

Interim Management Statement for 9M 2019

January 1, 2019 to September 30, 2019

- EBITDA before material special effects €110 million in first nine months of 2019. Including material special effects, EBITDA for the first nine months was €136 million, compared with €197 million in the prior-year period
- Third-quarter EBITDA before material special effects €26 million, within the €25 million to €35 million guidance range
- At 4.4 million tons, shipments in the first nine months were 6.6% down on the prior year (4.7 million tons)
- Sales of €4.9 billion down on prior-year period (€5.2 billion)
- Share of Group sales generated via digital channels further raised to 30% (Q3 2018: 22%)
- Full-year 2019 EBITDA guidance now between €120 million and €130 million before material special effects

GROUP SALES AND EARNINGS DOWN ON PRIOR YEAR DUE TO WEAK MARKET ENVIRONMENT

Shipments totaled 4.4 million tons in the first nine months, marking a fall of 6.6% relative to the prior-year period. The decrease affected all segments, although Kloeckner Metals Distribution Europe was impacted strongest with a reduction of 13.6%. The main factors here were the economic slowdown in Germany, notably in the automotive and mechanical engineering industries, as well as product portfolio changes in France.

Despite the appreciation of the US dollar, sales, at €4.9 billion, were likewise below the previous year's level of €5.2 billion (a currency-adjusted decrease of 7.2%). Sales were down due to lower volumes in all operating segments and in the USA notably as a result of lower prices.

Including material special effects, EBITDA for the first nine months was €136 million, compared with €197 million in the prior-year period. Net income consequently deteriorated from €76 million in the prior-year period to -€4 million. Basic earnings per share came to -€0.05, compared with €0.75 in the prior year.

MARKET-DRIVEN IMPACT ON SEGMENTAL EARNINGS

Primarily due to negative price effects on account of significantly reduced market prices across all key product groups, EBITDA in the Kloeckner Metals US segment fell to €48 million in the first nine months of the fiscal year, compared with €135 million a year earlier. The decrease in gross profit by €94 million was offset only to a minor extent by lower OPEX and the effect of the new IFRS 16 lease accounting standard (+€11 million). Segment EBITDA also includes €2 million in one-off income from compensation payments.

EBITDA in the Kloeckner Metals Switzerland segment on the other hand went up from €36 million in the prior-year period to €44 million. Reinforcing products were the main performance driver here. Introduction of the new IFRS 16 lease accounting standard positively impacted EBITDA by €6 million.

The economic environment for the Kloeckner Metals Services Europe segment remained challenging, primarily due to a sharp fall in automotive production in Europe and especially in Germany, and as a result of lower steel prices. Consequently, EBITDA fell from €37 million to €20 million.

EBITDA in the Kloeckner Metals Distribution Europe segment stood at €50 million, marking a substantial increase on the €12 million prior-year figure. However, this was mainly due to an one-off effect of €36 million from the sale of a property in London. Conversely, EBITDA was reduced by restructuring expenses (€5 million) due to portfolio adjustments in France. Excluding these effects, EBITDA amounted to €19 million. Moreover, implementation of the revised IFRS 16 lease accounting standard had a €16 million positive impact on EBITDA.

In the Holding and other group companies segment, EBITDA including material special effects came to a negative €26 million, compared with a negative €23 million in the prior-year period. Here, restructuring-related expenses made for material special effects totaling €8 million in the reporting period.

VERY SOLID FINANCIAL POSITION SUSTAINED

Total assets were €3,193 million as of September 30, 2019, about 4% higher than the prior year-end figure, mainly due to the effect of the newly introduced IFRS 16 lease accounting standard.

Equity decreased from €1,282 million to €1,225 million. This mainly related to measurement effects on our pension obligations that are due to lower discount rates and are accounted for in other comprehensive income (-€54 million). Despite the decrease, the equity ratio stayed at a very solid 38% (December 31, 2018: 42%).

Net working capital increased due to strict management only moderately from €1,229 million at the prior year-end to €1,325 million and was therefore below the figure at the end of the previous quarter (€1,386 million).

Given the higher net working capital and introduction of the new IFRS 16 lease accounting standard (+€178 million), net financial debt went up accordingly from €383 million as of December 31, 2018 to €634 million at the end of the third quarter.

The rise in net working capital is also the main driver of the cash outflow from operating activities of €6 million in the first nine months of the fiscal year, although this was considerably below the cash outflow in the prior-year period (€160 million). Adding the net cash inflow from investing activities – including the cash inflow from the sale of a property in London (€37 million) – gives a free cash flow of €9 million (9M 2018: -€197 million).

EXPANSION OF DIGITALIZATION ACTIVITIES

Consistent implementation of the digitalization strategy led to a further increase in the share of sales generated via digital channels to 30% in the quarter under review (Q3 2018: 22%). Moreover, a new digitalization project was launched in the shape of Kloeckner Assistant. The aim is for inquiries via any channel to be processed automatically with the aid of artificial intelligence and answered instantly thanks to seamless integration with existing digital tools. This minimizes not only manual processing, but also the time between inquiry, quote and order.

Further additions were also made to the range of offerings on the independent industry platform XOM Materials. The number of different products available on XOM already exceeds 10,400. Contracts have been signed in Europe and North America with 43 distributors, 30 of which are already linked up with the platform.

OUTLOOK

After the short-term recovery of steel prices in the USA in the third quarter, we now anticipate weaker market conditions and again a negative price development in the fourth quarter. In light of this, we expect to generate EBITDA of between €120 million and €130 million before material special effects for the full year 2019.

Klöckner & Co SE

Financial information

for the nine-month period ending September 30, 2019

Shipments and income statement		Q3 2019	Q3 2018	Variance	Jan. 1– Sep. 30, 2019	Jan. 1– Sep. 30, 2018	Variance
Shipments	Tto	1,420	1,519	-99	4,398	4,709	-311
Sales	€ million	1,565	1,754	-189	4,950	5,171	-221
Gross profit	€ million	284	332	-48	890	1,027	-137
Gross profit margin	%	18.1	18.9	-0.8%p	18.0	19.9	-1.9%p
Earnings before, interest, taxes, depreciation and amortization (EBITDA)	€ million	21	59	-38	136	197	-61
EBITDA before material special effects	€ million	26	59	-33	110	199	-89
EBITDA margin	%	1.3	3.4	-2.1%p	2.7	3.8	-1.1%p
EBITDA margin before material special effects	%	1.6	3.4	-1.8%p	2.2	3.8	-1.6%p
Earnings before interest and taxes (EBIT)	€ million	-13	38	-51	37	133	-96
Earnings before taxes (EBT)	€ million	-24	30	-54	5	109	-104
Net income	€ million	-23	22	-45	-4	76	-80
Net income attributable to shareholders of Klöckner & Co SE	€ million	-23	22	-45	-5	75	-80
Earnings per share (basic)	€	-0.23	0.22	-0.45	-0.05	0.75	-0.80
Earnings per share (diluted)	€	-0.23	0.21	-0.44	-0.05	0.71	-0.76

Cash flow statement		Q3 2019	Q3 2018	Variance	Jan. 1– Sep. 30, 2019	Jan. 1– Sep. 30, 2018	Variance
Cash flow from operating activities	€ million	82	-5	+87	-6	-160	+154
Cash flow from investing activities	€ million	-12	-13	+1	15	-37	+52
Free cash flow ^{*)}	€ million	70	-18	+88	9	-197	+206

Balance sheet		September 30, 2019	December 31, 2018	Variance	September 30, 2019	September 30, 2018	Variance
Net working capital ^{**)}	€ million	1,325	1,229	+96	1,325	1,467	-142
Net financial debt	€ million	634	383	+251	634	569	+65
Gearing ^{***)}	%	52	31	+21%p	52	44	+8%p
Equity	€ million	1,225	1,282	-57	1,225	1,320	-95
Equity ratio	%	38.4	41.9	-3.5%p	38.4	40.6	-2.2%p
Total assets	€ million	3,193	3,061	+132	3,193	3,250	-57

Employees		September 30, 2019	December 31, 2018	Variance	September 30, 2019	September 30, 2018	Variance
Employees as of the end of the reporting period		8,370	8,579	-209	8,370	8,623	-253

^{*)} Free cash flow = Cash flow from operating activities plus cash flow from investing activities.

^{**) Net working capital = Inventories plus trade receivables less trade liabilities.}

^{***)} Gearing = Net financial debt / (Equity/non-controlling interests/goodwill resulting from acquisitions subsequent to May 23, 2019 resp. until December 31, 2018; May 23, 2013).

Klöckner & Co SE

Consolidated statement of income

for the nine-month period ending September 30, 2019

(€ thousand)	Q3 2019	Q3 2018	Jan. 1– Sep. 30, 2019	Jan. 1– Sep. 30, 2018
Sales	1,565,475	1,754,177	4,949,837	5,171,229
Changes in inventory	1,569	8,235	-9,456	9,921
Own work capitalized	372	-	900	-
Other operating income	8,178	5,464	60,389	21,443
Cost of materials	-1,283,525	-1,430,117	-4,051,080	-4,153,867
Personnel expenses	-155,757	-150,259	-459,470	-454,841
Depreciation and amortization	-34,172	-21,247	-98,724	-63,326
Other operating expenses	-115,282	-127,575	-356,134	-394,496
Impairment gains/losses trade receivables	-178	-630	952	-2,655
Operating result	-13,320	38,048	37,214	133,408
Finance income	197	1,726	1,039	3,700
Finance expenses	-10,893	-9,497	-33,508	-28,190
Financial result	-10,696	-7,771	-32,469	-24,490
Income before taxes	-24,016	30,277	4,745	108,918
Income taxes	1,121	-8,526	-8,937	-33,092
Net income	-22,895	21,751	-4,192	75,826
<i>thereof attributable to</i>				
– shareholders of Klöckner & Co SE	-23,176	21,513	-4,964	75,021
– non-controlling interests	281	238	772	805
Earnings per share (€/share)				
– basic	-0.23	0.22	-0.05	0.75
– diluted	-0.23	0.21	-0.05	0.71

Statement of comprehensive income

for the nine-month period ending September 30, 2019

(€ thousand)	Q3 2019	Q3 2018	Jan. 1– Sep. 30, 2019	Jan. 1– Sep. 30, 2018
Net income	-22,895	21,751	-4,192	75,826
Other comprehensive income not reclassifiable				
Actuarial gains and losses (IAS 19)	-25,411	24,761	-56,644	52,374
Related income tax	3,179	-5,486	2,503	-10,695
Total	-22,232	19,275	-54,141	41,679
Other comprehensive income reclassifiable				
Foreign currency translation	25,615	11,338	33,591	25,434
Gain/loss from equity instruments	-	-	-2,502	-
Gain/loss from cash flow hedges	24	-7	5	-143
Reclassification to profit and loss due to sale of foreign subsidiaries	-	7	-	7
Total	25,639	11,338	31,094	25,298
Other comprehensive income	3,407	30,613	-23,047	66,977
Total comprehensive income	-19,488	52,364	-27,239	142,803
<i>thereof attributable to</i>				
– shareholders of Klöckner & Co SE	-19,761	52,124	-27,996	141,997
– non-controlling interests	273	240	757	806

Consolidated statement of financial position

as of September 30, 2019

Assets

(€ thousand)	September 30, 2019	December 31, 2018
Non-current assets		
Intangible assets	137,601	147,945
Property, plant and equipment	807,270	638,914
Non-current investments	7,910	8,574
Other financial assets	6,300	7,961
Other non-financial assets	5,368	5,215
Current income tax receivable	6,155	6,156
Deferred tax assets	18,505	17,502
Total non-current assets	989,109	832,267
Current assets		
Inventories	1,144,045	1,242,209
Trade receivables	806,637	716,492
Contract assets	16,226	23,453
Current income tax receivable	13,255	6,327
Other financial assets	64,669	78,195
Other non-financial assets	31,137	21,068
Cash and cash equivalents	127,690	141,344
Total current assets	2,203,659	2,229,088
Total assets	3,192,768	3,061,355

Equity and liabilities

(€ thousand)	September 30, 2019	December 31, 2018
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,412	682,412
Retained earnings	289,858	324,638
Accumulated other comprehensive income	-4,222	18,935
Equity attributable to shareholders of Klöckner & Co SE	1,217,423	1,275,360
Non-controlling interests	7,191	6,282
Total equity	1,224,614	1,281,642
Non-current liabilities		
Provisions for pensions and similar obligations	302,297	260,180
Other provisions and accrued liabilities	17,083	16,422
Financial liabilities	699,651	500,845
Other financial liabilities	144	156
Other non-financial liabilities	8	3
Deferred tax liabilities	43,705	45,876
Total non-current liabilities	1,062,888	823,482
Current liabilities		
Other provisions and accrued liabilities	121,671	114,444
Income tax liabilities	9,678	12,156
Financial liabilities	58,191	19,740
Trade payables	641,924	752,770
Other financial liabilities	23,135	21,118
Other non-financial liabilities	50,667	36,003
Total current liabilities	905,266	956,231
Total liabilities	1,968,154	1,779,713
Total equity and liabilities	3,192,768	3,061,355

Consolidated statement of cash flows

for the nine-month period ending September 30, 2019

(€ thousand)	Q3 2019	Q3 2018	Jan. 1– Sep. 30, 2019	Jan. 1– Sep. 30, 2018
Net income	-22,895	21,751	-4,192	75,826
Income taxes	-1,121	8,526	8,937	33,092
Financial result	10,696	7,771	32,469	24,490
Depreciation and amortization	34,172	21,247	98,724	63,326
Other non-cash income/expenses	472	-122	178	-393
Gain on disposal of non-current assets	-218	202	-39,677	-1,095
Change in net working capital				
Inventories	66,449	-40,172	126,806	-158,498
Trade receivables	90,479	28,438	-59,223	-232,957
Trade payables	-68,368	-19,372	-129,688	85,664
Change in other operating assets and liabilities	-12,195	-16,187	5,808	-2,550
Interest paid	-8,984	-7,778	-26,841	-20,466
Interest received	195	171	617	681
Income taxes paid	-6,484	-9,585	-20,290	-26,991
Cash flow from operating activities	82,198	-5,110	-6,372	-159,871
Proceeds from the sale of non-current assets and assets held for sale	938	2,233	44,196	4,332
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-12,697	-14,925	-28,634	-41,281
Cash flow from investing activities	-11,759	-12,692	15,562	-36,949
Dividend payments to shareholders of Klöckner & Co SE	-	-	-29,925	-29,925
Net change of other financial liabilities	-105,078	7,612	12,472	133,731
Proceeds from derivatives	-6,719	1,980	-7,878	-1,579
Cash flow from financing activities	-111,797	9,592	-25,331	102,227
Changes in cash and cash equivalents	-41,358	-8,210	-16,141	-94,593
Effect of foreign exchange rates on cash and cash equivalents	2,734	1,023	2,487	1,089
Cash and cash equivalents at the beginning of the period	166,314	67,244	141,344	153,561
Cash and cash equivalents at the end of the reporting period as per statement of financial position	127,690	60,057	127,690	60,057

Segment reporting

	KloECKner Metals US		KloECKner Metals Switzerland		KloECKner Metals Services Europe		KloECKner Metals Distribution Europe		Holding and other group companies**)		Total	
(€ million)	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018
Shipments (Tto)	2,017	2,055	438	464	735	797	1,169	1,353	39	40	4,398	4,709
External sales	2,075	2,030	739	756	584	628	1,509	1,714	43	43	4,950	5,171
Gross Profit	320	414	203	200	77	97	279	305	11	11	890	1,027
Gross profit margin (%)	15.4	20.4	27.4	26.5	12.9	15.2	18.5	17.8	17.0	25.9	18.0	19.9
Segment result (EBITDA) ^{*)}	48	135	44	36	20	37	50	12	-26	-23	136	197
Earnings before interest and taxes (EBIT)	9	109	21	19	15	32	23	1	-31	-28	37	133
Cashflow from operating activities	12	-8	7	-7	2	4	-19	-109	-8	-40	-6	-160

*) EBITDA = Earnings before interest, taxes, depreciation and amortization and reversals of impairments on intangible assets and property, plant and equipment.

**) Including consolidations.

	KloECKner Metals US		KloECKner Metals Switzerland		KloECKner Metals Services Europe		KloECKner Metals Distribution Europe		Holding and other group companies***)		Total	
(€ million)	9M 2019	FY 2018	9M 2019	FY 2018	9M 2019	FY 2018	9M 2019	FY 2018	9M 2019	FY 2018	9M 2019	FY 2018
Net working capital as of closing date ^{*)}	468	453	269	217	211	192	362	345	15	22	1,325	1,229
Net financial debt as of closing date ^{**)}	401	321	97	43	151	149	311	239	-326	-369	634	383
Employees as of closing date	2,337	2,382	1,650	1,707	596	597	3,370	3,500	417	393	8,370	8,579

*) Net Working Capital = Inventories plus trade receivables less trade liabilities.

**) Net financial debt = Financial liabilities plus transaction cost less cash and cash equivalents.

***) Including consolidations.

Financial Calendar

March 10, 2020	Annual Financial Statement 2019 Financial statement press conference Conference call with analysts
May 5, 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

Subject to subsequent changes.

Klöckner& CoSE

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Disclaimer

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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 interim management statement 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 are unified and are presented as follows:

+/- 0-1%	+/- >1-5%	+/- >5%
stable	slight	considerable

