klöckner & co

multi metal distribution

ANNUAL REPORT 2006

KLÖCKNER & CO GROUP – KEY FIGURES

Highlights 2006
Financial Calendar 2007

Income Statement

		Jan. 1– Dec. 31, 2006	March 16– Dec. 31, 2005*	Pro Forma** Jan. 1– Dec. 31, 2005
Sales	€ million	5,532	3,969	4,964
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	395	154	197
Earnings before interest and taxes (EBIT)	€ million	337	108	135
Earnings before taxes (EBT)	€ million	273	59	81
Earnings after taxes (EAT)	€ million	235	43	52
Earnings per share (undiluted)	€	4.44	–	–

Cash Flow Statement

		Jan. 1– Dec. 31, 2006	March 16– Dec. 31, 2005	Pro Forma Jan. 1– Dec. 31, 2005
Cash flow from operating activities	€ million	132	196	121
Cash flow from investing activities	€ million	10	– 44	– 44

Balance Sheet

		Dec. 31, 2006	Dec. 31, 2005
Working capital***)	€ million	1,135	957
Net financial debt	€ million	365	719
Equity	€ million	799	323
Balance sheet total	€ million	2,552	2,256

Key Figures

		Jan. 1– Dec. 31, 2006	Pro Forma Jan. 1– Dec. 31, 2005
Sales volume	to'000	6,127	5,868
Employees at end of period		9,688	9,901

*) Excluding release of negative goodwill in the amount of € 147 million, restructuring expenses of € 17 million, disinvestment expenses of € 2 million and, in the EBT and EAT, excluding transaction costs in the amount of € 36 million
**) Excluding release of negative goodwill in the amount of € 139 million, restructuring expenses of € 17 million, results from disinvestment of € 2 million and, in the EBT and EAT, excluding transaction costs in the amount of € 39 million
***) Working capital = inventories plus trade receivables less trade payables

Explanation of pro formas:

The pro forma 2005 financial information aims to provide improved insight into the consolidated results of operations and the financial situation of the Group. It assumes that the change in shareholder and corporate structure occurred on January 1, 2005, instead of March 16, 2005.

HIGHLIGHTS 2006

Klöckner & Co goes public in centenary year

Klöckner & Co AG made its initial public offering on June 28, 2006 – exactly 100 years after the company was founded by Peter Klöckner. It is listed in the Prime Standard segment of the Frankfurt Stock Exchange. Based on the increase of our share price from our IPO until the end of the year, our offering was the most successful of 2006. At the end of 2006, the share price was €32.81. Measured against the issue price of €16.00 per share, its value had thus more than doubled within six months.

As early as September 18, 2006 – less than three months after the IPO – Klöckner & Co was included in the SDAX® index of the Deutsche Börse Group because of the share's strong performance. On January 29, 2007 – just seven months after trading started – Klöckner & Co's shares were admitted to the MDAX® index.

Systematic implementation of growth strategy

Klöckner & Co AG sustained its growth strategy in 2006 with a series of acquisitions and company formations. It purchased additional small and mid-size distribution companies in Europe and North America. Klöckner & Co has been growing in Eastern Europe as well in recent years; in 2004 it expanded the country operation in Poland, and in 2005 and early 2006 it opened new foreign companies in the Baltic States and Romania, respectively. An office was established in China in the fall of 2006. The company is committed to maintaining this growth strategy in 2007; we intend to acquire approximately 10 to 12 small to mid-size competitors.

Outstanding earnings development in 2006

In 2006 the Klöckner & Co AG once again posted an excellent result. EBITDA for 2006 – the Group's operating result – totals about €395 million, which is more than twice as much as the economically comparable, adjusted pro forma value of €197 million for the whole of 2005. The EBIT at December 31, 2006 was €337 million, the earnings before taxes €273 million, and the consolidated results before minority interests were €235 million.

Besides the very favorable market development, the very good earnings development was driven by the STAR performance program. The fundamental concept underpinning STAR is an endeavor to transfer successful business practices and models to other country operations and to generate fresh ideas in cross-national working parties. The focus is placed in particular on procurement optimization, streamlining the network of sites, and inventory management.

FINANCIAL CALENDAR 2007

March 29	Annual Statement 2006
May 14	Q1 Interim Report 2007
June 20	General Shareholders' Meeting 2007 Congress Centrum Düsseldorf (CCD)/Messe Düsseldorf
June 21	Dividend Payout
August 15	Q2 Interim Report 2007
November 14	Q3 Interim Report 2007

BRIEF PORTRAIT OF KLÖCKNER & CO AG

Klöckner & Co AG is the largest producer-independent steel and metal distributor in the European and North American markets combined. It became publicly traded in mid-2006 and generated sales of about €5.5 billion in 2006. Klöckner & Co is represented in 14 countries worldwide with approximately 240 sites, and employs a total of approximately 10,000 people.

As a mill-independent international multi-metal distributor, Klöckner & Co AG is a key link in the value chain that extends from steel and metal production to small and mid-size consumers. Klöckner & Co purchases metals in vast quantities worldwide and supplies customers via an international distribution system that includes local warehousing sites.

Our product offering consists of long products (e.g. steel girders for the construction industry), flat products (e.g. sheet steel for machine builders), hollow sections (e.g. for structural purposes), stainless and quality steel (e.g. high alloy round steel rods for mechanical engineering applications), aluminum products (e.g. sectional rods for plant construction), and special products, such as plastics, ironware and accessories.

Alongside unmachined metals and intermediate products, Klöckner & Co AG offers its customers extensive services, including cutting and splitting steel strip, cutting into sections, flame-cutting and surface treatments.

The Company's comprehensive range of products and services, available through approximately 240 sites in Europe and North America, is at the disposal of some 200,000 customers altogether. The clients of the Klöckner & Co Group represent numerous sectors, chiefly in the construction, machinery and mechanical engineering industries.

Its ability to engage in global procurement from about 70 suppliers gives the Klöckner & Co Group a crucial competitive edge. Its independence from individual steel producers provides high flexibility and thus a solid basis for negotiating with suppliers. At the same time, the annual purchasing volume of about 6 million metric tons enables the Company to engage in strategic partnerships and conclude favorable supply agreements.
Business success is further determined to a great extent by sound stewardship of the product range and inventories, and by customized management of order-related income and expenditure.

CONTENT

Dr. Thomas Ludwig, Chairman of the Management Board
Gisbert Rühl, Chief Financial Officer

Ladies and gentlemen,

We can look back on a highly successful 2006 financial year. Besides our successful IPO in the summer and the centenary celebrated by Klöckner & Co, the company's strong earnings development is worthy of special note. We wish to thank our employees, who played a crucial role in accomplishing this success.

We are very satisfied with the way in which the share price has progressed since the IPO. Between the IPO at the end of June 2006 and the close of 2006, the price more than doubled. As early as September 2006 Klöckner & Co was included in the SDAX® share index of the Deutsche Börse Group. At the end of January 2007 it was admitted to the MDAX® index. To give our shareholders a stake in the strong earnings position and honor the undertaking made at the time of the IPO, we shall be proposing a dividend of €0.80 per share at the Shareholders' Meeting.

The successes posted in the 2006 financial year evidences our strategy of continuously optimizing our existing business, while pursuing growth, organic and through acquisitions – we remain committed to this policy in 2007. The STAR performance program was introduced throughout the Group back in 2005 and has effectively increased our value and enhanced our business. Its activities focus on optimizing procurement, our distribution network and our inventories. In order to further reinforce our position as the largest producer-independent steel and metal distributor in the European and North American markets combined, we are striving to achieve external growth. This policy includes the steady development of existing country operations. In 2007 we intend significantly to step up our acquisition activities by acquiring approximately 10 to 12 small to mid-size competitors. Besides pursuing external growth, we remain eager to fuel further organic growth in our existing core markets. In this context we are concentrating on extending our product lines and range of services, and on expanding geographically in Eastern Europe.

We expect demand and prices on the steel market to remain largely stable in 2007. The multi-metal distribution business will continue to benefit from this climate, although not to the same extent as in 2006, which was an exceptional year. We believe that our strategy will result in satisfactory results in 2007. Our performance should enable us to sustain our policy of dividend issuance for the foreseeable future.

For ourselves and on behalf of our committed employees, we thank our shareholders and business partners for their much appreciated collaboration in the most recent financial year, and we look forward to continuing our successes this year.

Yours sincerely,

Dr. Thomas Ludwig
Chairman of the Management Board

Gisbert Rühl
Chief Financial Officer

MANAGEMENT BOARD AND SUPERVISORY BOARD

Dr. Thomas Ludwig

Chairman of the Management Board

Dr. Thomas Ludwig was born in Vechta in 1948. He began his career with Klöckner-Werke AG in 1977 after studying mathematics and business administration. His doctor's degree is in business administration. He remained with the company until 1984 and occupied various senior positions there and subsequently in the Klöckner & Co Group. Dr. Ludwig was appointed a member of the Management Board of the former Klöckner & Co AG in 1991; his portfolio embraced raw materials and environmental engineering. In 1995 he joined the Thyssen Group, which became the ThyssenKrupp Group in 1999, as chairman of the Management Board of Thyssen Klöckner Recycling GmbH, and in 1996 he was appointed to the Management Board of Thyssen Handelsunion AG. In 2001 he became chairman of the Management Board of ThyssenKrupp Serv AG.

In November 2003 Dr. Ludwig succeeded to the office of chairman of the Management Board of the Klöckner & Co AG. He is responsible for the country operations and for procurement, human resources/communications, legal and process management/internal auditing.

His term of office runs until May 31, 2011.

Gisbert Rühl

Chief Financial Officer

Gisbert Rühl was born in Unna in 1959. After studying industrial engineering at Hamburg University, he joined Roland Berger & Partner GmbH as a management consultant in 1987. Thereafter he was appointed managing director of Lion Gesellschaft für Systementwicklung mbH. After occupying management positions with Matuschka Capital GmbH and Coutinho, Caro & Co, Mr. Rühl joined RÜTGERS AG in 1993. He was appointed to the company's Management Board and, among other duties, served as the chief executive officer of RÜTGERS Automotive AG. In 1999 he moved to Babcock Borsig AG, where he accepted the office of an Management Board member. From 2002 until 2005 he was a partner in Roland Berger Strategy Consultants. Since July 2005 Mr. Rühl has been the Chief Financial Officer of the Klöckner & Co Group. He is responsible for the other participations and for accounts/finance, controlling/M&A/corporate development, taxes, corporate IT and investor relations.

His term of office runs until May 31, 2011.

Supervisory Board

Prof. Dieter H. Vogel
Managing Shareholder, LGB & Vogel GmbH, Düsseldorf
Chairman since May 31, 2006

Dr. Michael Rogowski
Chairman of the Supervisory Board, Voith AG, Heidenheim
Member since June 9, 2006
Deputy chairman since June 21, 2006

Michael W. Dees
Principal, Lindsay Goldberg & Bessemer, New York
Member since May 31, 2006

Alan E. Goldberg
Managing Partner, Lindsay Goldberg & Bessemer, New York
Member since May 31, 2006

Frank H. Lakerveld
Member of the Management Board, Sonepar S.A., Paris
Member since June 9, 2006

Robert D. Lindsay
Managing Partner, Lindsay Goldberg & Bessemer, New York
Member since June 9, 2006

Executive Committee
(also forming the Personnel and Emergency Committees)

Prof. Dieter H. Vogel
Chairman since September 27, 2006

Dr. Michael Rogowski
Member since September 27, 2006

Alan E. Goldberg
Member since September 27, 2006

Audit Committee

Michael W. Dees
Chairman since September 27, 2006

Prof. Dieter H. Vogel
Member since September 27, 2006

Dr. Michael Rogowski
Member since September 27, 2006

REPORT OF THE SUPERVISORY BOARD

Klöckner & Co AG operated until the beginning of June 2006 as Multi Metal Holding GmbH (MMH) and, after the change of name and corporate form, assumed the function of managing holding company of the Klöckner & Co Group and took over all employees of the former Klöckner & Co GmbH. On the basis of the resolution of the Shareholders' Meeting of MMH on the change of corporate form and name on May 31, 2006, the Shareholders' Meeting appointed Prof. Dr. Dieter H. Vogel, Alan E. Goldberg and Michael W. Dees as members of the Supervisory Board of the future joint stock corporation (Aktiengesellschaft), which was constituted on the same day and elected Prof. Vogel as its Chairman.

At the same meeting the Supervisory Board appointed the two managing directors of MMH, Dr. Thomas Ludwig and Gisbert Rühl, as members of the Management Board of the joint stock corporation and appointed Dr. Ludwig as the Chairman of the Management Board. The appointments went into effect through entry of the amendment to the articles of association (Satzung) regarding the change in corporate form on June 7, 2006. The two members of the Management Board were and remained managing directors of the former managing holding company, whose voluntary supervisory board and shareholder committee ended at the end of September 2006 through entry of the changes in the memorandum and articles of association (Gesellschaftsvertrag).

Effective June 9, 2007, the Shareholders' Meeting elected Frank H. Lakerveld, Robert D. Lindsay and Dr. Michael Rogowski as further members of the Supervisory Board, which reached its target size of six members. In the summer of 2006 four of the six members were at the same time members of the Supervisory Board and of the shareholder committee of the former management company of the Group. As a result, the extensive personnel-related continuity targeted was maintained both in the Management Board and in the Supervisory Board in spite of the changes in corporate form.

Organization of the Supervisory Board's work

After the constituent session in May 2006 the Supervisory Board met for two further sessions in September and December, at which time all members took part. At its September meeting the Supervisory Board formed a three-member executive commitee that is headed by the Chairman of the Supervisory Board in accordance with the rules of procedure for the Supervisory Board. According to the rules of procedure, this executive commitee as decision-making body has the double function of a personnel committee and emergency committee. Furthermore, the Supervisory Board formed a three-member audit committee, electing Mr. Dees as its Chairman. The audit committee met once in December 2006. Executive committee meetings were not necessary in 2006 because the relatively small number of Supervisory Board members made it possible to arrange for voting at short notice if required, even outside of meetings.

The Supervisory Board regularly incorporated the Management Board into its work. Both members of the Management Board took part in the Supervisory Board meetings. Furthermore, the Chairman of the Supervisory Board personally conducted an information and coordination talk with the Management Board on a monthly basis and spoke to the members of the Management Board on the telephone as required. Seamless continuity was ensured because the Chairman of the Supervisory Board occupied the same post in the former group management company and the members of the Management Board have likewise remained unchanged.

The Supervisory Board specified detailed rules regarding the cooperation between the Management Board and the Supervisory Board within the framework of rules of procedure for the Management Board, which also contain an extensive list of reservations of consent for important or extraordinary business and measures in the Group as well as the schedule of responsibilities approved by the Supervisory Board.

Focal points of the Supervisory Board's work

The Supervisory Board in its current make-up monitored the management activities of the Management Board and provided it with advisory support since June 2006 and thus continued the work of its predecessors in the Group. All important matters of the company as well as of the participations were discussed with the Management Board. The Supervisory Board was involved in all decisions on the basis of the duties for which it is responsible according to law and the articles of association. On a monthly basis the Management Board reported in detail to the Supervisory Board on market development as well as on the results and financial situation of the Group and its major operating companies, both orally and in writing, in the form of Board reporting and within the framework of the Supervisory Board meetings. In addition, a detailed discussion of the results and financial situation took place at the monthly talks with the Supervisory Board Chairman. Special focus here was always placed on the forecast of the annual results. The Management Board's assessment of the risks in connection with the so-called Balli complex as well as two matters in France and Switzerland was noted by the Supervisory Board. The matters were discussed.

The Supervisory Board was already involved in the necessary preparatory decisions regarding the company's initial public offering (IPO) as well as the increase in share capital by way of decision-making both in writing and by telephone. The outstanding development of the Klöckner & Co share price until the end of the year and beyond was noted with great satisfaction by the Supervisory Board. The same applies to the two placements in October 2006 and January 2007, by virtue of which the former main shareholder reduced its share to 15.5% and admission of the share for trading was initially made possible on the SDAX® and at the end of January 2007 on the MDAX®.

Furthermore, the Supervisory Board reviewed in detail the strategic measures of the Group and discussed, in particular, the acquisition projects with the Management Board on the basis of relevant project documents. At the end of June 2006 approval was given in writing for the AVZ disinvestment in the Netherlands, which had been planned well in advance. At the September session the Supervisory Board approved acquisition of the American company Action Steel and adopted the final structure of the virtual share option program for the Management Board and selected executives. The shareholders of Klöckner & Co AG decided in favor of the program prior to the start of the IPO and this program was promised to management, with the issue price as the basis, in the case of a successful IPO subject to confirmation by the newly formed Supervisory Board.

In addition to the audit assignment for the financial statements, the Supervisory Board assigned the balance sheet auditor to determine the special impacts of the funded pension obligations within the Group as well as to review the declaration made jointly by the Management Board and the Supervisory Board in accordance with § 161 of the German Joint Stock Corporation Act (AktG) on compliance with the recommendations of the German Corporate Governance Code. In the meantime, the analysis of the pension obligations has indicated a need for regulation, but no extraordinary risk.

By way of a telephone conference in November 2006, the session of the Supervisory Board discussed and approved a large acquisition project, but the company decided against its implementation because of the excessively high purchase price demanded by the seller. At its December meeting, the Supervisory Board approved the dividend planning of the Management Board and agreed to the measures to be initiated by the affiliated companies aimed at enabling Klöckner & Co AG to pay out dividends. Furthermore, the budget for 2007 was discussed and adopted. Extensive focus was also placed on a discussion and vote on the optimization of the Group's financial structure initiated by the Management Board. In addition, the Supervisory Board consented to the acquisition of two additional companies – subject to the results of the due diligence review after final coordination with the Chairman of the Supervisory Board – and looked into initial measures for simplification of the corporate structure. At the beginning of March 2007 the Supervisory Board decided on the joint declaration of compliance in accordance with § 161 of the German Joint Stock Corporation Act and the corporate governance report.

Financial statements, report on dependencies

The present financial statements of Klöckner & Co AG for the 2006 financial year and the management report as well as the consolidated financial statements and group management report have been audited by the auditor appointed by the Shareholders' Meeting and commissioned by the Supervisory Board. An unqualified audit opinion has been attached to each set of disclosures. The Supervisory Board took note of and agreed to the result of the audit. The balance sheet auditor took part in the consultations of the Supervisory Board regarding the financial statement documents submitted to the Supervisory Board on March 28, 2007 and reported on the principal results of his audit.

For its part the Supervisory Board reviewed the financial statements and management report of the company as well as the consolidated financial statements and the group management report and, following its final examination, has no objections. The information and explanations contained in the management report and group management report regarding the provisions and relevant facts in accordance with § 289 subsection 4 of the German Commercial Code (HGB) and § 315 subsection 4 of the German Commercial

Code (HGB) respectively are accurate in the view of the Supervisory Board and do not show any extraordinary provisions or relevant facts that might stand in the way of takeover of the company.

The Supervisory Board has approved the financial statements prepared by the Management Board, and they are thus adopted. The Supervisory Board agrees with the Management Board's proposal to appropriate the balance sheet profit for 2006, to an amount of €37.2 million, for distribution of a dividend of €0.80/share.

With respect to the early risk detection system, the balance sheet auditor stated that the Management Board had taken the measures required in accordance with § 91 subsection 2 of the German Joint Stock Corporation Act, particularly those for establishing a monitoring system, in an appropriate manner and that the monitoring system is suitable for early detection of developments that could jeopardize the company's continued existence. Furthermore, the Management Board has submitted to the Supervisory Board the report on relations to affiliated companies in accordance with § 312 of the German Joint Stock Corporation Act together with the audit report prepared on this subject by the balance sheet auditor. The wording of the unqualified audit opinion in the audit report concerning the dependent company report is as follows:

"According to our dutiful audit and evaluation, we confirm that the factual information and statements made in the report are correct."

The Supervisory Board has also examined the report of the Management Board concerning the relations with affiliated companies and, based on the final outcome of its examination, has no objections to the statement made by the Management Board at the end of the report. The Supervisory Board approves the auditor's report issued with respect to the Management Board's report.

Thank you for the successful work

The Supervisory Board thanks the Management Board and all the employees and acknowledges their commitment and successful performance in the 2006 financial year. At the same time thanks are also due to the former members of the supervisory bodies of the former Klöckner & Co GmbH for the work they performed during the financial year.

In 2006 the Klöckner & Co Group demonstrated that it was optimally prepared for the initial public offering and the market development in 2006 as well as for the future, due, not least of all, to taking measures that were painful in some cases.

Duisburg, March 28, 2007

The Supervisory Board

Prof. Dr. Dieter H. Vogel
Chairman of the Supervisory Board

Successful IPO and inclusion in MDAX® index

Trading in the shares of Klöckner & Co AG commenced in the Prime Standard segment of the Official Market of the Frankfurt Stock Exchange on June 28, 2006. In the initial public offering, a total of 16.5 million shares were sold, including 6.5 million within the framework of a capital increase, at the issue price of €16.00. The issue volume thus totaled €264 million, of which a gross amount of approximately €104 million accrued to the company in connection with the capital increase. After the IPO, the free float accounted for some 35% of the Company's outstanding equity. The remaining 65% continued to be held by Multi Metal Investment S.à r.l. ("MMI") – an investment company of the private equity investor, Lindsay Goldberg & Bessemer.

Following the inclusion of Klöckner & Co in the SDAX® share index of the Deutsche Börse Group on September 18, 2006, it was admitted to the MDAX® index on January 29, 2007.

Klöckner & Co share performance indicators

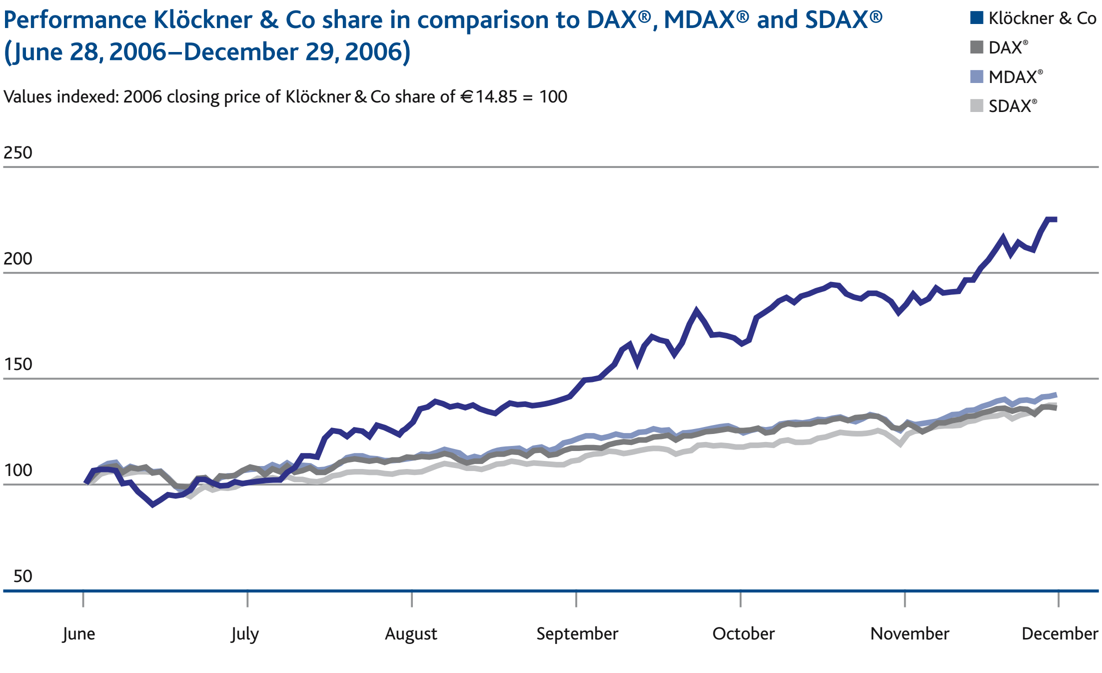
	June 28 – December 31, 2006
Number of shares	46,500,000
Closing price on 12/29/2006 (Xetra, close)	€32.81
Market capitalization on 12/29/2006	€1,525,665,000
Highest price (Xetra, close)	€32.81
Lowest price (Xetra, close)	€14.00
Average daily trading volume (shares)	326,047
SIN	KC0100
ISIN	DE000KC01000

Outstanding price trend

After making a modest debut on the market, Klöckner & Co became the most successful listing in the Prime Standard segment of the Frankfurt Stock Exchange – measured by share price development – in the reporting year. With a 2006 year-end closing price of €32.81 per share, the share price had risen more than 105% against the initial offering price of €16.00 per share. Klöckner & Co's shares thus clearly outperformed the DAX® (+20.9%), MDAX® (+24.5%) and SDAX® (+21.7%) indices. The majority of the gains, more than 57%, were posted in Q4 2006; the third-quarter share price increase was 35%.

Performance Klöckner & Co share in comparison to DAX®, MDAX® and SDAX® (June 28, 2006–December 29, 2006)

Values indexed: 2006 closing price of Klöckner & Co share of €14.85 = 100



Increase in free float and trading volume

The increase in the portion of freely marketable Klöckner & Co shares, to 84.5% of shares outstanding at the end of January 2007, was performed in two stages. At the end of October 2006 the majority shareholder, MMI, sold 20% of its 65% holding in Klöckner & Co to domestic and foreign institutional investors. This brought the free float to about 65% effective December 31, 2006. At the end of January 2007 MMI sold a further 30% of the 45% interest it retained, largely to international investors. The increase in the average daily trading volume of Klöckner & Co shares, especially in Q4, reflects the growing interest of investors. The average volume of shares traded daily in the period from the IPO until the end of the reporting period totaled approximately 326,047.

The international free float of Klöckner & Co shares was significantly raised by the reselling of shares as well; the majority of the shares sold by MMI went to foreign investors.

Dividend

The Management Board and Supervisory Board are to propose at the Shareholders' Meeting the distribution of a dividend of €0.80 per share for financial year 2006. This represents a payout ratio of 30% of the consolidated income after deduction of extraordinary or non-operational income. We are thus meeting the dividend target announced in connection with the IPO and allowing our shareholders to participate in our financial results. Depending on forthcoming annual results and capital requirements, we intend to sustain this dividend in the next few years.

Investor relations activities stepped up

Klöckner & Co is committed to open and continuous communication with investors and analysts. Since our IPO, our investor relations department has expanded its activities. In the second half of 2006 we announced our quarterly results in telephone conferences and made contacts available to answer our investors' and analysts' questions. During the same period Klöckner & Co presented itself to new investors and cultivated existing relationships at numerous road shows and investors' conferences at home and abroad. We were also available to address questions raised by private investors.

We have been steadily developing the pages of our website dedicated to investor relations (www.kloeckner.de/ir). Here you can obtain our financial reports and up-to-date information on the Klöckner & Co share. This includes a list of the banks and brokers that regularly publish analyses and study our share performance. Our website will also contain full information on our Shareholders' Meeting, which takes place on June 20, 2007.

Our investor relations team looks forward to hearing your questions and ideas.

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Joint Report on Corporate Governance by the Management Board and Supervisory Board of Klöckner & Co AG, Duisburg

Klöckner & Co supports the goal, pursued by the German Code of Corporate Governance (DCGK) for listed companies, of promoting the trust of national and international investors and of customers, employees and the public in the management and supervision of German joint stock corporations. The Management Board and the Supervisory Board of the company adopted a resolution concerning this Statement of Compliance and the Corporate Governance Report at the beginning of March 2007. In future it is planned to deal with the entire topic within the context of the regular December meeting of the Supervisory Board and additionally as required. This first statement and the report have been reviewed by the auditor of the company's annual financial statements. As the company has only been a joint stock corporation listed on the stock exchange since June 2006, most of the rules of the Code relating to the Shareholders' Meeting and a number of others were not yet applicable and/or appropriate in 2006.

Management and Control Structure

Management Board

The Management Board of Klöckner & Co AG consists of one or more members, who are appointed and discharged by the Supervisory Board in accordance with the provisions of the German Joint Stock Corporation Act (Aktiengesetz – AktG). The Management Board runs the company under its own responsibility. It presently consists of two members, the Chairman of the Management Board, Dr. Thomas Ludwig, and the Chief Financial Officer, Gisbert Rühl. The work of the Management Board is governed, among other things, by detailed rules of procedure adopted by the Supervisory Board, which contain numerous reservations of consent. The Board of Management regularly meets twice a month and as required.

Supervisory Board

The Supervisory Board of the company consists of six members, who are elected by the Shareholders' Meeting. The Chairman of the Supervisory Board is Prof. Dieter H. Vogel. The Supervisory Board advises and supervises the management. To organize its work, the Supervisory Board has formed a three-person Executive Committee and a three-person Audit Committee. The Executive Committee also performs the functions of a Personnel Committee and an Emergency Committee – in each case with the power to adopt resolutions. In the initial meetings of the Supervisory Board it was already apparent that the low number of members facilitates collaboration and enhances the effectiveness of its work. There has therefore been no reason to establish further committees to date. In its report to the Shareholders' Meeting pursuant to § 171 subsection 2 AktG (German Joint Stock Corporation Act), the Supervisory Board reports in detail on its specific work during the financial year, and also describes its cooperation with the Management Board.

Shareholders' Meeting

The shareholders of Klöckner & Co AG safeguard their interests and exercise their voting rights in the Shareholders' Meeting. The first Shareholders' Meeting since the company's initial public offering takes place on June 20, 2007 in Düsseldorf. With their joint resolution on the Code of Corporate Governance, the Management Board and the Supervisory Board have established that the shareholders are to receive all the support and information provided for by law, the Articles of Association and the Code.

Accounting and Audit

The accounting of the Klöckner & Co Group is in line with the principles of the International Financial Reporting Standards (IFRS). The annual financial statements of Klöckner & Co AG are prepared in accordance with the German Commercial Code (HGB). As provided for by law, the auditor of the annual financial statements is elected by the Shareholders' Meeting. Pursuant to the German Joint Stock Corporation Act, the mandate for the auditor of the annual financial statements is discussed and issued by the Supervisory Board. The Board of Management reports in detail on risk management at the Klöckner & Co Group in the Management Report.

Transparency, Integrity

To ensure that shareholders and the public have equal access to comprehensive and timely information, Klöckner & Co makes use of the internet with first priority. Reporting on the company's situation and on specific events in the Klöckner & Co Group takes place by means of quarterly reports, the Annual Report, the financial press conference, conference calls in connection with publication of the quarterly reports and the annual financial statements, as well as events and numerous conversations with financial analysts and journalists in Germany and abroad. Press releases are also issued as necessary. The regular dates are published in a financial calendar. Beyond that, certain information that may have a significant effect on the share price of Klöckner & Co AG is announced in the form of ad-hoc disclosures pursuant to the German Securities Trading Act (Wertpapierhandelsgesetz).

The Klöckner & Co Group is committed to integrity and legitimate conduct in everything it does at every level. To secure and reinforce this goal, the Management Board intends to adopt a Compliance Directive and appoint a Compliance Officer within the next few months.

Remuneration Report

The remuneration report is comprehensively stated under item 10 in the Group Management Report.

Proposals contained in the Code of Corporate Governance

As a general rule, the Management Board and the Supervisory Board have treated the proposals of the Code in the same way as the recommendations. The company has thus complied and continues to comply almost entirely with the proposals contained in the Code. In derogation of the proposals, the Articles of Association of Klöckner & Co AG do not currently provide for remuneration of the Supervisory Board based on long-term performance (Art. 5.4.7 DCGK) in addition to its performance-related remuneration based on the consolidated net income. Furthermore, no decision has yet been made on broadcasting the Shareholders' Meeting on June 20, 2007 on the internet.

Directors' Dealings

The members of the Management Board and Supervisory Board, as well as persons closely related to them, are required by § 15a German Securities Trading Act to disclose any significant acquisitions or disposals of shares, options and derivatives of Klöckner & Co AG. To date there have been three such disclosures, which are published on the company's website, all relating to the gradual reduction of the interest of the main shareholder, Multi Metal Investment S.à r.l., Luxembourg. The disclosure requirement was triggered in each case by the close relationship between the main shareholder or its shareholders and various members of the Supervisory Board.

Statement of Compliance

Joint Statement of Compliance by the Management Board and Supervisory Board of Klöckner & Co AG pursuant to § 161 AktG, concerning the German Code of Corporate Governance

The Management Board and Supervisory Board of Klöckner & Co AG have complied with the recommendations of the German Corporate Governance Code, as amended on June 12, 2006, with the following exceptions:

Article 3.8 sentence 3 of the Code (Directors and Officers (D&O) insurance, deductible for executive bodies)

The D&O insurance policy concluded by the company for the members of its executive bodies does not provide for a deductible for the members.

Article 4.2.3 sentences 6 and 8 of the Code (stock options and similar arrangements)

The virtual stock option program (phantom stocks) for the Management Board is not currently based on comparative parameters and does not provide for any limitation in case of extraordinary, unforeseen developments.

Article 4.2.5 (Individualized reporting of Management Board remuneration)

According to a resolution of the Shareholders' Meeting of June 7, 2006, the company is not to report the remuneration of the individual Management Board members.

Article 5.1.2 sentence 6 (Establishment of an age limit for members of the Management Board)

No age limit has been established for members of the Management Board.

Article 5.4.7 sentence 6 (Individualized reporting of Supervisory Board remuneration)

From the perspective of transparency, the company regards the reporting of the Supervisory Board's total remuneration as adequate.

Article 5.6 (Effectiveness review of the Supervisory Board)

Since the Supervisory Board was not appointed until May 31, 2006, it has not yet conducted a review of its work's effectiveness.

Article 7.1.2 sentence 3 (Public access to interim reports within 45 days)

The interim reports of the past financial year were not made publicly accessible within 45 days of the end of the reporting period, but within the 2-month period pursuant to § 61 of the Stock Exchange Listing Regulation (BörsenZulV).

With the exception of the recommendations as per article 3.8 sentence 3, article 4.2.3 sentences 6 and 8, article 4.2.5 and article 5.4.7 sentence 6, the Management and Supervisory Boards will comply with all the recommendations of the German Corporate Governance Code in the future.

Duisburg, March 5, 2007

For the Supervisory Board of Klöckner & Co AG

signed Prof. Dieter H. Vogel
(Chairman of the Supervisory Board of Klöckner & Co AG)

signed Dr. Thomas Ludwig signed Gisbert Rühl
(Management Board of Klöckner & Co AG)

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT 2006

1. An overview of 2006: One of the most important years in the company's history

2006 not only marked the centenary of Klöckner & Co, but also represented the most successful year in the company's history, based on the operating results. At the same time 2006 was a year of a new embarkment: the successful introduction of the Klöckner & Co share on the Frankfurt Stock Exchange in summer 2006 with the following placements created for the Group a new, broad owner structure and simultaneously a future-oriented basis for implementation of its strategic goals.

The year 2006 was characterized by stable economic growth. Overall growth in nearly all countries in which the Klöckner & Co Group is represented with its own companies was, in part, significantly above that of the previous year. Growth rates in Germany, France, the Netherlands, Belgium, Great Britain and Switzerland rose at a swift pace in some cases in 2006. The German construction sector made its way out of the crisis in 2006 after years of contraction and stagnation. Supported by construction investments and services, Spain achieved a slight increase from a high level. The slump expected in the USA by many did not take place. Raw material prices for the steel industry remain high and some of the markets are tight.

Against this background, 2006 was also a very good year for steel producers and multi-metal distribution. As in the previous years, worldwide consumption of steel and production again recorded strong growth. In contrast to 2004, the increase in quantity was not primarily influenced by fears of customers about further price rises, but by the broad-based economic upswing, particularly in Europe, and the improved situation in steel-consuming sectors. At the same time the slight expansion of stocks among consumers additionally supported the outstanding situation at the trade level as well.

The Klöckner & Co Group was able to take advantage of the good general economic environment to an overproportionate degree and substantially increased its sales volume in 2006 as compared to the previous year. The rise in sales volume and improved margins led to a significant increase in the gross income of the Group. The positive market influences were supported by extensive in-company measures aimed at improving efficiency. Costs in the reporting year rose only moderately and to an underproportionate degree. At the same time outstanding debt was reduced further. By successfully passing on price increases directly to the market, inventory profits that additionally supported Group results were achieved in 2006. Furthermore, Group growth was accelerated through the initiated acquisition program. After the initial public offering (IPO) three acquisitions were concluded in the second half of the year.

The results of nearly all country operations of the Klöckner & Co Group in 2006 were considerably above the comparable figure for 2005. Solely the Canadian country operation recorded a decline in spite of another very positive result due to the problems of North American automobile manufacturers. Improvement in Germany was exceptionally good thanks to the successfully implemented restructuring program.

Because the present Klöckner & Co Group did not come into being until the change of owners in spring 2005, comparability of the 2006 figures with those for 2005 is generally limited. The balance sheet figures for the previous year are based on the consolidated financial statements of the then Multi Metal Holding GmbH and merely encompass the period from March 16, 2005 to December 31, 2005 since all purchase agreement conditions for the acquisition of Klöckner & Co had been met in mid-March 2005. The pro forma figures for the entire year 2005 indicated below provide for better comparability and correspond to the audited figures of the flotation prospectus of June 12, 2006.

The EBITDA for 2006 – the operating profit of the Group – comes to around €395 million and doubled compared to the economically comparable adjusted pro forma value for the entire year 2005 of €197 million. The EBIT is €337 million and profit before taxes €273 million. The consolidated results before minority interests amount to €235 million. Net cash debt in comparison to the end of the previous year was reduced by €355 million to €365 million. The number of employees in the Group on December 31, 2006 was 9,700 persons and thus declined despite the acquisitions effected.
In the European segment an EBITDA of €366 million was achieved. Because of the outstanding results in the USA, an EBITDA of €79 million was earned in North America in spite of the structural problems in Canada.

2. Corporate strategy with two approaches:
– External and internal growth
– Optimization of the business processes

Klöckner & Co has taken advantage of the positive conditional framework and intensified strategic positioning through two approaches: expansion by means of external and organic growth as well as optimization of the business processes.

The focus of the expansion strategy is on external growth. The relevant market for Klöckner & Co, i.e. steel distribution, has a volume of approx. €150 billion divided roughly equally between North America and Europe. With about 3,000 competitors in Europe and around 1,300 in North America the market still displays relatively pronounced fragmentation. Based on considerable size advantages – especially in purchasing, but also with respect to conducting business and administration – there is an emerging trend toward consolidation of the market that is further accelerated by consolidation on the part of manufacturers. On the basis of its market strength as the largest mill-independent multi-metal distributor, the Klöckner & Co Group is in an outstanding position to push forward consolidation to a decisive degree on the distribution side as well.

In this context the company focuses on the acquisition of small and medium-sized competitors in the core markets that can be taken over and integrated rapidly at attractive prices, though without ruling out larger acquisitions. At the same time significant synergies are realized, primarily because of scale effects in purchasing as well as operational improvements. Against this background Klöckner & Co acquired and smoothly integrated four smaller competitors with sales between €10 million and €55 million in Europe and North America in 2006. Considerable intensification of acquisition activities is planned for the current year 2007. For example, Tournier, a company in France, was already acquired in January 2007.

In addition to external growth, Klöckner & Co also targets substantial organic growth in the existing core markets. The activities here are concentrated on extension of the product range, further expansion of the range of value-added services, enlargement of the customer base through a segmented sales approach and geographic expansion in Eastern Europe. The existing network of branch offices in Poland, the Czech Republic, Romania and Lithuania is to be further expanded. This includes enlargement of existing locations that have reached their capacity limits as well as the opening of additional branches. At the same time cross-border synergy effects shall be increasingly exploited.

The second fundamental strategic approach of Klöckner & Co involves continuous business optimization. The company-wide STAR performance program was set up back in 2005 for this purpose. The activities in this context focus on optimization of purchasing, of the distribution network and of the net working capital. In 2006 activities were further intensified to bundle purchasing at the European level and utilize international sources of supply via Klöckner Global Sourcing GmbH.

Within the framework of the activities to optimize the distribution network significantly greater efforts were made to combine locations in the course of the year. A total of eleven stockholding locations are affected by this, nine of which have already been closed. Extensive IT-aided process cost analyses provided a meaningful decision-making basis. The transparency thus created with respect to profitability of customer relations and product groups also supplied valuable insight in other areas, such as in the optimization of pricing in Sales.

The changeover of the company's software to a standardized SAP platform, which was started a few years ago, was pushed forward full steam ahead in 2006. After successful implementation in the country operations in Great Britain and Spain Klöckner & Co now has a nearly comprehensive, standardized company software. Complete implementation in France and Switzerland was begun in 2006 and is still underway. Klöckner & Co expects significant efficiency enhancement potential from the comprehensive company software in Europe on a standardized IT platform, particularly through cross-border purchasing functions at the European level.

3. General economic framework: Considerably improved

With world economic growth of 5.1% (source: IMF) the good development of the economy continued in 2006 in spite of the strong rise in energy costs and interest. All major regions of the world economy experienced good to above average economic growth. Robust development in North America and the large newly industrializing countries of China, India and Russia again proved to be the motor of this good development.

Overall economic growth in the most important European countries for the Klöckner & Co Group was 2.6% in 2006 (source: OECD), and thus substantially above the previous year's figure in some cases. The growth rates in Germany, France, the Netherlands, Belgium, Austria, Great Britain and

Switzerland rose at a predominantly rapid pace in 2006. With a figure of 2.7% Germany recorded the strongest economic growth in the past seven years (source: German Federal Office of Statistics). The economies of the new EU countries were able to accelerate their already above average growth.

Fears about a collapse in the USA did not come true. At 3.4% (source: Bureau of Economic Analysis) economic growth in the US was even slightly above that of the previous year.

4. Sectoral environment: Outstanding development of demand

2006 was a very good year for steel producers and multi-metal distribution. As in the previous years, worldwide steel consumption and production continued to grow at a strong pace. With generally higher prices once again margins improved further to such an extent that the also higher raw material and other costs were able to be compensated for on balance. In contrast to 2004, quantity growth was not primarily influenced by the fears of customers about further price increases, but by the broad-based economic upswing, particularly in Europe, and the improved situation in steel-consuming sectors.

According to figures of the International Iron and Steel Institute (IISI), crude steel production rose worldwide to over 1.2 billion t in 2006, an increase of 8.8% compared to the previous year. This means world production was above the 1 billion t mark for the third year in succession, with growth in the last ten years amounting to 65.3%. As in the previous years, growth in the People's Republic of China in turn surpassed by far that of the other large producing nations, rising by 18% to 418.8 million t in 2006. China's share of world production increased to a third, as compared to 13% ten years ago. Thus, the persistently high demand for steel in the People's Republic of China was also a decisive factor for the world steel market as a whole in 2006.

The high demand for steel products led to a significant rise in steel prices going into the second half of 2006. This development was particularly striking in the USA, where at times approximately the historical record high price levels of 2004 were attained. The very high price level in the US, as well as in the EU, resulted in a strong increase in Chinese exports to the USA and the EU. The resulting excess supply, but also the accumulation of stocks at the service centers, especially in the USA, led to a considerable price decline for flat-rolled products beginning around mid-2006. However, the producers already responded to the altered supply and demand situation with production cutbacks in the second half of the year. Besides continued strong demand, this behavior resulted in only a brief decline in prices in the flat-rolled segment compared to 2004/2005.

The price development for most other multi-metal products was stable or characterized by rising prices. Overall long products displayed very stable behavior throughout 2006. The prices for girders and bar steel increased significantly and reached historical record high levels at the end of the year. The price development for stainless steel and aluminum in 2006 was characterized by rapidly rising prices in some cases due to the price increase for nickel and aluminum on the LME (London Metal Exchange).

The favorable overall economic development also made itself felt in the principal customer sectors of importance for Klöckner & Co. The construction industry recorded stable and, in some countries, strong growth. In Spain, for instance, the good sectoral growth of recent years continued in 2006. In the USA the commercial construction industry, an important segment for Klöckner & Co, grew at a rapid pace. In Germany construction activity increased for the first time in many years.

2006 was also a good year for mechanical engineering and plant construction. Worldwide sales in this sector rose by 8% in real terms (source: VDMA). The pronounced investment activity of boom countries exporting raw materials as well as the generally high investment volume due to the upward trend in the world economy primarily contributed to this development. In Germany the growth rate in the sector increased to 7% (source: VDMA) in 2006 and was thus considerably above expectations.

The automobile industry, together with its suppliers also a big consumer of steel materials, recorded 3% growth (source: VDA) in 2006, though with pronounced regional differences. In North America, the most important single market for Klöckner & Co in the automotive sector, production declined significantly while considerable growth was achieved in Eastern Europe and Asia.

5. Business and financial situation in 2006: Profit doubled, debt reduced significantly

Sales volume, sales

The total sales volume of the Klöckner & Co Group in 2006 was around 6.1 million t and thus 4.4% above the comparable volume for the entire year 2005 of around 5.9 million t. The European segment accounted for 73.4% of the sales volume in 2006 as opposed to 26.6% in North America. Because of the relatively weak first six months in 2005, the growth in quantity, both in Europe and North America, primarily took place during the first half of the year with a rise of 8.7%. While growth in Europe continued in the second six months at a lower level and resulted in an annual rate of 6.3%, the positive development in the US, also due to acquisitions, was not entirely able to compensate for the decline in volume in Canada.

Group sales increased in the reporting year based on quantity and price by 11.5% compared to the previous year's figure to over €5.5 billion. The European segment accounted for €4.6 billion of sales, the North American for €0.9 billion.

Results

The results of all country operations showed a markedly positive development with the exception of the Canadian organization and improved considerably over the previous year. In comparison to the adjusted comparable figure for the previous year, the Group EBITDA increased from €197.0 million to €394.7. The motor of this success was the quantity- and margin-driven rise in gross income by 22.4% to over €1.2 billion and a 21.8% increase in the gross income margin based on sales after 19.9% in the previous year, supported by less than proportionate cost rises.

The German organization already profited from the positive impacts of the far-reaching restructuring program as well as from the rising domestic demand. The Swiss country operation continued its positive development trend and recorded a very good result. The Dutch organization further consolidated its outstanding market position with earnings substantially above expectations. Significant increases in results were achieved in Great Britain, France and Spain and overall profitability is still satisfactory. Altogether the EBITDA of the European segment is €366.0 million after a comparable previous year's figure of €152.5 million. The result includes one-off earnings of around €40 million primarily from sale of the Dutch solar protection group, which was no longer part of core business.

The organization in the USA also displayed outstanding development in 2006 and again improved its results from an already high level. Due to the difficult market environment, the Canadian organization was not able to take part in the positive general development. The relatively one-sided alignment to the automotive industry impaired the development of results in 2006 because of the weakness of North American automobile producers. The EBITDA in Canada declined, but was still clearly positive. Intensive work is being carried out on improvement of the client structure. Based on the extraordinarily positive development in the USA, an EBITDA of €78.8 million was recorded in North America overall. The comparable figure for the previous year was €60.7 million.

The Group's operating result for 2006 was €336.8 million after an economically comparable operating result of €134.3 million in the previous year. The European segment accounts for €312.8 million of the consolidated income before taxes of €273.0 million, the North American segment for €64.7 million and the headquarters for €–104.5 million. The cash flow from current operating activities is €132.0 million after an economically comparable previous year's figure of €121.2 million.

Financing, liquidity, balance sheet structure
Since 2005 Group financing has been essentially carried out on a central basis. Funds are allocated within the framework of in-Group financial transactions as well as provision of bilateral credit facilities. Long-term Group financing is provided through Klöckner Investment S.C.A., which issued a note with a nominal volume of €260 million and a final maturity in 2015.

The Group's working capital is predominantly financed through a centrally controlled, cross-border ABS Program with a term until mid-2010. The original program volume was increased in 2006 from €420 million to €437 million. The American program was almost used up by the balance sheet date whereas only around 30% of the European program for the country operations in Germany, Great Britain, France and Spain was utilized.

The central financing program is supplemented by bilateral credit facilities. The Group's internal financial compensation as well as liquidity control were expanded and thus further optimized through a cross-border cash pooling system. The Swiss country operation, in which minority shareholders have an interest, has retained its own financing cycle.

Financing of the Group, including the necessary financing of working capital for the current business activities of the individual country operations, was also secured at all times in 2006. The financial structure as well as the financial position of the Group were further improved in the period under report. For example, a partial amount of the note issued by Klöckner Investment S.C.A. of €90 million was repaid from the net issuing proceeds received from the capital increase in the course of the IPO. Furthermore, released funds from the sale of marginal activities and non-operationally required assets as well as from the positive cash flow of the operating activities were employed to reduce indebtedness in the Group to a significant extent. The incorporation of bilateral credit facilities into a central syndicated credit facility planned for 2007 will further improve the financial position of the Group on a sustained basis.

Utilization of the working capital facilities in the form of bank credit lines and ABS Programs amounted to €304 million or around 35% at the end of the reporting year as compared to €354 million or about 40% in the previous year. As a result, it was possible to further reduce the financing of working capital in spite of the business-related increase in working capital. Taking into account freely available liquid funds, the net cash indebtedness resulting from the business activities of the Klöckner & Co Group was €365 million at the end of 2006 and thus €193 million less than the comparable previous year's figure. Another reduction in indebtedness resulted from the conversion of the shareholder loans into equity carried out in 2006 prior to the IPO.

Due to business-related expansion of the net working capital, the balance sheet amount of the Klöckner & Co Group increased in the period under report by €295.7 million to €2,551.7 million and the balance sheet structure improved further. The Group equity, including the shares of other shareholders, amounted to €799.4 million on December 31, 2006. The equity ratio was 31.3%. The equity-assets ratio reached a level of around 149%. Taking into account long-term borrowed funds, the excess cover of long-term funds through assets committed on a long-term basis is €964 million. The ABS Programs in the Klöckner & Co Group have been recognized in the balance sheet.

Major control variables of the Group include net indebtedness, the EBITDA and the cash flow. Securing of liquidity in 2006 was controlled by means of internally defined key figures geared, among other things, to a minimum equity ratio, maximum debt retirement period and a minimum degree of interest coverage. The handling of risks in financial activities is regulated by a Group-wide financial directive. Derivative financial instruments are used to hedge against interest and currency risks. These instruments are exclusively employed to hedge against risks in connection with basic transactions and not for speculation purposes. The affiliated companies identify their foreign currency risks and hedge against them regularly on a central or, if applicable, individual basis via banks. Interest risks are also centrally monitored and hedged against or limited.

6. Dividend planning: Attractive payout

The targeted dividend payout announced at the time of the IPO, i.e. 30% of the Group profit after deduction of special income, particularly from disinvestments such as company or real estate sales, constitutes the specified amount for distribution of dividends for the 2006 financial year. A dividend of €0.80/share results on the basis of this reference amount in accordance with the consolidated financial statements.

After coverage of the expenditures of Klöckner & Co AG and the deposit of €15.3 million of the annual net income to an amount of €52.5 million into other revenue reserves, a balance sheet profit of €37.2 million remains. The latter is sufficient to pay out a dividend of €0.80/share. The Management Board and Supervisory Board propose to the Shareholders' Meeting that the balance sheet profit of €37.2 million be appropriated for distribution of a dividend to the amount of €0.80/share.

7. Group and management structure: Simplification is targeted

Klöckner & Co AG is the supreme holding company of the Klöckner & Co Group as well as parent company of the Klöckner & Co Group. The company controls directly or indirectly all intermediate participations as well as the European and North American segments with the managing companies of the Group's country operations.

Until the beginning of June 2006 Klöckner & Co AG operated as Multi Metal Holding GmbH and after the change of name and corporate form assumed the function of managing holding company of the Klöckner & Co Group.

The present Group structure essentially came into being in the course of acquisition of the Klöckner & Co Group in spring 2005 by US financial investor Lindsay Goldberg & Bessemer, New York (LGB), whose objectives were takeover of the entire Klöckner & Co Group and optimization of the acquisition process in the interests of the buyer. The economic structure was largely retained in spite of the transfer of ownership in 2005, the initial public offering and the transfer of the management function to the Group holding company in summer 2006.

Until the IPO on June 28, 2006 the sole shareholder of Klöckner & Co AG was Multi Metal Investment S.à r.l., Luxemburg, which belonged to LGB. The shareholding of Multi Metal Investment S.à r.l. in Klöckner & Co AG was reduced to 15.5% in three steps: first in June 2006 in the course of the initial public offering, then in October 2006 and in January 2007 by way of placement. After that 84.5% of the shares were in free float. According to a notification as per § 21 subsection 1 and § 22 subsection 1 WpHG, Franklin Mutual Advisors Inc., Short Hills, has held more than 10%, namely 10.81%, of the voting rights since March 1, 2007. Other direct or indirect participations in the capital of Klöckner & Co AG exceeding 10% of the votes have not been reported to the company.

In preparation for the initial public offering the capital of the then Multi Metal Holding GmbH was increased to €100 million by way of a contribution in kind on the part of the sole shareholder to an amount of €25,000 and divided into 40 million non-par-value shares through the conversion to a joint stock corporation at the beginning of June. Claims of the sole shareholder for repayment of loans to an amount of €165.3 million served as the capital contribution. The amount in excess of the increased sum was transferred to the company's capital reserves. Furthermore, the share capital of the company was increased by €16.25 million, divided into 6.5 million non-par-value shares, on the occasion of the initial public offering of the Klöckner & Co share at the end of June 2006. The subscribed capital of Klöckner & Co AG therefore amounts to €116.25 million, divided into 46.5 million non-par-value registered shares with full voting rights. The rights and duties are based on the German Joint Stock Corporation Act (Aktiengesetz).

8. Opportunity and risk management: Further improved

Thanks to extensive staff and organizational continuity, risk management in the group was ensured and further developed in 2006, too. The current risk monitoring system at Klöckner & Co requires cross-border, daily up-to-date information on the development of purchase and sales prices of the product groups. The available quantities for direct shipping and warehousing of the individual product groups, including the related inventory risks, are observed and controlled on the basis of IT-aided key figures until final completion of an order. After delivery of the products the accounts receivable are subject to strict customer credit management. Risks of loss of receivables are cushioned primarily by means of commercial credit insurance.

The systematic recording, identification and monitoring of opportunities and risks are constantly adapted to changing requirements and were also applied and further improved Group-wide during the period under review. The core tool of risk reporting and risk monitoring is the updating of identified opportunities and risks on a quarterly basis by means of a risk map. Communication and explanation of the formalized documents are carried out quarterly as well as on a case-by-case basis.

Termination of the shareholder committee at the level of the managing holding company that was necessary for the IPO did not leave any monitoring gaps. Its duties were completely transferred to the six-member Supervisory Board. The latter formed an executive committee, which also performs the functions of a personnel committee and an emergency committee, as well as an audit committee. Reporting on the part of the Management Board is carried out at the meetings and in writing to all members of the Supervisory Board on a monthly basis as well as orally to the Chairman of the Supervisory Board on a monthly basis.

Within the framework of operating activities the Klöckner & Co Group is exposed to interest and currency risks that are hedged against through derivative financial instruments. Solely marketable instruments with adequate market liquidity are used. Furthermore, central foreign currency management is performed exclusively to hedge against transaction risks. Interest rate risks are also monitored centrally and interest-hedging instruments are utilized to reduce or limit the impacts of interest changes on financing costs for long-term loans with variable interest rates.

The Management Board assumes that all identifiable risks are hedged against by way of adequate provisions at the level of the subsidiaries of the Group and the holding company and/or through guarantees of third parties. Familiar issues of significance in the Group are the Balli complex, antitrust investigations against an affiliated company in France as well as litigation undertaken in July 2006 in connection with the existence of a right of first refusal of a minority shareholder at DKH in Switzerland which, according to the claims of the minority shareholder, should have been granted to the latter based on the transaction structure selected during acquisition of the Klöckner & Co Group by LGB in spring 2005.

9. Employees: The foundation of success

As before, personnel work in the Klöckner & Co Group primarily takes place at the level of the country operations so as to be able to give better consideration to special regional features of the business and staff. In this context the personnel work of the holding company forms the worldwide framework for support and development, particularly of top management and junior managerial staff, as well as for further development of the success-based pay systems.

The number of employees of the Klöckner & Co Group was 9,688 at the end of 2006, 200 persons below the previous year's level. Acquisitions and disinvestments also played a role in this net effect. The European segment accounts for 8,368 employees, 324 fewer than a year ago. Among other things, the decline is influenced by personnel measures in Germany and the AVZ disinvestment in the Netherlands. The staff in the North American segment increased by 109 persons in 2006 to 1,204 employees, primarily due to acquisitions.

10. Compensation report

Management Board

The Management Board of Klöckner & Co AG consists of one or more members who are appointed and dismissed by the Supervisory Board in accordance with the provisions of the German Joint Stock Corporation Act. The Management Board manages the company on its own responsibility. Currently it consists of two members, Chairman Dr. Thomas Ludwig and Chief Financial Officer Gisbert Rühl. Among other things, the work of the Management Board is regulated by detailed rules of procedure adopted by the Supervisory Board with numerous reservations of consent.

Compensation for the Management Board comprises three components: fixed basic remuneration per year, a variable annual bonus depending on the achievement of goals specified jointly with the Supervisory Board at the beginning of the financial year and a medium- to long-term phantom stock option program. In addition, the members of the Management Board receive pension commitments according to the regulations of the Essener Verband as well as further benefits, such as company car, accident insurance, etc. to the customary extent. There are no agreements between the members of the Management Board and the company regarding severance pay and other benefits in the event of termination of the position or change of control.

The portion of the phantom stock program allocated to the Management Board has a total volume of 930,000 phantom stocks and runs for a period of five years in which equal tranches of 20% or 186,000 phantom stocks are allocated to the Management Board. The IPO price of €16/share has been confirmed as the base price of the first allotment. This price increases for each annual allotment by 5% of the previous year's value, i.e. it rises to €19.45/share by the fifth tranche.

The phantom stock options of each tranche can be exercised annually, at the earliest in each case after a period of 30 stock trading days after the annual Shareholders' Meeting following allotment of the tranche. After that it is possible to exercise the options of the relevant tranches completely or in part at any time. The claim for payment against Klöckner & Co AG corresponds to the difference in each case between the average market price of the last 30 trading days (Xetra-Handel, Deutsche Börse AG, Frankfurt a. M.) prior to the exercise of the option and the respective allotment value of the tranche.

The total income of the Management Board of Klöckner & Co AG in accordance with § 314 subsection 1 no. 6 of the German Commercial Code (HGB) amounts to €3,311,000 for 2006. In addition, a first tranche of the phantom stock option program was granted to the Management Board with a computational value of €3,275,000. There was no income of former members of the Management Board or any surviving dependants.

Supervisory Board

The Supervisory Board of the company consists of six members who are elected by the Shareholders' Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel. The Supervisory Board advises and monitors the Management Board. The Supervisory Board reports to the shareholders on its activities within the framework of the annual financial statements.

It formed a three-member executive committee and a three-member audit committee to organize its work. The executive committee also assumes the function of a personnel committee and an emergency committee, in each case with decision-making authority. As was shown right from the first sessions of the Supervisory Board, the relatively small number of members facilitated cooperation and enhanced the efficiency of their work. For this reason it has been possible thus far to do without further committees.

According to § 13 of the articles of association published on the company's website, the remuneration of the Supervisory Board consists of a fixed and a variable component that are paid on the basis of the relevant period in the event of changes in the financial year. Furthermore, reasonable cash outlays, a meeting fee and value added tax are reimbursed. All amounts are due after the end of the Shareholders' Meeting in the following year.

The fixed annual remuneration for a financial year is €17,000 respectively. A variable remuneration component of €150 is paid for each full €1 million by which the Group profit exceeds the amount of €50 million. The Supervisory Board Chairperson receives three times and his or her deputy twice the remuneration described above. The variable remuneration paid to each member of the Supervisory Board may not exceed the amount of the fixed remuneration by more than 100%. The meeting fee ist €2,000 per meeting. The Chairman of the Supervisory Board and the Chairman of the Committee respectively receive triple, the substitute the double. Phantom stock options for the Supervisory Board are not provided for. The total income of the Supervisory Board in accordance with § 314 subsection 1 no. 6 of the German Commercial Code (HGB) amounts to €306,000 for 2006.

11. Takeover-related information in accordance with § 315 subsection 4 of the German Commercial Code (HGB)

The information in accordance with § 315 subsection 4 of the German Commercial Code (HGB) is as follows, structured according to the numbers of the provision:

(1) The subscribed capital of Klöckner & Co AG totals €116.25 million, divided into 46.5 million non-par-value registered shares with full voting rights. The rights and obligations are governed by the German Joint Stock Corporation Act (Aktiengesetz).

(2) The Management Board knows of no restrictions relating to the voting rights or transfer of shares – also based on agreements between shareholders.

(3) Multi Metal Investment S.à r.l., Luxemburg, has held a 15.5% interest in Klöckner & Co AG since January 2007. According to a notification as per § 21 subsection 1 and § 22 subsection 1 WpHG, Franklin Mutual Advisors Inc., Short Hills, has held more than 10%, namely 10.81%, of the voting rights since March 1, 2007. Other direct or indirect participations in the capital of Klöckner & Co AG that exceed 10% of the voting rights have not been reported to the company.

(4) No special rights in accordance with this provision exist.

(5) No voting right control regulations in accordance with this provision exist.

(6) The Management Board of Klöckner & Co AG consists of one or more members who are appointed and dismissed by the Supervisory Board in accordance with the provisions of the German Joint Stock Corporation Act (Aktiengesetz). Amendments to the articles of association (Satzung) are exclusively subject to the German Joint Stock Corporation Act and require a majority of 75% of the share capital represented during voting. § 20 of the company's articles of association authorize the Supervisory Board to effect certain formal changes to the articles of association itself as necessary.

(7) The Management Board of Klöckner & Co AG is authorized by the articles of association to increase the share capital by up to €50 million until June 20, 2011 through issue of new non-par-value registered shares, once or several times, in return for cash contributions or contributions in kind with the approval of the Supervisory Board. Further details are regulated by § 4 (2) of the articles of association. The rights of the Management Board to buy back shares are governed by the German Joint Stock Corporation Act.
(8) No major agreements in accordance with this provision exist.
(9) No agreements for compensation in accordance with this provision exist.

12. Outlook for 2007: Generally positive

The year 2007 started off on a gratifying note. Stable development of demand has continued, particularly in the important sectors for Klöckner & Co, i.e. the construction industry, mechanical engineering and plant construction.

The prospects for the steel industry in 2007 are also assessed as positive worldwide for the whole year. Again strong growth is expected for world crude steel production and steel consumption in 2007. Given only slightly declining overall economic growth in the developed industrialized countries, the demand of the processing industries should remain at a high level.

The demand for aluminum products also remained high in 2006. Because of the enormous price increases in recent years, however, no cost-oriented substitution of steel products took place. Based on the good situation in the customer industries, continued favorable growth prospects are expected for 2007 in spite of the high price level.

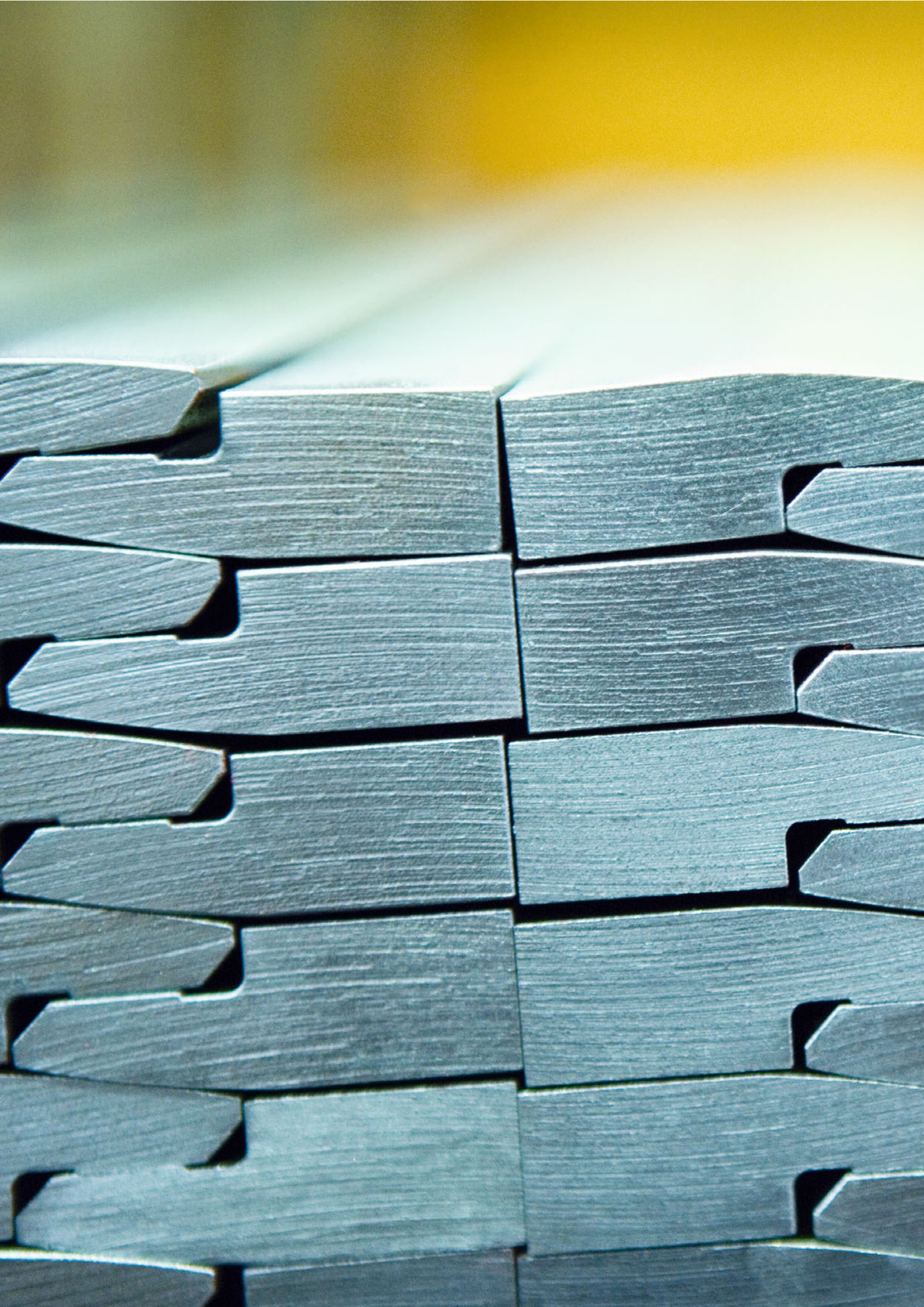
Overall market actors assume a predominantly stable demand and price development in 2007. International multi-metal distribution should also be able to profit from this positive conditional framework in 2007, though probably not to the same extent as in 2006 due to the slower economic growth forecast.

For 2007 the Management Board of Klöckner & Co AG expects that the measures taken will be successful as already in 2006 and the subsidiaries will again achieve satisfactory results.

For this reason the Management Board assumes that a good consolidated Group income will be achieved in 2007, enabling a policy of dividend continuity, though without the one-off effects of disinvestments and the stock effects from price increases as in 2006.

Duisburg, March 5, 2007

The Management Board



KLÖCKNER & CO AKTIENGESELLSCHAFT
CONSOLIDATED BALANCE SHEET

as of December 31, 2006

Assets € thousand	Notes	December 31, 2006	December 31, 2005
Long-term assets			
Intangible assets	(8)	32,229	14,982
Property, plant and equipment	(9)	500,548	548,968
Financial assets	(10)	4,578	4,538
Other assets	(11)	13,456	11,486
Deferred tax assets	(12)	28,670	15,425
Total long-term assets		**579,481**	**595,399**
Short-term assets			
Inventories	(13)	841,029	693,469
Trade receivables	(14)	932,898	799,606
Securities		114	79
Income tax assets	(15)	8,373	14,174
Other assets	(16)	49,384	51,352
Cash and cash equivalents	(43)	130,042	79,472
Long-term assets held for sale	(17)	10,387	22,457
Total short-term assets		**1,972,227**	**1,660,609**
Total assets		**2,551,708**	**2,256,008**

Equity and liabilities € thousand	Notes	December 31, 2006	December 31, 2005
Equity			
Subscribed capital		116,250	25
Capital reserves		197,699	44,649
Earnings reserves		372,711	185,712
Equity attributed to shareholders of Klöckner & Co AG		**686,660**	**230,386**
Minority interests		112,789	92,722
Total equity	(18)	**799,449**	**323,108**
Liabilities			
Long-term liabilities			
Provisions for pensions and similar obligations	(19)	192,642	192,862
Other provisions	(20)	55,256	55,325
Income tax liabilities	(25)	34	0
Financial liabilities	(21)	416,161	588,779
Other liabilities	(22)	8,746	1,185
Deferred tax liabilities	(23)	70,746	82,897
Total long-term liabilities		**743,585**	**921,048**
Short-term liabilities			
Provisions	(24)	186,272	185,185
Income tax liabilities	(25)	28,754	19,592
Financial liabilities	(21)	64,707	189,823
Trade payables	(26)	639,444	536,055
Other liabilities	(27)	89,497	81,197
Total short-term liabilities		**1,008,674**	**1,011,852**
Total liabilities		**1,752,259**	**1,932,900**
Total equity and liabilities		**2,551,708**	**2,256,008**

KLÖCKNER & CO AKTIENGESELLSCHAFT
CONSOLIDATED INCOME STATEMENT

for the period from January 1 to December 31, 2006

€ thousand	Notes	Dec. 1– Dec. 31, 2006	March 16– Dec. 31, 2005
Sales	(31)	**5,532,486**	**3,968,573**
Other operating income	(32)	98,707	58,451
Change in inventories		25	– 5,258
Capitalized expenses for own work		89	190
Cost of materials	(33)	– 4,324,963	– 3,176,850
Personnel expenses	(34)	– 477,905	– 356,540
Depreciation		– 57,802	– 47,335
Extraordinary depreciation on fixed assets because of impairment		– 336	– 1,658
Other operating expenses	(35)	– 433,478	– 332,041
Operating results before special income and expenses		**336,823**	**107,532**
Release of negative goodwill	(36)	0	147,094
Restructuring expenses	(37)	0	– 17,100
Results from disinvestment	(38)	0	– 1,873
Operating results		**336,823**	**235,653**
Results from investments	(39)	424	394
Financial income		4,838	3,551
Financial expenses		– 69,090	– 52,460
Financial results before transaction costs	(40)	**– 64,252**	**– 48,909**
Transaction costs	(41)	0	– 36,181
Financial results		**– 64,252**	**– 85,090**
Income before taxes		**272,995**	**150,957**
Income taxes	(42)	– 38,396	– 15,944
Results before minority interests		**234,599**	**135,013**
Minority interests		28,367	13,973
Net income of parent company's shareholder		**206,232**	**121,040**
Earnings per share		4.44	–

KLÖCKNER & CO AKTIENGESELLSCHAFT DEVELOPMENT OF EQUITY AND MINORITY INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS 2006

€ thousand	Subscribed capital of Klöckner & Co AG	Capital reserves of Klöckner & Co AG	Earnings reserves	thereof Currency adjustments	Equity attributable to shareholders of Klöckner & Co AG	Minority interests	Total
Initial consolidation as of March 16, 2005	25	67,349	– 3,128		64,246	90,720	154,966
Changes not affecting net income Dividends						– 11,613	– 11,613
Contribution to capital reserves		38,494			38,494		38,494
Withdrawal from capital reserves		– 61,194	61,194				
Currency adjustments			6,606	(6,606)	6,606	– 358	6,248
Net income from March 16 to December 31, 2005			121,040		121,040	13,973	135,013
– of which negative goodwill			(147,094)		(147,094)		(147,094)
Status as of December 31, 2005	**25**	**44,649**	**185,712**	**(6,606)**	**230,386**	**92,722**	**323,108**
Status as of January 1, 2006	25	44,649	185,712	(6,606)	230,386	92,722	323,108
Changes not affecting net income Transaction costs			– 5,588		– 5,588		– 5,588
Deferred tax on transaction costs			2,179		2,179		2,179
Dividends						– 6,123	– 6,123
Contribution to capital reserves		156,003			156,003		156,003
Dividends paid from capital reserves		-2,953			-2,953		-2,953
Capital increase	116,225				116,225		116,225
Other changes not affecting net income			– 14		– 14	292	278
Currency adjustments			– 15,810	(–15,810)	– 15,810	– 2,469	– 18,279
Net income from January 1 to December 31, 2006			206,232		206,232	28,367	234,599
Status as of December 31, 2006	**116,250**	**197,699**	**372,711**	**(– 9,204)**	**686,660**	**112,789**	**799,449**

KLÖCKNER & CO AKTIENGESELLSCHAFT
CASH FLOW STATEMENT

for the period from January 1 to December 31, 2006

(€ thousand)	Jan. 1– Dec. 31, 2006	March 16 – Dec. 31, 2005
Results before taxes and transaction costs	272,995	187,138
Interest and write-off on securities and long-term investments	64,252	48,909
Depreciation and write-ups of fixed assets	57,497	49,094
Other non-cash expenses/income	– 134	– 147,094
Results from the disposal of fixed assets	– 40,234	– 2,073
Operating result before balance sheet changes	**354,376**	**135,974**
Changes in provisions	8,693	– 49,126
Changes in current assets and liabilities		
Inventories	– 159,680	220,312
Trade receivables	– 133,607	114,180
Other current assets	– 761	19,276
Trade payables	98,548	– 112,129
Other liabilities	10,088	– 48,700
Transaction costs (one-off effect 2005)	0	– 36,181
Income tax payments	– 45,685	– 47,279
Cash flow from operating activities	**131,972**	**196,327**
Results from the disposal of fixed assets and long-term assets held for sale	101,900	11,756
Outflow for investments in fixed assets	– 91,922	– 55,679
Cash flow from investing activities	**9,978**	**– 43,923**
Capital increase	98,412	38,494
Dividend distributions of Group companies to shareholder/ to third parties	– 6,123	– 11,613
Borrowing	221,789	524,348
Redemption of financial liabilities	– 357,959	– 746,137
Redemption of financial liabilities to shareholder	0	1,507
Interest paid	– 49,834	– 32,973
Interest received	3,717	3,490
Cash flow from financing activities	**– 89,998**	**– 222,884**
Changes in cash and cash equivalents	**51,952**	**– 70,480**
Effect of exchange rate changes and other changes in cash and cash equivalents	– 1,348	3,791
Cash and cash equivalents at the beginning of the period	79,552	146,240
Cash and cash equivalents at the end of the period	**130,156**	**79,551**

KLÖCKNER & CO AKTIENGESELLSCHAFT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Klöckner & Co Aktiengesellschaft, Duisburg, as of December 31, 2006

(1) Information on the Group and business activities

The parent corporation of the Group is Klöckner & Co AG, Duisburg in Germany. It is entered under HRB 18561 in the commercial register of Duisburg Local Court and domiciled in Duisburg, Am Silberpalais 1.

The Group ranks among the largest mill-independent multi-metal distribution companies worldwide and engages in key markets of Europe and North America. Alongside the trade with steel, aluminum and various industrial products, it offers a range of associated services as well.

Klöckner & Co AG was founded in 2005 as Multi Metal Holding GmbH and served the purposes of the takeover of the Klöckner & Co Group by the US private equity fund, Lindsay Goldberg & Bessemer (LGB), effective March 16, 2005. Multi Metal Holding GmbH was transformed into a joint stock corporation and renamed Klöckner & Co AG by resolution of the Shareholders' Meeting of May 31, 2006. The new company was entered under HRB 18561 in the commercial register of Duisburg Local Court on June 7, 2006. At that time the sole shareholder, holding 40 million shares, was Multi Metal Investment S.à r.l., Luxembourg. The most senior controlling company is LGB L. P. which is domiciled in the USA.

The Shareholders' Meeting of Klöckner & Co AG adopted a resolution on June 21, 2006 to increase the capital by €16,250,000, by issuing 6.5 million non-par-value registered shares. The new shares were placed on June 28, 2006 at a price of €16.00 each in connection with the first listing in the Prime Standard segment of the Frankfurt Stock Exchange. The par value of the share is €2.50.

The proceeds of €104.0 million were used to increase the share capital by €16.25 million; the remaining €87.75 million were transferred to capital reserves. At the same time the parent company of Klöckner & Co AG, namely Multi Metal Investment S.à r.l., Luxembourg, sold 10 million of its 40 million shares, thus reducing its interest to 64.5%.

From September 18, 2006 until January 28, 2007 the shares of Klöckner & Co AG were listed in the SDAX® index. On January 29, 2007 they were included in the MDAX® index.

In view of the favorable development of the Klöckner & Co share price after the flotation and the strong demand from institutional investors, LGB decided on October 24, 2006 to sell 9 million of its 30 million shares in Klöckner & Co AG to wholesale investors, and hence decreased its holding to 45.2%. The notification according to § 21 subsection 1 WpHG (Securities Trading Act), indicating that the voting interest of Multi Metal Investment S.à r.l. in Klöckner & Co AG had fallen below the 50% threshold on October 26, 2006, was made on October 27, 2006.

On January 26, 2007 Multi Metal Investment S.à r.l. sold a further 13.8 million shares off the floor, and thus reduced its shareholding to 15.48%. The notification indicating that the voting interest of Multi Metal Investment S.à r.l. in Klöckner & Co AG had fallen below 20% was made on January 31, 2007. According to a notification as per § 21 subsection 1 and § 22 subsection 1 WpHG, the Franklin Mutual Advisors, Inc., Short Hills, holds more than 10% of the voting rights, namely 10.81%, since March 1, 2007. According to a notification as per § 21 subsection 1 and § 22 subsection 1 WpHG, the Teachers Insurance and Annuity Association of America, New York, holds more than 5% of the voting rights, namely 5.18%, since February 20, 2007, of which 3.76% are attributed to it via TIAA-CREF Enterprises, Inc, New York, and via Teacher Advisors, Inc., New York. According to a notification as per § 21 subsection 1 and § 22 subsection 1 WpHG, the Franklin Mutual Series Fund, New York, holds 5% of the voting rights, since February 19, 2007.

(2) Accounting policies

The consolidated financial statements are prepared, paying due regard to § 315a HGB (German Commercial Code), in compliance with the International Financial Reporting Standards (IFRS) as applicable on the balance sheet date and with the construals of the International Financial Reporting Interpretation Committee (IFRIC), as applicable in the EU.

IFRS 7 (Financial Instruments: Disclosures), which has been published but is not applicable until January 1, 2007, was not applied, nor were the associated changes to IAS 32 (Financial Instruments: Disclosures and Presentation). IFRS 2 (Share Based Payments) was applied for the first time, as were the associated interpretations, IFRIC 8 and IFRIC 11.

The annual financial statements of the companies included in the consolidated financial statements, which have all been prepared as of December 31, 2006, are based on uniform accounting and valuation policies.

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (€ thousand). The amounts are rounded in keeping with customary commercial practice.

Individual items have been combined in the balance sheet and the income statement; these are explained separately in the notes to the financial statements. Assets and liabilities classified in the balance sheet according to due dates are short-term if due within one year. Assets and liabilities remaining in the Group for more than one year are correspondingly classified as long-term. The comparative figures in the income statement refer to the period from March 16 to December 31, 2005 because a new Group was created on March 16, 2005 by way of the acquisition by LGB.

The income statement is prepared according to the total cost method.

(3) Scope of consolidation

The consolidated financial statements include, besides Klöckner & Co AG, the annual financial statements as of December 31, 2006 of 11 (previous year: 12) domestic and 126 (previous year: 130) foreign participations, in which Klöckner & Co AG directly or indirectly holds the majority of votes as the controlling enterprise.

In the context of an asset-backed securitization program, a total of 13 special-purpose entities existed in several countries in the financial year.

None of the Group companies has an equity interest in the special-purpose entities, but they were formed specifically for the purpose of purchasing and collecting receivables for the Group companies. For this reason they are included in the consolidated financial statements in compliance with SIC-12 (Consolidation of Special Purpose Entities).

The consolidated financial statements do not include 10 subsidiaries which, also as a whole, are not material for the financial position, financial performance and cash flows of the Group.

One foreign joint venture (previous year: two foreign joint ventures) is valued at equity in the consolidated financial statements. One associated company of minor significance is included according to the cost method.

The decrease in the number of fully consolidated domestic and foreign companies is attributable to the following:

– Acquisitions	+ 6
– Mergers	– 6
– First-time consolidation of a previously non-consolidated company	+ 1
– Disposals	– 6
	– 5

On February 23, 2006, but effective March 1, 2006, KDI SAS, Aubervilliers/France, bought the Targe Group consisting of two corporations. The goodwill according to IFRS amounts to €0.5 million. Sales since initial consolidation total €19.9 million. Effective December 31, 2006 Investa S.A., La Grand Croix/France, which is part of the Targe Group, was merged with its parent, KDI SAS, Aubervilliers/France. Two other French companies, Intermétaux S.A.S., Rueil Malmaison/France, and Testas S.A.S., Créteil/France, also merged with their parent, namely Reynolds European S.A.S., Rueil Malmaison/France effective December 31, 2006.

By way of a sales contract dated July 5, 2006, Comercial de Laminados S.A., Barcelona/Spain, purchased through its subsidiary, Nortichapa S.A., Asturias/Spain, two Spanish special steel distribution corporations, namely Aesga Catalunya S.A., Getafe (Madrid)/Spain, and its associate, Aesgasa Aceros Especiales y Suministros en General S.A., Getafe (Madrid)/Spain. Both were consolidated for the first time on July 1, 2006. The two companies were subsequently merged with their parent, Nortichapa S.A., Asturias/Spain, which was renamed Aesga Laminados S.A., Asturias/Spain. The sales included in the income statement (July 1 – December 31, 2006) amounted to €7.7 million.

On August 16, 2006, Namasco Corporation, Wilmington/Delaware/USA, entered into an agreement to purchase the distribution corporation, Green Rhino Steel, LLC (Action Steel), whose headquarters are in Indianapolis/USA. The purchase was concluded on October 2, 2006. The corporation has been consolidated since Q4 2006. Its sales in the period until December 31, 2006 totaled about €14.6 million ($18.4 million).

On October 17, 2006 Debrunner Koenig Holding AG, St. Gallen/Switzerland, bought the Swiss distribution company, Gauss & Co AG, Rümlang/Switzerland. It has likewise been consolidated since Q4 2006. Its sales in the period until December 31, 2006 totaled about €1.6 million (CHF 2.5 million). D&A Metall AG, Wettingen/Switzerland, merged with Alu Menziken Services AG, Menziken/Switzerland, effective December 31, 2006.

Klöckner Romania SRL, Bucharest/Romania, which was founded in 2005, has been consolidated since its operating business started in 2006. The sales up to December 31, 2006 totaled €8.2 million.

On July 3, 2006 the Group corporation, Klöckner Participaties B.V., Barendrecht/Netherlands, sold to CRH Nederland B.V. its 100% holding in the solar protection Group (AVZ Group), consisting of five consolidated corporations, namely
B.V. Aluminium Verkoop Zuid (A.V.Z.), Best/Netherlands,
Aluminium Verkoop Zuid (A.V.Z.), Aartselaar/Belgium,
Smits Rolluiken en Zonwering B.V., Cuijk/Netherlands,
Smits Rolluiken B.V., Cuijk/Netherlands and
Smits Zonwering B.V., Cuijk/Netherlands,
as well as the previously non-consolidated company, Sun Stock Holland B.V., Zwolle/Netherlands, and the joint venture, Handelsmaatschappij Caralu B.V., Best/Netherlands. Through this, the consolidated results improved by €33.3 million. The cash from the sale reduced the liabilities of the Klöckner & Co Group and provided additional capital for expansion. The AVZ Group generated sales of €54.4 million in 2005 and €31.0 million in the first six months of 2006.

On July 25, 2006 Klöckner Stahl- und Metallhandel GmbH, Duisburg, sold its holding in Helmut Weisbender GmbH & Co KG, Montabaur. The sales contract was concluded on August 2, 2006. The corporation was deconsolidated based on the figures as of July 31, 2006 with a total loss from deconsolidation amounting to €0.3 million. Its sales were €7.1 million in 2005 and €3.8 million up to July 31, 2006.

As of December 28, 2005, effective commercially January 1, 2006, Klöckner Stahl- und Metallhandel GmbH, Duisburg (KSM), disposed of the business operations of Hanseatischer Drahthandel, ZN Hamburg, in an asset deal for an amount more or less equivalent to the carrying value. The sales of these business operations were €26.6 million in 2005. The purchase price totaled €2.0 million.

A list of the major affiliated companies included in the consolidated financial statements as well as those valued at equity is attached as an annex. A list of all the shareholdings of Klöckner & Co AG has been deposited with the commercial register in Duisburg.

The initial consolidation of the Targe Group; the two Aesga corporations; Gauss & Co AG; Green Rhino Steel, LLC; and Klöckner Romania SRL, as well as the sale of the AVZ Group and Weisbender, gave rise to the following changes in assets and liabilities:

€ thousand	Long-term assets	Short-term assets	Long-term liabilities	Short-term liabilities
Targe Group	2,656	10,440	354	7,788
Aesga Group	4,650	28,405	1,136	6,852
Klöckner Romania	–	110	–	–
AVZ Group	– 12,359	– 25,751	– 2,909	– 7,669
Weisbender	– 74	– 1,555	– 231	– 816
Gauss & Co AG	1,514	3,588	64	3,338
Green Rhino Steel	16,261	17,988	–	5,325
Total	**12,648**	**33,225**	**– 1,586**	**14,818**

The purchase price for the shares in the acquired companies totals €60.6 million.

(4) Principles of consolidation

Capital consolidation is effected pursuant to IAS 27 (Consolidated and Separate Financial Statements)/ IFRS 3 (Business Combinations), according to which the costs of acquisition are matched against the apportionable revalued equity capital at the date of acquisition, which usually coincides with the date of initial consolidation. The revalued equity capital is based on the present values of the assets and liabilities, including identified intangible assets and contingent liabilities to be carried as liabilities, at the date of acquisition. Remaining positive differences are capitalized as goodwill, and negative differences are shown directly in the income statement.

Write-ups and depreciation of shares in Group companies provided in the individual financial statements of consolidated companies are reversed in the consolidated financial statements. Intercompany receivables and payables of the consolidated subsidiaries are matched against each other. Intercompany sales and all intercompany income are matched against the relevant costs. Unrealized profits resulting from intragroup transactions are eliminated. Consolidation operations having an effect on income are subject to tax deferrals; deferred tax assets and liabilities are netted against each other if the payment period and tax creditor are identical.

(5) Currency translation

Applying the concept of functional currency pursuant to IAS 21 (The Effects of Changes in Foreign Exchange Rates), the annual financial statements of foreign Group companies that are prepared in foreign currencies are translated into euros. The functional currency is determined by the primary economic environment in which the company operates. All the subsidiaries conduct their business independently on their domestic markets, so that the functional currency is the local currency in each case. Consequently, the assets and liabilities are translated at the middle rate on the balance sheet date, and expenses and income are translated at the annual average rate. The translation differences resulting from these deviating translation rates applied in the balance sheet and the income statement do not affect income. Exchange differences resulting from the translation of equity capital are included in the earnings reserves of the Group and shown separately in the development of equity.

Foreign currency receivables and liabilities are valued in the individual financial statements of the Group companies at the rates on the balance sheet date, regardless of whether they are hedged or not. Exchange gains and losses arising on the balance sheet date are recorded in the profit or loss.

Exchange rate changes for important currencies of the Group were as follows:

	Year-end rate		Average rate	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
1 € =				
US Dollar (USD)	1.3170	1.1797	1.2557	1.2441
Pound Sterling (GBP)	0.6715	0.6853	0.6817	0.6838
Swiss Franc (CHF)	1.6069	1.5551	1.5729	1.5483
Canadian Dollar (CAD)	1.5281	1.3725	1.4237	1.5088

(6) Reporting and valuation methods

Intangible assets acquired for a consideration and having a determinable useful life are carried at cost less systematic straight-line depreciation. The current value of intangible assets having an indeterminable useful life is reviewed once a year.

In compliance with IFRS 3 (Business Combinations), the goodwill resulting from initial consolidation is capitalized. Negative goodwill arising from capital consolidation is immediately recorded as income at the time of the initial consolidation.

Property, plant and equipment are carried at acquisition or manufacturing cost reduced by systematic depreciation reflecting usage. The manufacturing costs comprise all direct costs as well as necessary overheads, with the exception of financing costs. Maintenance costs are directly recognized as expenses. Acquisition or manufacturing costs also include obligations related to the restoration of plant locations; corresponding provisions have been created.

In accordance with IAS 17 (Leases), leased property, plant and equipment whose leases satisfy the criteria of finance leases are capitalized in the financial statements upon inception at the lower of the present value of the minimum lease payments and the fair value. The relevant financial obligations in respect of future leasing installments are disclosed as liabilities. Systematic depreciation is provided over the useful life. In the case of sale-and-leaseback transactions, the amount of the sales proceeds exceeding the carrying amount is not disclosed directly as income, but deferred and released to income over the lease term.

In accordance with IAS 40 (Investment Properties), investment properties are any properties held as financial investments to earn rental income or for long-term capital appreciation. These properties are carried at depreciated cost.

The current value of all intangible assets and property, plant and equipment, excluding the financial investments, is reviewed according to IAS 36 (Impairment of Assets) and can be adjusted if necessary. The adjustments arising from such decreases in value are disclosed in the income statement as depreciation. Except in the case of goodwill, value write-ups are effected if the reasons for the premature impairment no longer apply. The relevant entry in the income statement is made under other operating income.

Shares in subsidiaries and other participations that are not valued at equity are classified as "held for sale" and stated at amortized cost because a fair value cannot be measured due to the lack of marketability. Long-term investments and loans are classified as "held to maturity" and similarly valued at amortized cost. Impairments according to IAS 39 (Financial Instruments: Recognition and Measurement) are recognized by way of depreciation. Write-ups are effected when the reasons for the impairment no longer apply.

Long-term receivables and other assets are disclosed at the fair value. In view of their short duration, short-term receivables and other assets are generally recognized at cost, which corresponds more or less to the market value. All recognizable risks are allowed for by making appropriate value adjustments to cover the probable risk of non-payment, taking into account the credit insurances that are in place. Derivatives are recorded under the other receivables with their market values. If the market values are negative, they are shown under the liabilities.

In compliance with IAS 12 (Income Taxes), deferred taxes are carried in accordance with the concept of the balance sheet liability method. Deferred tax assets result from temporary differences in the values stated in the commercial balance sheet pursuant to IFRS for consolidation purposes and the values stated in the tax balance sheet, and from consolidation operations. Deferred tax assets also include tax reduction claims resulting from the expected use of loss carryforwards in subsequent years and whose realization is sufficiently assured. Deferred tax assets and liabilities are offset against each other provided that the requirements are fulfilled.

Materials and supplies as well as merchandise are stated under inventories at cost, which is basically the average value adjusted on a monthly basis, allowing for depreciation to the lower net realizable value.

Finished and unfinished goods are valued at manufacturing cost. According to IAS 2 (Inventories), this comprises all directly related costs as well as appropriate and necessary variable production overheads, with the exception of financing costs. If the realizable net selling price is lower than the manufacturing cost, it is shown instead. In specific cases and when advance payments are made, the acquisition costs are determined individually.

Inventory risks arising from the warehousing period or impaired usability are recognized in the write-downs.

The method of determining the extent of the write-down according to the number of inventory days was changed in 2006 from the past to the future perspective, and uniform write-down rates in per cent were largely used. Restrictions to the method of calculation still apply because the IT platforms have not been harmonized. The negative impact on earnings in 2006 was €7.6 million.

Long-term assets held for sale and liabilities associated with the same are assets and liabilities whose disposal within one year is deemed sufficiently probable. They are disclosed at the fair value on the balance sheet date.

The pensions and similar obligations encompass the pension obligations arising from both the defined benefit plans and the defined contribution plans. In compliance with IAS 19 (Employee Benefits), the pension obligations arising from the defined benefit plans are determined by applying the projected unit credit method. Actuarial expert opinions are obtained for this purpose. Actuarial gains and losses are distributed over the average remaining service period outside a bandwidth of 10% of the higher of the extent of the obligation and the present value of the plan assets. The service cost is contained in the personnel expenses, and the interest component in the interest expenses.

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), and with IAS 19 (Employee Benefits), if applicable, the other provisions allow for all recognizable obligations and anticipated losses, as well as all accruals, subject to the precondition that the occurrence of a present obligation is to be expected and its amount can be reliably estimated. The present obligation is recognized at the most probable amount. Provisions are formed only on condition that they are based on a legal or factual obligation to third parties. As a general rule, provisions with a remaining term of more than one year are discounted according to prevailing market conditions.

Contingent liabilities are potential obligations whose uncertain probability giving rise to an outflow of resources does not warrant the forming of a provision or whose amount cannot be reliably estimated. The valuation of the contingent liabilities correspond to the extent of liability existing on the balance sheet date.

(7) Segment reporting

€ thousand	Europe Jan. 1– Dec. 31, 2006	Europe March 16– Dec. 31, 2005	North America Jan. 1– Dec. 31, 2006	North America March 16– Dec. 31, 2005
External sales	4,669,855	3,312,725	862,631	655,848
– thereof with third parties	4,669,855	3,312,725	862,631	655,848
– thereof with other segments	–	–	–	–
Investments in intangible assets/ property, plant and equipment	40,785	33,826	4,587	4,021
Segment result (EBITDA)				
– excluding pension transfers	365,959	127,670	78,840	44,139
– pension transfers	27,888	–	–	–
Earnings before interest and taxes (EBIT) (after pension transfers) before special expenses and income in 2005	356,394	98,482	71,271	38,334
Systematic depreciation of intangible assets and property, plant and equipment	37,767	27,530	7,569	5,805
Impairment depreciation of intangible assets and property, plant and equipment	336	1,658	–	–
Write-ups of property, plant and equipment	650	–	–	–
Other non-cash income/expenses	134	–	–	–
Results from companies valued at equity	424	548	–	–

€ thousand	Europe Dec. 31, 2006	Europe Dec. 31, 2005	North America Dec. 31, 2006	North America Dec. 31, 2005
Segment assets	1,954,378	1,816,034	289,560	268,987
Unallocated assets	–	–	–	–
Gross assets as per balance sheet	–	–	–	–
Segment liabilities	705,645	673,539	63,818	91,550
Unallocated liabilities	–	–	–	–
Gross liabilities as per balance sheet	–	–	–	–

	Europe Dec. 31, 2006	Europe Dec. 31, 2005	North America Dec. 31, 2006	North America Dec. 31, 2005
Employees at year-end	8,368	8,692	1,204	1,095

Headquarters		Consolidation		Total	
Jan. 1– Dec. 31, 2006	March 16– Dec. 31, 2005	Jan. 1– Dec. 31, 2006	March 16– Dec. 31, 2005	Jan. 1– Dec. 31, 2006	March 16– Dec. 31, 2005
10,361	–	–10,361	–	5,532,486	3,968,573
–	–	–	–	5,532,486	3,968,573
10,361	–	–10,361	–	–	–
1,198	108	–	–	46,570	37,955
– 50,064	– 17,567	–	–	394,735	154,242
– 27,888	–	–	–	–	–
– 90,418	– 28,890	–	–	337,247	107,926
12,466	14,000	–	–	57,802	47,335
–	–	–	–	336	1,658
–	–	–	–	650	–
–	147,094	–	–	134	147,094
–	–	–	–	424	548

Headquarters		Consolidation		Total	
Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
223,548	292,907	– 85,140	– 232,526	2,382,346	2,145,402
–	–	–	–	169,362	110,606
–	–	–	–	2,551,708	2,256,008
294,893	333,986	– 85,140	– 239,581	979,216	859,494
–	–	–	–	773,043	1,073,406
–	–	–	–	1,752,259	1,932,900

Headquarters		Total	
Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
116	114	9,688	9,901

The multi-metal distribution business is classified from a geographical perspective. The markets in each of Europe and North America are largely similar as regards their economic outline, suppliers and currency developments, so that the segmental figures are shown for these two continents. They encompass all the companies domiciled in the two regions. In addition, all of the central functions that cannot be assigned to a segment, as well as consolidation operations, are contained in a separate column.

The external sales comprise all of the sales generated with customers by the individual companies. For the purpose of computing the consolidated sales, the sales between the segments are shown separately. The EBITDA is earnings before interest, taxes, special income and expenses, depreciation and write-ups of intangible assets and property, plant and equipment, and before the release of negative goodwill. It contains the results from companies valued at equity. The comparative figures for 2005 exclude the transaction costs arising from the change of financing in 2005 in the amount of €36,181,000.

The segment assets and liabilities contain assets and debts that contributed to the segment result. Receivables and liabilities and income and expenses between the segments are eliminated in the computations.

The separation of provisions for pensions and similar obligations relating to non-active employees with effect from January 1, 2006 at book valuation leads to recognition of revenue in the Europe segment and a corresponding expense in the Headquarters segment totaling €27,888,000 on account of the increased commitment valuation in accordance with IFRS.

The 2006 sales of the Europe segment encompass the following sales generated by companies added to the scope of consolidation (€ million):

	2006	2005
Reynolds European S.A.S., France (acquired 2005)	163.9	54.1
Alu Menziken Metall Service AG, Switzerland (acquired 2005)	65.3	6.3
Aesga Group, Spain	7.7	–
Gauss & Co AG, Switzerland	1.6	–
Targe Group, France	19.9	–
Klöckner Romania, Romania	8.2	–

The North America segment includes the sales of Green Rhino Steel, LLC (Action Steel), USA, in the amount of €14.6 million.

Notes to the consolidated balance sheet

(8) Intangible assets

Besides the disclosed goodwill, the intangible assets capitalized in the consolidated financial statements largely comprise software and customer lists determined in the context of initial consolidation operations. The useful life of the intangible assets is between 2 and 15 years. Straight-line depreciation is applied and disclosed in the income statement under depreciation. Depreciation because of impairments was not applied in the reporting year.

In compliance with IFRS 3, the goodwill is not systematically amortized. Depreciation because of impairments was not necessary in the reporting year.

The intangible assets developed as follows in the period after January 1, 2006:

Acquisition or manufacturing costs

€ thousand	Industrial and similar rights and assets as well as licenses and other intangible assets	Software	Goodwill	Total intangible assets
As of January 1, 2006	**14,812**	**12,057**	**1,918**	**28,787**
Currency difference	–648	–187	–216	–1,051
Change in the consolidated Group	9,374	254	8,444	18,072
Additions	302	2,531	156	2,989
Disposals	1,703	510	4	2,217
As of December 31, 2006	**22,137**	**14,145**	**10,298**	**46,580**

Accumulated depreciation and write-downs

€ thousand	Industrial and similar rights and assets as well as licenses and other intangible assets	Software	Goodwill	Total intangible assets
As of January 1, 2006	**4,428**	**9,373**	**4**	**13,805**
Currency difference	– 59	– 144	–	– 203
Change in the consolidated Group	– 841	228	–	– 613
Depreciation and write-downs in financial year	1,983	1,592	–	3,575
Disposals	1,703	506	4	2,213
As of December 31, 2006	**3,808**	**10,543**	**–**	**14,351**
Net book value Dec. 31, 2006	**18,329**	**3,602**	**10,298**	**32,229**
Net book value Dec. 31, 2005	10,384	2,684	1,914	14,982

(9) Property, plant and equipment

Acquisition or manufacturing costs

€ thousand	Land, land rights and buildings including buildings on third-party land	Technical equipment and machines	Other equipment, factory and office equipment	Assets under construc-tion	Total property, plant and equipment
As of January 1, 2006	**701,016**	**262,672**	**225,599**	**10,263**	**1,199,550**
Currency difference	– 11,460	– 6,769	– 4,900	– 351	– 23,480
Change in the consolidated Group	– 11,155	– 2,315	– 326	–	– 13,796
Additions	5,912	10,892	8,259	18,518	43,581
Disposals	13,713	16,918	20,191	482	51,304
Transfers	3,782	1,773	4,668	– 10,223	–
Transfer to current assets	15,776	–	–	–	15,776
As of December 31, 2006	**658,606**	**249,335**	**213,109**	**17,725**	**1,138,775**

Accumulated depreciation and write-downs

€ thousand	Land, land rights and buildings including buildings on third-party land	Technical equipment and machines	Other equipment, factory and office equipment	Assets under construc-tion	Total property, plant and equipment
As of January 1, 2006	**284,620**	**187,661**	**178,301**	**–**	**650,582**
Currency difference	– 3,942	– 4,843	– 3,901	–	– 12,686
Change in the consolidated Group	– 4,107	– 3,058	– 983	–	– 8,148
Write-ups in financial year	–	650	–	–	650
Depreciation and write-downs in financial year	25,722	16,418	12,423	–	54,563
Disposals	6,643	15,286	18,116	–	40,045
Transfers	349	– 746	397	–	–
Transfer to currents assets	5,389	–	–	–	5,389
As of December 31, 2006	**290,610**	**179,496**	**168,121**	**–**	**638,227**
Net book value December 31, 2006	**367,996**	**69,839**	**44,988**	**17,725**	**500,548**
Net book value December 31, 2005	416,396	75,011	47,298	10,263	548,968

Depreciation is applied according to the straight-line method in compliance with the following useful lives applied uniformly within the Group:

	Useful life in years
Office buildings	30 – 50
Factory and warehouse buildings	20 – 40
Plant facilities similar to buildings, warehouse and crane equipment and other technical equipment	4 – 20
Factory and office equipment	3 – 15

Individual assets of minor significance are written off in full in the year of acquisition.

Impairments are recognized in compliance with IAS 36 and disclosed in the income statement under "Extraordinary depreciation of fixed assets because of impairment". In the financial year they totaled €336,000 (previous year: €1,658,000), of which €144,000 referred to impairment of real estate in France. In Spain impairment depreciation on buildings was applied in the amount of €116,000. A further €76,000 referred to equipment in Germany.

In the reporting year, property plant and equipment in the amount of €11.3 million was sold throughout the Group. The disposals were chiefly attributable to the following events:

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, sold land and buildings in Hamburg to a Lithuanian company by way of a sales contract on March 23, 2006. The Hamburg harbor authorities asserted their pre-emption option, however, and assumed rights and obligations under said contract. The legal transfer only became effective on August 14, 2006 on account of various statutory provisions. The accounting profit amounts to €1.5 million.

- Various pieces of land and buildings were sold in the French sub-Group during the year.

- In the Spanish sub-Group, the Castellón site was sold on June 28, 2006 for an amount close to the Group carrying value of €3.0 million.

In accordance with IAS 40 (Investment Properties), investment properties are any properties held as financial investments to earn rental income or for long-term capital appreciation. These properties are carried at depreciated cost. The carrying value corresponds to the fair value in the amount of €240,000 (previous year €318,000). The rental income from the properties totals €41,000 (previous year: €52,000). The associated costs are €11,000 (previous year: €18,000).

As at the closing date, the carrying amount of capitalized leased assets is €14,804,000 (previous year: €12,983,000) for land and buildings, €9,344,000 (previous year: €5,460,000) for technical equipment and machinery, €341,000 (previous year: €233,000) for vehicles, and €0 (previous year: €4,889,000) for assets under construction. Systematic depreciation reflects the useful life, which, however, cannot exceed the term of the lease. Some of the leases include purchase options.

Principal leases:
In connection with the consolidation of sites in Valencia/Spain, properties were already leased in 2004. Their carrying value on December 31, 2006 is €6,243,000. The lease contains a purchase option.

A lease concerning properties in Catalayud/Spain was also concluded in 2004. It is carried with a value of €992,000. Another lease, concluded in 2005, concerns the Epila site in Spain. It is carried with a value of €4,647,000. This lease also contains a purchase option.

The carrying value of the leased assets includes two buildings in Austria (Vienna and Neumarkt) in the amount of €2,477,000. Their leases contain purchase options.

Leases exist in Canada for two processing plants with an aggregate value of €3,552,000. These leases also contain purchase options.

Operating leases mainly relate to real estate, machinery, vehicles, telephone systems and computer hardware. The leases include purchase options in some cases. Contingent lease payments affecting income, as well as payments under non-terminable subleases are of minor significance.

(10) Financial assets

The financial assets are classified as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Shares in affiliated companies	1,118	1,228
Shares in other participations	1,297	1,855
Long-term investments	1,441	1,218
Other loans	722	237
Financial assets	**4,578**	**4,538**

In the reporting year the depreciation as a result of impairment totaled € 9,000 (previous year: €100,000). No write-ups have been made.

In accordance with IAS 31 (Interests in Joint Ventures), Metalix B.V., Rotterdam/Netherlands is valued as a joint venture by the equity method that is alternatively permitted. The carrying value as of December 31, 2006 is €1,141,000.

Birs-Stahl AG, Birsfelden/Switzerland, an associated company, is included in the consolidated financial statements only at cost because of its minor significance.

As of December 23, 2005, but effective commercially in January 2006, Klöckner & Co Verwaltung GmbH (formerly Klöckner & Co GmbH), Duisburg, sold its 10.02% interest in ThyssenKrupp Ferroglobus Rt., Budapest/Hungary, to ThyssenKrupp Services AG. The accounting profit amounts to €2.8 million.

(11) Other long-term assets

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Reinsurance claims from pension funds	6,688	5,651
Employer contribution reserves, Switzerland	4,775	4,745
Other assets	1,993	1,090
Receivables and other assets with a remaining term of more than 1 year	**13,456**	**11,486**

(12) Deferred tax assets

The deferred tax assets are explained in section 15 (Income taxes).

(13) Inventories

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Materials and supplies	57,369	49,982
Unfinished goods and services	4,007	4,056
Finished goods and merchandise	776,338	636,562
Advance payments	3,315	2,869
Inventories	**841,029**	**693,469**

Of the inventories shown in the balance sheet as of December 31, 2006, €154,162,000 (previous year: €208,779,000) are stated at their net realizable values. The depreciation to the net realizable value totals €37,101,000 (previous year: €45,727,000).

Besides the customary commercial reservations of title, inventories with a carrying value of €84,444,000 (previous year: €20,055,000) serve as security for individual financial liabilities existing as of December 31, 2006 in the amount of €19,005,000.

(14) Trade receivables

Trade receivables are generally invoiced in the local currency of the relevant Group company; export receivables in foreign currencies are hedged as a general principle.

The receivables are shown at carrying value after the deduction of value decreases for doubtful receivables in the amount of €32,552,000 (previous year: €32,754,000).

(15) Income taxes

Income taxes are effective taxes actually paid or payable in the individual countries on income, as well as deferred taxes arising from valuation differences between the disclosures according to IFRS on the one hand, and national fiscal law on the other, and such taxes on loss carryforwards.

Effective taxes

The income tax liabilities are classified as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Provisions	16,712	19,472
Liabilities	12,076	120
Tax liabilities	**28,788**	**19,592**

The amounts and due dates of the tax liabilities contained in the tax provisions are uncertain. Of these liabilities, an amount of €34,000 has a remaining term of more than one year. Tax liabilities are disclosed as such if assessment notices already exist on the balance sheet date and the amounts and due dates are thus known.

Deferred taxes

Deferred taxes are calculated according to the relevant national tax rates applicable on the balance sheet date or announced for the following year. The deferred taxes are recorded in the income statement, excepting those attributable to issues that are recorded under equity without affecting income. These are shown, likewise without affecting income, under equity.

The deferred tax assets are as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
From temporary differences	18,982	9,920
From tax loss carryforwards	9,688	5,505
Deferred tax assets	**28,670**	**15,425**

Deferred taxes are determined according to IAS 12 at the tax rates expected in the individual countries at the date of realization. The deferred taxes are as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
– From temporary differences and consolidation operations		
Intangible assets	2,250	5
Property, plant and equipment	–67	683
Financial assets	420	417
Inventories	–130	1,958
Pension provisions	11,375	15,662
Other provisions	3,280	–9,068
Other items	1,854	263
	18,982	**9,920**
– From tax loss carryforwards	**9,688**	**5,505**
Deferred tax assets	**28,670**	**15,425**

Deferred tax income is recognized in respect of tax loss carryforwards only on condition that the realization of such income can be expected with sufficient likelihood. Previously unused tax loss carryforwards amount to €227.1 million for corporate income tax losses and losses of foreign companies (previous year: €285.3 million) and municipal trade tax losses of €123.9 million (previous year: €169.3 million). Tax loss carryforwards amounting to €198.2 million for corporate income tax losses and losses of foreign companies and municipal trade tax losses of €109.1 million were not recognized because it is not sufficiently likely that they will be used.

The deferred tax liabilities are as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
– From temporary differences and consolidation operations		
Intangible assets	1,333	2,676
Property, plant and equipment	40,883	54,183
Receivables and other assets	2,101	1,874
Inventories	17,735	15,733
Assets held for sale	1,549	7,000
Pension provisions	–5,834	–1,082
Other provisions	13,379	1,105
Other items	–400	1,408
Deferred tax liabilities	**70,746**	**82,897**

(16) Other short-term assets

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Receivables from affiliated companies	8	1,004
Receivables from companies in which participations are held	244	21
Receivables from insurance companies	2,041	7,701
Commission claims	12,602	9,519
Reinsurance claims from pension funds	4,348	49
Claims for other taxes	2,867	3,507
Prepaid expenses	2,474	1,838
Other assets	24,800	27,713
Receivables and other assets with a remaining term of less than 1 year	**49,384**	**51,352**

The other assets contain chiefly deposits (€5,770,000) and vendors with debit balances (€4,400,000). In view of their short duration, the carrying values of the short-term receivables and other assets correspond to the fair values.

In 2005 the receivables from affiliated companies contained a claim against the shareholder, Multi Metal Investment S.à r.l., in the amount of €31,000.

(17) Long-term assets for sale

The long-term assets held for sale consist of a facility in Spain (€9,942,000), for which a purchase agreement was concluded in 2006 prior to the transfer of ownership in 2007, and a facility in France (€445,000).

The Swiss sub-Group sold land in St. Gallen, which was stated as an asset held for sale as per December 31, 2005. The sale of the relevant land gave rise to an accounting profit of €1.7 million.

In the Spanish sub-Group, the location San Adrian de Besos – stated as an asset held for sale as of December 31, 2005 – was sold at approximately the Group carrying amount, which – according to purchase price allocation as of March 16, 2005 – was more or less the fair value.

(18) Equity and minority interests

The subscribed capital of Klöckner & Co AG totals €116,250,000. The capital reserves amount to €197,699,000, which includes a premium of €87,750,000 from the issue of new shares on June 28, 2006.

The earnings reserves include the results 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 operations and currency adjustments.

Costs incurred through the issue of the new shares, less tax benefits, are offset against equity.

Minority interests comprise outside interests in the consolidated equity capital of the included companies.

The development of the individual components of the consolidated equity capital and minority interests for the period from March 16, 2005 to December 31, 2005, and from January 1, 2006 to December 31, 2006, is shown in the statement of changes in equity.

(19) Provisions for pensions and similar obligations

Different types of pension schemes have been established for most employees in the Klöckner & Co Group, depending on the legal, economic and fiscal situation in the country concerned. They are usually based on the length of service and the employees' remuneration.

The company pension scheme within the Group consists of commitments based on both defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the company pays contributions to private or public pension institutions on the basis of statutory or contractual provisions. Making the payment discharges the company from all its performance (benefit) obligations. Expenses related to defined contribution plans amounted to €9,680,000 in the financial year (previous year: €8,028,000). This total includes employers' contributions to the statutory pension scheme in Germany in the amount of €5,883,000 (previous year: €5,450,000).

Defined benefit plans are pension systems that can be funded or unfunded (financed by provisions). In compliance with IAS 19 (Employee Benefits), the resultant pension provisions are determined by applying the projected unit credit method, according to which the future obligations accrued at the valuation date are valued on the basis of actuarial procedures by estimating the relevant factors. The benefits to be expected on occurrence of the insured event, including dynamic components, are distributed over the entire employment period of the employee. The following assumptions were made in the financial year regarding the relevant parameters for the actuarial calculations underlying the expert opinions:

in %	Germany	Austria	Switzer-land	Nether-lands	Great Britain	France	USA
Discount rate	4.40	4.40	2.70–4.25	4.25	5.10	4.40	5.75
Expected growth rate of wages and salaries	2.00	2.00	1.50–2.00	2.00	4.60	2.00	3.50
Rate of inflation	1.50	1.50	0.00	2.00	3.10	2.00	3.50
Average rate of employee turnover	4.50	4.50	0.10–8.94	2.00	3.10	gradu-ated	0.00
Expected return on plan assets	4.50	–	4.50	5.68	6.10–7.20	3.50	8.00

The expected returns are calculated according to the composition of the plan assets. In the case of share investments, the yield reflects the observable performance in the individual countries and sectors, paying due regard to the relevant share portfolio. The yield from bonds is derived from appropriately selected quotations according to recognized methods. The anticipated return on real estate depends on the marketability, which is determined by local market conditions and individual contractual commitments.

The pension obligations of the German Group companies arising from defined benefit plans are financed almost exclusively by provisions, whereas those of the foreign subsidiaries are predominantly financed by external funds. Indirect obligations not covered by the fund assets are allocated to provisions; actuarial gains are recognized to an amount that reflects the probable benefit to the company in the form of lower future payments into the fund. The obligations and the relevant fund assets are valued at regular intervals not exceeding three years as a general rule. The defined benefit pension systems are structured as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Present value of unfunded obligations for defined benefit plans	159,496	170,073
Present value of completely or partly funded obligations for defined benefit plans	447,991	417,522
Fair value of plan assets	– 434,395	– 408,482
Actuarial gains and losses not recognized in the balance sheet	– 2,623	– 17,270
Past service cost not yet recognized in the balance sheet	2,803	2,772
Amounts not recognized as an asset because of the limitation imposed by IAS 19.58 (b)	14,311	24,471
Fair value of the reimbursement rights recognized as an asset pursuant IAS 19.104A	– 5,976	– 1,924
Balance of pension obligations	**181,607**	**187,162**
Other assets	**11,035**	**5,700**
Provisions for pensions and similar obligations	**192,642**	**192,862**

Computation of opening and closing balances of the present value of obligations for defined benefit plans (IAS 19.120A (c)):

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Present value at start of reporting period	**587,595**	**548,386**
Current service cost	18,131	13,481
Interest expenses	22,267	16,108
Contributions of plan members	6,534	8,985
Actuarial gains and losses of the period	– 508	24,627
Exchange rate changes	– 10,266	2,145
Paid benefits	– 26,013	– 21,021
Past service cost	12,512	– 338
Business combinations	103	885
Plan curtailments	– 1,140	– 5,663
Plan settlements	– 1,728	–
Present value at end of reporting period	**607,487**	**587,595**

Computation of opening and closing balances of fair value of plan assets (IAS 19.120A (e)):

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Fair value of plan assets at beginning of reporting period	**408,482**	**372,281**
Expected return	21,663	15,047
Contributions of plan members	10,535	11,863
Employer's contributions	12,670	17,010
Actuarial gains and losses of the period	13,035	4,913
Exchange rate changes	– 10,534	1,958
Paid benefits	– 17,727	– 14,842
Business combinations	64	175
Plan settlements	– 3,793	77
Fair value of plan assets at end of reporting period	**434,395**	**408,482**

The plan assets comprise:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Shares	168,958	207,425
Bonds	179,135	10,833
Cash and cash equivalents	–	2,033
Other assets	– 4,626	115,892
Real estate	90,928	72,299
	434,395	**408,482**

In the financial year the total own financial instruments, self-occupied real estate and other assets used by company came to €9,819,000 (previous year: €9,819,000).

Computation of opening and closing balances of all reimbursement rights recognized as assets (IAS 19.120A (e)):

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Reimbursement rights as per IAS 19.104A at beginning of reporting period	**1,924**	**1,759**
Expected return	41	22
Employer's contributions	96	166
Exchange rate changes	–	– 8
Paid benefits	– 383	– 15
Plan settlements	4,298	–
Reimbursement rights as per IAS 19.104A at end of reporting period	**5,976**	**1,924**

The recognized reimbursement rights contain concluded life insurances and claims arising from other insurances concluded to cover the relevant pension obligations.

The pension expenses comprise the relevant personnel expenses and the interest expenses, which are one component of the net interest:

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Current service cost	– 18,131	– 13,481
Interest expenses of companies with funded pension obligations	– 15,004	– 11,433
Expected return on plan assets	21,663	15,047
Expected return on reimbursement rights	41	22
Actuarial losses	– 1,025	– 1,003
Past service cost	– 12,216	2
Effect of plan curtailments and settlements	1,952	6,318
Effects of limitation as per IAS 19.58 (b)	9,573	–
Contributions of plan members	4,006	3,121
Interest expenses for unfunded pension obligations	– 7,263	– 4,675
Total expenses for defined benefit pension obligations	**– 16,404**	**– 6,082**

The actual return on plan assets amounted to €31,392,000 in the financial year (previous year: €30,891,000). The actual income from reimbursement rights as per IAS 19.104A (IAS 19.120A (m)) totaled €41,000 (previous year: €22,000).

Empirical adjustments of the present value of obligations for defined benefit plans arose in the reporting year in the amount of – 0.27%. The empirical adjustments for the plan assets totaled 3.54%.

The employers' contributions to the plan assets for 2007 are expected to be €9,373,000.

The amounts not yet recognized in the balance sheet have arisen from actuarial gains or losses from workforce changes and differences between assumptions and actual developments, and from plan curtailments and settlements. With the exception of the expenses from plan curtailments and settlements, which are recognized immediately as expenses, other expenses outside the 10% corridor are as a general rule distributed over the average remaining working life of the employees (amortization) in compliance with IAS 19.

The obligations similar to pensions include obligations for compensation payments and, in Germany until 2005, provisions for future contributions to the pension guarantee association (Pensionssicherungsverein) provided these were formed in respect of obligations relating to current benefits. From 2006 the contributions to the pension guarantee association for the relevant financial year are levied concurrently.

(20) Other long-term provisions

Other long-term provisions developed as follows in the period to December 31, 2006:

€ thousand	As of Jan. 1, 2006	Additions	Utilized	Releases	Other changes*)	As of Dec. 31, 2006
Other provisions for						
– service anniversaries	13,654	199	–	380	45	13,518
– liability risks	11,520	–	–	17	– 1	11,502
– restructuring	303	–	–	–	–	303
– early retirement arrangements	8,239	3,667	3,374	635	398	8,295
– other accruals	21,609	13	133	14	163	21,638
Other provisions	**55,325**	**3,879**	**3,507**	**1,046**	**605**	**55,256**

* Change in scope of consolidation, currency adjustments, transfers and additions/disposals to third parties

Other accruals include €15,000,000 (previous year: €15,000,000) for a potential liability case. They also contain an amount of €3,152,000 (previous year: €3,198,000) for compensation payments to former employees of a subsidiary acquired in 2000 because of the insolvency of the relevant insurer.

(21) Financial liabilities

The table below illustrates the composition and due dates of the short and long-term financial liabilities:

	up to 1 year	1–5 years	more than 5 years	Dec. 31, 2006
Bonds	2,232		164,046	166,278
(December 31, 2005)	(3,433)		(249,812)	(253,245)
Liabilities to banks	58,175	88,602		146,777
(December 31, 2005)	(76,748)	(122,882)		(199,630)
Liabilities from ABS programs		150,175		150,175
(December 31, 2005)		(145,645)		(145,645)
Liabilities from finance leases	4,300	9,651	3,687	17,638
(December 31, 2005)	(2,819)	(9,005)	(7,059)	(18,883)
Liabilities to the shareholder				
(December 31, 2005)	(106,823)	(54,376)		(161,199)
Total	**64,707**	**248,428**	**167,733**	**480,868**
(December 31, 2005)	(189,823)	(331,908)	(256,871)	(778,602)

Of the financial liabilities disclosed in the consolidated balance sheet, a total of €80,406,000 is secured by mortgages. Liens have been created on selected holding companies in connection with the issue of the high yield bond. Inventories included under the "Inventories" section also serve as security.

On August 11, 2006 the high yield bond with an interest rate of 10.5% was reduced by €90.0 million through funds resulting from the IPO. This reduction is associated with a one-time charge in Q3 in the amount of €12,747,000 for additional reduction and deferred transaction costs.

On May 15, 2006, a shareholder loan inclusive of interest receivable was granted to Klöckner & Co AG by Multi Metal Investment S.à r.l. in the form of a non-cash capital increase amounting to €99,975,000 and a capital reserve increase of €65,300,000.

Since July 2005 the Klöckner & Co Group has been operating a global asset-backed securitization program running for five years with a program volume of €380,000,000 and $75,000,000, of which €155,558,000 had been used by the balance sheet date. The sale of receivables under this agreement does not qualify as a sale under the requirements of IAS 39 as such proceeds received under the facility were presented as loans.

The liabilities to banks exclusively comprise bilateral borrowings of the country operations, which are predominantly used as working capital finance.

Liabilities from finance leases are stated in the balance sheet at the present value of the future leasing installments.

The financial liabilities of €480,868,000 have a market value of €527,987,000.

The financing costs directly associated with contracting the financial liabilities were off-set against the loan commitments. The total amount concerned is €14,052,000 (previous year: €20,444,000).

(22) Other long-term liabilities

The other long-term liabilities, in the amount of €8,746,000 (previous year: €1,185,000), have a remaining term of 1 to 5 years and refer largely to the payment obligation arising from the purchase price of the Aesga Group, Spain, in the amount of €8,451,000.

(23) Deferred tax liabilities

Information on the deferred tax liabilities is contained in section 15 (Income taxes).

(24) Short-term provisions

€ thousand	As of Jan. 1, 2006	Additions	Used*)	Releases	Other changes**)	As of Dec. 31, 2006
Other provisions for – other taxes	2,234	895	1,359	–	– 53	1,717
– personnel obligations	42,915	30,226	15,289	960	– 1,722	55,170
– liability risks	5,574	1,067	579	337	– 9	5,716
– anticipated losses from pending transactions	3,185	1,101	1,527	546	– 39	2,174
– restructuring	24,617	1,200	12,218	513	– 131	12,955
– early retirement arrangements	3,528	1,105	2,759	–	– 523	1,351
– other accruals	103,132	39,865	30,682	4,841	– 285	107,189
Other provisions	**185,185**	**75,459**	**64,413**	**7,197**	**– 2,762**	**186,272**

*) Including advance payments
**) Change in scope of consolidation, currency adjustments, transfers and additions/disposals to third parties

The provisions for personnel obligations contain provisions for special benefits and bonuses in the amount of €38,009,000 (previous year: €25,194,000) and for holiday entitlements and flexitime credits in the amount of €15,243,000 (previous year: €14,898,000).

The provision for anticipated losses from pending transactions is based on purchase and sale contracts in the commercial business and other contracts.

The provisions for restructuring relate to obligations in respect of redundancy compensation schemes and other restructuring expenses.

The provisions for other accruals mainly comprise provisions for pending purchase invoices in the amount of €38,234,000 (previous year: €38,045,000), for legal proceedings in the amount of €12,107,000 (previous year: €9,789,000), and for liability risks in the amount of €22,644,000 (previous year: €22,644,000), as well as other provisions in the amount of €34,204,000 (previous year: €32,654,000), primarily for environmental protection and decontamination measures, auditor's fees, insurance premiums, bonuses and discounts, commissions and other risks.

The provisions for legal proceedings chiefly refer to legal disputes with a former shareholder (Balli) and a minority shareholder of Debrunner Koenig Holding AG, Switzerland, who is asserting the existence of a right of preemption in connection with the chosen transaction structure for the acquisition of the Klöckner & Co Group by LGB.

(25) Income tax liabilities

Information on the income tax liabilities is contained in section 15 (Income taxes).

(26) Trade payables

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Advance payments received on orders	325	456
Trade payables	584,384	480,726
Notes payable	54,735	54,873
Trade payables	**639,444**	**536,055**

The carrying amounts of the trade payables correspond to the market values.

(27) Other short-term liabilities

The liabilities are stated at amortized cost. Foreign currency liabilities are carried at the market rate on the balance sheet date.

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Liabilities to affiliated companies	2,641	–
Liabilities to companies in which participations are held	112	127
Liabilities relating to social security	10,666	11,415
Debtors' credit balances	12,977	10,573
Liabilities to employees	5,413	4,832
Value-added tax liabilities	26,401	24,573
Other tax liabilities	9,941	8,183
Other liabilities	21,346	21,494
Liabilities with a remaining term of up to 1 year	**89,497**	**81,197**

The other liabilities primarily comprise payment obligations to former shareholders, in the amount of €11,693,000 (previous year: €7,665,000).

The carrying amounts of the short-term liabilities correspond to the market values.

(28) Contingent liabilities

The contingent liabilities on the balance sheet date are as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Liabilities on bills	23	54
Liabilities from warranty contracts	–	722

(29) Other financial commitments

Other financial commitments primarily relate to leases and long-term rental agreements.

The commitments also include contracts governing leased objects that are capitalized as assets in the consolidated financial statements (finance leases). A breakdown of the leased objects is contained in section 9 (Property, plant and equipment). The minimum amount of future finance lease payments is due as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Due within one year	4,891	3,938
Due between one and five years	8,681	10,005
Due after five years	4,394	5,566
Nominal total future minimum lease payments	**17,966**	**19,509**
Due within one year	194	117
Due between one and five years	1,063	914
Due after five years	986	934
Interest component included in future minimum lease payments	**2,243**	**1,965**
Due within one year	4,697	3,821
Due between one and five years	7,618	9,091
Due after five years	3,408	4,632
Present value of future minimum lease payments	**15,723**	**17,544**

Further obligations exist within the Klöckner & Co Group relating to contracts classified as non-terminable operating leases. The future payments to be made under these leases are as follows:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Due within one year	34,947	24,840
Due between one and five years	80,648	49,995
Due after five years	67,115	28,987
Nominal total future minimum lease payments	**182,710**	**103,822**

Increases in the payments arising from lease agreements occurred chiefly in the USA through the extension of existing leases, new agreements and the assumption to leases of Green Rhino Steel, LLC, which was acquired in 2006. On December 31, 2006 the order commitment for acquisitions totaled €1,100,000 (previous year: €1,679,000).

(30) Derivative financial instruments

Derivative financial instruments are presented at the fair value in compliance with IAS 39 (Financial Instruments).

The Klöckner & Co Group is exposed to interest and currency risks in its business operations. Derivative financial instruments are used to hedge against such risks. Only marketable instruments offering sufficient market liquidity are used. The derivative financial instruments are transacted and managed in compliance with internal directives that prescribe the scope of action, responsibilities and control systems. According to these directives, the use of derivative financial instruments is a key task of the central finance department at Klöckner & Co AG, which manages and coordinates such use. The transactions are concluded exclusively with counterparties that have a first-class credit rating. Derivative financial instruments cannot be used for speculative purposes, but exclusively for hedging risks associated with underlying transactions.

The Klöckner & Co Group operates a central foreign currency management regime. The object of the hedging policy is exclusively to cover transaction risks. The German and foreign companies are obliged to identify foreign exchange risks and to hedge against the same through the central finance department or, within a prescribed framework, individually via banks. The hedging transactions cover exchange risks deriving from pending delivery contracts recorded at the balance sheet date.

The risk of interest rate changes is also monitored centrally within the Klöckner & Co Group. Interest rate hedging instruments are used to reduce or limit the impact of interest rate changes on the financing costs for variable-interest long-term loans.

Forward exchange transactions are valued on an item-by-item basis at the forward rate on the balance sheet date, and exchange rate differences arising because of the contracted forward exchange rate are included in the income statement.

Interest rate swap amounts from interest rate swap agreements are recorded to net income at the date of payment or balance sheet date. In addition, interest swap agreements as well as interest rate caps are carried at their fair value as of the balance sheet date, and changes in the fair values are recognized in the income statement for the current reporting period.
The fair values of the derivative transactions are capitalized as other assets or shown as other liabilities, as applicable. The Klöckner & Co Group has opted not to apply hedge accounting according to IAS 39.

The nominal and fair values of the derivative financial instruments existing on the balance sheet date are as follows:

Nominal values

€ million	Dec. 31, 2006	Dec. 31, 2005
Forward exchange transactions	49.4	15.4
Interest rate swaps	20.0	21.3
Interest rate caps	102.3	102.3
Other interest rate hedging instruments	38.0	42.4

Fair values

€ million	Dec. 31, 2006	Dec. 31, 2005
Forward exchange transactions	–0.1	–0.1
Interest rate swaps	–0.3	–0.8
Interest rate caps	0.0	0.0
Other interest rate hedging instruments	–0.3	–0.4

The nominal values correspond to the unbalanced total of the currency and interest rate portfolio.

The fair values shown in the table correspond to the price which third parties would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, ignoring any contrary changes in value in the underlying transactions. The fair values of the derivative financial instruments used are determined on the basis of banks' quoted market prices or with financial formulae based on models commonly used by banks.

The currency derivatives have a remaining term of up to one year. €114.7 million (previous year: 0) of the interest derivatives have a remaining term of up to one year. The other interest rate hedging instruments in the amount of €45.6 million (previous year: €166.0 million) have a remaining term of more than one year and expire no later than in 2010. The interest rate swaps are used by our North American and Swiss subsidiaries and provide for the payment of fixed interest rates ranging between 3.90% and 5.90% p.a. against a 3-month or 6-month reference interest rate. Klöckner & Co AG uses interest rate caps in the form of both two-strike caps, with strike prices in the range from 6.0% p.a. to 9.0% p.a., and USD collars, with a floor of 3.75% p.a. and a ceiling of 5.80% p.a..

In July 2005 the Klöckner & Co Group issued a global asset-backed securitization (ABS) program with a term of five years and a program volume of €420 million, which was raised to €437 million in 2006. The ABS program comprises a European program with the country operations in Germany, Great Britain, France and Spain, with a volume of €380 million, and an American program in the amount of USD 75 million. The trade receivables are sold by the participating ABS companies to two special purpose vehicles (SPVs). The global ABS program does not meet the requirements of IAS 39 with regard to the disposal and thus the elimination of the receivables (on-balance-sheet treatment). Since the European SPV engages in business exclusively in favor of the Klöckner & Co Group, SIC 12 requires it to be included in the consolidated financial statements of Klöckner & Co AG. The American SPV is already included in the annual financial statements of the American sub-group as a subsidiary of Namasco Corporation. The funding of the purchased receivables by the SPVs is therefore shown in the consolidated financial statements as loans to the conduits.

At December 31, 2006, €155.6 million of the programs had been used; the amount is distributed as follows:

ABS programs

€ million	Dec. 31, 2006	Dec. 31, 2005
European program		
– Used	110.0	112.0
– Maximum volume	380.0	380.0
American program		
– Used	45.6	40.7
– Maximum volume	56.9	42.4

The carrying value of the net receivables of the companies participating in the ABS program as of December 31, 2006 is €642 million (previous year: €629 million).

(31) Sales

Sales are recognized on transfer of the significant risks and rewards of ownership. Group sales are broken down by region as follows:

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Germany	1,247,180	941,802
EU without Germany	2,632,337	1,798,413
Rest of Europe	702,716	512,939
North America	866,819	658,534
Central and South America	4,927	2,175
Asia/Australia	20,539	12,284
Africa	57,968	42,426
Sales by region	**5,532,486**	**3,968,573**

(32) Other operating income

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Exchange gains	8,044	8,728
Reversal of provisions	8,643	10,331
Income from the disposal of fixed assets	41,305	4,588
Income from receivables written off	3,252	6,004
Rental income	3,026	1,576
Income from the release of negative goodwill	412	2,677
Other income	34,025	24,547
Other operating income	**98,707**	**58,451**

The other income largely comprises income from compensation (€9,803,000) and several income items each in the amount of less than €1.5 million.

(33) Cost of materials

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Cost of materials and supplies and of purchased merchandise	4,317,067	3,171,150
Cost of purchased services	7,896	5,700
Cost of materials	**4,324,963**	**3,176,850**

(34) Personnel expenses

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Wages and salaries	385,394	287,733
Social security contributions and expenditure on welfare	78,395	61,082
Pension cost	14,116	7,725
Personnel expenses	**477,905**	**356,540**

Annual average number of employees:

	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Salaried employees	5,266	5,502
Wage earners	4,126	4,108
Apprentices	271	288
Trainees, military and civilian service recruits etc.	197	162
	9,860	**10,060**

(35) Other operating expenses

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Forwarding costs	100,793	75,074
Rents and leasing	61,193	46,520
Repairs and maintenance	46,087	33,841
Third-party services	34,145	23,094
Supplies	33,803	24,363
Auditing and consulting costs	26,381	22,737
Other taxes	19,154	15,330
Cost of travel	15,816	12,712
Postal charges and telecommunications	10,234	8,478
Losses on receivables	9,518	5,298
Credit insurances	9,252	7,582
Insurances	9,075	7,052
Advertising and representational expenses	8,860	6,190
Exchange rate losses	8,054	6,006
Other expenses	41,113	37,764
Other operating expenses	**433,478**	**332,041**

The principal items contained in the other expenses are voluntary welfare expenditures (€5,701,000), expenses arising from ancillary business (€5,833,000), office supplies (€4,843,000), transaction costs (€3,035,000) and incidental payment transaction costs (€2,908,000).

(36) Release of negative goodwill

The first-time consolidation of the Klöckner & Co AG Group as of March 16, 2005 gave rise to a release of negative goodwill in the amount of €147,094,000.

(37) Restructuring expenses

In response to changed market conditions in Germany, a restructuring program that envisaged site closures was initiated in the previous year. The formation of provisions and the resulting cost of redundancies and additional local measures gave rise to total expenses of €17,100,000. The sites were closed in 2006.

(38) Results from disinvestment

The net loss from disinvestment in the previous year, in the amount of €1,873,000, was attributable to follow-up income and expenses related to the sale of trading activities in 2000.

(39) Results from investments

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Income from participations	–	91
Results from companies valued at equity	424	548
Write-downs on investments	–	– 100
Loss transfers	–	– 145
Results from investments	**424**	**394**

(40) Financial results before transaction costs

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Income from other investments and long-term loans	49	14
Other interest and similar income	4,789	3,537
– thereof from affiliated companies	1	77
Depreciation of long-term investments	– 9	–
Depreciation of marketable securities	–	– 26
Interest and similar expenses	– 61,818	– 47,759
– thereof from affiliated companies	– 4,116	– 8,680
Interest expense from changes in pension provisions	– 7,263	– 4,675
Financial result before transaction costs	**– 64,252**	**– 48,909**

The interest and other income contains a one-time charge arising from the partial reduction of the bond and the reversal of deferred transaction costs in the amount of €12,747,000.

(41) Transaction costs

The financing costs in 2005 in the amount of €36,181,000 referred to the external costs incurred in connection with arranging the financing (senior debt and mezzanine) as per March 16, 2005. During 2005 the senior term and mezzanine loans were redeemed in full by way of a global ABS program and the issue of a senior note. Since the contractual provisions of the new forms of finance differed substantially from those governing the preceding funding vehicles, IAS 39.40 required the transaction costs of the senior and mezzanine loans no longer to be spread over the original loan periods, but to be eliminated from the accounts with an effect on income at the time of refinancing. This special effect was recorded under transaction costs.

(42) Income taxes

The income taxes comprise taxes actually paid or payable on income, as well as changes in deferred taxes.

The use of tax loss carryforwards gave rise to an increase in income tax expense in the amount of €3,101,000 in the 2006 reporting year following the release of deferred tax assets; the formation of new deferred taxes on loss carryforwards led to a deferred tax benefit of €7,284,000.

The income tax expenses of the Group amount to:

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Effective income taxes	58,563	16,077
Deferred income taxes	– 20,167	– 133
Income taxes	**38,396**	**15,944**

Taking corporation tax and municipal trade earnings tax into account, the tax rate for the German parent company of the Group is 39% at the year-end, which would correspond to an expected tax expenditure of €106,468,000. The effective tax expenditure amounts to €38,396,000, which corresponds to an average actual tax rate of 14.1%. The difference results largely from the tax reduction because of the first-time recognition of losses, or deferred tax assets on losses, and valuation differences.

In addition, foreign tax rates are usually lower than the German tax rate of 39%. The difference between the tax expenses according to the domestic tax rate and the actual tax expense within the Group arises as follows:

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Expected tax expenditure at domestic tax rate	106,468	58,873
Tax reduction due to deviating foreign tax rates	–21,992	–6,849
Reduced tax rate	–4,573	–
Tax rate changes	–5,401	–1,083
Tax reduction due to tax-exempt income	–10,390	–898
Tax increase due to non-deductible expenses	3,965	856
Effective taxes not relating to period	–5,807	–
Permanent differences	1,266	–
Release of negative goodwill	–142	–58,273
Fiscal effect of tax consolidation (Group relief/fiscal unity)	–	–3,979
Tax reduction because of first-time recognition of losses, or deferred tax assets on losses, and valuation differences	–23,857	–
Tax increase due to non-capitalization of deferred tax for losses and temporary differences	–	27,919
Other fiscal effects	–1,141	–622
Actual income taxes	**38,396**	**15,944**

(43) Notes to the cash flow statement

The cash flow statement is presented according to IAS 7 (Cash Flow Statements). It shows the source and use of the cash flows. The cash flow statement is key to a proper assessment of the financial position of the Klöckner & Co Group.

The changes in balance sheet items that underlie the cash flow statement are not immediately identifiable from the balance sheet because the effects of currency translation and changes in the scope of consolidation are eliminated when the cash flows are calculated. The comparative figures in the cash flow statement refer to the period from March 16 to December 31, 2005 because a new Group was created on March 16, 2005 due to the change of ownership.

Operating activities produced revenue of €131,972,000 in the 2006 financial year. The profit and financial situation, supported by the continued strength of the steel economy, is reflected in the operating cash flow of €354,376,000 before balance sheet changes and income tax payments.

Larger sales volumes and rising procurement prices, and the associated volume and price-related increases in revenue led to a significant increase in inventories, trade receivables and trade payables, and hence in working capital. The advance in working capital was held in check by the rigorous management of receivables and inventories. After adjustments of €20,518,000 for currency effects and €3,242,000 for changes in the scope of consolidation, the working capital increased by €194,739,000 to €1,134,483,000.

Changes

€ thousand	Jan. 1– Dec. 31, 2006	March, 16– Dec. 31, 2005
Inventories	+ 159,680	– 220,312
Trade receivables	+ 133,607	– 114,180
Trade payables	– 98,548	+ 112,129
Working capital	**+ 194,739**	**– 222,363**

The ABS transactions were recognized in the balance sheet of the Klöckner & Co Group. The changes in trade receivables sold are therefore included in the figures above.

The substantial increase in the amount of tied-up working capital was fully covered by the operating cash flow; in other words, without additional loans.

The cash flow from operating activities includes payments for income taxes in the amount of €45,685,000.

Net cash flow from investments and disinvestments was €9,978,000 in 2006. The proceeds from disinvestment activities in the amount of €101,900,000 refer primarily to the sale of the solar protection group in the Netherlands and real estate asset disposals.

The payments for investments total €91,922,000. They relate in particular to the acquisitions in France, Switzerland, Spain and the USA, for which purchase prices of €60.6 million in total were paid, and to modernizing and expanding existing warehousing sites.

The purchase prices paid for the acquired companies are matched by cash and cash equivalents in the amount of €4,071,000. Information on the acquired assets and debts are contained in section 3 (Scope of Consolidation). The cash and cash equivalents are contained in the short-term assets.

The cash flow from operating and investing activities was employed to reduce the financial liabilities.

Allowing for the proceeds from the capital increase of €98,412,000, the dividend payments to minority interests of €6,123,000, the net interest payments of €46,117,000 and, in particular, the net redemption of financial liabilities of €136,170,000, the net cash used in financing activities is €89,998,000. The cash flow from financing activities was influenced in the amount of €365,000 by initial consolidation and exchange rate effects, as well as interest rate effects not affecting payments, including the amortization of the deferred transaction costs.

The business activities of the Klöckner & Co Group continuously generate short-term cash and cash equivalents. As a general rule they are used within one month to redeem working capital credits. This is the origin of the interest received of €3,717,000.

The cash and cash equivalents include liquid funds and marketable securities that can be sold at short notice, and total €130,156,000 at the end of 2006. Foreign currency balances are carried at the buying rate on the balance sheet date. The cash and cash equivalents include bank balances of €30,715,000 belonging to the special-purpose entities consolidated according to SIC 12, whose business is conducted exclusively for the country operations participating in the ABS program.

Offsetting the cash and cash equivalents against the financial liabilities gives rise to the following net cash indebtedness of the Group:

€ thousand	Dec. 31, 2006	Dec. 31, 2005
Financial liabilities (including liabilities to shareholder)	480.868	778.602 (161.199)
Transaction costs	14.052	20.444
Cash and cash equivalents	–130.156	–79.551
Net cash indebtedness (before transaction costs)	**364.764**	**719.495**

Regarding risk management, the risk coverage policies were operated without change. Business conducted in foreign currency is covered by appropriate rate hedging transactions.

We offset credit risks with our own credit management system and by taking out credit insurance. Approximately 70% of the trade receivables were covered by credit insurance in the financial year.

(44) Related party disclosures

The Group parent company which prepares and publishes the consolidated financial statements is Klöckner & Co AG, Duisburg, which is entered in the commercial register of Duisburg Local Court under No. HRB 18561.

In the reporting year the members of the Management Board of Klöckner & Co AG received compensation totaling €3,311,000 from Group companies. The compensation included exclusively short-term payables consisting of fixed components in the amount of €855,000 and variable components of €2,456,000.

The portion of the phantom stock program allocated to the Management Board has a total volume of 930,000 phantom stocks and runs for a period of five years in which equal tranches of 20% or 186,000 phantom stocks are allocated to the Management Board annually. The IPO price of €16/share has been confirmed as the base price of the first allotment. This price increases for each annual allotment by 5% of the previous year's value, i.e. it rises to €19.45/share by the fifth tranche.

The phantom stock options of each tranche can be exercised annually, at the earliest in each case after a period of 30 stock trading days after the ordinary Shareholders' Meeting following allotment of the tranche. After that it is possible to exercise the options of the relevant tranches completely or in part at any time. The claim for payment against Klöckner & Co AG corresponds to the difference in each case between the average market price of the preceding 30 stock exchange trading days (Xetra trading, Deutsche Börse AG, Frankfurt a. M.) prior to exercise of the option and the relevant allotment value of the tranche. The theoretical value of the first tranche allocated to the Management Board is €3,275,000.

In the reporting period the following business was transacted with related parties:

a) Business with the parent company:
   As per December 31, 2005, shareholder loans had been granted by the majority shareholder, Multi Metal Investment S.à r.l., Luxembourg, with a value of €152.5 million. On May 15, 2006, these loans were converted in full into equity (inclusive of interest receivable). As of December 31, 2006, the total loan including interest was €165.3 million.

b) Business with sister companies:
   In the 2006 financial year, consulting costs amounting to €2.1 million were incurred relating to investment corporations of the US stock-exchange business Lindsay, Goldberg & Bessemer (LGB). For another €0.5 million that was paid in Q1, 2006 a provision was set up due to consulting service received in 2005. The consulting agreements with the LGB companies were terminated on May 31, 2006.

c) Business with Management Board members
   Business with members of the Management Board is restricted to their forenamed engagement as managing directors.

In the 2006 financial year, compensation to the Supervisory Board in the Group amounted to €306,000. In the previous year Klöckner & Co AG (formerly Multi Metal Holding GmbH) did not have a Supervisory Board.

Lists of the members of the Management Board and Supervisory Board are attached to the notes.

(45) Occurrences after the balance sheet date

On January 26, 2007 the principal shareholder of Klöckner & Co AG, namely Multi Metal Investment S.à r.l., Luxembourg, sold 13.8 million shares off the floor, largely to British investors, at prices between €32.00 and €33.50. It thus reduced its shareholding from 45.2% to 15.5%.

On January 25, 2007 the French Klöckner & Co subsidiary, Klöckner Distribution Industrielle S.A. (KDI), concluded an agreement to purchase the French Tournier Group. Among the operations being acquired are a mill-independent steel service center in the vicinity of Paris and a further storage location in Nantes. The Tournier Group engages primarily in processing and selling flat steel products; in 2005 its approximately 40 employees generated sales of about €35 million.

(46) Declaration of compliance with the German Corporate Governance Code pursuant to § 161 AktG

On March 5, 2007 the Management Board and Supervisory Board issued the declaration of compliance pursuant to § 161 AktG (German Joint Stock Corporation Act) and made it permanently available to the shareholders on the website of Klöckner & Co AG.

Duisburg, March 5, 2007

Klöckner & Co AG
Management Board

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Klöckner & Co AG, Duisburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as supplementary consideration of International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne
March 7, 2007

KPMG Hartkopf + Rentrop Treuhand KG
Wirtschaftsprüfungsgesellschaft

Philippi	Michels-Scholz
Wirtschaftsprüfer	Wirtschaftsprüfer

ADDITIONAL INFORMATION CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS OF KLÖCKNER & CO AKTIENGESELLSCHAFT

Additional Mandates of the members of Management Board of Klöckner & Co AG (§ 285 subsection 1, No. 10 HGB)

Dr. Thomas Ludwig, Chairman of the Management Board, CEO

Group Mandates

Klöckner Stahl- und Metallhandel GmbH, Chairman of the Supervisory Board
AVZ B.V., Member of the Supervisory Board until July 3, 2006
Comercial de Laminados, Chairman of the Supervisory Board
Debrunner Koenig Holding AG, Chairman of the Supervisory Board
Klöckner Distribution Industrielle S.A., Chairman of the Supervisory Board
Klöckner Ibérica S.L., Chairman of the Supervisory Board
Klöckner Investment S.C.A., Member of the Supervisory Board
Klöckner UK Holdings Ltd, Chairman of the Supervisory Board
Klöckner Namasco Holding Corporation, Chairman of the Supervisory Board
Klöckner Polska Sp. z o.o., in Liquidation, Chairman of the Supervisory Board
Namasco Limited, Chairman of the Supervisory Board
ODS B.V., Chairman of the Supervisory Board
UAB Klöckner Baltija, Chairman of the Supervisory Board

Other Mandates

Trimet Aluminium AG, Deputy Chairman of the Supervisory Board
Trimet Handel AG, Member of the Supervisory Board
3A Aluminium AG, Member of the Supervisory Board
Rölfs W. P. Partner AG Wirtschaftsprüfungsgesellschaft, Member of the Supervisory Board
Kerkhoff Consulting GmbH, Chairman of the Advisory Board, until May 2006
(7S) Personal GmbH, Member of the Advisory Board, until January 1, 2007

Gisbert Rühl, Member of the Management Board, CFO

Group Mandates

Klöckner Stahl- und Metallhandel GmbH, Member of the Supervisory Board
AVZ B.V., Member of the Supervisory Board, until July 3, 2006
Comercial de Laminados, Deputy Chairman of the Supervisory Board
Klöckner & Co Financial Services B.V., Chairman of the Supervisory Board
Klöckner Distribution Industrielle S.A., Deputy Chairman of the Supervisory Board
Klöckner Ibérica S.L., Deputy Chairman of the Supervisory Board
Klöckner Investment S.C.A., Member of the Supervisory Board
Klöckner Namasco Holding Corporation, Member of the Supervisory Board
Namasco Limited, Member of the Supervisory Board
ODS B.V., Member of the Supervisory Board

Other Mandates

PCC Aktiengesellschaft, Member of the Supervisory Board, until April 2006
Deutsche Bank Aktiengesellschaft, Essen, Member of the Regional Advisory Board
DAL Deutsche Afrika Linien GmbH & Co, Member of the Advisory Board
Walter Services Holding GmbH, Chairman of the Shareholders' Committee, since November 16, 2006

Additional Mandates of the members of the Supervisory Board of Klöckner & Co AG (§ 285 subsection 1 No. 10 HGB)

Prof. Dr. Dieter H. Vogel, Chairman

Bertelsmann AG, Chairman of the Supervisory Board[1)]
mobilcom AG, Chairman of the Supervisory Board, until February 21, 2007[1)]
Wacker Construction Equipment AG, Chairman of the Supervisory Board, until November 11, 2006[1)]
WCM Beteiligungs- und Grundbesitz-AG, Chairman of the Supervisory Board, until January 31, 2006[1)]
Gerling-Konzern Versicherungs-Beteiligungs AG, Member of the Supervisory Board, until April 30,2006[1)]
telunico holding AG, Chairman of the Supervisory Board, from February 2, 2006 until February 21, 2007[1)]
HSBC Trinkaus & Burkhardt AG, Member of the Supervisory Board[2)]
Ernst & Young AG, Member of the Advisory Board[2)]
Debrunner Koenig Holding AG, Member of the Supervisory Board[2)]

Dr. Michael Rogowski, Deputy Chairman

Voith AG, Chairman of the Supervisory Board and of the Shareholders' Meeting[1)]
HDI V.a.G./Talanx AG, Member of the Supervisory Board[1)]
IKB Deutsche Industriebank AG, Member of the Supervisory Board[1)]
Carl Zeiss AG, Member of the Supervisory Board[1)]
Freudenberg & Co., Deputy Chairman of the Shareholders' Meeting[2)]
Deutsche Bank AG, Member of the Central Advisory Board[2)]
EADS N.V., Member of the Supervisory Board[2)]

Michael Dees

No additional mandates

[1)] Supervisory Board mandates according to § 100 article 2 AktG
[2)] Membership of similar business enterprise supervisory bodies at home and abroad

Alan E. Goldberg

FAPS Holdings, Inc., Member of the Board[2)]
Keystone Foods Holdings, LLC, Member of the Board[2)]
Maine Beverage Company, LLC, Member of the Board[2)]
PetroLogistics, LLC, Member of the Board[2)]
EnergySolutions, LLC, Member of the Board[2)]
Alliant Insurance Services, Inc., Member of the Board[2)]
Cap Rock Holding Corporation, Member of the Board[2)]
Smurfit Stone Corporation, Member of the Board[2)]
FSB Global Holdings, Inc., Member of the Board[2)]
Intermax Holdings, Inc., Member of the Board[2)]
Brock Holdings, Inc., Member of the Board[2)]

Frank H. Lakerveld

Sonepar Nederland B.V., Deputy Chairman of the Supervisory Board[2)]
Sonepar Deutschland GmbH, Chairman of the Managing Board[2)]
Sonepar Holding S.A., Chairman of the Supervisory Board[2)]
Sonepar Canada Inc., Chairman of the Board[2)]
Otra N.V., Member of the Supervisory Board[2)]
Tatje GmbH & Co KG, Member of the Advisory Board[2)]
Elektro-Tatje GmbH, General Manager[2)]
Trommel Holding GmbH, General Manager[2)]
Trommel Immobilien GmbH, General Manager[2)]
Sonepar Nordic A/S, Member of the Supervisory Board[2)]
Sonepar Iberica S.A., Member of the Supervisory Board[2)]
Sonepar Distributions US Holdings, Inc., Member of the Board[2)]
Sonepar E.C.O., Member of the Supervisory Board[2)]
Sonepar France S.A., Member of the Supervisory Board[2)]
Sonepar Italia SpA, Member of the Supervisory Board[2)]
Sonepar Mexico S.A. de C.V., Member of the Supervisory Board[2)]
CEBEO S.A., Member of the Supervisory Board[2)]

[1]) Supervisory Board mandates according to § 100 article 2 AktG
[2]) Membership of similar business enterprise supervisory bodies at home and abroad

Robert D. Lindsay

Pike Electric Corporation, Member of the Board[2)]
FAPS Holdings, Inc., Member of the Board[2)]
Keystone Foods Holdings, LLC, Member of the Board[2)]
Maine Beverage Company, LLC, Member of the Board[2)]
PetroLogistics, LLC, Member of the Board[2)]
EnergySolutions, LLC, Member of the Board[2)]
Alliant Insurance Services, Inc., Member of the Board[2)]
Cap Rock Holding Corporation, Member of the Board[2)]
Darlene Investments LLC, Member of the Board[2)]
Identity Group, L.L.C., Chairman of the Board[2)]
Bessemer Holdings Asia, L.L.C., Member of the Board[2)]
Bessemer Securities LLC, Manager (CEO)[2)]
Bessemer Securities Corporation, Manager (CEO)[2)]
The Bessemer Group, Inc., Member of the Board
Bessemer Trust Company, NA, Member of the Board[2)]
Bessemer Trust Company of Florida, Member of the Board[2)]
FSB Global Holdings, Inc., Member of the Board[2)]
Intermax Holdings, Inc., Member of the Board[2)]
Brock Holdings, Inc., Member of the Board[2)]

[1]) Supervisory Board mandates according to § 100 article 2 AktG
[2]) Membership of similar business enterprise supervisory bodies at home and abroad

Consolidated Group companies and Joint Ventures

Curr. No.	Company	Participation percentage	Held by Curr. No.
1	Klöckner & Co Aktiengesellschaft, Duisburg/Germany		
Material consolidated Group companies			
2	Multi Metal Beteiligungs GmbH, Duisburg/Germany	100.00	1[1)]
3	Klöckner & Co International GmbH, Duisburg/Germany	100.00	2[1)]
4	Klöckner & Co Verwaltung GmbH, Duisburg/Germany	100.00	3[1)]
5	Klöckner & Co Beteiligungs GmbH, Duisburg/Germany	100.00	4
6	Debrunner Koenig Holding AG, St. Gallen/Switzerland	60.00	5
7	Alu Menziken Metall Service AG, Menziken/Switzerland	100.00	6
8	Davum Construction S.A., Crissier/Switzerland	100.00	6
9	Debrunner Acifer AG Dreispitz, Münchenstein/Switzerland	100.00	6
10	Debrunner Acifer AG Landquart, Landquart/Switzerland	100.00	6
11	Debrunner Acifer AG Ostermundigen, Ostermundigen/Switzerland	100.00	6
12	Debrunner Acifer AG Regensdorf, Regensdorf/Switzerland	100.00	6
13	Debrunner Acifer AG Visp, Visp/Switzerland	100.00	6
14	Debrunner Acifer AG Näfels, Näfels/Switzerland	100.00	6
15	Debrunner Acifer AG, St. Gallen/Switzerland	100.00	6
16	Debrunner Acifer AG Wettingen, Wettingen/Switzerland	100.00	6
17	Debrunner Acifer AG Zentralschweiz, Sursee/Switzerland	100.00	6
18	Debrunner Acifer AG, Zofingen/Switzerland	100.00	6
19	Debrunner Acifer SA Giubiasco, Giubiasco/Switzerland	100.00	6
20	Debrunner Acifer SA Romandie, Crissier/Switzerland	100.00	6
21	Debrunner Acifer SA Fribourg, Givisiez/Switzerland	100.00	6
22	Debrunner Acifer Management AG, St. Gallen/Switzerland	100.00	6
23	Gauss & Co AG, Rümlang/Switzerland	100.00	6
24	Feracier AG, Regensdorf/Switzerland	100.00	6

1) Profit and loss transfer agreement

Curr. No.	Company	Participation percentage	Held by Curr. No.
25	Klöckner Stahl AG, St. Gallen/Switzerland	100.00	6
26	Koenig Feinstahl AG, Dietikon/Switzerland	100.00	6
27	Koenig Verbindungstechnik AG, Dietikon/Switzerland	100.00	6
28	Koenig Austria GmbH, Asten/Austria	100.00	27
29	Koenig Verbindungstechnik GmbH, Illerrieden/Germany	100.00	27
30	KVT-CZ s.r.o, Brno/Czech Republic	100.00	27
31	KVT- Polska Sp. z o.o., Gdansk/Poland	100.00	27
32	Klockner Limited, Douglas/Isle of Man	99.95 0.05	5 52
33	Klöckner & Co USA Holding GmbH, Duisburg/Germany	100.00	4
34	Klöckner USA Holding Inc., Wilmington/Delaware/USA	100.00	33
35	Klöckner Namasco Holding Corporation, Wilmington/Delaware/USA	82.38 17.62	34 57
36	Namasco Corporation, Wilmington/Delaware/USA	100.00	35
37	Green Rhino Steel, LLC, Indianapolis/Indiana/USA	100.00	36
38	Namasco Holding Corporation, Wilmington/Delaware/USA	100.00	36
39	Namasco Metals L.P., Dallas/Texas/USA	99.00 1.00	38 36
40	Klöckner Namasco Receivables Corporation, Roswell/USA	100.00	39
41	Namasco Receivables Corporation, City of Dover/Delaware/USA	100.00	39
42	Klöckner Distribution Industrielle S.A., Aubervilliers/France	90.00	4
43	Buysmetal N.V., Harelbeke/Belgium	99.99 0.01	42 44
44	KDI SAS, Aubervilliers/France	100.00	42
45	Davum Ocean Indien SAS, Le Port/La Réunion/France	100.00	44
46	KDI Export SAS, Cergy-Pontoise/France	100.00	44
47	KDI Immobilier SAS, Aubervilliers/France	100,00	44
48	Prafer SNC, Woippy/France	100.00	44

Curr. No.	Company	Participation percentage	Held by Curr. No.
49	Adrien Targe S.A., La Grand Croix/France	100.00	44
50	Reynolds European S.A.S., Rueil Malmaison/France	100.00	42
51	Klöckner Global Sourcing GmbH, Duisburg/Germany	100.00	4[1)]
52	Klöckner Information Services GmbH, Duisburg/Germany	100.00	4[2)]
53	Klöckner Netherlands Holding B.V., Barendrecht/Netherlands	100.00	4
54	Klöckner Participaties B.V., Barendrecht/Netherlands	100.00	53
55	Klöckner & Co Financial Services B.V., Rotterdam/Netherlands	100.00	54
56	NAMASCO LIMITED, Toronto-Ontario/Canada	100.00	54
57	ODS B.V., Rotterdam/Netherlands	100.00	54
58	B.V. Industriele Vertegenwoordiging Metaalbedrijven "Invem", Rotterdam/Netherlands	100.00	57
59	B.V. Staalveredelingsbedrijf S.V.B., Helmond/Netherlands	100.00	57
60	B.V. Tistim, Rotterdam/Netherlands	100.00	57
61	Hollandia Non-Ferro B.V., Hendrik Ido Ambacht/Netherlands	100.00	57
62	Metaalmaatschappij Van Houten B.V., Rotterdam/Netherlands	100.00	57
63	O-D-S Transport B.V., Barendrecht/Netherlands	100.00	57
64	Sidalmetaal Non-Ferro Verkoop B.V., Capelle aan den Ijssel/Netherlands	100.00	57
65	Struycken & Co. B.V., Rotterdam/Netherlands	100.00	57
66	Verenigde Staalhandel Struycken-Mullerstaal B.V., Rotterdam/Netherlands	100.00	57
67	Vuij B.V., Utrecht/Netherlands	100.00	57
68	W.B. Diepeveen & Co B.V., Rotterdam/Netherlands	100.00	57
69	Klöckner Participaciones SA, Madrid/Spain	100.00	4
70	Klöckner Iberica S.L., Madrid/Spain	100.00	69
71	Comercial de Laminados S.A., Barcelona/Spain	100.00	70
72	Cortichapa S.A., Valencia/Spain	85.00 15.00	71 76
73	Aesga Laminados S.A., Asturias/Spain	100.00	71

1) Profit and loss transfer agreement
2) Profit and loss transfer agreement expired end of December 31, 2006

Curr. No.	Company	Participation percentage	Held by Curr. No.
74	Hierros del Cantabrico S.A., Asturias/Spain	100.00	71
75	Hierros del Ebro S.A., Zaragoza/Spain	100.00	71
76	Hierros del Turia S.A., Valencia/Spain	80.00	71
77	Hierros Guadalquivir S.A., Sevilla/Spain	100.00	71
78	Klöckner Aluminio Iberica S.A., Madrid/Spain	100.00	71
79	Materiales Siderurgicos S.A., Madrid/Spain	100.00	71
80	Perfiles Aragon S.A., Zaragoza/Spain	100.00	71
81	Suministros Loinaz S.A., Guipuzcoa/Spain	100.00	71
82	Klöckner Stahl- und Metallhandel GmbH, Duisburg/Germany	100.00	4[1)]
83	Dobbertin Drahthandel GmbH, Hamburg/Germany	100.00	82
84	Klöckner Romania SRL, Bucharest/Romania	95.00 5.00	82 83
85	Klöckner Stahl und Metall Ges.m.b.H, Vienna/Austria	100.00	82
86	Metall- und Service-Center GmbH Nfg. Co KG, Vienna/Austria	51.00	85
87	Klöckner Stahlhandel CZ, s.r.o., Prague/Czech Republic	100.00	82
88	Klöckner Stal i Metal Polska Sp. z o.o., Poznan/Poland	99.99 0.01	82 83
89	Klöckner UK France Holding Ltd., London/Great Britain	100.00	4
90	Klöckner UK Holdings Ltd., Leeds/Great Britain	100.00	89
91	ASD Limited, Leeds/Great Britain	100.00	90
92	Klöckner Metal Services Ltd., Leeds/Great Britain	100.00	90
93	Richardsons Westgarth Ltd., Leeds/Great Britain	100.00	90
94	Armstrong Plate Ltd., Leeds/Great Britain	100.00	93
95	Berry Hill Group Ltd., Leeds/Great Britain	100.00	93
96	James & Tatton Ltd., Leeds/Great Britain	100.00	95
97	Gardiner, Barugh & Jones Ltd., Leeds/Great Britain	100.00	93
98	Grange Steels Ltd., Leeds/Great Britain	100.00	93
99	Hilton Steels Ltd., Leeds/Great Britain	100.00	93

[1)] Profit and loss transfer agreement

Curr. No.	Company	Participation percentage	Held by Curr. No.
100	Humber Steel Stockholders Ltd., Leeds/Great Britain	100.00	93
101	John O. Holt & Sons Ltd., Leeds/Great Britain	100.00	93
102	Armstrong Steel Ltd., Leeds/Great Britain	100.00	101
103	JRS Steel Stockholders Ltd., Leeds/Great Britain	100.00	93
104	Organically Coated Steels Ltd., Leeds/Great Britain	100.00	93
105	Parkin Steel Stockholders Ltd., Leeds/Great Britain	100.00	93
106	Peterborough Steels Ltd., Leeds/Great Britain	100.00	93
107	RW Doncaster Ltd., Leeds/Great Britain	100.00	93
108	RW Project Metals Ltd., Leeds/Great Britain	100.00	93
109	Westgarth Aberdeen Ltd., Bathgate/Great Britain	100.00	93
110	Klöckner Verwaltungsgesellschaft für Beteiligungen GmbH & Co KG, Duisburg/Germany	100.00	4[3)]
111	Klöckner S.à r.l., Luxembourg	100.00	3
112	Klöckner Investment SCA, Luxembourg	96.77 3.23	3 111
113	Klöckner Finance S.à r.l., Luxembourg	100.00	112

Joint Ventures

114	Metalix B.V., Rotterdam/Netherlands	40.00	57[4)]

As of December 31, 2006

[3)] Permanent establishment for tax purposes (via indenture), incorporated in the accounts of Klöckner & Co Verwaltung GmbH, Duisburg/Germany
[4)] Joint Venture

KLÖCKNER & CO AKTIENGESELLSCHAFT
BALANCE SHEET

as of December 31, 2006

Assets in €	December 31, 2006	December 31, 2005
Intangible assets	149,347.00	0.00
Property, plant and equipment	197,736.00	0.00
Financial assets	250,671,651.75	209,187,421.00
Fixed assets	**251,018,734.75**	**209,187,421.00**
Trade receivables	1,139.57	0.00
Receivables from shareholders	0.00	5,000.00
Receivables from affiliated companies	138,931,297.77	0.00
Other assets	3,263,441.99	2,005.59
Cash and cash equivalents	10,020.76	8,141.96
Current assets	**142,205,900.09**	**15,147.55**
Prepaid expenses	109,035.22	0.00
Total assets	**393,333,670.06**	**209,202,568.55**

Equity and liabilities in €	**December 31, 2006**	**December 31, 2005**
Subscribed capital	116,250,000.00	25,000.00
Capital reserves	197,699,067.41	44,649,059.30
Other earnings reserves	15,288,038.20	0.00
Net profit	37,200,000.00	0.00
Equity	**366,437,105.61**	**44,674,059.30**
Provisions for pensions and similar obligations	4,139,659.35	0.00
Tax provisions	606,250.00	0.00
Other provisions	8,993,901.04	70,000.00
Liabilities to banks	76.58	0.00
Trade payables	875,445.08	97.66
Liabilities to shareholders	0.00	161,199,560.51
Liabilities to affiliated companies	4,959,457.34	3,258,851.08
Other liabilities	7,321,775.06	0.00
Total equity and liabilities	**393,333,670.06**	**209,202,568.55**

KLÖCKNER & CO AKTIENGESELLSCHAFT
INCOME STATEMENT

for the period from January 1 to December 31, 2006

in €	Dec. 1– Dec. 31, 2006	April 1– Dec. 31, 2005
Other operating income	1,997,899.78	0.00
Personnel expenses	– 7,098,307.90	0.00
Depreciation of intangible fixed assets and property, plant and equipment	– 105,044.19	0.00
Other operating expenses	– 12,991,011.06	– 82,627.56
Income from investments	74,183,087.98	– 55,310,721.75
Net interest	– 2,885,647.20	– 5,498,479.76
Result from ordinary activities	**53,100,977.41**	**– 60,891,829.07**
Income taxes	– 606,250.00	0.00
Other taxes	– 6,689.21	0.00
Results before minority interests	52,488,038.20	– 60,891,829.07
Profit/loss carryforward	0.00	– 302,239.63
Withdrawal from capital reserves	0.00	61,194,068.70
Allocation to other earnings reserves	15,288,038.20	0.00
Net profit	**37,200,000.00**	**0.00**

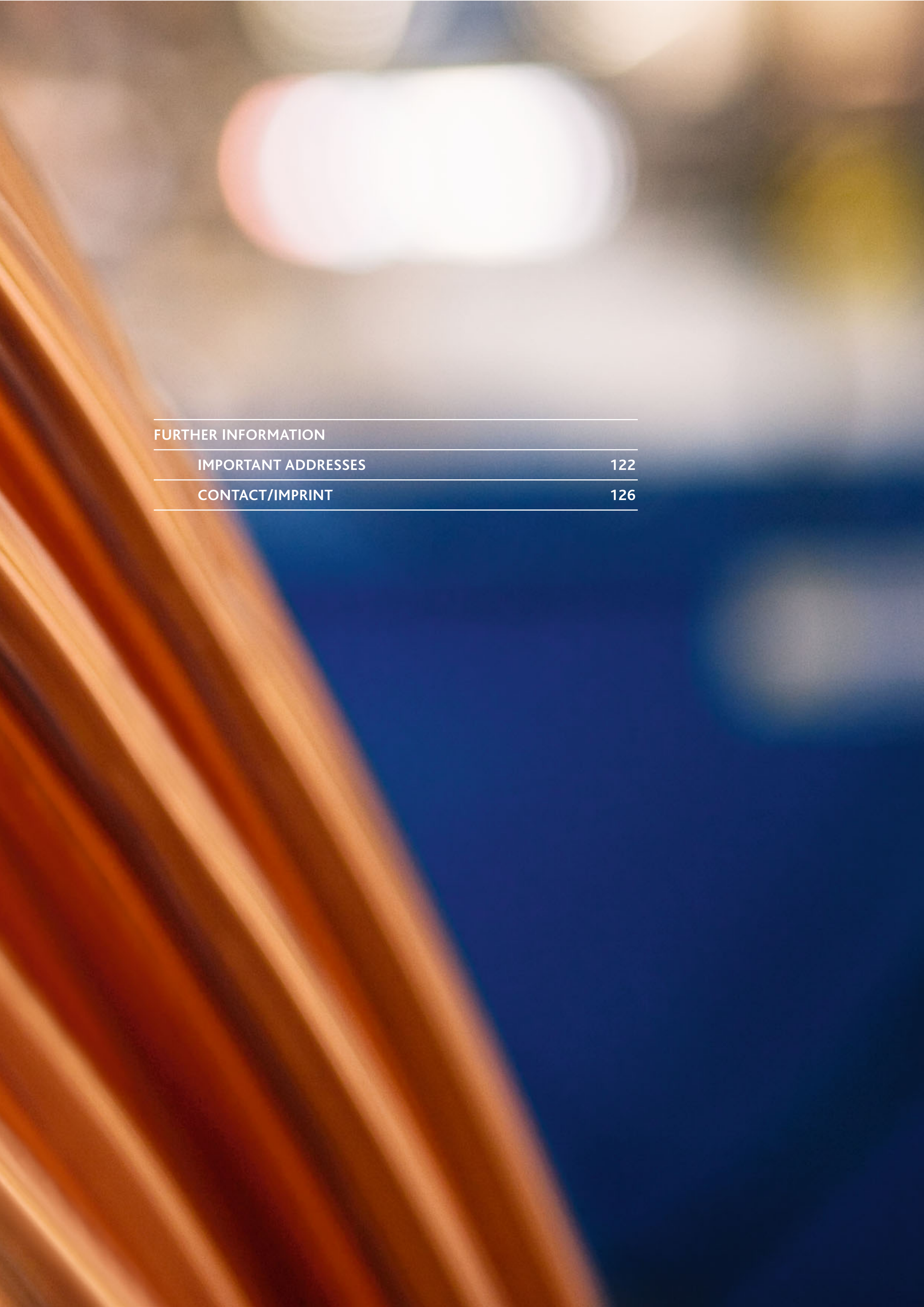
KLÖCKNER & CO AKTIENGESELLSCHAFT PROFIT DISTRIBUTION PROPOSAL

The Management Board and the Supervisory Board propose to the Shareholders' Meeting that the net profit of Klöckner & Co AG, in the amount of €37,200,000.00, be distributed entirely. This corresponds to a dividend of €0.80 per share on the dividend-carrying share capital of €116,250,000.00.

Duisburg, March 5, 2007

Klöckner & Co AG
The Management Board

The annual financial statements of Klöckner & Co AG received the unqualified auditor's opinion of KPMG Hartkopf + Rentrop Treuhand KG Wirtschaftsprüfungsgesellschaft. Only the balance sheet, income statement and profit distribution proposal forming part of said statements are presented here. The annual financial statements are filed with the commercial register of Duisburg Local Court under HRB 18561.



FURTHER INFORMATION

IMPORTANT ADDRESSES

Head Office

Klöckner & Co AG
Am Silberpalais 1
D-47057 Duisburg
Telephone: +49 203 307-0
Fax: +49 203 307-5000

Service

Klöckner Global Sourcing GmbH
Am Silberpalais 1
D-47057 Duisburg
Telephone: +49 203 307-2312
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