of other non-financial assets					5,638	1,250
Provisions for pensions and similar obligations					284,558	260,180
thereof fully or partly funded	949,338	833,541				

The table below shows the analysis of the net provision (asset) by countries:

	December 31, 2019			December 31, 2018		
(€ thousand)	Defined benefit obligation	Fair value of plan assets	Net provision/ assets	Defined benefit obligation	Fair value of plan assets	Net provisi-on/ assets
Germany	239,752	35,961	203,791	211,615	31,381	180,234
Austria	1,399	-	1,399	1,401	-	1,401
France	27,027	282	26,745	26,114	278	25,836
United Kingdom	105,531	85,337	20,194	86,301	72,098	14,203
Swiss Group companies	544,895	549,024	– 4,129	496,310	494,288	2,022
USA	252,162	221,242	30,920	213,279	178,045	35,234
Total	**1,170,766**	**891,846**	**278,920**	**1,035,020**	**776,090**	**258,930**

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

(€ thousand)	2019	2018
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	1,087,332	964,652
discount rate would be lower by 50 basis points	1,265,663	1,114,649
the expected salary trend would be higher by 0.5%	1,176,775	1,040,600
the expected salary trend would be lower by 0.5%	1,164,906	1,029,332
pension increase would be higher by 0.5%	1,219,688	1,078,581
pension increase would be lower by 0.5%	1,155,021	1,021,758
longevity would be 1 year longer	1,213,875	1,068,726

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, 2019			December 31, 2018		
(€ 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	210,488	44,789	255,277	185,165	21,105	206,270
Bonds	154,622	170,579	325,201	138,450	149,156	287,606
Real estate	44,751	141,711	186,462	38,728	135,174	173,902
Other assets	88,045	36,861	124,906	76,067	32,245	108,312
Fair value of plan assets as of December 31	**497,906**	**393,940**	**891,846**	**438,410**	**337,680**	**776,090**

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 €15,362 thousand (2018: €14,383 thousand).

Other assets mainly include the following:

	December 31, 2019			December 31, 2018		
(€ thousand)	Germany	Switzerland	United Kingdom	Germany	Switzerland	United Kingdom
Pledged reinsurance claims	35,961	-	-	31,381	-	-
Cash and cash equivalents	-	37,531	1,789	-	36,774	2,110
Alternative investment in commodities	-	18,840	-	-	16,494	-
Mixed Fund	-	-	15,081	-	-	16,564

The actual return on plan assets was €97,831 thousand in the fiscal year (2018: loss of €17,217 thousand).

Losses relating to experience adjustments in the present value of the defined benefit obligation in the year under review were €3,557 thousand (2018: loss of €7,163 thousand); gains relating to experience adjustments to the fair value of plan assets were €83,297 thousand (2018: loss of €29,075 thousand).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2020 are expected to amount to €25,687 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2020	42,545
- due in 2021	41,958
- due in 2022	47,634
- due in 2023	44,838
- due in 2024	44,247
- due 2025-2029	226,616

(23) Other provisions and accrued liabilities

Other provisions changed as follows in the reporting year:

(€ thousand)	As of January 1, 2019	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2019
Other provisions							
Other taxes	1,354	3,499	-	– 417	– 96	– 36	4,304
Personnel-related obligations							
– early retirement schemes	33	-	-	– 6	– 24	-	3
– anniversary payments	10,044	1,791	5	– 1,864	– 45	161	10,092
– other	178	20	-	-	– 6	2	194
Onerous contracts	1,347	508	-	– 539	– 49	4	1,271
Restructuring expenses	13,804	20,908	-	– 13,866	– 209	570	21,207
Pending litigation	2,700	345	-	– 380	– 422	118	2,361
Warranties	1,716	199	-	– 113	– 645	-	1,157
Miscellaneous provisions	17,933	16,920	128	– 13,613	– 522	– 147	20,699
	49,109	**44,190**	**133**	**– 30,798**	**– 2,018**	**672**	**61,288**
Other accrued liabilities							
Personnel-related obligations	57,915	28,718	-	– 31,778	– 2,210	– 5,121	47,524
Miscellaneous accrued liabilities	8,128	3,250	-	– 5,655	– 5	– 263	5,455
	66,043	**31,968**	**-**	**– 37,433**	**– 2,215**	**– 5,384**	**52,979**
Other provisions and accrued liabilities	**115,152**	**76,158**	**133**	**– 68,231**	**– 4,233**	**– 4,712**	**114,267**

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

Analysis by maturities:

	December 31, 2019		December 31, 2018	
(€ thousand)	Non-current	Current	Non-current	Current
Other provisions				
Other taxes	8	4,296	57	1,297
Personnel-related obligations				
– early retirement schemes	-	3	18	15
– anniversary payments	10,092	-	10,044	-
– other	169	25	147	31
Onerous contracts	7	1,264	8	1,339
Restructuring expenses	-	21,207	-	13,804
Pending litigation	32	2,329	50	2,650
Warranties	-	1,157	-	1,716
Miscellaneous provisions	7,005	13,694	6,098	11,835
	17,313	**43,975**	**16,422**	**32,687**
Other accrued liabilities				
Personnel-related obligations	-	47,524	-	57,915
Miscellaneous accrued liabilities	-	5,455	-	8,128
	-	**52,979**	**-**	**66,043**
Other provisions and accrued liabilities	**17,313**	**96,954**	**16,422**	**98,730**

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 €19,982 thousand (2018: €12,034 thousand) and other restructuring expenses for location closures in an amount of €1,224 thousand (2018: €1,770 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. The provisions for site closures and social plans were determined on the basis of cost estimates (for example, site rent still to be paid for closed sites) or derived from experience from comparable social plans.

Personnel-related obligations relate in the amount of €10,092 thousand (2018: €10,044 thousand) to anniversary payments in France and Switzerland. The determination of the provision is based on actuarial calculations with interest rates of 0.8% and 0.2%.

Miscellaneous provisions relate among other things to provisions for asset retirement obligations and provisions for environmental remediations.

Accrued liabilities for employee-related obligations include bonus payments of €32,997 thousand (2018: €42,517 thousand) as well as vacation entitlements and flextime balances in the amount of €11,375 thousand (2018: €12,554 thousand).

(24) Financial liabilities

The details of financial liabilities are as follows:

	December 31, 2019				December 31, 2018			
(€ thousand)	up to 1 year	1-5 years	Over five years	Total	up to 1 year	1-5 years	Over five years	Total
Bonds	1,170	140,133	-	141,303	920	136,160	-	137,080
Liabilities to banks	15,363	14,825	9,000	39,188	16,325	40,652	18,674	75,651
Liabilities under ABS programs	645	238,652	-	239,297	948	280,811	-	281,759
Finance lease liabilities	43,564	101,601	59,750	204,915	1,547	8,553	15,995	26,095
	60,742	**495,211**	**68,750**	**624,703**	**19,740**	**466,176**	**34,669**	**520,585**

Financial liabilities of €24,056 thousand (2018: €29,686 thousand) are secured by liens. Inventories as set out in Note 16 (Inventories) and trade receivables as set out in Note 17 (Trade receivables and contract assets) are also pledged as collateral.

Transaction costs directly attributable to the assumption of financial liabilities in the amount of €2,991 thousand (2018: €3,749 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 and bilateral credit lines in Switzerland) is 1.7 years as of the reporting date, with no instruments maturing in 2020.

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. Klöckner & Co 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. In accordance with the bond terms, the conversion price was adjusted to €13.3305 following the dividend payouts in May 2017, May 2018 and May 2019. The bond has 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 call option during 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 at the time of issue was €18 million after deducting transaction costs and accounting for deferred taxes. It was credited to capital reserves.

Liabilities to banks

In April 2019, the syndicated loan was extended ahead of term by one year to May 2022 in an amend-and-extend process. This further improved the maturity profile of Klöckner & Co's Group finances. An option to extend the term in two steps up to May 2024 with prior approval of the banks was also once again incorporated in the credit documentation. Adjustments were also made to the loan terms in order to neutralize the effects of first-time application of IFRS 16. The volume of the facility remained unchanged at €300 million. The syndicated loan is provided as before by a syndicate of nine banks.

The financial covenants require that gearing, defined as net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill resulting from acquisitions after May 23, 2019, may not exceed 165%. The thus adjusted book value of equity attributable to shareholders of Klöckner & Co SE may not fall below €600 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 the fiscal year 2019, the Group consistently complied with all loan terms, including the financial covenants.

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

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has operated a European ABS program. In September 2018, the European ABS program was prolonged ahead of term to September 2021 while retaining the €300 million loan amount. The terms of contract were amended in December 2019 in order to neutralize the effects of first-time application of IFRS 16. The covenants agreed upon are also based on the statement of financial position and are equivalent to those for the syndicated loan.

The ABS program in the US was most recently extended ahead of term in March 2016 and now matures in 2021. The volume of the ABS program remained unchanged at USD 275 million.

Utilization of the programs including accumulative interest totaled €239 million as of the reporting date and breaks down as follows:

(€ million)	December 31, 2019	December 31, 2018
European program		
– utilization	115	110
– maximum volume	300	300
American program		
– utilization*)	124	172
– maximum volume*)	245	240

*) Translated at closing exchange rate.

Finance lease liabilities

Finance lease liabilities have the following term structure:

(€ thousand)	December 31, 2019	December 31, 2018
Due within one year	47,722	2,760
Due between one and five years	111,619	12,470
Due after five years	69,600	23,386
Future minimum lease payments	**228,941**	**38,616**
Due within one year	4,158	1,213
Due between one and five years	10,018	3,917
Due after five years	9,850	7,391
Interest included in future minimum lease payments	**24,026**	**12,521**
Due within one year	43,564	1,547
Due between one and five years	101,601	8,553
Due after five years	59,750	15,995
Total present value of future minimum lease payments	**204,915**	**26,095**

(25) Trade payables

(€ thousand)	December 31. 2019	December 31, 2018
Advance payments received	124	6,469
Trade payables	584,242	742,612
Contract liabilities	1,137	3,689
Provisions for pending invoices	13,745	15,714
Trade payables	**599,248**	**768,484**

(26) Other financial and non-financial liabilities

	December 31, 2019		December 31, 2018	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial liabilities	**24,431**	**144**	**21,118**	**156**
Negative fair value of derivative financial instruments	321	-	678	-
Customers with credit balances	12,366	-	11,563	-
Liabilities to employees	3,285	2	3,186	3
Miscellaneous other financial liabilities	8,459	142	5,691	153
Other non-financial liabilities	**33,860**	**-**	**36,003**	**3**
Value-added tax liabilities	14,275	-	19,680	-
Social security contributions	8,053	-	5,892	-
Other tax liabilities	8,211	-	7,773	-
Deferred income	3,321	-	2,658	3
Other liabilities	**58,291**	**144**	**57,121**	**159**

The miscellaneous other financial liabilities did not relate to any individual material item in the fiscal year under review.

Other disclosures

(27) 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 maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

Capital is managed on the basis of gearing. The Klöckner & Co Group's target is to maintain gearing below the 165% (2018: 150%) required under the financial covenants in order to be able to continue borrowing on reasonable terms.

Further information about the basis of calculation for gearing and about minimum capital requirements is provided in Note 24 (Financial liabilities).

Gearing is determined as follows:

€ thousand	December 31, 2019	December 31. 2018	Variance
Financial liabilities	624,703	520,585	104,118
Transaction costs	2,991	3,749	– 758
Liquid funds	– 182,520	– 141,344	– 41,176
Net financial debt (before deduction of transaction cost)	**445,174**	**382,990**	**62,184**
Consolidated shareholders' equity	1,182,466	1,281,642	– 99,176
Non-controlling interests	– 6,912	– 6,282	– 630
Goodwill from business combinations subsequent to May 23, 2019 (2018: May 23, 2013)	-	– 20,550	20,550
Adjusted shareholders equity	**1,175,554**	**1,254,810**	**– 79,256**
Gearing	**37.9%**	**30.5%**	**7.4%**

Without the introduction of the new IFRS 16 lease accounting standard, gearing would have been 22.6% as of December 31, 2019.

(28) 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, 2019 (€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value recognized in profit and loss	Category: Fair value recognized in equity	Category: Amortized costs	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	1,622	1,622	-	-	-	1,622	-	1,622
Participations	Other non-current financial assets	8,831	7,831	1,000	-	-	-	8,831	8,831
Short term deposits (< 3 month)	Cash and cash equivalents	1,571	1,571	-	-	-	1,571	-	1,571
Not measured at fair value									
Trade receivables and contract assets	Trade receivables and contract assets	611,432	-	-	611,432	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	180,949	-	-	180,949	-	-	-	-
Other financial assets at cost	Current and non-current other assets	16,469	-	-	16,469	-	16,469	-	16,469
Other financial assets at cost	Bonus claims to suppliers	63,827	-	-	63,827	-	-	-	-
Total		**884,701**	**11,024**	**1,000**	**872,677**	**-**	**19,662**	**8,831**	**28,493**

Financial liabilities as of December 31, 2019			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	321	321	-	-	-	321	-	321
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	419,789	-	-	419,789	-	422,743	-	422,743
Lease liabilities	Current and non-current financial liabilities	204,915	-	-	204,915	-	-	-	-
Trade payables	Trade payables	599,248	-	-	599,248	-	-	-	-
Other financial liabilities at cost	Other non-current liabilities	144	-	-	144	-	-	142	142
Other financial liabilities at cost	Other current liabilities	24,110	-	-	24,110	-	-	-	-
Total		**1,248,526**	**321**	**-**	**1,248,205**	**-**	**423,063**	**142**	**423,205**

Financial assets as of December 31, 2018			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	854	854	-	-	-	854	-	854
Derivative financial instruments designated in hedge accounting	Current and non-current other assets	-	-	-	-	-	-	-	-
Participations	Other non-current financial assets	8,574	5,074	3,500	-	-	-	8,574	8,574
Short term deposits (< 3 month)	Cash and cash equivalents	770	770	-	-	-	770	-	770
Not measured at fair value									
Financial assets at cost	Other non-current financial assets	-	-	-	-	-	-	-	-
Trade receivables and contract assets*)	Trade receivables and contract assets	739,945	-	-	739,945	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	140,574	-	-	140,574	-	-	-	-
Other financial assets at cost	Current and non-current other assets	21,256	-	-	21,256	-	-	-	-
Other financial assets at cost	Bonus claims to suppliers	64,046	-	-	64,046	-	-	-	-
Total		**976,019**	**6,698**	**3,500**	**965,821**	**-**	**1,624**	**8,574**	**10,198**

*) Including contract assets of €23.453 thousand.

Financial liabilities as of December 31, 2018			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	673	673	-	-	-	673	-	673
Derivative financial instruments designated in hedge accounting	Other current and non-current liabilities	6	-	6	-	-	6	-	6
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	494,490	-	-	494,490	-	485,600	-	485,600
Lease liabilities	Current and non-current financial liabilities	26,095	-	-	26,095	-	-	-	-
Trade payables	Trade payables	768,484	-	-	768,484	-	-	-	-
Other financial liabilities at cost	Other non-current liabilities	156	-	-	156	-	-	137	137
Other financial liabilities at cost	Other current liabilities	20,439	-	-	20,440	-	-	-	-
Total		**1,310,350**	**673**	**6**	**1,309,664**	**-**	**486,279**	**137**	**486,416**

Measurement of the fair value of the equity investments in the amount of €8,831 thousand (2018: €8,574 thousand) is as level 3. These are mostly unquoted financial instruments (equity investments) for which there is no active market. Of the change in the financial year, €2,752 thousand is attributable to capital measures and €-2,502 thousand to changes in fair value. Fair value is measured on the basis of available financial information, such as transaction prices for financing rounds or business plans to the extent that this information is reliable, or, as an approximation, as cost, which is considered an appropriate estimate of fair value as no more suitable information is available. A review is carried out on a quarterly basis using all information available on the equity investments to establish whether cost is still representative of fair value. This would not be the case, for example, in the event of a significant change in the market in which the equity investments are active. As cost is the sole input factor for fair value, a percentage change in cost results in an equal change in fair value. The estimated fair value would increase (decrease) with any increase (decrease) in cost. A 0.5% increase (decrease) would not materially affect fair value.

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

In the case of current financial assets (mostly other assets), fair values are largely identical to carrying amounts. The fair values of financial liabilities reflect the current market situation for the respective financial instruments as of December 31, 2019. 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.

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices in active markets. Fair values determined using other directly observable market inputs are classified as Level 2.

There is no indication of any change in the fair interest rates determined on initial recognition. For this reason, fair value is based on the carrying amount. Changes in hierarchy levels are taken into account at the end of the period in which the change took place. There were no transfers between hierarchy levels during the reporting year.

A further Level 3 fair value exists for miscellaneous other non-current liabilities; this is a put liability from the acquisition of the GSD Group. The put option was entered into for a potential future transfer of non-controlling interests valued by discounting future earnings based on budget figures. These liabilities totaled €142 thousand in the fiscal year (2018: €137 thousand).

(29) Derivative financial instruments

Derivative financial instruments are accounted for at fair value in accordance with IFRS 9.

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 monitors 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.

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:

	December 31, 2019		December 31, 2018	
(€ million)	Not designated in hedge-accounting	Designated in hedge-accounting	Not designated in hedge-accounting	Designated in hedge-accounting
Nominal values				
Forward exchange transactions	286.9	-	261.1	1.0
Interest rate swap	-	-	-	-
Fair values				
Forward exchange transactions	1.3	-	0.2	-

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 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 €287 million (2018: €262 million) have a remaining maturity of less than one year. These include a notional amount of €262 million (2018: €241 million) for the hedging of intra-Group loans.

In the prior year, forward exchange contracts for a total of €1 million were designated as cash flow hedges. These hedged currency risk on customer payments in the international project business of our Dutch subsidiaries ODS B.V. and ODS Metering Systems B.V..

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, 2019.

(30) Financial risk management

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.

Credit risk

The Company's exposure to credit risk 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, €254 million (2018: €325 million) of trade receivables were covered by credit insurance.

Trade receivables

Prospective customers are credit-checked against an in-house risk board before order acceptance. Additionally, there is an active receivables management system incorporating trade credit insurance. The broadly diversified receivables pool is also used for financing purposes under ABS programs in Europe and the USA.

In addition to local monitoring by each subsidiary, Klöckner & Co SE also monitors significant credit risk at Group management level in order to better control specific individual risks and any cumulative risk.

There is no risk concentration as trade receivables relate to large numbers of customers from a variety of sectors and regions. Klöckner & Co applies the simplified approach to trade receivables and contract assets, recognizing the lifetime expected credit losses on inception. Determination of expected credit losses under the simplified approach is performed at Klöckner & Co in risk groups using historic credit loss rates. The assignment to risk groups is made on the basis of shared credit risk characteristics. For Klöckner & Co, these include a customer's geographical location and the past due status of contract assets. Future-oriented information is incorporated by adjusting historic credit loss rates with scaling factors. These are based on gross domestic product (GDP) growth rates in each region. Contract assets relate to work in progress that has not yet been invoiced and generally have the same risk characteristics as trade receivables for the same types of contract. Klöckner & Co has therefore concluded that the expected credit loss rates on trade receivables not past due are a suitable approximation of loss rates for contract assets.

Individual valuation allowances are recognized under the simplified approach when one or more events have occurred that have a detrimental impact on the debtor's creditworthiness. Such events include payment delays, imminent insolvency or the granting of concessions to the debtor on account of payment difficulties. Trade receivables and contract assets are written off if recovery is no longer probable. This is the case, for example, if a debtor becomes insolvent.

(€ thousand)	2019	2018
Writedowns as at January 1 under IAS 39	15,899	19,577
Adjustments from the first-time adoption of IFRS 9	-	– 2,487
Writedowns as at January 1 under IFRS 9	**15,899**	**17,090**
Utilisation	– 284	– 2,656
Additions	– 563	1,493
Exchange rate differences	176	– 28
Writedowns as of December 31	**15,228**	**15,899**

The change in the valuation allowance is mainly due to the increase/decrease in the gross carrying amount of trade receivables/contract assets that are credit-impaired. The loss-weighted average loss rates have not significantly changed.

The table below contains information on credit risk and expected credit losses on trade receivables and contract assets:

2019	Gross Trade receivables (€ thousands)	Average default rates (in %)	Expected Credit Loss (€ thousand)
Germany/Austria	124,801	0.019-0.048	75
Switzerland	84,567	0.059	48
United Kingdom	47,157	0.354	176
France	78,300	0.176	102
USA	231,033	0.031	98
Netherlands	28,978	0.070	11
Other	31,824	0.019-0.354	3
Total	**626,660**	**0.019-0.354**	**513**

2018	Gross Trade receivables (€ thousands)	Average default rates (in %)	Expected Credit Loss (€ thousand)
Germany/Austria	169,091	0.019–0.036	104
Switzerland	104,310	0.049	40
United Kingdom	61,994	0.299	184
France	89,551	0.197	242
USA	289,024	0.040	199
Netherlands	30,193	0.068	13
Other	11,681	0.019–0.299	8
Total	**755,844**	**0.019–0.299**	**790**

In addition to the expected credit losses, valuation allowances were recognized in the amount of €14,715 thousand for incurred losses on trade receivables.

Cash and cash equivalents

As part of liquidity management, Klöckner & Co SE deposits cash and cash equivalents exclusively with the Group's core banks, which hold an investment grade rating. Their credit standing is also regularly monitored against credit default swaps (CDSs).

Cash consists of bank balances and short-term deposits in the form of call and time deposits. The maximum investment period is 90 days.

On the basis of the limited investment period, the banks' credit ratings and current CDS premiums, cash and cash equivalents have low default risk. No material impairment losses were therefore recognized on cash and cash equivalents in fiscal year 2019.

Disclosures on interest rate risk

Klöckner & Co 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 local borrowings, notably by the US country organization (US ABS/ABL) and by the Swiss country organization (bilateral credit lines). 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 mainly 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 in the amount of €148 million, local borrowings in the amount of €41 million and lease liabilities in the amount of €202 million, as of December 31, 2019 €390 million or some 62% (2018: €228 million or approximately 43%) 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.

Scenario-based sensitivity analysis is used to show the effects on Klöckner & Co's profit or 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, 2019, an increase in market interest rates on each of the relevant currencies by 100 basis points would have a negative effect on the financial result in the amount of approximately €2.4 million (2018: €3.0 million) for an analysis period of one year.

	2019	2018
	100 bp	100 bp
EUR	0.8	0.7
USD	1.2	1.7
GBP	0.4	0.4
CHF	0.0	0.2
Total	**2.4**	**3.0**

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 €1.8 million (2018: €1.4 million).

	2019	2018
	100 bp	100 bp
EUR	0.8	0.7
USD	0.3	0.4
GBP	0.5	0.1
CHF	0.2	0.2
Total	**1.8**	**1.4**

Conversely, a decrease in market interest rates by 100 basis points would result in a substantially negative interest rate scenario in the eurozone and Switzerland and a very low interest level in the USA. We expect that such a scenario would show the aforesaid effects on profit or loss 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 the Corporate Treasury Department 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 Klöckner & Co SE to subsidiaries. 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 €230 million (2018: €199 million). The intra-Group loans, including ongoing interest payments, have been hedged with forward contracts and currency swaps.

Last year at our Dutch subsidiaries ODS B.V. and ODS Metering Systems B.V., forward exchange transactions and currency swaps totaling €1.0 million were designated as a cash flow hedge. These hedge customer payments in international project business.

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 fair value of our currency swaps was €1.3 million as of the reporting date (2018: €0.2 million).

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 total, the Group has credit facilities (including the convertible bond issue and leases) in the amount of approximately €1.6 billion (2018: €1.4 billion). Financial liabilities plus transaction costs came to €625 million (2018: €524 million). This corresponds to approximately 39% of the credit facilities (2018: 37%).

In April 2019, the syndicated loan was extended ahead of term, retaining the facility amount at €300 million, until May 2022. In 2018, the European ABS program was prolonged ahead of term to September 2021 on slightly improved terms while retaining the €300 million loan amount. In March 2018, the bilateral credit lines in Switzerland were restructured and extended with a total facility amount of CHF 130 million for another four years until March 2022. The remaining material financing instruments were most recently extended in 2016 (ABS and ABL USA) or issued (2016 Convertible Bond).

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

December 31, 2019		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	2,028	-	4,984
	Total	**2,956**	**149,828**	**-**	**152,784**
Bank loans	Nominal values	15,405	16,691	9,000	41,096
	Interest	4,166	5,579	1,387	11,132
	Total	**19,571**	**22,270**	**10,387**	**52,228**
ABS	Nominal values	-	238,992	-	238,992
	Interest	7,260	3,418	-	10,678
	Total	**7,260**	**242,410**	**-**	**249,670**
Lease liabilities	Nominal values	43,564	101,601	59,750	204,915
	Interest	4,158	10,018	9,850	24,026
	Total	**47,722**	**111,619**	**69,600**	**228,941**
Total financial liabilities		**77,509**	**526,127**	**79,987**	**683,623**
Cash outflows from derivative financial instruments designated in interest hedging relationships		**-**	**-**	**-**	**-**

December 31, 2018		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	5,912	-	8,868
	Total	**2,956**	**153,712**	**-**	**156,668**
Bank loans	Nominal values	16,104	42,689	18,674	77,467
	Interest	4,398	8,104	1,134	13,636
	Total	**20,502**	**50,793**	**19,808**	**91,103**
ABS	Nominal values	-	281,332	-	281,332
	Interest	10,217	14,419	-	24,636
	Total	**10,217**	**295,751**	**-**	**305,968**
Lease liabilities	Nominal values	1,547	8,553	15,995	26,095
	Interest	1,213	3,917	7,391	12,521
	Total	**2,760**	**12,470**	**23,386**	**38,616**
Total financial liabilities		**36,435**	**512,726**	**43,194**	**592,355**
Cash outflows from derivative financial instruments designated in interest hedging relationships		**-**	**-**	**-**	**-**

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.

Net gains or losses by category

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

(€ thousand)	12/31/2019	12/31/2018
Exchange rate differences	733	– 1,055
Valuation allowance	– 1,024	– 3,407
Subtotal	**– 291**	**– 4,462**
Net income credit insurance	– 2,041	– 2,844
Net result	**– 2,332**	**– 7,306**

There was a net loss of €2,502 thousand in the fiscal year (2018: net gain of €499 thousand) in the category comprising equity instruments for which changes in fair value remain in other comprehensive income.

The net gain or loss in the other financial liabilities category relates to currency translation. In the fiscal year, there was a net loss of €119 thousand (2018: net loss of €205 thousand).

Financial assets measured at fair value total €1,622 thousand (2018: €854 thousand). The net effect on earnings (other effects recognised in profit or loss) amounts to €768 thousand.

There are €321 thousand (2018: €679 thousand) in financial liabilities measured at fair value and €1,248,205 thousand (2018: €1,309,664 thousand) in financial liabilities measured at amortized cost. This resulted in net income effects of €363 thousand (other effects recognised in profit or loss).

(31) Litigation, contingent liabilities and commitments

Contingent liabilities are possible obligations which 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.

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, however, 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.

Other commitments arise from capital expenditure purchase obligations; these amounted to €2,027 thousand as of December 31, 2019 (2018: €1,431 thousand).

(32) Related party transactions

Business relations with related parties do not differ from business relationships with other parties. 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 (prior-year figures in brackets):

(€ thousand)	Fixed components	Bonuses	Other remunerations	Total	Defined benefit obligation	Service cost[6]
Gisbert Rühl (CEO)	1,023	1,746	41	2,810	15,574	766
	(930)	(1,258)	(41)	(2,229)	(10,763)	(717)
Marcus A. Ketter (CFO)[1]	180	310	68	558	-	-
	(480)	(657)	(178)	(1,315)	(-)	(-)
Dr. Oliver Falk (CFO)[2]	175	287	28	490	6,463	219
	(-)	(-)	(-)	(-)	(-)	(-)
Jens M. Wegmann[3]	280	420	32	732	(-)	190
	(480)	(657)	(36)	(1,173)	(361)	(348)
John Ganem[4]	(175)	(287)	(22)	484	(2,351)	(2,441)
	(-)	(-)	(-)	(-)	(-)	(-)
Karsten Lork[5]	-	-	-	-	-	-
	(80)	(120)	(5)	(205)	(-)	(30)
Gesamt	**1,833**	**3,050**	**191**	**5,074**	**24,388**	**3,616**
	(1,970)	**(2,692)**	**(260)**	**(4,922)**	**(11,124)**	**(1,095)**

1) Marcus A. Ketter left as of May 15, 2019.
2) Dr. Oliver Falk was appointed CFO on August 1, 2019.
3) The Management Board Appointment of Jens M. Wegmann was terminated as of July 31, 2019.
4) John Ganem was appointed on August 1, 2019.
5) The Management Board Appointment of Karsten Lork was terminated as of February 28, 2018.
6) The service cost for the members of the Management Board. Dr. Oliver Falk and John Ganem, appointed during the year, covers the cost for the full year, i.e. including the period before the appointment. For John Ganem €2,282 thousand are past service cost which also relate to his service as CEO of Kloeckner Metals Corporation, USA, before his appointment to the Management Board.

The following table illustrates the remuneration in accordance with IAS 24 (Related Party Disclosure) for the Management Board and the Supervisory Board:

(€ thousand)	2018	2017
Short-term benefits (IAS 24.17 a)	5,597	5,379
Termination benefits (IAS 24.17 d)	2,201	-
Change in fair values of share-based payments (IAS 24.17 e)	90	– 596
Service cost for pension obligations (IAS 24.17 e)	3,616	1,095
Total remunerations IFRS	**11,504**	**5,878**

The termination benefits related to Management Board member Jens M. Wegmann, who left as of July 31, 2019.

Pension provisions for former Management Board members, including the member of the Management Board who left in the year under review, amount to €8,775 thousand (2018: €6,498 thousand). Pension payments to former members of the Management Board in the reporting year amounted to €137 thousand (2018: €6,054 thousand). An amount of €5,840 thousand in the prior year related to the exercising of a one-time payment option.

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

A list of the members of the Management Board is provided on page 11 and a list of the members of the Supervisory Board is provided on page 19 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 the Swiss subsidiaries. Rental expenses for such premises in 2019 amount to €213 thousand (2018: €1,928 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 €204 million in the fiscal year (2018: €60 million). The main drivers of cash flow from operating activities are operating income (EBITDA) and changes in net working capital and +€45 million due to the changed lease accounting according to IFRS 16. Net working capital increased, net of foreign currency exchange effects and changes in the scope of consolidation, as follows:

	Variance	
(€ thousand)	2019/2018	2018/2017
Inventories	– 214,552	136,247
Trade receivables	– 165,521	16,310
Contract assets	22,891	367
Commissions, discounts and rebate receivables	– 1,380	– 1,222
Trade payables	181,083	– 80,546
Net working capital	**– 177,479**	**71,156**

Cash flow from investing activities

Cash outflows of from €52 million capital expenditure on property, plant and equipment and intangible assets were offset by a total of €55 million in cash inflows from disposal of property, plant and equipment and financial assets. The net outcome was a cash inflow of €3 million (2018: net cash outflow of €59 million).

Cash flow from financing activities

Cash flow from financing activities was a negative €169 million (2018: negative €15 million) and includes a €30 million cash outflow for dividend payments to shareholders of Klöckner & Co SE and lease liability repayments according to IFRS 16 of €45 million.

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.

Financial liabilities changed as follows:

(€ thousand)	Bonds	Liabilities to bank	Liabilities under ABS programs	Finance lease liabilities	Total
Balance as of January 1, 2018	**133,107**	**88,957**	**234,872**	**21,761**	**478,697**
Changes from financing cash flows					
Borrowings	-	274,039	39,486	-	313,525
Repayment of financial liabilities	-	– 289,609	-	– 1,047	– 290,656
Changes from financing cash flows	**-**	**– 15,570**	**39,486**	**– 1,047**	**22,869**
Changes arising from obtaining or losing contol of subsidiaries or other businesses	-	198	-	-	198
The effect of changes in foreign exchange rates	-	2,111	7,401	942	10,454
Other changes liability-related					
Changes in bank overdraft	-	280	-	-	280
New finance leases				4,439	4,439
Capitalized borrowing costs					-
Interest expense	6,929	12,150	10,239	1,350	30,668
Interest paid	– 2,956	– 12,475	– 10,239	– 1,350	– 27,020
Total liabilitiy-related other changes	**3,973**	**– 45**	**-**	**4,439**	**8,367**
Balance as of December 31, 2018	**137,080**	**75,651**	**281,759**	**26,095**	**520,585**
Balance as of January 1, 2019	**137,080**	**75,651**	**281,759**	**26,095**	**520,585**
Changes from financing cash flows					
Borrowings	1,151	493	3,431	-	5,075
Repayment of financial liabilities	– 901	– 37,964	– 51,682	– 46,243	– 136,790
Changes from financing cash flows	**250**	**– 37,471**	**– 48,251**	**– 46,243**	**– 131,715**
The effect of changes in foreign exchange rates	-	1,118	5,789	3,994	10,901
Change in fair value	-	-	-	198,999	198,999
Other changes liability-related					
Changes in bank overdraft	-	562	-	-	562
New finance leases	-	-	-	22,070	22,070
Interest expense	6,929	13,655	10,809	5,002	36,395
Interest paid	– 2,956	– 14,327	– 10,809	– 5,002	– 33,094
Total liabilitiy-related other changes	**3,973**	**– 110**	**-**	**22,070**	**25,933**
Balance as of December 31, 2019	**141,303**	**39,188**	**239,297**	**204,915**	**624,703**

Cash and cash equivalents

Cash and cash equivalents include bank balances of €873 thousand (2018: €1,381 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the European ABS program.

(34) Segment reporting

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 reporting structure covers all companies domiciled in these regions. Central functions not assigned to a segment and consolidation adjustments are reported separately.

Under the new management structure, the reporting system and thus segment reporting was revised as of January 1, 2019, so that the Europe segment was replaced in the year under review by the “Kloeckner Metals Services Europe”, “Kloeckner Metals Switzerland” and “Kloeckner Metals Distribution Europe” segments. The Americas segment only include the activities of Kloeckner Metals Corporation and is therefore named “Kloeckner Metals US”. Other activities – such as the Brazilian distribution business or XOM Materials – were assigned to the holding company, which will now be referred to as the “Holding company and other group companies”. The previous year was adjusted correspondingly.

The segments use the same accounting policies as described in Note 5 (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.

(€ million)	Kloeckner Metals US 2019	Kloeckner Metals US 2018	Kloeckner Metals Switzerland 2019	Kloeckner Metals Switzerland 2018	Kloeckner Metals Services Europe 2019	Kloeckner Metals Services Europe 2018	Kloeckner Metals Distribution Europe 2019	Kloeckner Metals Distribution Europe 2018
Shipments (Tto)	2,609,982	2,676,424	574,445	613,104	948,236	1,018,196	1,465,870	1,745,732
External sales	2,626,715	2,706,228	971,006	1,007,868	749,186	805,647	1,903,440	2,210,528
Sales from other segments	-	-	23	77	19,063	13,048	-	-
Gross Profit	411,492	529,442	269,521	266,656	99,640	120,824	360,306	394,584
Gross profit margin (%)	15.7	19.6	27.8	26.5	13.0	14.8	18.9	17.8
Segment result (EBITDA)	46,594	154,712	62,388	46,247	25,825	42,052	36,189	5,136
Earnings before interest and taxes (EBIT)	-5,358	118,865	30,667	23,155	19,095	35,211	– 2,239	– 10,601
Restructuring expenses	-	-	-	-1,613	-	-	– 19,449	– 5,753
Profit and losses from asset disposal	-141	76	6,873	288	– 14	– 41	40,797	1,914
Scheduled depreciation on intangible assets and property, plant and equipment	-51,450	-35,847	-31,721	-23,092	– 6,729	– 6,840	– 35,490	– 15,297
Impairments on intangible assets and property, plant and equipment	-502	-	-	-	-	-	– 2,938	– 440
Income taxes	4,997	-24,579	-3,576	-3,048	-	-	– 1,552	– 3,969
Other non-cash income/expenses	-	-	27	-19	-	7	9	– 214
Capital expenditure for intangible assets, property, plant and equipment	11,953	14,832	15,682	12,891	3,843	10,012	11,743	15,293
Cashflow from operating activities	68,737	52,661	68,097	36,151	53,917	52,346	30,448	– 36,233

(€ million)	Kloeckner Metals US Dec. 31, 2019	Kloeckner Metals US Dec. 31, 2018	Kloeckner Metals Switzerland Dec. 31, 2019	Kloeckner Metals Switzerland Dec. 31, 2018	Kloeckner Metals Services Europe Dec. 31, 2019	Kloeckner Metals Services Europe Dec. 31, 2018	Kloeckner Metals Distribution Europe Dec. 31, 2019	Kloeckner Metals Distribution Europe Dec. 31, 2018
Net working capital	425,177	480,710	219,472	231,596	160,854	194,961	313,535	368,432
Employees at year-end (headcount)	2,355	2,382	1,626	1,707	588	597	3,279	3,500

Holding and other group companies		Consolidation		Total	
2019	2018	2019	2018	2019	2018
49,813	53,220	-	-	5,648,346	6,106,676
64,372	60,221	-	-	6,314,719	6,790,492
23,528	20,479	– 42,614	-33,604	-	-
17,294	16,543	-	-	1,158,251	1,328,049
20.2	20.5	-	-	18.3	19.6
-31,967	-21,046	-	-	139,028	227,100
-40,435	-25,169	-	-	1,730	141,461
-8,000	-	-	-	-27,449	-7,366
-233	-25	-	-	47,283	2,212
-7,797	-4,123	-	-	-133,187	-85,199
-671	-	-	-	-4,111	-440
-15,717	-6,655	-	-	-15,848	-38,251
102	-73	-	-	138	-299
5,842	8,018	-	-	49,064	61,046
– 17,087	– 44,912	122	185	204,234	60,198

Holding and other group companies		Consolidation		Total	
Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
– 376	354	-	-	1,118,662	1,276,053
405	393	-	-	8,253	8,579

Earnings before interest and taxes (EBIT) can be reconciled to consolidated income before taxes as follows:

(€ thousand)	2019	2018
Earnings before interest and taxes (EBIT)	1,730	141,461
Financial result	– 40,758	– 34,557
Income before taxes	**– 39,028**	**106,904**

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, including contract assets and supplier bonus receivables, less trade payables.

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

Non-current assets by region

Intangible assets, property, plant and equipment and non-current financial assets are broken down by region as follows:

(€ thousand)	2019	2018
USA	314,348	283,185
Switzerland	298,792	268,119
Germany	177,473	156,374
France	70,384	33,154
United Kingdom	47,704	27,896
The Netherlands	23,702	20,866
Other regions	14,953	13,799
Total	**947,356**	**803,393**

The increase in the individual regions is mainly due to the first-time application of IFRS 16 Leases.

(35) Subsequent events

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

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

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Wirtschaftsprüfer Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

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

(€ thousand)	2019	2018
Audit of financial statements	842	866
Other assurance services	20	20
Tax advisory services	7	12
Other services	231	251
	1,100	**1,149**

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 as well as to the review of the interim consolidated 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) 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 17, 2019 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, March 2, 2020

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD

John Ganem
MEMBER OF THE MANAGEMENT BOARD

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

OPINIONS

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, 2019, 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, 2019 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter: 'group management report') of the Company for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements we have not audited the content of the corporate governance statement which is included in the 'Corporate Governance' section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). *We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs).* Our responsibilities under those *requirements, principles and standards* are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2019 to December 31, 2019. 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 non-current assets or a group of non-current assets (without goodwill)

FOR THE ACCOUNTING POLICIES APPLIED, PLEASE REFER TO SECTION (5) IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF KLÖCKNER & CO SE. FURTHER DISCLOSURES ON IMPAIRMENT TESTING CAN BE FOUND IN SECTION (15) OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS. REPORTING ON RISKS AND OPPORTUNITIES CAN BE FOUND IN SECTION '6.3 RISKS AND OPPORTUNITIES' IN THE GROUP MANAGEMENT REPORT.

THE FINANCIAL STATEMENT RISK

Klöckner recognizes intangible assets of EUR 130.5 million in the consolidated statement of financial position as at 31 December 2019; thereof EUR 99.8 million for intangible assets (without goodwill) and EUR 801.9 million for property, plant and equipment. At 32% of total assets, this represents a significant proportion of the assets of the Company.

As at 31 December 2019 impairment losses totaling EUR 4.1 million were recognized on intangible assets and property, plant and equipment.

Impairment testing of non-current assets is conducted at the level of the cash-generating units. Any identified impairment loss has to be allocated to the individual assets. In this regard, the carrying amount of an individual asset may not be impaired below its fair value less cost of disposal (minimum carrying amount). Klöckner made use of appraisals by external experts as well as external sources for ground values to derive the minimum carrying amounts needed for allocating any identified impairment loss on the individual assets.

The impairment testing of individual cash-generating units, the allocation of an identified impairment loss to the individual assets as well as the derivation of the minimum carrying amount are complex and largely dependent on the estimate of the management board and thus subject to considerable uncertainty.

Estimates on the timing and amount of future expected cash inflows and outflows relevant for measurement as well as the discount rates used for the derivation of the recoverable amount of cash-generating units are subject to uncertainty and thus require judgement.

In determining the minimum carrying amount of the individual assets, estimates must be made for the significant measurement parameters, such as indexation, depreciation, total useful life, deductions for technical obsolescence, costs to sell and obsolescence of property, plant and equipment, market rates for lease payments as well as the location, usability and condition of land and buildings.

The financial statement risk is that an impairment need may not be identified, or not to the extent necessary or that an identified impairment need is not allocated or not allocated to the extent necessary to the individual assets and thus the Group's assets are overstated. There is also the risk that the related disclosures in the notes are not appropriate.

OUR AUDIT APPROACH

By involving our valuation specialists, we assessed, among others, the appropriateness of the significant assumptions and parameters, the calculation methods for the recoverable amount of the cash-generating unit as well as the minimum carrying amount of the individual assets of the Company. Our audit procedures included, among others, an audit of whether the cash inflows and outflows used to derive the value in use of the cash-generating units were appropriate. We evaluated the business plan taking into account market data and publicly available industry and analyst reports. In addition, we evaluated the appropriateness of the budget figures and the underlying assumptions of individual cash-generating units in the corporate planning.

For the assessment of assumptions and parameters underlying the discount rates, we analyzed the peer group used to derive 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 information from the German Institute of Public Auditors [IDW] for deriving the risk-free interest rate and market risk premium.

Where a potential impairment loss was identified for a cash-generating unit, Klöckner engaged external experts to derive the minimum carrying amounts for the individual assets. We verified the expertise and objectivity of the external experts and conducted a substantive audit of the external experts' determination of the minimum carrying amounts for the individual assets. Thereby, we first ensured that all assets of the cash-generating units to be audited were fully included in the valuation. In the following step, we assessed whether the valuation methods used to derive the minimum carrying amounts were properly applied. In this context, we also verified whether the above-mentioned significant measurement assumptions and parameters were properly and reasonably applied.

Finally, we examined whether calculations in the valuation model used to derive the recoverable amount of the cash-generating units were accurate. We also examined, based on assets selected partly by using a risk-based approach and partly by random sampling, whether calculations in the valuation models used to determine the minimum carrying amount of the individual assets were accurate.

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

Lastly, we focused on the appropriateness of the disclosures in the notes with regard to the information provided on impairment testing.

OUR OBSERVATIONS

The underlying calculation method used for impairment testing and for the minimum carrying amount is appropriate and in line with the accounting policies to be applied. The assumptions and parameters used for measurement are appropriate and balanced overall.

The related disclosures in the notes are appropriate.

OTHER INFORMATION

Management and the supervisory board are responsible for the other information. The other information comprises the following parts of the group management report, which have not been audited:

- the corporate governance statement and
- the information in the group management report that is not a required part of the management report and is marked as unaudited.

The other information additionally comprises:

- the separate non-financial report, which is published together with the group management report, and
- the remaining parts of the annual report.

The other information does not include the annual financial statements, the consolidated financial statements, the audited information in the group management report and our associated auditor's reports.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the audited information in the group management report 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 MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

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 whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) *and supplementary compliance with the ISAs* will always detect a material misstatement. 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 and this group management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, 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 opinions. 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 controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of 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 systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management'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 the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. 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 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, 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 auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION
We were elected as group auditor by the Annual General Meeting on 15 May 2019. We were engaged by the supervisory board on 21 October 2019. We have been the group auditor of Klöckner & Co SE without interruption since the financial year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, March 2, 2020

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder
WIRTSCHAFTSPRÜFER

signed 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, March 2, 2020

Management Board

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD

John Ganem
MEMBER OF THE MANAGEMENT BOARD

INDIVIDUAL FINANCIAL STATEMENTS

Individual financial statements
Statement of income

for the 12-month period ending December 31, 2019

(€ thousand)	2019	2018
Sales	17,049	26,107
Other operating income	3,632	3,737
Cost of purchased services	– 10,523	– 18,487
Personnel expenses	– 29,754	– 22,951
Depreciation of intangible assets and property, plant and equipment	– 708	– 456
Other operating expenses	– 15,359	– 14,546
Income from participations	17,859	-
Income from profit transfer agreements	16,316	28,736
Income from long-term loans	13,648	13,026
Other interest and similar income	6,190	7,301
Impairment of investments	– 82,525	– 13,357
Expenses from loss transfer agreements	– 25,444	– 6,524
Interest and similar expenses	– 17,802	– 18,287
Result before taxes	**– 107,421**	**– 15,701**
Income taxes	69	786
Net loss	**– 107,352**	**– 14,915**
Unappropriated profits carried forward	29,925	203,171
Withdrawals from capital reserves	107,352	-
Dividends	– 29,925	– 29,925
Withdrawals from other revenue reserves	-	44,840
Appropriation to other revenue reserves	-	– 173,246
Unappropriated profits	**-**	**29,925**

Balance sheet

as of December 31, 2019

ASSETS

(€ thousand)	December 31, 2019	December 31, 2018
Intangible assets	562	503
Property, plant and equipment	2,336	2,808
Non-current investments	1,083,813	1,114,262
Fixed assets	**1,086,711**	**1,117,573**
Trade receivables	13	6
Receivables from affiliated companies	214,973	326,648
Other assets	2,966	3,242
Cash and cash equivalents	55,860	48,850
Current assets	**273,812**	**378,746**
Prepaid expenses	8,164	12,267
Total assets	**1,368,687**	**1,508,586**

EQUITY AND LIABILITIES

(€ thousand)	December 31, 2019	December 31, 2018
Equity		
Subscribed capital	249,375	249,375
Capital reserves	592,107	699,459
Other revenue reserves	257,506	257,506
Unappropriated profits	-	29,925
Equity	**1,098,988**	**1,236,265**
Provisions for pensions and similar obligations	96,153	94,089
Provisions for taxes	651	4,570
Other provisions	10,295	9,536
Bonds	147,800	147,800
Liabilities to banks	208	221
Trade payables	1,029	1,454
Liabilities to affiliated companies	12,785	7,721
Other liabilities	768	6,917
Deferred income	10	13
Total equity and liabilities	**1,368,687**	**1,508,586**

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

as of December 31, 2019 (annex to the Notes)

	Intangible assets	Property, plant and equipment			Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Prepay-ments	Invest-ments in affiliated companies	Loans to affiliated companies	Invest-ments	Total
Cost as of December 31, 2018	1,359	1,775	2,068	8	1,159,738	174,195	7	1,339,150
Accumulated amortization and depreciation	– 856	– 175	– 868	-	– 219,678	-	-	– 221,577
Book value as of Dec. 31, 2018	**503**	**1,600**	**1,200**	**8**	**940,060**	**174,195**	**7**	**1,117,573**
Additions	222	8	66	-	47,775	4,301	-	52,372
Current year amortization and depreciation	– 163	– 248	– 298	-	– 82,525	-	-	– 83,234
Book value as of Dec. 31, 2019	**562**	**1,360**	**968**	**8**	**905,310**	**178,496**	**7**	**1,086,711**
Costs as of December 31, 2019	1,581	1,783	2,059	8	1,207,513	178,496	7	1,391,447
Accumulated amortization and depreciation	– 1,019	– 423	– 1,091	-	– 302,203	-	-	– 304,736

Notes to the financial statements

for the 12-month period ending December 31, 2019

General information

Klöckner & Co SE is the parent company of the Klöckner & Co Group and is domiciled in Duisburg. 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 fiscal year January 1 to December 31, 2019 are prepared in accordance with the stipulations applying for large corporations in the German Commercial Code (HGB) and in accordance with the German Stock Corporations Act (AktG).

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 266–277 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 or production. 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. For material investments in affiliated companies, attributable value is determined using the income approach. The cash flows used in the income approach are based on budgets for each affiliate for the next three years, extrapolated using long-term growth rate assumptions. They are discounted at a discount rate derived from the yield on a risk-equivalent alternative investment.

Receivables and other assets are normally measured at cost. Specific valuation allowances are established 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 the Accounting Law Modernisation Act (BilMoG), the parameters for valuation were 2.5% (2018: 2.5%) for salary increases and 1.75% (2018: 1.75%) for pension increases. The biometric parameters are based on the Prof. Dr. Klaus Heubeck 2018 G tables (2018: Prof. Dr. Klaus Heubeck 2018 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. Ten years are assumed for calculation of the average discount rate. At the reporting date, this is 2.72% (2018: 3.21%). 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 quantitative 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. Under application of the net hedge presentation method, they are estimated according to the value on the date of issue. 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).

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.

To strengthen the capital base of our subsidiary Kloeckner Metals France Holding S.A.S., Aubervilliers, France, a capital increase was carried out in the fiscal year under review in the amount of €48 million, on which an impairment loss was recognized immediately on account of the company's weak earnings.

Likewise due to negative earnings performance, an impairment loss of €35 million was recognized on the carrying amount of the investment in Klöckner Netherlands Holding B.V., Amsterdam, The Netherlands.

A listing of all equity investments is presented in the appendix.

Receivables and other assets

(€ thousand)	2019	2018
Trade receivables	13	6
Receivables from affiliated companies	214,973	326,648
Other assets	2,966	3,242
	217,952	**329,896**

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 €2,883 thousand (2018: €3,042 thousand) have a remaining maturity of more than one year and mainly relate to non-pledged pension liability insurance.

Prepaid expenses

In connection with the 2016 Convertible Bond, a discount of €18,434 thousand was initially recognized as prepaid expenses to be amortized to interest expense over the five-year minimum maturity period. The amount recognized as interest expense in fiscal year 2019 was €3,687 thousand (2018: €3,687 thousand). The discount was accounted for at €6,145 thousand as of December 31, 2019 (2018: €9,831 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 Annual General Meeting resolution of May 12, 2017, the Management Board is authorized to acquire, by or before May 11, 2022, 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 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was 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 Group companies or by third parties acting on the Company's account or on the account of Group companies. 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.

The loss of €107,352 thousand in the fiscal year under review was offset by the withdrawal of an equal amount from capital reserves.Revenue reserves are not subject to any restriction on distribution to shareholders within the meaning of Section 268 (8) HGB. The amount resulting from the change in the discount rate for retirement benefit obligations that is not allowed to be distributed to shareholders under Section 253 (6) HGB is €11,577 thousand (2018: €12,469 thousand).

Provisions for pensions and similar obligations

Pension obligations as of December 31, 2019 were €122,041 thousand (2018: €116,139 thousand).

The amount not allowed to be distributed to shareholders in accordance with Section 253 HGB was €11,577 thousand as of December 31, 2019.

Plan assets consist entirely of pension liability insurance whose cost and fair values are identical. They are measured at the asset value of the pension liability insurance and amount to €25,888 thousand (2018: €22,050 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 €3,608 thousand (2018: €4,115 thousand) is offset against returns on plan assets in the amount of €452 thousand (2018: €364 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2019	2018
Personnel expenses	7,795	6,403
Outstanding invoices	1,713	2,227
Miscellaneous other provisions	787	906
	10,295	**9,536**

The increase in personnel-related provisions mainly relates to the redundancies.

Liabilities

	December 31, 2019			December 31, 2018		
(€ thousand)	up to 1 year	1 – 5 years	Total	up to 1 year	1 – 5 years	Total
Bonds	-	147,800	147,800	-	147,800	147,800
Liabilities to banks	208	-	208	221	-	221
Trade payables	1,029	-	1,029	1,454	-	1,454
Liabilities to group companies	12,785	-	12,785	7,721	-	7,721
Miscellaneous liabilities	768	-	768	6,917	-	6,917
Liabilities	**14,790**	**147,800**	**162,590**	**16,313**	**147,800**	**164,113**

A €148 million convertible bond issue was launched in September 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 bond issue is split into 1,478 bonds with a total of 10,480 thousand conversion rights as of December 31, 2019. 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. In accordance with the bond terms, the conversion price was adjusted to €13.33 following dividend payouts. The bond has 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 call option during 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.

Liabilities to banks include €208 thousand in interest payable on the syndicated loan. The liabilities under the syndicated credit facility, which was undrawn as of December 31, 2019, are uncollateralized.

Other liabilities include:

(€ thousand)	2019	2018
Tax liabilities	715	6,837
Social security contributions	12	13
Miscellaneous other liabilities	41	67
Other liabilities	**768**	**6,917**

Derivative financial instruments

The nominal values and fair values of the derivative financial instruments as of December 31, 2019 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	262	1

Klöckner & Co SE manages central financing for the Klöckner & Co Group. Klöckner & Co SE is exposed to currency risk arising from 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 16 forward exchange contracts with a maximum maturity of three months. In these cases, the hedged items are recognized at the contractually agreed 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 hedging relationship 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

Obligations fall due in the following year due to multiple-year tenancies and leases in the amount of €1,849 thousand. The total amount of these obligations is €10,092 thousand.

Sales

Sales consist of goods or services provided to subsidiaries and relate to the following:

(€ thousand)	2019	2018
Group services rendered	7,346	14,546
Service fees ABS program	7,229	8,516
Rental income	1,587	1,524
Insurance	366	385
Other income	521	1,136
Sales	**17,049**	**26,107**

Other operating income

Other operating income contains income attributable to prior periods of €1,317 thousand (2018: €2,302 thousand).

Other operating income in the fiscal year under review mainly relates to reversals of provisions and rental income.

Personnel expenses

(€ thousand)	2019	2018
Wages and salaries	20,039	12,948
Social securities	882	788
Retirement benefit cost	8,829	9,210
Welfare	4	5
	29,754	**22,951**

Most of the increase in wages and salaries relates to severance and redundancy payments in connection with the restructuring measures.

Average number of employees:

	2019	2018
Salaried employees	78	71
Wage earners	2	2
	80	**73**

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 (prior-year figures in brackets):

(€ thousand)	Fixed components	Bonuses	Other remunerations	Total	Present value of benefit obligation	Change in benefit obligation[6]
Gisbert Rühl (CEO)	1,023	1,746	41	2,810	11,193	2,911
	(930)	(1,258)	(41)	(2,229)	(8,282)	(1,725)
Marcus A. Ketter (CFO)[1]	180	310	68	558	-	-
	(480)	(657)	(178)	(1,315)	(-)	(-)
Dr. Oliver Falk (CFO)[2]	175	287	28	490	1,685	239
	(-)	(-)	(-)	(-)	(-)	(-)
Jens M. Wegmann[3]	280	420	32	732	(-)	(-)
	(480)	(657)	(36)	(1,173)	(254)	(232)
John Ganem[4]	17	214	(-)	231	(-)	(-)
	(-)	(-)	(-)	(-)	(-)	(-)
Karsten Lork[5]	-	-	-	-	-	-
	(80)	(120)	(5)	(205)	(-)	(-)
Total	**1,675**	**2,977**	**169**	**4,821**	**12,878**	**3,150**
	(1,970)	**(2,692)**	**(260)**	**(4,922)**	**(8,536)**	**(1,957)**

1) Marcus A. Ketter left as of May 15, 2019.
2) Dr. Oliver Falk was appointed CFO on August 1, 2019.
3) Jens M. Wegmann left as of July 31, 2019.
4) John Ganem was appointed on August 1, 2019.
5) Karsten Lork left as of February 28, 2018.
6) For the member of the Management Board appointed during the year, Dr. Oliver Falk, the change in benefit obligation covers the change for the full year 2019 (i.e. including the period prior to appointment).

German Commercial Code (HGB)-basis pension provisions for former Management Board members, including Jens M. Wegmann, the member who left in the fiscal year under review, amount to €5,118 thousand (2018: €4,022 thousand). Pension payments to former members of the Management Board in the reporting year amounted to €123 thousand (2018: €120 thousand).

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

If a control threshold of 30% of voting rights is exceeded, Chairman of the Management Board has the right to early termination of his service contract. If exercised, he is entitled to receive the annual target remuneration (including a target bonus) until the end of his contract term. The payment is limited to three times the total compensation received by him 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 him.

Other operating expenses

Remuneration for the Supervisory Board in fiscal year 2019 totaled €523 thousand (2018: €457 thousand).

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Wirtschaftsprüfer Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed in the fiscal year by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, and are included in other operating expenses:

(€ thousand)	2019	2018
Audit of financial statements	654	668
Other assurance services	20	20
Tax advisory services	7	12
Other services	35	-
	716	**700**

Other operating expenses of €103 thousand (2018: €44 thousand) relate to prior periods.

Income from investments

(€ thousand)	2019	2018
Income from participations	17,859	-
Income from profit transfer agreements	16,316	28,736
Expenses from loss transfer agreements	– 25,444	– 6,524
Income from investments	**8,731**	**22,212**

Income from participations relates to dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland.

The income from profit transfer agreements relates to agreements with Becker Besitz GmbH, Duisburg, Germany and Klöckner Shared Services GmbH, Duisburg, Germany.

In the reporting year, the figure additionally included assumed losses from Becker Stahl-Service GmbH, Duisburg, Germany, kloeckner.i GmbH, Berlin, Germany, kloeckner.v GmbH, Berlin, Germany, Kloeckner Metals Operations GmbH, Duisburg, Germany, Klöckner & Co Deutschland GmbH, Duisburg, Germany, and Klöckner & Co USA Beteiligungs GmbH, Duisburg, Germany.

Financial result

(€ thousand)	2019	2018
Income from long-term loans		
– affiliated companies	13,648	13,026
Other interest and similar income		
– affiliated companies	6,185	7,186
– other interest and and similar income	5	115
Interest and similar expenses		
– affiliated companies	– 3,409	– 3,299
– interest on provisions	– 3,092	– 3,702
– other interest and similar expenses	– 11,301	– 11,286
	2,036	**2,040**

Interest income from affiliated companies and income from long-term loans results from 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 €29,762 thousand (2018: €27,062 thousand) comprising deductible temporary differences in the amount of €29,767 thousand (2018: €27,082 thousand) less taxable temporary differences in the amount of €5 thousand (2018: €20 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 originate from provisions for pensions, guarantees and provisions for onerous contracts. Deferred taxes were determined on the basis of a combined tax rate of 31.8% (2018: 31.8%) for corporate income tax, solidarity surcharge and trade tax.

Contingent liabilities

The contingent liabilities of Klöckner & Co SE exclusively comprise guarantees in the amount of €8,937 thousand (2018: €24,220 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

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

Other disclosures

Information pursuant to Section 160 (1) No. 8 of the German Stock Corporations Act (AktG)
Pursuant to Article 61 of the SE Regulation in conjunction with Section 160 (1) No. 8 AktG, information must be provided on the existence of shareholdings notified to the Company pursuant to Section 33 (1) or 33 (2) of the Securities Trading Act (WpHG).

Notifications of shareholdings in Klöckner & Co SE provided to us under Sections 40, 33 WpHG (or predecessor legislation, as applicable) that still apply and have not become obsolete by later notification of a shortfall below a threshold are set out in the annex to these Notes. Any shortfall below a threshold during the course of the reporting year is shown in the table contained in the annex. The table also includes any notifications under Sections 40, 33 WpHG made beyond the reporting year up to March 2, 2020 (if any). In cases where an investor's shareholdings have multiply reached, exceeded or fallen below the aforementioned thresholds, in general only the most recent notification leading to a threshold being exceeded, fallen below or reached is stated. If notifications have been made under a prior version of WpHG, those are reflected as they have been notified with the applicable old version of the WpHG (WpHG o.v.) being mentioned accordingly. It is pointed out that the stated percentage shareholding and number of voting rights may be out of date.

The listing pursuant to Section 160 (1) 8 AktG is annexed to these Notes.

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 17, 2019 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, March 2, 2020

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD

John Ganem
MEMBER OF THE MANAGEMENT BOARD

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Financial Statements and the Management Report

OPINIONS

We have audited the annual financial statements of Klöckner & Co SE, Duisburg, which comprise the balance sheet as at 31 December 2019, and the statement of income for the financial year from 1 January to 31 December 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report (hereinafter 'management report') of Klöckner & Co SE for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements we have not audited the parts of the management report referred to in the 'Other Information' section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, in compliance with German Legally Required Accounting Principles, and

– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the information in the management report referred to in the 'Other Information' section.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report' section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment of non-current investments

PLEASE REFER TO THE ACCOUNTING POLICIES DESCRIBED IN THE NOTES TO THE FINANCIAL STATEMENTS FOR MORE INFORMATION ON THE ACCOUNTING POLICIES APPLIED. MOVEMENTS IN NON-CURRENT INVESTMENTS ARE PRESENTED IN MOVEMENTS IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND NON-CURRENT INVESTMENTS.

FINANCIAL STATEMENT RISK

In the financial statements of Klöckner & Co SE as at 31 December 2019, the balance sheet item 'non-current investments' includes investments in affiliated companies of EUR 905.3 million. Investments in affiliated companies amount to a 66% portion of total assets and thus have a material effect on the presentation of the Company's net assets.

Financial assets are recognized at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company determines the fair value of investments in affiliated companies using the income approach.

The cash flows used for the income approach are based on budgets for each affiliate for the next three years, extrapolated based on assumptions for long-term growth rates. The respective capitalization rate is derived from the return on a risk-equivalent alternative investment.

In light of continually decreasing income forecasts, Klöckner & Co SE recognized impairments on investments in affiliated companies by an amount of EUR 82.5 million in the financial year.

Impairment testing including the calculation of the fair value according to the capitalized earnings method is complex and, as regards the assumptions made, based largely on estimates and assessments of the Company. This applies particularly for estimates of future cash flows and the determination of the capitalization rate.

There is a risk for the financial statements that investments in affiliated companies are impaired.

OUR AUDIT APPROACH

First, we referred to explanations of the investment controlling department and assessed documentation to obtain an understanding of the Company's process for impairment testing of non-current investments that it holds. In doing this, we intensively analyzed the Company's approach to determining a need for impairment and, based on the information obtained in the course of our audit, assessed whether there were indications of a need for impairment that had not been identified by the Company.

We then carried out procedures including an evaluation of the methodical approach to conducting impairment testing and an assessment of the computational accuracy of the model. We involved our valuation experts in the process of auditing the budget assumptions, auditing the parameters used for discount rates, and to assess the appropriateness of the valuation model. To this end, we analyzed 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 for deriving the risk-free interest rate and market risk premium.

We discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning and assessed whether the projections underlying the valuations were based on appropriate and reasonable assumptions. To do this, we obtained clarification from the Company on these assumptions and the impact of strategic and operating activities on the projections.

To the extent possible, we confirmed the quality of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analyzing deviations. We also reconciled this information with internally available forecasts and with the budget prepared by the management board and approved by the supervisory board.

Finally, we discussed with the management board the measurements that had been established by Klöckner & Co SE and verified the accounting entry of the measurements derived from this.

OUR OBSERVATIONS

The approach used for impairment testing of non-current investments is appropriate and in line with the accounting policies. The assumptions and parameters used by the Company are appropriate.

OTHER INFORMATION

Management and the supervisory board are responsible for the other information. The other information comprises the following parts of the management report, which have not been audited:

- the corporate governance statement and
- the information in the group management report that is not a required part of the management report and is marked as unaudited.

The other information additionally comprises:

- the separate non-financial report, which is published together with the group management report, and
- the remaining parts of the annual report.

The other information does not include the annual financial statements, the consolidated financial statements, the audited information in the management report and our associated auditor's reports.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, the audited information in the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 financial statements and the management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatements of the financial statements and of the management report, 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 opinions. 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 controls.

– Obtain an understanding of an internal control relevant to the audit of the financial statements and of the arrangements and measures (systems) relevant to the audit of the 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 systems.

– Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– Conclude on the appropriateness of management'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. 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 Company to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on 15 May 2019. We were engaged by the supervisory board on 9 September 2019. We have been the auditor of Klöckner & Co SE without interruption since the financial year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, March 2, 2020

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder
WIRTSCHAFTSPRÜFER

signed 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, March 2, 2020

MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD

John Ganem
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 Shared Services GmbH, Duisburg/Germany	100.00
3	kloeckner.i GmbH, Berlin/Germany	100.00
4	kloeckner.v GmbH, Berlin/Germany	100.00
5	XOM Materials GmbH, Berlin/Germany	100.00
6	XOM Materials Operations Inc., Wilmington, Delaware/USA	100.00
7	XOM Metals Inc., Wilmington, Delaware/USA	100.00
8	Kloeckner Metals Operations GmbH, Duisburg/Germany	100.00
9	Klöckner & Co Financial Services S.A., Luxembourg/Luxembourg	100.00
10	Kloeckner & Co USA Beteiligungs GmbH, Duisburg/Germany	100.00
11	Klöckner & Co Deutschland GmbH, Duisburg/Germany	100.00
12	Klöckner Stahl und Metall Ges.m.b.H., Wien/Austria	100.00
13	Kloeckner Metals Austria GmbH & Co KG, Wien/Austria	51.00
14	Becker Stahl-Service GmbH, Duisburg/Germany	100.00
15	Becker Stahl GmbH, Bönen/Germany	100.00
16	Becker Besitz GmbH, Duisburg/Germany	100.00
17	Umformtechnik Stendal GmbH, Stendal/Germany	100.00
18	Becker Aluminium-Service GmbH, Duisburg/Germany	100.00
19	Debrunner Koenig Holding AG, St. Gallen/Switzerland	100.00
20	Debrunner Acifer AG, St. Gallen/Switzerland	100.00
21	Debrunner Acifer SA Giubiasco, Giubiasco/Switzerland	100.00
22	Debrunner Acifer SA Romandie, Crissier/Switzerland	100.00
23	Debrunner Acifer AG Wallis, Visp/Switzerland	100.00
24	Debrunner Acifer Bläsi AG, Bern/Switzerland	100.00
25	Debrunner Acifer Bewehrungen AG, St. Gallen/Switzerland	100.00
26	BEWETEC AG, Oberbipp/Switzerland	100.00
27	Metall Service Menziken AG, Menziken/Switzerland	100.00
28	Debrunner Koenig Management AG, St. Gallen/Switzerland	100.00
29	Klöckner Netherlands Holding B.V., Amsterdam/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	O-D-S Transport B.V., Barendrecht/The Netherlands	100.00
33	ODS Metering Systems B.V., Rotterdam/The Netherlands	100.00
34	ODS Middle East FZE, Dubai/UAE	100.00
35	ODS Saudi Co. LLC, Dammam/Saudi Arabia	85.00
36	ODS Metering Systems Asia Pacific Pte. Ltd., Singapore/Singapore	100.00
37	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paolo/Brazil	99.00
		1.00

1) Profit and loss transfer agreement. Subsidiaries mad use of the exemption provided in Section 264 (3) and Section b of the German Commercial Code (HGB).

*) IFRS HBII amounts.

Held by entity no.	Currency	Equity in Euro [*)]	Net income in Euro [*)]		Sales in Euro [*)]
1	EUR	-785,155	-40,610	1)	-
1	EUR	-505,443	241,867	1)	-
1	EUR	-1,903,094	-	1)	-
1	EUR	-3,041,353	-7,886,802		80,638
5	EUR	4,746	-272,154		-
1	EUR	-	-		-
1	EUR	-1,375,175	316,899	1)	21,790,119
1	EUR	3,461,203	169,963		-
1	EUR	25,000	-	1)	-
1	EUR	33,620,627	10,064,295	1)	882,401,685
11	EUR	1,660,021	684,058		-
12	EUR	12,832,614	2,946,708		104,811,703
1	EUR	123,297,391	2,133,512	1)	697,596,392
14	EUR	566,717	33,040	1)	-
1	EUR	25,000	-	1)	-
14	EUR	4,222,189	-	1)	18,691,539
14	EUR	312,032	124,819	1)	55,768,560
1	EUR	236,910,074	21,356,644		-
19	EUR	140,770,672	1,451,571		462,241,486
19	EUR	12,383,043	519,370		32,045,243
19	EUR	36,522,697	-1,379,904		146,491,906
19	EUR	10,869,322	-47,134		30,776,161
19	EUR	27,898,197	2,503,798		60,307,607
19	EUR	29,067,652	9,189,703		169,272,787
19	EUR	108,628,916	10,876,208		167,481,376
19	EUR	22,187,440	2,210,392		89,211,420
19	EUR	5,464,372	88,488		19,212
1	EUR	30,799,824	-615,533		-
29	EUR	25,955	-		-
29	EUR	34,044,246	-2,177,716		161,341,067
31	EUR	-	-		-
31	EUR	16,060,243	1,264,469		22,767,966
33	EUR	-1,205,863	-479,118		6,818,073
31	EUR	1,283,830	76,446		1,992,657
33	EUR	216,999	7,382		-
33	EUR	1,682,113	-465,662		432,297
29					

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
38	ODS Belgium B.V., Essen/Belgium	80.00
39	Kloeckner Metals Belgium N.V., Harelbeke/Belgium	99.99
		0,01
40	Kloeckner Metals UK Holdings Limited, Leeds/United Kingdom	100.00
41	Armstrong Steel Ltd., Leeds/United Kingdom	100.00
42	Richardsons Westgarth Ltd., Leeds/United Kingdom	100.00
43	Organically Coated Steels Ltd., Leeds/United Kingdom	100.00
44	ASD Limited, Leeds/United Kingdom	100.00
45	ASD Westok Limited, Leeds/United Kingdom	100.00
46	Kloeckner Metals France Holding S.A.S., Aubervilliers/France	99.31
47	Kloeckner Metals France S.A.S., Aubervilliers/France	100.00
48	KDI Immobilier S.A.S., Aubervilliers/France	100.00
49	KDI Export S.A.S., Cergy-Pontoise/France	100.00
50	Reynolds European S.A.S., Rueil Malmaison/France	100.00
51	AT2T Acier Transforme Targe Tournier S.A.S., La Grand-Croix/France	100.00
52	Prafer S.A.S., Woippy/France	100.00
53	KDI Davum S.A.S., Le Port, La Réunion/France	100.00
54	Kloeckner Metals Relief Fund, Inc., Wilmington, Delaware/USA	100.00
55	Klöckner USA Holding Inc., Wilmington, Delaware/USA	100.00
56	Klöckner Namasco Holding Corporation, Wilmington, Delaware/USA	100.00
57	Kloeckner Metals Corporation, Wilmington, Delaware/USA	100.00
58	California Steel and Tube LLC, Wilmington, Delaware/USA	100.00
59	Kloeckner Metals de Mexico S.A. de C.V., Apodaca/Mexico	100.00
60	Kloeckner Metals P.R., Inc., Wilmington, Delaware/USA	100.00
61	Kloeckner Metals Servicios de Mexico S.A. de C.V., Apodaca/Mexico	100.00
62	NC Receivables Corporation, Wilmington, Delaware/USA	100.00
63	KLOECKNER METALS BRASIL Ltda., São Paolo, São Paolo/Brazil	100.00

Held by entity no.	Currency	Equity in Euro *)	Net income in Euro *)		Sales in Euro *)
33	EUR	858,811	-43,928		4,047,700
1	EUR	10,840,443	72,428		56,077,431
11		-	-		-
1	EUR	31,860,318	-4,885		-
44	EUR	-	-		-
40	EUR	27,094,488	-187,099		-
42	EUR	2,350,729	-		-
40	EUR	41,820,028	23,865,399		242,305,093
40	EUR	6,045,903	-695,262		20,939,252
1	EUR	178,049,305	-27,632,308		-
46	EUR	24,081,003	-22,969,084		369,047,838
47	EUR	94,220,800	6,226,185		-
47	EUR	-488,043	431,541		-
46	EUR	9,095,161	-1,104,748		39,339,798
47	EUR	5,674,208	551,559		36,572,425
47	EUR	2,013,665	51,206		8,132,613
47	EUR	2,714,739	-1,370,892		19,304,027
57	EUR	26,310	23,810		-
1	EUR	119,015,805	-3,896		-
55	EUR	263,562,968	-		-
56	EUR	463,599,277	-30,717,771		2,479,736,127
57	EUR	13,948,232	-996,864		28,026,184
57	EUR	21,672,236	2,181,282		85,003,476
57	EUR	918,467	108,220		1,670,132
57	EUR	212,824	53,100		-
57	EUR	2,081,822	3,008		-
29	EUR	4,532,001	-2,586,360		31,973,126

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
II.	**Non-consolidated affiliated companies**	
64	Reynolds Aluminium et Laiton S.A.S., Paris/France	100.00
65	Umformtechnik Stendal UTS s.r.o., Skalica/Slovakia	100.00
III.	**Associates**	
66	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 *)
46	EUR	22,708	-	2)	42,864
17	EUR	231,241	21,279		
20	EUR	918,528	15,077	2)	1,085,505

2) Based on report as of December 31, 2018.

Listing pursuant to Section 160 (1) No. 8 of the German Stock Corporations Act (AktG)

For further information on the ownership structure of Klöckner & Co SE and all publications by Klöckner & Co SE on notifications of shareholdings in the reporting year, together with later notifications, please see the Klöckner & Co SE website
(at https://www.kloeckner.com/en/investors/shares.html and https://www.kloeckner.com/en/investors/legal-announcements/voting-rights.html).

Notifier	Registered office/Country	Notification threshold	Date on which threshold was crossed or reached	Total positions in % (absolute figure/total number of voting rights)	Voting rights	Instruments
Franklin Mutual Series Fund	Wilmington, Delaware, USA	3% (Exceeding of threshold)	2. März 2015	3.07% (3,062,430/99,750,000)		
SWOCTEM GmbH 1)	Haiger, Germany	25% (Exceeding of threshold)	2. Februar 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Prof. Dr. Friedhelm Loh 2)	Germany	25% (Exceeding of threshold)	2. Februar 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	5% (Shortfall threshold)	May 14, 2019	4.9969% (4,984,379/99,750,000)	4.9969% (4,984,379)	0%
Claas Edmund Daun		3% (Exceeding of threshold)	May 17, 2019	3.05% (3,047,051/99,750,000)	3.05% (3,047,051)	0%
LSV ASSET MANAGEMENT 3)	Wilmington, DE, USA	3% (Shortfall threshold)	September 10, 2019	2.98% (2,977,290/99,750,000)	2.98% (2,977,290)	0.00%
Dimensional Holdings Inc. 4)	Austin, Texas, USA	3% (Exceeding of threshold)	November 18, 2019	4.13% (4,114,767/99,750,000)	3.14% (3,134515)	0.98% (980,252)

1) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) of the German Securities Trading Act (WpHG) o.v..
2) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
3) For the full chain of controlled undertakings stated in the notification, please see our publication of September 12, 2019 pursuant to Section 26 (1) WpHG o.v..
4) For the full chain of controlled undertakings stated in the notification, please see our publication of November 22, 2019 pursuant to Section 26 (1) WpHG o.v..

Voting rights attached to shares in % or absolute figures (as notified)		Financial instruments according to Section 38 WpHG (if notified)		Attribution provision of WpHG (as in force at time of notification)	Names of shareholders with 3% or more voting rights (if different from notifier)
direct	indirect	Sec. 38 (1) No. 1 WpHG	Sec. 38 (1) No 2 WpHG		
3.07% (3,062,430)					
25.245604% (25,182,490)					
	25.245604% (25,182,490)			Sec 22 WpHG o.v. (now: Sec 34 WpHG)	SWOCTEM GmbH
	4.9969% (4,984,379)			Sec 34 WpHG	Franklin Mutual Series Funds
	3.05% (3,047,051)			Sec 34 WpHG	DAUN & CIE. Aktiengesellschaft
	2.98% (2,977,290)			Sec 34 WpHG	
	3.14% (3,134,515)	0.98% (980,252)		Sec 34 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, CEO

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
- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board (since August 1, 2019)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (since August 1, 2019)

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

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

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD, CFO (SINCE AUGUST 1, 2019)

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

- Klöckner & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board (since September 5, 2019)
- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (since May 15, 2019)
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (since May 15, 2019)
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors (since August 1, 2019)

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

- None

John Ganem

MEMBER OF THE MANAGEMENT BOARD (SINCE AUGUST 1, 2019)

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

Marcus A. Ketter

MEMBER OF THE MANAGEMENT BOARD, CFO (UNTIL MAY 15, 2019)

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

- Klöckner & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board (until May 15, 2019)
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board (until May 15, 2019)
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Member of the Supervisory Board (until May 15, 2019)
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors (until May 15, 2019)

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

- BigRep GmbH, Berlin, Member of the Advisory Board (until April 30, 2019)

Jens M. Wegmann

MEMBER OF THE MANAGEMENT BOARD (UNTIL JULY 31, 2019)

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

- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board (until July 31, 2019)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (until July 31, 2019)
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board (until July 31, 2019)
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Member of the Supervisory Board (until July 31, 2019)
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors (until July 31, 2019)

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

- denkwerk GmbH, Member of the Advisory Board[2)]
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]

<u>Group Mandates Lindsay Goldberg Fonds:</u>
- VDM Metals GmbH, Deputy Chairman of the Supervisory Board[1)]
- Schur Flexibles Holding GesmbH, Austria, Member of the Advisory Board[2)]
- PACCOR Deutschland GmbH, Member oft he Advisory Board[2)]

Dr. Ralph Heck, Deputy Chairman

ENTREPRENEUR AND DIRECTOR EMERITUS MCKINSEY & COMPANY, MEGGEN, SWITZERLAND

- Bilfinger SE, Member of the Supervisory Board[1)]
- Adolf Würth GmbH & Co. KG, Member of the Advisory Board[2)]
- Formel D GmbH, Chairman of the Advisory Board[2)]

Prof. Dr. Karl-Ulrich Köhler

CEO, RITTAL INTERNATIONAL STIFTUNG & CO. KG AND CHAIRMAN OF THE MANAGEMENT BOARD OF RITTAL GMBH & CO. KG, HERBORN, GERMANY

- Montan-Stiftung-Saar, Member of the Board of Trustees[2)] (since May 17, 2019)
- Dillinger Hütte Saarstahl AG, Member of the Supervisory Board[1)] (since July 9, 2019)
- Aktiengesellschaft der Dillinger Hüttenwerke, Member of the Supervisory Board[1)] (since July 9, 2019)

Prof. Dr. Tobias Kollmann

CHAIR OF E-BUSINESS AND E-ENTREPRENEURSHIP AT THE UNIVERSITY OF DUISBURG-ESSEN, GERMANY

- COMECO GmbH & Co KG, Deputy Chairman of the Supervisory Board[2)] (since March 20, 2019)

Prof. Dr. Friedhelm Loh

ENTREPRENEUR, OWNER AND CHAIRMAN OF FRIEDHELM LOH STIFTUNG & CO. KG, HAIGER, GERMANY

- Deutsche Messe AG, Member of the Supervisory Board[1)]
- Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Senator[2)]

Ute Wolf

CFO OF EVONIK INDUSTRIES AG, ESSEN, GERMANY

- DWS Group GmbH & Co. KGaA, Member of the Supervisory Board[1)]
- Pensionskasse Degussa VVaG, Member of the Supervisory Board[1)]
- Borussia Dortmund Geschäftsführungs-GmbH, Member of the Economic Council[2)]

<u>Group Mandates Evonik Industries AG:</u>
- Evonik Nutrition & Care GmbH, Member of the Supervisory Board[1)]
- Evonik Resource Efficiency GmbH, Member of the Supervisory Board[1)]
- Evonik Performance Materials GmbH, Member of the Supervisory Board[1)]

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).

Glossary

Agile working methods
Agile project management offers a wealth of different ways to shape work processes, such as scrum, kanban and design thinking. These methods entail constant change and the ability to adjust rapidly. Teams make decisions quickly and autonomously, which leads to short planning and implementation cycles – and that in turn spells direct agile adjustments for the market or the processes.

Artificial Intelligence (AI)
In general, Artificial Intelligence (AI) refers to software systems that are able to automate processes through permanent self-learning routines and continuous self-optimization. Klöckner & Co uses AI, e.g., for its digital application Kloeckner Assistant.

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).

Business process outsourcing (BPO)
Klöckner & Co has contracted out certain accounting activities under a business process outsourcing arrangement in order to leverage synergies in the Europe segment. The activities are divided between the external outsourcing partner and Klöckner's organization.

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.

Cash flow from operating activities
The amount of cash and cash equivalents generated from operating activities within a specific time frame. This key performance indicator forms an objective basis for measuring the business performance of Klöckner & Co.

Cash pooling system
The Group uses an international cash pooling system to facilitate inter-company settlements and manage liquidity. Our country organizations in Switzerland and the United Kingdom as well as the Americas segment are not part of the system as they have their own credit facilities.

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.

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.

Customer journey
In order to meet customers' needs when developing products, tools and services, customer feedback is documented and visualized from first contact with the product through to permanent use.

Derivatives
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.

DigiDesk
This name was coined to describe a digital workstation. It is an interactive intranet based on interactive SharePoint communication sites/Office 365.

Digital Academy
The Group-wide personal development academy offers employees in-house, job-specific training and language courses. This enables them to take part in online training on a voluntary basis during office hours at our premises or from a home office. To enhance IT skills, for instance, online courses on topics such as digital leadership and coding have been developed.

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).

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.

EBIT
Earnings before interest and taxes is a metric that is used to evaluate profitability.

EBITDA
Earnings before interest, taxes, depreciation and amortization (EBITDA) is a metric that is used to evaluate profitability.

EBITDA before material special effects
(Alternatively, adjusted EBITDA) Earnings before interest, taxes, depreciation and amortization (EBITDA) adjusted for special effects such as major restructuring programs, significant non-operating effects or effects relating to prior periods.

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.

Foreign Currency Swap
Financial instrument that combines a spot of foreign exchange transaction and a forward foreign exchange transaction.

Free Cash flow
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.

Gearing
Defined as net financial debt divided by equity, this key financial indicator expresses a company's debt levels.

Goodwill
Goodwill represents the amount by which an acquirer of a business is willing to pay in excess of all tangible and intangible less identifiable liabilities taking into consideration further earning potential.

Impairment
Additional depreciation or amortization for non-current assets with definite useful lives or only an acceptable method to reduce ("impair") the value of assets with indefinite useful lives in case of other than temporary decline of value. See also "Impairment Test."

Impairment Test
Test to assess the recoverable value for long-lived assets including goodwill. IFRS requires periodic assessment as to whether there are indications for other than temporary declines in value of long-lived assets. An impairment test is to be performed if internal or external indications for impairment arise. Regardless of such indications goodwill must be tested annually. In an impairment test the carrying amount of an asset is compared with its recoverable amount. If the recoverable amount is below the asset's carrying amount an impairment is recognized for the amount of the difference.

Interest 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).

Kloeckner Assistant
The Kloeckner Assistant is a digital application that fully automates processing of quotation requests or orders to Klöckner & Co by email with PDF attachments, by fax or phone. Thanks to this app, customers receive an offer or order confirmation in real time. As a result, not only is manual effort significantly reduced but the entire ordering process from quotation request to offer preparation and order placement is also considerably accelerated.

kloeckner.i
Based in Berlin, the Klöckner & Co Group Center of Competence for Digitalization now employs a workforce of around 90 in the fields of product innovation, software development, online marketing and business analytics. All projects and initiatives relating to digitalization and digital integration are being driven forward by kloeckner.i. The company additionally furnishes a platform for in-house knowledge transfer. As of 2019, kloeckner.i is also offering consulting services to external companies.

kloeckner.v
Klöckner & Co connects up with external start-ups via its kloeckner.v venture capital company. It invests both through selected venture capital funds and directly in start-ups that support the Klöckner digitalization strategy with disruptive approaches.

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.

Leverage
This key financial indicator is defined as net financial debt divided by EBITDA.

Lost time injury frequency (LTIF)
The number of workplace accidents, which result in lost work time (of one day or more) per million hours worked.

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.

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.

OPEX
An abbreviation for "operational expenditure," which is defined as other operating income less personnel expenses, less other operating expenses. EBITDA – one of the key performance indicators for Klöckner & Co – is calculated by deducting OPEX from gross profit.

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.

Processing
Machining of steel and metal products, such as sawing, plasma and flame cutting, 3D laser cutting, sandblasting, priming and bending.

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.

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.

Working Capital
Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.

XOM Materials
The XOM Materials independent industry platform is a digital marketplace for steel, metal and industrial materials, which is open to direct competitors of Klöckner & Co. Growth of XOM Materials is to be funded by outside investors in order to further secure its independence from Klöckner.

XOM eProcurement
Using this application, XOM Materials customers can streamline their procurement processes to a large extent. The eProcurement solution on the XOM Materials industry platform simplifies procurement and requirements planning for customers by automating the reconciliation of materials supply and demand in addition to supporting contract negotiations, data retrieval and access to current information on availability and orders.

XOM eShop
Thanks to the integrated XOM Materials eShop solution, distributors can use the XOM Materials industry platform to operate their own online shop, which is specially tailored to materials trading, the company and its customers.

XOM Marketplace
XOM Materials is an open platform solution that can, via the XOM Marketplace, connect any number of suppliers and customers at every level of the value chain. One focus is on steel and metal products, for which extended processing services are offered. In principle, however, other materials such as plastics can also be traded on XOM Materials.

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Disclaimer

This report (particularly the “Forecast” section) contains forward-looking statements which reflect the current views of the management of Klöckner & Co SE with respect to future events. They generally are designated by the words “expect”, “assume”, “presume”, “intend”, “estimate”, “strive for”, “aim for”, “plan”, “will”, “endeavor”, “outlook” and comparable expressions and generally contain information that relates to expectations or goals for economic conditions, sales proceeds or other yardsticks for the success of the enterprise. Forward-looking statements are based on currently valid plans, estimates and expectations and are therefore only valid on the day on which they are made. You therefore should consider them with caution. Such statements are subject to numerous risks and factors of uncertainty (e.g. those described in publications) most of which are difficult to assess and which generally are outside of the control of Klöckner & Co SE. The relevant factors include the effects of significant strategic and operational initiatives, including the acquisition or disposal of companies or other assets. If these or other risks and factors of uncertainty occur or if the assumptions on which the statements are based turn out to be incorrect, the actual results of Klöckner & Co SE can deviate significantly from those that are expressed or implied in these statements. Klöckner & Co SE cannot give any guarantee that the expectations or goals will be attained. Klöckner & Co SE – notwithstanding existing legal obligations – rejects any responsibility for updating the forward-looking statements through taking into consideration new information or future events or other things.

In addition to the key figures prepared in accordance with IFRS and German-GAAP respectively, Klöckner & Co SE is presenting non-GAAP key figures such as EBITDA, EBIT, Net Working Capital and net financial liabilities that are not a component of the accounting regulations. These key figures are to be viewed as supplementary to, but not as a substitute for data prepared in accordance with IFRS. Non-GAAP key figures are not subject to IFRS or any other generally applicable accounting regulations. In assessing the net assets, financial position and results of operations of Klöckner & Co SE, these supplementary figures should not be used in isolation or as an alternative to the key figures presented in the consolidated financial statements and calculated in accordance with the relevant accounting principles. Other companies may base these concepts upon other definitions. Please refer to the definitions in this annual report.

Rounding
There may be rounding differences with respect to 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.

Evaluating statements
Evaluating statements are unified and are presented as follows:

+/– 0-1%	constant
+/– >1-5%	slight
+/– >5%	considerable

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FINANCIAL CALENDAR 2020

March 10, 2020

Annual Financial Statements 2019
Financial statement press conference
Conference Call with analysts

May 4, 2020

Q1 quarterly statement 2020
Conference Call with journalists
Conference Call with analysts

May 20, 2020

Annual General Meeting 2020, Düsseldorf, Germany

August 14, 2020

Half-yearly financial report 2020
Conference Call with journalists
Conference Call with analysts

November 3, 2020

Q3 quarterly statement 2020
Conference Call with journalists
Conference Call with analysts

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