

The image features four highly reflective, metallic spheres of different sizes scattered across a light blue, slightly textured background. The spheres are positioned in the upper left, upper center, middle right, and lower left areas. They reflect light and each other, creating a sense of depth and metallic sheen. The overall aesthetic is clean, modern, and industrial.

**klöckner & co**

multi metal distribution

ANNUAL REPORT 2008

## KLÖCKNER & CO GROUP – KEY FIGURES

Highlights 2008

### Income Statement

		2008	2007	2006
Sales	€ million	6,750	6,274	5,532
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	600	371	395
Earnings before interest and taxes (EBIT)	€ million	533	307	337
Earnings before taxes (EBT)	€ million	463	210	273
Earnings after taxes (EAT)	€ million	384	156	235
Earnings per share (basic)	€	8.56	2.87	4.44
Earnings per share (diluted)	€	8.11	2.87	4.44

### Cash Flow Statement

		2008	2007	2006
Cash flow from operating activities	€ million	187	109	132
Cash flow from investing activities	€ million	72	-378	10

### Balance Sheet

		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Working capital*)	€ million	1,407	1,323**)	1,135
Net financial debt	€ million	571	746	365
Equity	€ million	1,074	845	799
Balance sheet total	€ million	3,075	2,966	2,552

### Key Figures

		2008	2007	2006
Sales volume	to'000	5,974	6,478	6,127
Employees at end of period (Dec. 31)		10,282	10,581	9,688

\*) Working capital = inventories plus trade receivables less trade payables

\*\*) 2007: including Namasco Ltd. and KVT AG

## HIGHLIGHTS 2008

### **Sales growth / markedly higher earnings in 2008**

The Klöckner & Co Group generated sales of €6.7 billion in financial year 2008. The increase from €6.3 billion in 2007 to €6.7 billion in 2008 was largely the result of acquisitions and price increases during the first nine months of the year. At around €600 million, EBITDA including non-recurring effects rose by about 62% in 2008. Despite weak fourth quarter performance, the Group generated a record result in its more than 100-year corporate history.

### **Initially successful continuation of acquisition strategy – temporary suspension since October**

Klöckner & Co SE successfully continued its expansion strategy at the start of financial year 2008. The Company acquired the British tube distributor Multitubes Ltd. during the first quarter, followed by the takeover of Temtco Steel, a leading US distributor of special heavy plate, in the second quarter of 2008. In addition, the Group obtained the remaining shares in Swiss national subsidiary Debrunner Koenig Holding (DKH) in April and raised its stake in Bulgarian distributor Klöckner Metalsnab to just under 100% in September. In the course of the global economic downturn toward the end of the third quarter, the Klöckner & Co Group decided to temporarily suspend its acquisition program at the start of October.

### **Successful divestment of non-core businesses**

As announced, the Company continued to divest itself of peripheral businesses in 2008 to reinforce its concentration on the core distribution business. The sale of the Canadian subsidiary Namasco Ltd., which focuses on the automotive business, and the divestment of Koenig Verbindungstechnik (KVT), a subsidiary of our Swiss national holding company that specializes in fastening systems, were concluded in the third quarter of 2008.

### **Successful implementation of "STAR" performance program**

The Company continued to implement the measures of the "STAR" performance program very successfully and on schedule in 2008. The aim of "STAR" is to identify and realize potential for operational value enhancement. Phase II of the program was introduced at the start of financial year 2008. Key objectives of the "STAR" program include the pooling of global procurement and the optimization of the distribution network and inventory management.

### **Immediate action program for cost and debt reduction**

In response to the drastic deterioration of the global economic environment, Klöckner & Co resolved a comprehensive action program as early as the start of October. Key aspects of the program include the temporary suspension of the Company's acquisition program, rationalization through a reduction of personnel costs and continued debt reduction.

### **Second Annual General Meeting in June 2008**

In June 2008, Klöckner & Co held the second Annual General Meeting since its public listing. About 300 shareholders and shareholder representatives attended the Annual General Meeting of Klöckner & Co in Düsseldorf on June 20, 2008. A key resolution of the Annual General Meeting concerned the Company's transformation from a stock corporation into a European Company (Societas Europaea, SE).

### **Transformation of Klöckner & Co Aktiengesellschaft into a European Company (Societas Europaea, SE)**

The transformation of Klöckner & Co Aktiengesellschaft into a European Company (Societas Europaea, SE) was concluded with the entry into the commercial register in August 2008. On that date, the Company became known as Klöckner & Co SE. The legal form of an SE is the expression of a modern, entrepreneurial Europe, making this transformation a logical step in the corporate development of an international company like Klöckner & Co.



## BRIEF PORTRAIT OF KLÖCKNER & CO SE

Klöckner & Co SE is the largest producer-independent multi metal distributor in the combined European and North American market. In 2008, the Company generated sales of around €6.7 billion. Klöckner & Co has a global presence covering more than 15 countries and over 260 locations with a total workforce of about 10,000. Klöckner & Co SE has been publicly listed since 2006.

As a mill-independent international multi metal distributor, the Klöckner & Co Group represents a key link in the value chain that extends from multi metal production to small and mid-sized customers. Klöckner & Co purchases materials in large quantities worldwide and provides customers with targeted supplies via local warehousing sites. In addition, the Klöckner & Co Group offers its international customers cross-border supplies to their international sites.

With this range of products and services, the Klöckner & Co Group serves around 185,000 customers in various sectors, with a focus on the construction and mechanical and plant engineering industries. The Company's product portfolio comprises long products (e.g. steel girders for the construction industry), hollow sections (e.g. steel hollow sections), flat products (e.g. sheet steel for machine builders), stainless and quality steel (e.g. high alloy round steel rods for machinery engineering applications), aluminum products (e.g. sectional rods for plant construction) and special products, such as plastics, ironware and accessories. All in all, the Klöckner & Co Group offers more than 200,000 products.

In addition to unprocessed materials and pre-products, the Klöckner & Co Group provides its customers with an extensive range of services including cutting and splitting steel strip, cutting to length, flame-cutting and surface treatments.

Business performance is largely determined by management of the product portfolio, inventories and the distribution network. Global sourcing represents another key competitive advantage of the Klöckner & Co Group. Its independence from individual steel producers offers it a high level of flexibility and thus a solid basis for negotiations with suppliers. In addition, an annual procurement volume of about 6 million metric tons allows the Company to engage in strategic partnerships and arrange attractive supply agreements.



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*Dear Shareholders,*

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Despite the disappointing developments in the fourth quarter, we can look back on a generally successful financial year in 2008. We achieved the best EBITDA result in our Company's history at about €600 million. We also further extended our market position as the largest producer-independent steel and metal distributor in the entire market of Europe and the United States. At the same time, we streamlined our portfolio further through divestments, significantly reduced outstanding debt and successfully continued our efficiency-enhancing program STAR.

Following our acquisition of Primary Steel in 2007, we achieved a leading market position in the heavy-plate segment of North America through the purchase of Temtco Steel. Thanks to the complete or nearly complete takeover of the outstanding shares in our country subsidiaries in Switzerland and Bulgaria, we strengthened our position as the largest producer-independent multi metal distributor in Europe. In another step related to our focus on the Company's core business, we sold a Swiss company that specializes in fastening systems and a Canadian company that works primarily as an automotive supplier. These transactions were completed before the disruptions in the world financial markets began. The high purchase price we received from the Swiss company enabled us to make a significant reduction in the Group's outstanding debt as early as the third quarter. By selling our Canadian subsidiary, we extricated ourselves from the risks of the North American automotive industry just in time.

A look at the year clearly shows that we took advantage of the positive business conditions in the first three quarters and continued to successfully grow Klöckner & Co. A look at the fourth quarter and the future shows us the challenges lying ahead. When it became obvious at the beginning of October that the financial crisis would have a much bigger impact on the real economy, we responded with an immediate action program. In particular, this program included steps to lower net working capital and reduce jobs as a reaction to over-capacity. In another step, we temporarily suspended our acquisition strategy. The initial measurable success of these activities was a significant decrease in outstanding debt by year's end. Additional measures were approved in March 2009 as a further reaction to the intensifying crisis in the financial and real markets.

By taking these steps, we have shown that Klöckner & Co can effectively and rapidly respond to shifting business conditions. This ability is bolstered by our business system and company organization. These strengths enable us to generate above-average earnings in rising markets due to additional inventory gains and to produce increased cash flow in falling markets due to the reduction of working capital which is achieved at an above-average speed.

As a result of this business system, the Group's financing rests on a solid foundation. We have not even used half of our approximately €1.8 billion in lines of credit. Furthermore, we have no refinancing needs in the ongoing financial year.



For these reasons, we consider ourselves to be well prepared for the major challenges awaiting us during the current financial year. Despite the initial emergency steps taken and the additional ones we approved in March, we will have to prepare for a significant decrease in earnings. On the other hand, one of our top priorities will be to continue making significant cuts in outstanding debt by reducing working capital. We also intend to take advantage of opportunities arising from the financial and economic crisis to further strengthen the Company in its core business. This focus involves both expanding market shares by exploiting competitors' weaknesses and resuming our acquisition strategy at a later time.

We were dissatisfied with the performance of our stock at the end of the past financial year. After the price peaked at €41.50 on June 6, we also became caught in the downdraft running through the world's stock markets in the second half of the year. As a result, the price plunged to €12.29. But our stock's performance also reflected the broad market trend for the steel segment.

As a result of the current difficult situation and the unpredictable direction of the economy, the Management Board and the Supervisory Board have decided to propose to the Annual General Meeting that no dividend should be paid for the past financial year. We consider this step to be a necessary one. Combined with the reduction of outstanding debt, the decision will substantially contribute to the preservation and future development of Klöckner & Co.

Dear shareholders, we would like to express our gratitude for your trust in and commitment to Klöckner & Co. We face tremendous challenges in the current financial year. We and our dedicated employees will work together to meet them. Even though we will be unable to continue the earnings success that we achieved in the past, we will continue to improve the Company and position it in a way that will enable it to emerge strengthened from the current crisis.

Best regards,

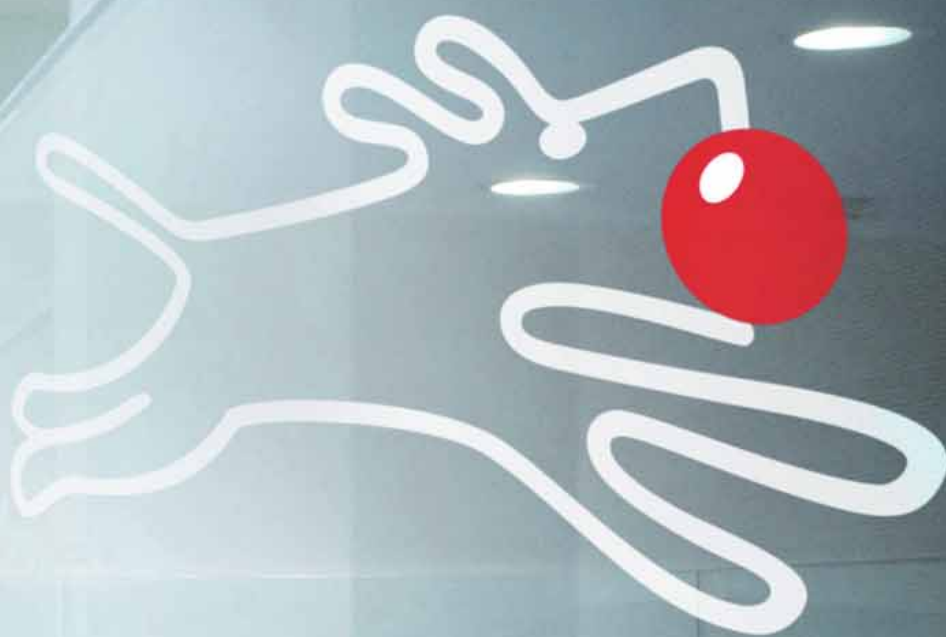
Dr. Thomas Ludwig  
Chairman  
of the Management Board

Ulrich Becker  
Member  
of the Management Board

Gisbert Rühl  
Chief Financial Officer  
and Member of the  
Management Board







r. to l.: Dr. Thomas Ludwig  
Chairman of the Management Board Klöckner & Co SE

Gisbert Rühl  
Chief Financial Officer and  
Member of the Management Board Klöckner & Co SE

Ulrich Becker  
Member of the Management Board Klöckner & Co SE

## MANAGEMENT BOARD

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### Dr. Thomas Ludwig

Chairman of the Management Board

Born in 1948, Management Board member since November 2003 and appointed until May 31, 2011. His operating responsibilities include the Group's North American activities and the holding functions of Compliance, Corporate Communications, Human Resources, Legal Affairs, Internal Auditing and Risk Management.

### Ulrich Becker

Member of the Management Board

Born in 1961, Management Board member since April 1, 2008, and appointed until March 31, 2013. His operating responsibilities include the Group's European activities and Klöckner Global Sourcing GmbH and the holding functions of Purchasing, Logistics and Process Management.

### Gisbert Rühl

Chief Financial Officer and  
Member of the Management Board

Born in 1959, Management Board member since July 2005 and appointed until May 31, 2011. He is responsible for Klöckner Information Services GmbH and the holding functions of Central Accounting, Controlling/M&A, Corporate IT, Finances, Investor Relations, Tax Affairs and Insurance.

## SUPERVISORY BOARD

### Supervisory Board

**Prof. Dr. Dieter H. Vogel**  
Chairman, Lindsay Goldberg Vogel GmbH,  
Düsseldorf, Chairman

**Dr. Michael Rogowski**  
Chairman of the Supervisory Board,  
Voith AG, Heidenheim,  
Deputy Chairman

**Robert J. Koehler**  
Chairman of the Management Board  
of SGL CARBON AG, Wiesbaden

**Frank H. Lakerveld**  
Member of the Board of Management,  
Sonepar S.A., Paris

**Dr. Jochen Melchior**  
Former Chairman of the Board of Management  
of the former STEAG AG, Essen

**Dr. Hans-Georg Vater**  
Former Member of the Board of Management,  
HOCHTIEF Aktiengesellschaft, Essen

### Executive Committee

(also the Personnel Committee,  
the Committee for Urgent Matters and the  
Nomination Committee)

**Prof. Dr. Dieter H. Vogel**  
Chairman

**Dr. Michael Rogowski**

**Dr. Hans-Georg Vater**

### Audit Committee

**Dr. Hans-Georg Vater**  
Chairman

**Dr. Michael Rogowski**

**Prof. Dr. Dieter H. Vogel**



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## REPORT OF THE SUPERVISORY BOARD

In financial year 2008, the Supervisory Board again performed its duties in accordance with legal requirements, the Articles of Association and the rules of procedure with due care. It advised the Management Board in the management of the Company and monitored the conduct of the Company's business. The Supervisory Board received timely information on all important developments at the Company and its subsidiaries. The Management Board regularly informed the Supervisory Board through detailed oral and written reports. The Management Board provided the Supervisory Board with detailed monthly written reports on the sales, earnings and the financial situation of the Group and its major operating companies, and the development of the capital market, peer group companies and the share price in the form of Board reporting. In addition, the meetings of the Supervisory Board regularly discussed the general economic situation, the industry situation, the business performance of the Klöckner & Co Group and the performance of the Klöckner & Co share. The Supervisory Board Chairman maintained regular contact with the Management Board, including a routine monthly discussion of the Group's situation and strategic issues as well as numerous telephone calls.

### **Organization of the work of the Supervisory Board, Corporate Governance**

The Supervisory Board has an Executive Committee and an Audit Committee. In line with the Supervisory Board's rules of procedure, the Executive Committee also acts as the Human Resources Committee, the Committee for Urgent Matters and the Nomination Committee for the preparation of proposals for appointments to the Supervisory Board. All of the committees consist of three members and – with the exception of the Audit Committee – are headed by the Supervisory Board Chairman. The Management Board was regularly and closely involved in the work of the Supervisory Board. The members of the Management Board took part in the meetings and conference calls of the Supervisory Board and its committees unless they themselves were the subject of discussion.

In financial year 2008, the Supervisory Board held seven meetings. Including the constituting meeting of the SE Supervisory Board and a strategy meeting, the Supervisory Board held six face-to-face meetings and one conference call. The Audit Committee met four times, including three face-to-face meetings, and the Executive Committee met three times. In December 2008, the Executive Meeting also passed an urgent resolution made outside the context of a regularly scheduled meeting in its capacity as the Committee for Urgent Matters. The Supervisory Board as a whole passed other urgent resolutions on short notice outside the context of regular meetings by written procedure or in conference calls. All members of the Supervisory Board and its respective committees took part in the resolutions of their respective bodies.



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The Management Board provided comprehensive documentation for all Supervisory Board meetings. Where required, the Supervisory Board committees prepared plenary decisions, and in individual cases made a decision on behalf of the entire Supervisory Board. The committee chairpersons regularly and comprehensively reported content and outcome of committee meetings in plenary meetings.

On December 15, 2008, the Management and Supervisory Boards discussed and passed the declaration of compliance in accordance with section 161 of the German Stock Corporation Act after updating it in line with the announced schedule. With a few justified exceptions, the work of the Supervisory Board complied with the specifications of the German Corporate Governance Code in its current form (see also the section on Corporate Governance, p. 24 et seq.). The rules of procedure for the Management Board approved by the Supervisory Board contain detailed regulations regarding the working relationship between the Management and Supervisory Boards. These include a comprehensive catalog of important or extraordinary Group transactions or measures requiring the approval of the Supervisory Board as well as the Management Board's organizational chart compiled by the Supervisory Board. In the Supervisory Board meeting on July 16, 2008, the rules of procedure for the Management and Supervisory Boards were reviewed in consideration of the amendments to the German Corporate Governance Code and the transformation of the Company's legal status into an SE as resolved by the Annual General Meeting on June 20, 2008. As required, the rules of procedure were adapted to the altered parameters.

In the fall of 2008, the Supervisory Board conducted its regular efficiency review – as announced – in accordance with Section 5.6 of the German Corporate Governance Code. The more structured efficiency review was based on a questionnaire and face-to-face discussions between the Chairman and the other members of the Supervisory Board. The detailed results of the review were discussed by the Supervisory Board's Executive Committee and by the plenary meeting on December 15, 2008. The Supervisory Board found that the evaluation did not result in any material requirement for an adaptation of the Supervisory Board's work. The content-related and organizational advice from Supervisory Board members will be considered over the near term. In addition, the Supervisory Board reaffirmed its view that capping the number of Supervisory Board positions at six members who exclusively represent the Company's shareholders facilitates the plenary work as it allows the committees to focus even more closely on special issues.

In its meeting on September 23, 2008, the Supervisory Board transferred the preliminary discussion of the six-month financial statements and interim financial statements, as recommended by the amended German Corporate Governance Code in the summer of 2008, to the Audit Committee. The first of these discussions took place in the context of a conference call with the Management Board on November 13, 2008, and concerned the third quarter report.



### The Supervisory Board supports change of strategic priorities in response to dramatically altered parameters since September 2008

As reported in the previous year, the Supervisory Board in an additional meeting on January 25, 2008, appointed Ulrich Becker as a further member of the Management Board, and on the same occasion was informed about current business developments. The Supervisory Board meeting on March 31, 2008, focused on the annual financial statements for 2007 and the preparations for the Annual General Meeting on June 20, 2008. In addition, the Supervisory Board approved the acquisition of the entire operations of the Taylor Equipment and Machine Tool Corporation (Temtco Steel) within the context of the Company's acquisition strategy for North America. In terms of both region and product range, Temtco Steel represents a good complement to Primary, which was acquired a year earlier. At the same meeting, the Supervisory Board also approved the parameters for the foreseeable global settlement of the Balli complex, which was contractually secured in September 2008. In addition, the Management Board reported that allegations of anti-competitive behavior against the French organization were likely to be confirmed, that the Company would cooperate with the antitrust authorities, and that it could be assumed that provisions and guarantees would provide adequate coverage.

In written resolutions at the end of April 2008 and the beginning of May 2008, the Supervisory Board continued its preparations for the Annual General Meeting, including the Company's change of legal status. The Supervisory Board meeting on June 20, 2008, also focused on the subsequent Annual General Meeting. In addition, the Supervisory Board approved the necessary rental contracts and investments in preparation for a major combination of locations in the western United States. At the constituting meeting of the SE Supervisory Board on the day of the Annual Meeting, all Supervisory Board and committee functions as well as three Management Board positions were filled with the same persons and identical terms of office as at the AG, effective from the entry of the change of legal status into the commercial register. These precautionary resolutions became effective with the entry of the change of legal status on August 8, 2008, and provided for the desired personnel stability in the work of the Supervisory and Management Boards. In addition, the Supervisory Board approved the strategic divestments of Canada's Namasco Limited and – in its meeting on July 16, 2008 – the Swiss subsidiary Koenig Verbindungstechnik.

Aside from business developments, the work of the Supervisory Board until September 2008 was dominated by the continued development and implementation of the acquisition strategy. On July 16, 2008, the Supervisory and Management Boards met for an additional Supervisory Board meeting (strategy meeting) in St. Gallen, Switzerland, to discuss the fundamental Group strategy. In the process, the Supervisory Board also had the opportunity to get to know a major branch office that is typical of Klöckner & Co's successful Swiss organization.



At the strategy meeting, the Management Board presented a comprehensive analysis of the state of the Company and explained the Company's planned strategic development with respect to products, markets and investments. Without deciding on a fundamental strategic reorientation, the Management Board in September 2008 responded to the deepening international financial crisis with a change of priorities and suspended all planned acquisitions. At its meeting on September 23, 2008, the Supervisory Board was reassured by means of a worst-case analysis compiled by the Management Board that the Group's financial position can be rated solid under the assumption that the suspension of all acquisitions, investment cutbacks and other cost-cutting measures announced by the Management Board are actually implemented. During the financial year, the Supervisory Board on several occasions – in particular at its meeting on December 15, 2008 – was informed about the prompt implementation of this catalog of measures.

The creation of a Group-wide compliance organization approved in the fall of 2007 was completed in the summer of 2008. Permanently monitoring and improving this organization are two of the key duties of the Management Board, with the Supervisory Board advising and monitoring the Management Board in the process. The Supervisory Board dealt with the first compliance report of the Management Board at its meeting on December 15, 2008. Among other matters, the Management

Board informed the Supervisory Board about the latest developments regarding the already publicized cartel law infringements at a French subsidiary during the period 1999 to 2004. After the unexpectedly high fines levied for these infringements, which the Supervisory Board contested, became known on December 16, 2008, the Supervisory Board's Executive Committee in its role of Contingency Committee approved the immediate measures taken by the Management Board to limit the damage to the Company.

#### Annual financial statements 2008

These annual financial statements of Klöckner & Co SE for financial year 2008, the consolidated financial statements and the Combined Group management report have been audited by the auditor appointed by the Annual General Meeting and commissioned by the Supervisory Board, KPMG Hartkopf + Rentrop Treuhand KG Wirtschaftsprüfungsgesellschaft, and have each received an unqualified audit opinion. The audit reports and the financial statement documents were made available to all members of the Supervisory Board. They were thoroughly discussed by the Audit Committee and in the Supervisory Board's plenary meetings.

In the audit meeting on March 30, 2009, the chairman of the Audit Committee gave a thorough report about the review of the annual financial statements and the consolidated financial statements by the Audit Committee. The auditor took part in the discussions of the Audit Committee and the Supervisory Board, reported on the key

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findings of the audit and answered questions. The Supervisory Board acknowledged and approved the findings of the audit and the answers of the Audit Committee chairman. As far as possible, the instructions resulting from the review of two special issues commissioned by the Supervisory Board in the fall of 2008, the harmonization of the risk and opportunities report with financial accounting and the Group management report and tax reconciliation at country level were considered in the compilation of the annual financial statements for 2008.

Following its final review of the annual financial statements, the consolidated financial statements and the Combined Group management report and in line with the recommendation of the Audit Committee, the Supervisory Board raised no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Management Board at its meeting on March 30, 2009. The annual financial statements are thereby adopted. The Supervisory Board considers the Management Board's proposal to the Annual General Meeting that the unappropriated surplus should be carried forward to the new account to be appropriate. It thus endorses the Management Board's proposal.

With respect to the risk detection system, the auditor stated that the Management Board had taken the measures required in accordance with section 91 para. 2 of the German Stock Corporation Act (AktG), including those for establishing a monitoring system, in an appropriate manner and that the monitoring system is capable of detecting, at an early stage, developments that could jeopardize the Company's existence. A related parties report in accordance with section 312 of the German Stock Corporation Act was no longer required for financial year 2008.

#### **Personnel changes**

The personnel structure of the Supervisory Board of Klöckner & Co did not change in 2008. By resolution of the Annual General Meeting on the Articles of Association of the SE (section 9 para. 3) on June 20, 2008, the six incumbent Supervisory Board members of Klöckner & Co AG were also appointed to the Supervisory Board of Klöckner & Co SE for their respective original terms of office at the AG.

Ulrich Becker, who was appointed as an additional member of the Company's Management Board on January 25, 2008, started on April 1, 2008, for a term of five years. He is responsible for the operating management of the Europe segment as well as for the procurement and logistics operations of the Klöckner & Co Group.



The Supervisory Board wishes to express its gratitude and appreciation to the Management Board and all the employees of Klöckner & Co SE and its affiliated companies for their dedicated and successful work, especially in light of the considerable market turmoil towards the end of the year.

Duisburg, March 30, 2009

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

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## KLÖCKNER & CO SHARE

### Key data on the Klöckner & Co share

ISIN: DE000KC01000  
German Securities Code (WKN): KC0100  
Stock exchange symbol: KCO  
Bloomberg: KCO GR  
Reuters XETRA: KCOGn.DE  
MDAX® listing: since January 29, 2007

### Stock price caught up in financial market turbulence

Last year, all major global stock market indices came under intense pressure as the financial crisis exerted its grip around the world. Uncertainty about the future direction of the global economy gradually increased during 2008, particularly during the second half of the year. Steel stocks along with steel distributors were also affected by this uncertainty about future developments.

The price of the Klöckner & Co share went in two directions during 2008 and was ultimately unable to escape the pull exerted by the global market trend. At the beginning of the year, the Klöckner & Co share reflected the positive expectations for the steel sector. As a result, the share outperformed the MDAX® and DAX® until the end of the third quarter. Then, however, the price fell as the crisis that originated in the United States spread around the world. At the end of the fourth quarter, the Klöckner & Co share price was €12.29, a drop of about 55% over the closing price of 2007. Compared with the end of 2007, the MDAX® lost about 43% and the DAX® about 40%.

### Klöckner & Co share performance indicators

		2008	2007
Number of shares (undiluted)		46,500,000	46,500,000
Closing price (Xetra, close)	€	12.29	27.50
Market capitalization	€ million	571	1,279
High (Xetra, close)	€	40.50	63.20
Low (Xetra, close)	€	7.65	25.88
Average daily trading volume	shares <sup>1)</sup>	901,919	759,379
Distribution amount <sup>2)</sup>	€ million	–	37.2
Pay-out ratio (consolidated net income) <sup>3)</sup>	%	–	30
Close dividend per share	€	–	0.80
Dividend yield in terms of closing price	%	–	2.9

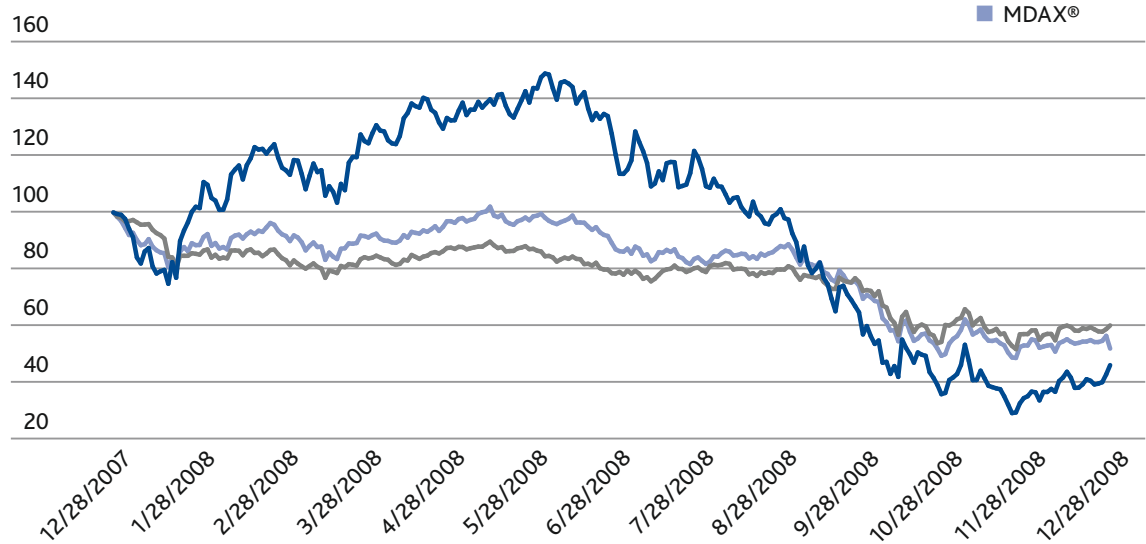
<sup>1)</sup> Source: Deutsche Börse

<sup>2)</sup> Proposal for the Annual General Meeting on May 26, 2009

<sup>3)</sup> After deduction of extraordinary income



**Performance Klöckner & Co share in comparison to DAX® and MDAX®**  
(Values indexed)



Average daily trading volume continued to climb. In 2008, an average of 901,919 shares traded each day, an increase of about 19% over the previous year. The higher daily trading volume results in improved tradeability. The Klöckner & Co share ranked 11th within MDAX® in terms of trading turnover. In statistical terms, the entire number of shares thus changes owners every 52 days. This high turnover rate is also reflected in the beta factor of 1.4 (Source: Bloomberg), which measures price fluctuations versus the MDAX® reference index.

The Management Board and the Supervisory Board will propose to the Annual General Meeting on May 26, 2009 that the retained profits for financial year 2008 should be carried forward to the new account and that no dividend be paid.

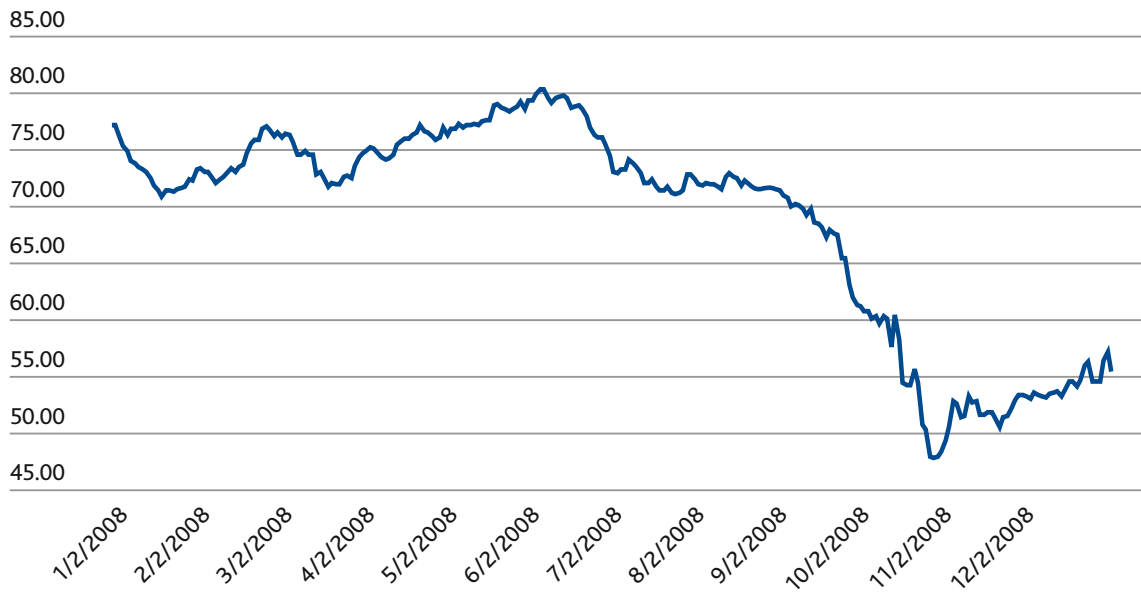
In taking this step, Klöckner & Co SE will deviate from its previous dividend policy in light of the difficult macroeconomic situation. Under this policy, the dividend volume should amount to 30% of the consolidated net income after the deduction of special items.

#### Convertible bond

The convertible bond issued by Klöckner & Co performed much like the Klöckner & Co share. Beginning in the middle of the third quarter, the convertible bond took the same downward course as stock markets. The price of the convertible bond fell against a backdrop of markedly rising risk premiums for corporate bonds over the course of the year. In the final months of this past financial year, average daily trading volume rose steeply. Over the year as a whole, an average of 46,000 bonds was traded per day. In the fourth quarter, the average daily trading volume climbed to about 263,000 bonds.

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### Performance of the Klöckner & Co convertible bond



#### Key data on the Klöckner & Co convertible bond

German Securities Code: A0N0J0

Volume: €325 million

Issue date: July 27, 2007

Maturity date: July 27, 2012

Annual interest rate: 1.5%

Conversion price: €80.75

Standard & Poor's long-term rating: B+

#### IR activities intensified amid market turbulence

During the past financial year, the intensive and open dialogue with investors and potential investors was continued and extended. At a total of 32 road shows held at all important financial locations in Europe and North America as well as at 13 conferences and about 70 additional individual meetings, members of the Management Board informed interested investors about the results and the potential of Klöckner & Co. During these discussions, a particular emphasis was placed on the specific market situation, the Company's strategy as well as steel price trends and their impact on Klöckner & Co.



Our Web site, [www.kloeckner.de](http://www.kloeckner.de), is a fixed component of our financial communications. Numerous private investors learn about Klöckner & Co by contacting the Company directly or using the Internet. In this work, the Investor Relations team answered about one-third more questions from private investors in 2008 than it did in 2007. The number of page views rose by about 35% over 2007. In 2008, 50% more Internet users took advantage of the opportunity to learn about Klöckner & Co through the Web site.

In the future, too, intensive and transparent communication with capital market participants will be a special focus of Klöckner & Co. By constantly analyzing the geographic breakdown of our investors, our investor relations activities are reviewed and optimized.

#### Research coverage continues to grow

A constant and trusting relationship with analysts is particularly important not just during turbulent stock market times. Klöckner & Co realizes this and conducts a dialogue with a large number of analysts. Last year, 126 research reports about the Klöckner & Co share were published.

In the process, Commerzbank, Cazenove, SRH Alster Research and WestLB joined the group of analysts reporting on Klöckner & Co. In December 2008, 17 banks and investment firms issued reports about the Klöckner & Co share. At the end of the year, 11 firms rated the stock as a "buy" and five as a "hold." Only one investment firm placed the share on the "sell" list. You will always find the latest reports by analysts on our Web site under the heading Investor Relations.

#### Annual General Meeting

The second Annual General Meeting of Klöckner & Co SE was held on June 20, 2008, in the Congress Center at Messe Düsseldorf. About 300 investors or their representatives attended the meeting. As a result, approximately 43% of the voting share capital was represented. All items on the agenda were approved by the stockholders with overwhelming majorities of 95.18% to 99.99%. You will find detailed information about the Annual General Meeting on the Internet at [www.kloeckner.de](http://www.kloeckner.de).

#### Conversion into an Societas Europaea (SE)

On August 8, 2008, Klöckner & Co became a European Company (Societas Europaea). The legal form of the SE is an expression of a modern, entrepreneurially spirited Europe. In the process, it underscores the international and open corporate culture at Klöckner & Co. The European legal form SE also highlights the special meaning that the European market has for Klöckner & Co.

On June 20, 2008, the Annual General Meeting gave its nearly unanimous approval to the proposal made by the Management Board and the Supervisory Board regarding the conversion of the legal form.

For stockholders, the conversion of the legal form changes nothing in principle. Shareholders of the former Klöckner & Co AG are now shareholders of Klöckner & Co SE. The legal position in terms of voting rights and dividend rights remains unchanged. The transformation also had no effect on share trading and the trading segment of Klöckner & Co.

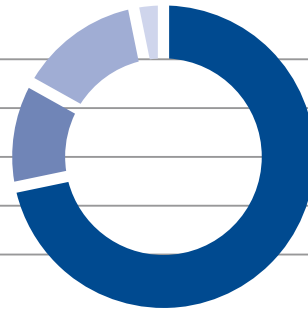
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### Shareholder structure of Klöckner & Co SE

Institutional investors	■	72%
Private investors	■	11%
Anonymous investors	■	14%
Other investors	■	3%



### Stockholder structure shaped by US investors

According to a stockholder identification analysis commissioned in September 2008, the shareholder structure of Klöckner & Co SE has changed only slightly since September 2007.

The analysis was able to identify 83% of Klöckner & Co stockholders. A total of 72% of the Company's share capital is held by institutional investors and 11% by private individuals. The stockholder structure was thus virtually unchanged from 2007.

At the date of authorization of the financial statements the investment firm Franklin Mutual Advisers is the largest investor in Klöckner & Co SE with 9.89% according to a mandatory notification made in November 2008. It is followed by Fidelity International Limited, which holds 3.68% of the capital stock of Klöckner & Co, according to a notification issued in December 2008.

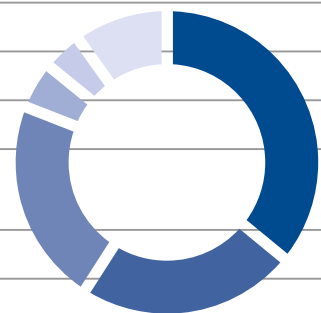
Under a definition provided by Deutsche Börse AG, all shares not held by major stockholders (a portion of the share capital exceeding 5%) are part of the free float. In addition, investments by

mutual funds that make up less than 25% of the Company's share capital belong to the freely negotiable stock if the investments were made without any strategic purpose. As a result, the free float of Klöckner & Co SE was 100% at the end of 2008.

The geographic breakdown of investors has shifted since financial year 2007 in favor of European portfolios. In 2007, 53% of the share capital was held in European portfolios. That figure had risen to 64% by September 2008. Even though the number of investors from the United States fell during this past financial year, US investors are still the largest regional group at 36%.

### Geographic breakdown of investors of Klöckner & Co SE

US	■	36%
UK	■	23%
Germany	■	22%
Switzerland	■	5%
Spain	■	4%
Other	■	10%





All relevant information about the Klöckner & Co share is available on the Investor Relations' Web site ([www.kloeckner.de/ir](http://www.kloeckner.de/ir)). This information includes our financial reports, the financial calendar, reports on corporate governance and up-to-date data on the prices of our stock and convertible bond. All information about the Annual General Meeting of Klöckner & Co SE scheduled for May 26, 2009, will appear on the Investor Relations Web site. A special Klöckner & Co newsletter delivered by e-mail also provides timely press information and company news. You are welcome to register for this newsletter at [ir@kloeckner.de](mailto:ir@kloeckner.de).

Our Investor Relations team looks forward to receiving your questions and suggestions.

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## 260 LOCATIONS IN 15 COUNTRIES AROUND THE WORLD

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## CORPORATE GOVERNANCE

Klöckner & Co supports the goal, pursued by the German Corporate Governance Code (GCGC) for listed companies, of promoting the confidence of national and international investors and of customers, employees and the public in the management and supervision of German listed companies. On December 15, 2008, the Management Board and the Supervisory Board adopted a resolution concerning this declaration of compliance in accordance with Section 161 German Stock Corporation Act. The Corporate Governance Report was approved by both boards on March 30, 2009. The declaration has been included at the end of this report and is also available on the home page of Klöckner & Co. The declaration from previous years is also available there. The number of specifications in the German Corporate Governance Code that were not followed was reduced further in 2008.

### Management and control structure

#### Management Board

The Management Board of Klöckner & Co SE consists of one or more members who are appointed and dismissed by the Supervisory Board in accordance with SE regulations and with the provisions of the German Stock Corporation Act. The Management Board autonomously conducts the Company's business. It currently consists of three members: the Chairman, Dr. Thomas Ludwig; Ulrich Becker, the member who oversees a major portion of the operational business; and the Chief Financial Officer, Gisbert Rühl. In 2008, Ulrich Becker was appointed as an additional member of the Management Board in order to organize the Group's highest level of management in a manner that addresses the importance and extent of future tasks by creating a more distinct division of responsibilities on the operational level.

The work of the Management Board is governed, among other things, by detailed Rules of Procedure adopted by the Supervisory Board that contain numerous reservations of consent. The Rules of Procedure were amended on July 16, 2008, to reflect the change in legal form approved by the Annual General Meeting. In the process, the catalog of compliance provisions was amended. The internal assignment of responsibilities of the Management Board is based on a plan drawn up by the Supervisory Board. This plan was amended in 2008 as well to reflect the expansion of the Management Board. The Rules of Procedure call for the Management Board to meet at least once a month. In addition to 26 Management Board meetings, numerous coordination-related discussions among Management Board members and meetings with managers from international subsidiaries were held in 2008. As a result of the financial market crisis and its direct and indirect impact on the Group's business, the Management Board has been intensifying its consultation activities since September 2008.

#### Supervisory Board

The Supervisory Board consists of six members elected by the Annual General Meeting. It advises and monitors the Company's management. The chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel. To organize its work, the Supervisory Board has formed a three-member Executive Committee and a three-member Audit Committee. In addition, the Executive Committee regularly serves as a Personnel Committee and a Committee for Urgent Matters – in each case with the power to make decisions. The Executive Committee also acts as a nomination committee, or a "search committee" for new members of the Supervisory Board to be elected by stockholders.



The chairman of the Executive Committee is also Prof. Dr. Dieter H. Vogel. The chairman of the Audit Committee is Dr. Hans-Georg Vater. The Audit Committee is primarily involved in reviewing and preparing the adaption of the annual financial statements as well as addressing all questions regarding accounting, risk management and compliance. In addition, the Supervisory Board has given this committee the responsibility derived from the latest amendment of the German Corporate Governance Code of holding a meeting with the Management Board before the release of half-year and quarterly financial reports. As a result of the relatively small number of Supervisory Board members, there has been no need to establish other committees. In individual instances – including the entire compliance discussion in December 2008 – it was determined to be sensible for all members of the Supervisory Board to be included on an equal basis in the discussion and to transfer consideration of the matter to the full group as a result of the importance of the issue and the desire to avoid duplication.

In its report to the Annual General Meeting, the Supervisory Board provides detailed information (p. 10 et seq.) about its specific responsibilities and the focal points of its work as well as changes in personnel. In this report, it also discusses its working relationship with the Management Board and the review of its own efficiency that was continued during 2008 in accordance with Section 5.6 of the German Corporate Governance Code.

### **Annual General Meeting**

During the Annual General Meeting, the stockholders of Klöckner & Co SE exercise their rights, including their right to vote. The second Annual General Meeting following the Company's initial public offering was held on June 20, 2008, in

Düsseldorf. The next meeting is scheduled for May 26, 2009, also in Düsseldorf. In their joint statement of compliance, the Management Board and the Supervisory Board have stated that the stockholders will receive the support and information required or recommended by law, the Articles of Association and the code.

### **Accounting and audit**

Accounting at Klöckner & Co Group is done in accordance with International Financial Reporting Standards (IFRS). The annual financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB). Beginning in 2008, the Group management report will be issued in the form of a combined management report for the stand-alone and consolidated financial statements for reasons of simplification and clarity. As provided by law, the selection of the auditor for the single-entity financial statements and the consolidated financial statements is made by the Annual General Meeting. The mandate to the auditor of the single-entity financial statements and the consolidated financial statements is prepared by the Audit Committee and is then discussed and issued by the Supervisory Board. The corresponding decision by the Supervisory Board is regularly made at its September meeting. The Management Board provides detailed information about risk management at the Klöckner & Co Group in the combined Group management report (p. 31 et seq.).

### **Transparency, integrity, compliance**

To ensure that stockholders and members of the public have timely, comprehensive and identical information, Klöckner & Co relies primarily on the Internet. Information about the state of the Group and about special developments at Klöckner & Co Group is also provided in the half-year financial

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report issued in August and interim financial reports released in May after the first quarter and in November after the third quarter, the Annual Report, the financial press conference, teleconferences with analysts and investors conducted in connection with the release of the interim financial reports and annual financial statements, conferences as well as numerous discussions with financial analysts and investors inside and outside Germany and journalists. The presentations used during such conferences and during road shows are made available in a timely manner to the general public on the Company's Web site. As necessary, press releases are also issued. Regularly scheduled events are listed on a financial calendar that appears on the Company's home page. Furthermore, certain information that may have a significant effect on the share price of Klöckner & Co is announced in the form of ad-hoc disclosures pursuant to the German Securities Trading Act. Such actions are governed by Group guidelines and managed by an internal committee of experts.

On all levels of the Klöckner & Co Group, it is expected that integrity and lawful behavior will govern the actions of all employees. The responsibility for compliance issues has been assigned to the Management Board chairman. The set-up phase of the Group-wide compliance organization was completed on schedule in the summer of 2008.

#### **Remuneration report**

The detailed remuneration report regarding the compensation system and the remuneration of the Management Board and the Supervisory Board in 2008 is summarized in point 7 (p. 59 et seq.) of the Group management report.

#### **Specifications of the German Corporate Governance Code**

In general, the code's specifications are viewed by the Management Board and Supervisory Board as recommendations. As a result, the specifications contained in the German Corporate Governance Code were and are followed. In contrast to the proposals, the Articles of Association for Klöckner & Co SE do not provide for remuneration of the Supervisory Board based on long-term performance (Section 5.4.6 of the German Corporate Governance Code) beyond its performance-related compensation based on consolidated net income. Furthermore, the first-time appointment of the additional Management Board member in January 2008 for five years is viewed as an exception (Section 5.1.2, Sentence 4 of the code). For Management Board contracts that already existed at the time that the code was amended in 2007, there continues to be no cap on severance pay in terms of Section 4.2.3, Sentence 9 of the code. These contracts run through May 31, 2011. Broadcast of the Annual General Meeting over the Internet on May 26, 2009, is not planned (Section 2.3.4 of the code).

#### **Directors' dealings**

Under Section 15a of the German Securities Trading Act, members of the Management Board and Supervisory Board as well as persons closely related to these members are required to disclose any significant acquisitions or disposals of stock, options and derivatives of Klöckner & Co SE. In 2008, there were 45 such disclosures that were placed on the Company's home page and that affected both the Klöckner & Co share and convertible bonds. Through March 3, 2009, two additional actions were reported and disclosed.



## DECLARATION OF CONFORMITY on December 15, 2008

2008 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to section 161 of the German Stock Corporation Act on the German Code of Corporate Governance

The recommendations of the German Corporate Governance code, as amended, have been complied with and are being complied with apart from the following exceptions:

[Article 3.8, sentence 3 of the Code \(Directors and Officers' \(D&O\) liability insurance, deductible\)](#)

The D&O insurance policy taken out by the Company for its Management Board and Supervisory Board does not provide for a deductible.

[Article 4.2.3, sentence 6 of the Code \(stock options and similar arrangements\)](#)

The virtual stock option program (phantom stocks) for the Management Board is not based on comparison parameters.

[Article 4.2.5 \(individualized disclosure of Management Board compensation\)](#)

Based on a resolution adopted by the Annual General Meeting held on June 7, 2006, the Company does not report the compensation of its Management Board on individualized basis.

[Article 5.4.7, sentence 6 \(individualized disclosure of Supervisory Board compensation\)](#)

Under transparency aspects, the Company deems to report the Supervisory's Board total remuneration as adequate.

Duisburg, December 15, 2008

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## COMBINED MANAGEMENT REPORT FOR FINANCIAL YEAR 2008



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## COMBINED MANAGEMENT REPORT FOR FINANCIAL YEAR 2008 OF KLÖCKNER & CO SE

### 1 Overview

- Record earnings despite collapse of sales volume and earnings in the fourth quarter of 2008
- Outstanding debt significantly reduced in the second half of the year
- Initial steps to counteract the financial crisis largely implemented; further measures approved
- 2009 expected to be difficult with above-average risks

At about €600 million, EBITDA in 2008 was approximately 62% above the previous year. The strong earnings generated during the first nine months could, however, not be maintained for the entire year, largely as a result of the drastic fall in sales volume and prices and hence the related decrease in gross profit in the fourth quarter.

Including the acquisition of the US subsidiary Temtco Steel and the disposal of the Canadian Namasco Ltd., sales volume during the year fell by about 8% from the previous year's level to around 6 million tons. By contrast, sales climbed by about 8% to €6.7 billion because of high average prices in 2008. Operating results totaled €533.0 million, about 75% above the prior year. At €463.2 million, earnings before taxes more than doubled. Net income did as well at €384.0 million.

In face of the negative, high-risk developments occurring in the real and financial markets, the Company's previously successful acquisition-driven growth strategy was suspended at the beginning of October 2008. As a further reaction to the emerging crisis, a comprehensive action program to cut costs and outstanding debt was approved. Since then, the package has been largely implemented. While the positive effects of the cost-cutting measures will first be noticeable in 2009, net financial debt was already significantly reduced in the second half of 2008, from €1,072 million at the end of the year's first half to €571 million.

Due to the market crisis during the first months of 2009, it has become even more difficult to issue an outlook for financial year 2009. Believing that the level of sales volume and prices could slip below the reduced levels assumed in the fall of 2008, it was decided in March 2009 to introduce an additional far-reaching package of measures designed to cut costs and reduce capital lockup.



## 2 Business and economic conditions

### 2.1 Group structure

Klöckner & Co SE is the parent company and the parent holding company of the Klöckner & Co Group. It emerged from the transformation of Klöckner & Co Aktiengesellschaft that was completed in the summer of 2008. The new legal form reflects the international position and direction of the Klöckner & Co Group. The Company retained its two-tier management and control system with the Management Board and a Supervisory Board consisting exclusively of stockholder representatives. Klöckner & Co SE directly or indirectly controls all intermediate holding companies and the European and North American segments through management companies of the Group's operational country organizations. The Group's legal structure remained largely unchanged in 2008. The business structure was expanded once again through a major acquisition in the United States and refocused on core activities by selling two operations in Switzerland and Canada that no longer strategically fit with Klöckner & Co.

Klöckner & Co SE is primarily subject to regulations governing SEs, its Articles of Association and the German implementation law concerning the SE regulations. To the extent that no overarching European regulation is pertinent, the rules of the German Corporation Act apply in particular. The subscribed capital of Klöckner & Co SE totals €116.25 million, divided into 46.5 million no-par-value registered shares with full voting rights.

The share of Klöckner & Co SE has been listed on the official market of the Frankfurt Stock Exchange since the initial public offering at the end of June 2006, and has been part of the MDAX® at Deutsche Börse since January 2007. Since April 2007, 100% of the shares have been held in free float.

#### Business activities/business model

As the largest mill-independent, stockholding steel and metal distributor in the combined European and North American market, Klöckner & Co links producers with manufacturing customers within the value chain. In this work, the critical competitive factors are global procurement and customer access provided by a comprehensive logistics and distribution network. Procurement at Klöckner & Co is performed through about 70 main suppliers and is coordinated by the central product management at Klöckner & Co SE. The distribution network consists of about 260 warehouse and processing sites in 15 countries. In addition to the warehouse-based distribution system operated by Klöckner & Co, steel and metal products reach customers through steel service centers or direct sales by manufacturers. Klöckner & Co consists of more than 185,000 generally small and mid-sized steel and metal consumers who, in contrast to the buyers of larger volumes, cannot order directly from the mills and affiliated steel service centers.

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The market of warehouse-based distribution is widely fragmented, both in Europe and North America. At times, it is multilayered with major, regional and local dealers. Europe has around 3,000 generally small to mid-sized steel distributors. In the United States, the distribution market is somewhat more consolidated with 1,300 providers. In Europe, Klöckner & Co has a market share in distribution of about 6%. In the United States, it is slightly more than 1% because the range of products offered is significantly smaller. But the market share of product categories that are offered, primarily long products and heavy plate, is markedly higher.

You will find an overview of Klöckner & Co SE's regional locations on pages 172 et seq.

## 2.2 Business strategy and measures

The business strategy of Klöckner & Co is based on two pillars: expansion through external, organic growth and optimization of business processes. This growth strategy was systematically employed until the financial crisis struck. Against the backdrop of the economic downturn, the Management Board took action at the beginning of October, approving an initial package of measures to cut costs and reduce outstanding debt. The temporary suspension of acquisitions as part of this program does not represent a strategic shift. Rather, it is a temporary intensification of the effort to reduce outstanding debt in response to the escalating financial crisis.

### Expansion: selective growth and focus on business

As part of the acquisition strategy, four transactions were completed in 2008. The focus on the core business was further driven by the disposal of two companies.

In addition to bolstering the Company's competitive position, the acquisition strategy of Klöckner & Co is designed to complement or expand the product program, customer base and geographic presence. While intensifying its acquisition strategy, the Company defined expansion of products with transnational synergy potential and increased business outside the generally cyclical construction industry as overarching goals. At the same time, it does not intend to impede the development of country-specific market positions that have arisen over time. Acquisitions will be carried out only if the expected yield exceeds the Group's average yield and a leading position can be reached in the particular market. The markets of Central and Eastern Europe, Turkey and Russia were identified as focal points of the geographic expansion. Here, the goal is not to gain a widespread national market position. Rather, it is to react flexibly to acquisition opportunities.



As part of the acquisition strategy, four acquisitions and two divestments were concluded during financial year 2008. In the United Kingdom, Multi-tubes Ltd., a company that specializes in the distribution and processing of welded tubes for industrial use, was taken over at the beginning of the year. As part of the Company's expansion in Eastern Europe, nearly 100% of the leading Bulgarian distribution company Metalsnab AD were acquired in a two-step transaction. Furthermore, the remaining minority interests in the Swiss country operation Debrunner Koenig Holding AG (DKH) were acquired in the second quarter. In July, before turbulence began to sweep through the capital markets, Klöckner & Co sold the Swiss subsidiary Koenig Verbindungstechnik (KVT), to further concentrate on its core business. In the second transaction, the divestment of the Canadian subsidiary Namasco Ltd., an automotive supplier, was initiated after the start of the year and concluded in July. In the second quarter of the year the US subsidiary acquired the heavy-plate distributor Temtco Steel. As a result, the good position in the heavy-plate sector already held in the United States was significantly expanded with a broad customer base that extends beyond the construction industry and into the higher-quality segment and processing.

Since its initial public offering in 2006, Klöckner & Co has acquired and successfully integrated a total of 18 companies. It has also increased its holdings in the country operations in Switzerland and Bulgaria to 100% or nearly to 100%. Furthermore, three companies that no longer formed part of the core business were disposed of. The portfolio is now clearly directed at the distribution of steel and metals, and has been significantly strengthened. As previously stated, the acquisition strategy has been temporarily suspended because of the financial crisis. As the crisis progresses, it will create new opportunities to move forward with the consolidation of the sector, possibly more strongly than before. Klöckner & Co is already preparing to exploit these opportunities when the time comes.

#### **Optimizing business processes: successful continuation of STAR**

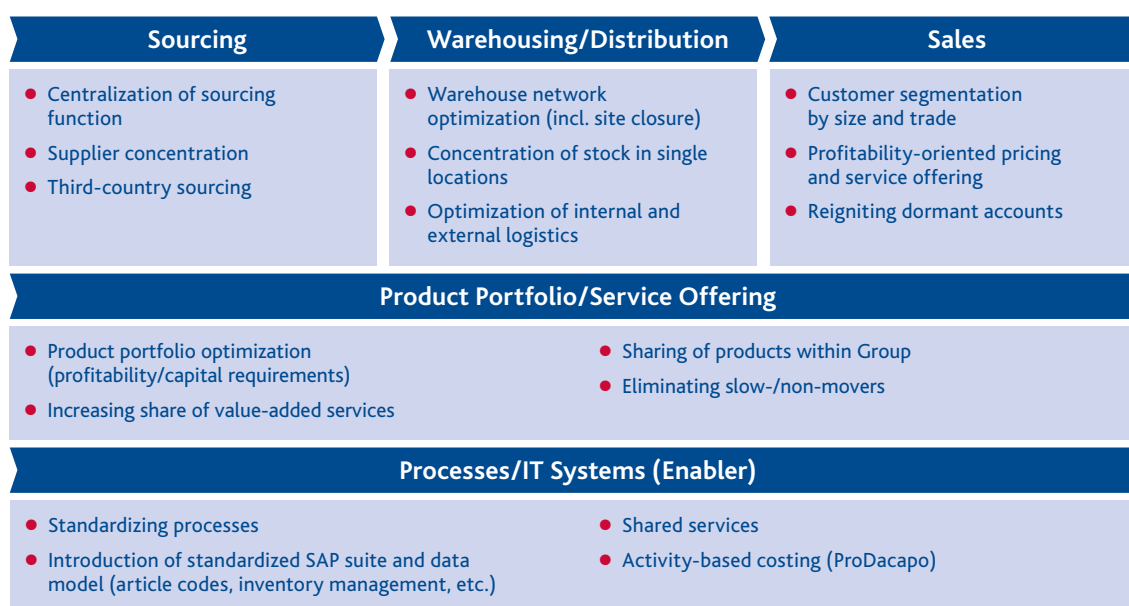
The ongoing optimization of business processes – the second focal point of the Group strategy at Klöckner & Co SE – is being carried out as part of the Group-wide, value-enhancing STAR program, which continued to be systematically implemented in 2008. The objective of the STAR program is optimizing the entire value chain. One business-driven focus here is to strengthen procurement processes and the distribution network. Activities extending beyond these areas affect sales, optimization of the product portfolio and comprehensive processes and IT systems.

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## Efficiency enhancing program "STAR"



As part of the expansion of the Management Board, the Company continued to centralize European procurement, focusing on organisational and personnel aspects, an effort that was initiated in 2007. Significant benefits from the stronger concentration of procurement power could already be obtained by renegotiating outstanding orders at year end. As a complement to procurement bundling, central product management was established. Its job is to fuel the development of cross-group products and to optimize capital employed with regard to stocking. The responsibilities of product management also include optimizing the product range and depth of the assortment throughout locations. One requirement of successful product management is standardizing processes and IT systems. For this reason, work to turn the Company's SAP software into a single,

uniform IT system continued to move forward in 2008. Furthermore, SAP was initially introduced in France and Switzerland. Following the completion of this work, all European country operations will have been converted to SAP. In 2008, the optimization of the distribution networks was advanced, particularly with new logistics concepts. In addition, two French locations were consolidated in the Bordeaux region. In Spain, two locations were closed because their dependency on the construction sector clouded their long-term business future.

The implementation of the STAR program remains right on schedule. Ambitious goals have also been set for the ongoing year. Combined with the other package of measures to counter the financial crisis, these activities are designed to minimize the negative impact.



### Initial package of measures to cut costs and reduce outstanding debt launched at an early stage

At the beginning of October 2008, a comprehensive immediate-action program was approved in response to the economic downturn. To protect liquidity, the Company implemented measures to reduce net working capital, primarily by decreasing inventories, and to impose a temporary freeze on investments and acquisitions. In reaction to emerging over-capacity, steps were taken to cut 800 jobs, of which 350 layoffs were already realized by the end of the year.

### Second package of measures approved in response to the intensifying crisis in the real markets

As a result of the spreading crisis in the financial and real markets and extremely weak sales volumes at the beginning of 2009, the Management Board initiated a second package of measures at the end of February. Under this program, workforce adjustments extending beyond those contained in the initial program will be introduced. These steps will include the increased use of such tools as shorter workweeks. Another focus is to reduce operating expenses and net working capital at a rate greater than sales-volume trends.

## 2.3 General economic conditions

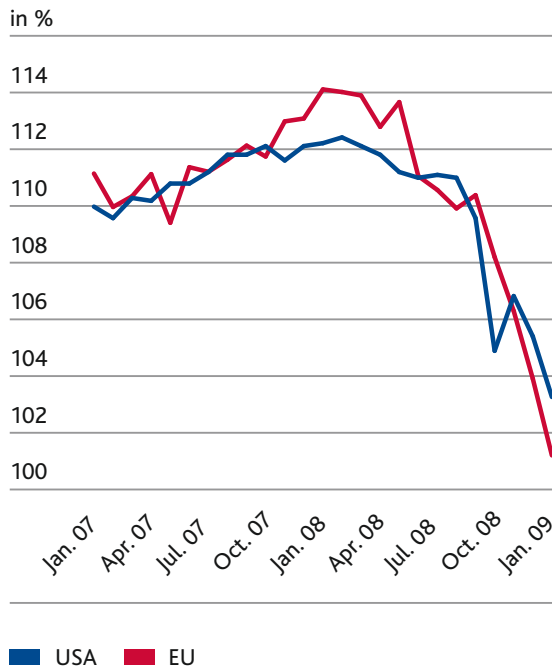
### Financial crisis leads to a global downturn in the real economy

The direction of the world's economy during 2008 was clearly downward, with the decrease reaching historic proportions in the fourth quarter. At the beginning of the year, there was still hope that the capital-market turbulence triggered by the sub-prime crisis in the United States would only affect the financial sector. In the first half of 2008, this assessment appeared to be valid as economic performance in Europe and emerging countries remained satisfactory. But it became clearer as the year progressed that the real economy was also being affected. All economic regions of the world and most business sectors suffered virtually the same impact during the financial year.

Since Lehman Brothers declared bankruptcy in September 2008, the mechanisms of the capital and financial markets have not been functioning properly, even though industrial nations have introduced sweeping measures to bolster them. The continuing crisis of trust that has afflicted commercial banks has caused liquidity supplies to largely remain under the control of the central banks. Stringent loan approval terms and substantially reduced refinancing options markedly restricted loan availability despite enormous government capital support, broadly expanded liquidity provisions by the central banks, and massive interest-rate cuts (to nearly zero percent in the United States). Risk premiums have increased disproportionately to the reduced level of interest rates, creating higher refinancing costs. This development has had a further negative impact on the willingness to invest.

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### Decline of industry production USA/EU



After slowing slightly since the beginning of 2008, the economy felt the full brunt of the crisis at the end of the third quarter of 2008. The continuously expanding financial crisis increasingly darkened business confidence. In both the United States and Europe, industry-sentiment indexes plunged, in part, to record low levels near the end of the year.

The sudden deterioration of confidence resulted in a cross-industry meltdown of investing activity. Industrial production fell rapidly in the United States and then in the EU. Overall, capacity utilization tumbled. This was especially the case in the United States, where a level of 73.6% was recorded at the end of the year.

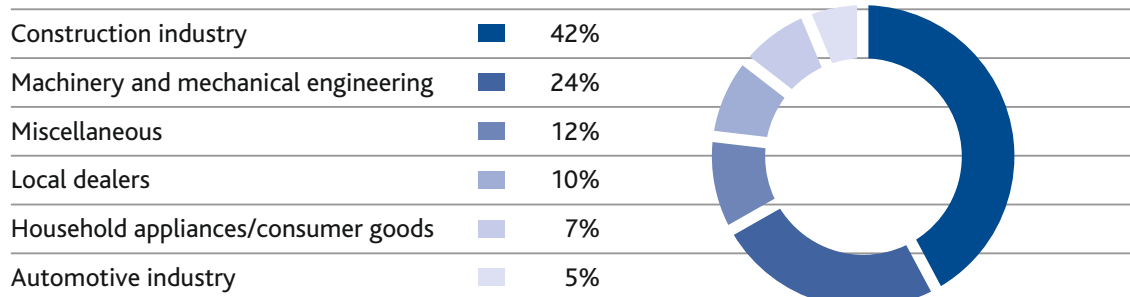
Private consumption also could not escape from economic developments, even though growth momentum varied considerably from country to country. In countries that were hit harder by the real-estate crisis – including the United States, Spain and the United Kingdom – consumer confidence tracked economic growth on its downward course. In Germany, private consumption remained positive year on year, thanks in particular to the improved employment situation and higher wage agreements. Around the world, though, spending on durable goods has shown marked restraint since the final quarter of 2008. In a reflection of this trend, car sales in the United States fell by one-third, and the number of new-car registrations in Europe fell by about 18% in comparison to last year's quarter.

These developments were also continuously reflected in the downward revision of economic forecasts. For instance, the OECD's Composite Leading Indicator (CLI) for the seven leading industrial countries plummeted in just a few months, hitting a historic low at the end of November.

The decoupling of the development of emerging countries from the trends in the United States and the EU, which was expected at the beginning of the year, did not occur. The CLI for Brazil, Russia, India and China also suffered dramatic falls.



## Sectors for Klöckner & Co SE



### 2.4 Sector environment

The customer structure of Klöckner & Co changed only slightly compared with the previous year as a result of the sale of the Canadian Namasco Ltd. The automotive industry no longer has any significant share as a customer segment for Klöckner & Co in any country. The construction industry and machinery and mechanical engineering continue to have the biggest share by far among customer sectors at a total of 66%. Klöckner & Co generally supplies small and mid-sized steel and metal consumers with an average volume of less than €2,000 per order.

#### Declining as well as negative growth in the construction industry

The direction of the construction industry was generally downward in 2008. In Europe, trends in this segment were characterized by regional real-estate crises that augmented the impact of the global financial crisis. Following growth of nearly 3% in construction volume in 2007, the total fell by about 3% in 2008.

The segment of European non-residential construction, an area of particular significance for Klöckner & Co, developed in regionally different ways during the year. As a rule, though, the direction began to move downward as of the middle of the year. The extremely long periods of time needed to complete a project provided a cushion from the worsening situation on the financial and credit markets. For instance, the growth rates of non-residential construction remained high at 5.4% in Germany and 5.2% in the Netherlands, even though these rates were sharply lower than levels achieved in the previous year. In the United Kingdom, an acceptable growth rate of 2.6% was also produced, but it was largely fueled by government projects in health care and education. In Switzerland, non-residential construction volume stagnated at a high level. But it dipped in France and Spain.

The segment of residential construction experienced setbacks caused by worsening financing terms, rapidly deteriorating consumer confidence and the steep drop in real-estate prices in Spain and the United Kingdom. Residential construction in the United Kingdom fell by 8% and approximately 23% in Spain.

In the United States, the downward trend that began in the second half of 2007 accelerated. New business in non-residential construction, an area that is relevant to Klöckner & Co, grew by only 2% year-on-year. Within non-residential construction, though, significant segment-specific differences in growth momentum were seen. High growth rates were recorded particularly in the sectors of energy, health care and education. But new project volume in retail, warehouses and industry without refineries plunged precipitously in some cases. The sharp drop in residential construction is less significant for Klöckner & Co as a result of the construction techniques generally used in the United States.

#### Further growth in machinery and mechanical engineering despite drop in incoming orders

Even though it appeared for a long time that machinery and mechanical engineering would not be affected or only be slightly affected by the global financial crisis, incoming orders began to fall sharply in the second half of the year. This was the result of markedly slowing investment momentum across a broad front. In spite of this develop-

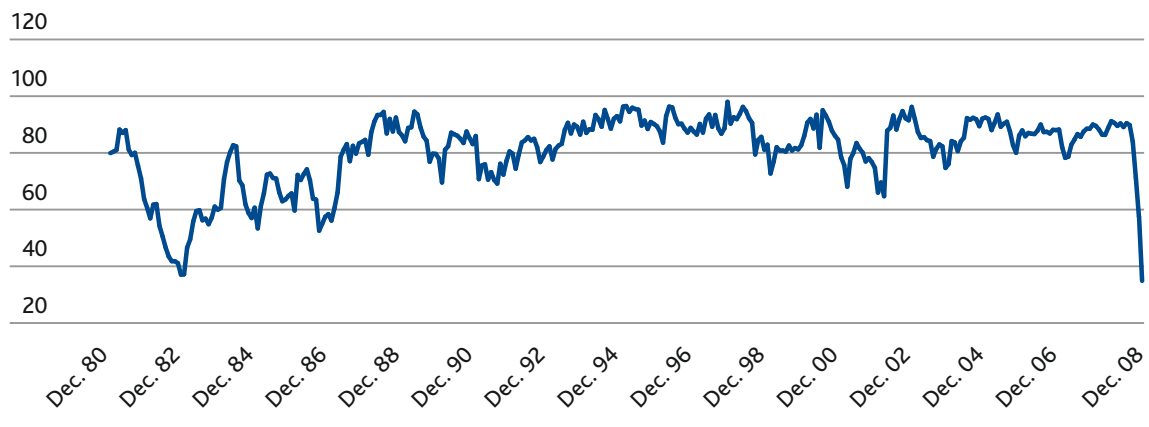
ment, global machinery and mechanical engineering grew about 5% in 2008, according to estimates of the Verband Deutscher Maschinen- und Anlagenbau (VDMA – the German Association of Machinery and Mechanical Engineering). Just like the construction industry, the processing of ongoing projects had a cushioning effect, meaning that the negative impact will first be fully felt in 2009.

#### Plunge in sales volume among distributors results in a rise of inventory days

The worsening macroeconomic downturn and its impact on steel- and metal-using core sectors during the year were reflected in the distribution level as well. In the beginning, sales volumes were stable. Later, they decreased, and then they plunged. Combined with lower deliveries from steel mills during the second half of 2008, these developments resulted in significant amounts of surplus materials along the entire value chain. Even though some inventories reached historic lows at the end of the year, the creation of excess inventories could not be prevented because sales volume fell faster than the drawdown of inventories.

#### Steel production capacity utilization USA

in %





### Producers react by sharply cutting production

In the first half of the year, the initially positive economic trend led to a significant rise in demand and, as a result, to an increase in the monthly production of crude steel of 5% to 7%. In response to the slowdown in the third quarter and the strong drop in economic momentum as the year proceeded, producers significantly cut back production. At first, this occurred more rapidly and with consistency in North America and then in Europe. As a result of this decision, production of crude steel began to continuously decrease, beginning in August in comparison with the previous year's levels. In December, nearly 24% less crude steel was produced around the world compared with the same month in the previous year. In the United States, capacity utilization of the mills fell to 34% in December.

For the entire year, production of crude steel fell by 1.1% in 2008. Despite a major cutback in production at the end of the year, China expanded its position as the world's largest steel producer with an annual volume of 502 million tons and a share of global production of nearly 38%. This development was hardly affected by the decreasing competitiveness that began in the middle of the year resulting from higher prices for imported raw materials and the significant reduction of exports resulting from the alignment of price levels in Europe and North America. Overall, Chinese steel exports fell 14% year-on-year. In particular, exports to Europe dropped steeply at -34%.

### Steel production in million tons

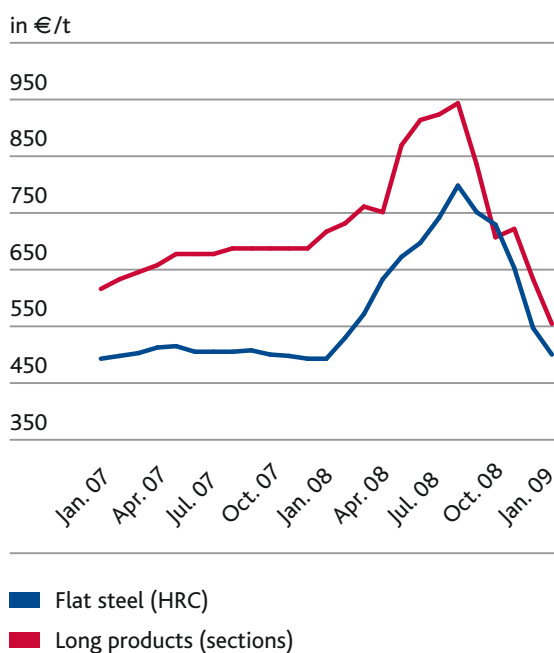
	2007	2008	Change
France	19.3	17.9	-7.2%
Germany	48.6	45.8	-5.6%
Spain	19.0	19.0	0.5%
United Kingdom	14.3	13.5	-5.4%
Other EU	109.1	102.3	-6.3%
Total EU (27)	210.2	198.6	-5.5%
Total other Europe	30.5	30.9	1.4%
Total C.I.S.	124.0	114.0	-8.1%
USA	98.2	91.5	-6.8%
Other North America	34.7	33.9	-2.2%
Total North America	132.8	125.4	-5.6%
Total South America	48.3	47.6	-1.4%
Total Africa	18.8	17.0	-9.4%
Total Middle East	16.5	16.0	-2.5%
China	489.2	502.0	2.6%
Other Asia	265.3	247.5	-6.7%
Total Asia	754.6	749.5	-0.7%
Total Oceania	8.7	8.4	-3.7%
Other/not yet disclosed	-	22.3	
Total	1,344.4	1,329.7	-1.1%

Source: World Steel Association

The rapid and similarly sized production cuts initiated in particular in the United States are also a result of the markedly increased concentration of steel producers seen in the past. In this situation, producers exhibited greater discipline by historic standards for the first time. In the past, the lack of this discipline led to a race for market share in declining markets.

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## Steel prices in Europe



## Price trends in steel markets

Price trends for many steel products were characterized by strong increases in the first three quarters and a collapse in the fourth quarter. During the first half of the year, sharply rising prices for raw materials and energy largely dictated steel price trends. The producers were able to completely pass on these price increases, resulting in inventory gains on the distribution level. In response to plunging sales volume in the second half of the year and higher inventories in the supply chain, prices fell dramatically in the fourth quarter around the world.

Compared with the beginning of the year, prices for flat products climbed on a broad front by 50% to 60% until the middle of the third quarter, setting historic highs. Hot rolled coil, a critical pricing factor, peaked at more than €800 a ton during the summer in Europe. From here, prices at the end of 2008 had plunged to below their level at the beginning of the year.





In North America, a similar but stronger trend was seen. Here, prices skyrocketed by up to 100% to more than US\$1,100 a ton before falling below their level at the beginning of the year.

Chinese export prices for flat steel developed in a similar manner. Here, too, prices climbed by 50% to 60% through the middle of the year. These increases were then followed by a drastic drop in prices that continued through the end of the year.

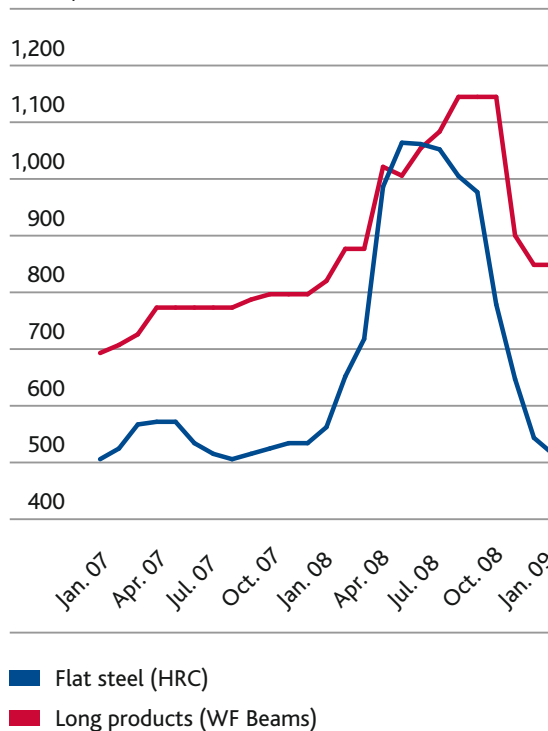
With slight differences, prices for long products took a similar course. From the beginning of the year through the middle of the third quarter, prices rose by 30% for beams and up to 65% for reinforcement steel, which is closely related to the scrap prices. As a result of the subsequent and drastic decrease, prices fell 10% to 15% below the level at the beginning of the year. The trend for long products was similar in the North American market. A price increase of 40% to 70% through August was followed by a major decrease, placing prices in December largely at the level seen in January.

Price levels of stainless steels, which are strongly related to the prices of nickel, initially climbed during the year and then plunged. They finished the year about 20% below the level at the beginning of the year. Aluminum products had a similar experience. Since mid-2008, the price of these products tracked the prices on the London Metal Exchange, falling by about 40%.

For quality and special steels, two types that are particularly critical for Klöckner & Co, the price increases lasted into the fourth quarter before they fell at year's end.

### Steel prices in North America

in US \$/t



■ Flat steel (HRC)  
■ Long products (WF Beams)

### 3 Results of operations, financial position and net assets

#### 3.1 Results of operations

##### Sales volume and sales

At about 6.0 million tons, sales volume of the Klöckner & Co Group in 2008 was 7.8% lower than the previous year's volume. In 2008, the Europe segment accounted for 72.3% of sales volume and North America for 27.7%. During the first half of 2008, the Group recorded an acquisition-related increase in sales volume of 5.5%. During the second half, the divestment of the Canadian business and declining demand during the last few months of the year caused sales volume to decline by 21.5% compared with the previous year. The steep drop in sales volume by 27.3% during the fourth quarter of 2008 reflected the drastic deterioration of real economic parameters for steel distributors in Europe and North America toward the end of the year.

Group sales increased by 7.6% to more than €6.7 billion in the reporting year. The Europe and North America segments accounted for €5.3 billion and €1.4 billion of Group sales, respectively. Sales trends initially reflected, above all, the increase in steel prices over the year's average as well as pro rata acquisitions and disposals of subsidiaries.

##### Earnings

Despite a more challenging economic environment, favorable business trends of the first half of 2008 remained largely intact during the third quarter. In the fourth quarter, however, declining sales volumes and shrinking margins as a result of the growing real economic impact of the financial market crisis pushed down earnings in the Europe and North America segments. The associated heightened uncertainties caused orders from most steel consumers to dry up abruptly and continue to weigh on orders. In this extraordinary situation, severe inventory write-offs due to falling prices and other special effects could not be offset in the fourth quarter of 2008. As a result, all full-year results for the Group fell short of its nine-month results.

Despite the poor fourth quarter, however, the Group was able to improve full-year EBITDA for 2008 by 62.0% to €600.4 million compared with the previous year. The strong earnings improvement resulted from higher gross margins, the successful integration of acquisitions, the STAR earnings enhancement program as well as non-recurring effects from disposals and the settlement of the so-called Balli Complex. The gross margin increased to 20.2% from 19.5% in 2007. EBITDA in Europe rose by 15.5% to €376.7 million, while the acquisitions of Primary and Temtco Steel helped to boost EBITDA in the United States by 130.4% to €148.6 million.



Non-recurring effects were reflected in the increase in other operating income to €371.2 million. The sale of the Swiss subsidiary KVT accounted for the major share (i.e. €270.6 million) of this total. Another favorable one-off effect of €38.7 million resulted from the dissolution of provisions for the so-called Balli Complex, which Klöckner & Co successfully concluded through a global settlement. Negative one-time effects were due mostly to additional provisions totaling €79.3 million (net of reimbursement claims to former shareholders) in connection with the antitrust fine levied on the French subsidiary KDI S.A.S. as well as expenses of €18.2 million for the rescission of a real estate sale in Spain.

Similar to EBITDA, operating earnings rose by 74.6% to €533.0 million. The Group's financial result improved to €-69.8 million from €-97.2 million a year earlier. The previous year's financial result had been burdened by the early redemption of the high-yield bond totaling about €38 million. Income before taxes more than doubled to €463.2 million compared with the previous year. The same applied to net income, which rose from €156.1 million to €384.0 million. Despite the non-deductible anti-trust fine, the tax rate fell to 17.1% from 25.6% as a result of the largely tax-free gain on the sale of subsidiaries and tax rate differences of foreign subsidiaries.

### 3.2 Financial position, financing, liquidity

#### Financing and financial management

Group financing is managed centrally by Klöckner & Co Verwaltung GmbH, Duisburg. The Group's liquidity is ensured via intra-group financing, central and bilateral credit facilities by using an international cash pooling system. Centralized financing strengthens the Group's negotiating power vis-à-vis banks and other capital providers. It also facilitates lower refinancing costs and the use of debt capital in Group financing, with a correspondingly positive effect on interest income.

Group financing is handled flexibly based on a diversified portfolio consisting of a €325 million convertible bond, a €600 million syndicated loan, ABS programs totaling about €510 million as well as bilateral credit lines totaling €380 million.

The €325 million convertible bond was issued via a Luxembourg subsidiary in July 2007. The bond is guaranteed by Klöckner & Co SE. It has a term of five years and a coupon of 1.5% p.a. The conversion rate of €80.75 corresponded to a premium of 35% on the reference price of €59.81/share at the issue date.

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The syndicated loan (multi-currency revolving credit facility) over €600 million was placed with a consortium of German and international banks in May 2007. The credit facility has a term of three years and includes two options allowing for an extension to five years. The first one-year extension until May 2011 was drawn in April 2008. Utilization at year's end stood at €295 million.

Within the Group, working capital is also financed on the basis of a centrally managed European asset-backed securitization program (ABS program) launched in 2005 with a total volume of €420 million and a term through mid-2010, as well as a US ABS program of US\$125 million with a term until mid-2012. The US program was largely utilized as of the balance sheet date, while only 30% of the European program was utilized.

At year's end, utilization of the bilateral credit facilities of €380 million stood at 18%.

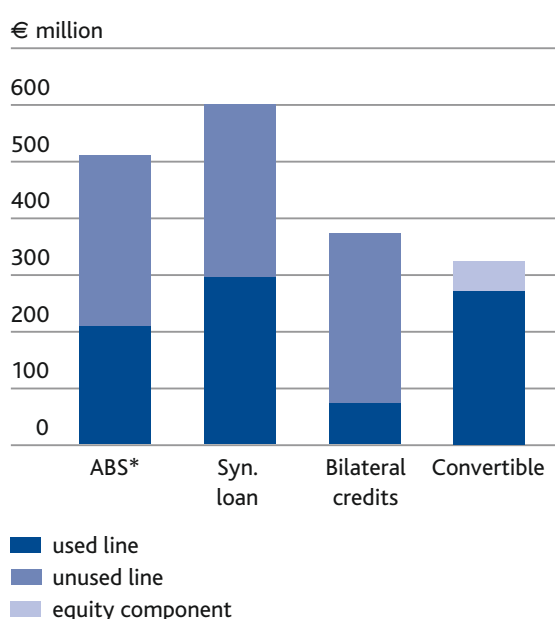
Contracts covering financial liabilities include covenants that require the borrower to perform or avoid certain acts and to fulfill particular financial targets, as well as standard termination rights in such contracts. The Klöckner & Co Group has fulfilled the respective covenants.

The Group's internal financial compensation and liquidity management is based on a cross-border cash pooling system. The Swiss country subsidiary, in which minority shareholders had an interest in 2008, has its own bilateral credit facilities. As in the previous years, Group financing was secured at all times in 2008. This included working capital financing for current operations of individual foreign and domestic companies.

The global financial crisis had only a limited impact on Group financing in 2008. Although financing costs related to the ABS programs temporarily resulted in higher interest charges – due to banks' limited refinancing ability via the commercial paper markets – the Group's financing instruments proved highly stable. The first key financing instrument will mature in mid-2010. However, the financial crisis prompted the Group to modify its financing policy and substantially increase its liquidity reserves. Default risks are reduced by monitoring short-term cash investments with a view to the development of the spreads of banks' credit default swaps.



This resulted in a total maximum financing volume of about €1.8 billion. As shown below, utilization of these instruments stood at about 47%, or €862 million, as of December 31, 2008:



\* Europe and USA

Under consideration of transaction costs and liquid funds, net financial debt amounted to €571 million, a decline of €175 million compared to prior year.

(€ million)	Dec. 31, 2008	Dec. 31, 2007
Net financial debt	571	746

The Group's key performance indicators are net financial debt, EBITDA and cash flow. Liquidity is monitored based on internally defined indicators,

including a minimum equity ratio, a maximum pay-off period and interest coverage. Handling of financial risks is governed by a Group-wide financial guideline. Derivative financial instruments are used to hedge interest rate and currency risks. They are used exclusively to hedge risks related to underlying transactions and cannot be used for speculation purposes. Subsidiaries identify their foreign currency exposure and regularly hedge against currency risks either on a central basis or, where applicable, via individual foreign currency lines with banks. Interest rate risks are also monitored centrally and limited by appropriate hedging transactions.

The key leverage ratios used in the Group have developed as follows.

(€ million)	Dec. 31, 2008	Dec. 31, 2007
Leverage (net financial debt/EBITDA)	0.95x	2.01x
Gearing (net financial debt/equity)	53%	88%

Both leverage and gearing thus met the respective internal targets of 1.5x and 75% at year end (2007: 3.0x and 150%).

Interest rate, currency and credit risks arise from the operating business of Klöckner & Co. The instruments used to hedge and manage these risks, including their effects on the earnings, are described in detail in the notes to the consolidated financial statements under explanations on IFRS 7.

### Cash flow analysis

The cash flow statement reflects the origin and use of cash flows during the financial year. A detailed description of the cash flow statement is shown on page 77 in the consolidated financial statements. Cash and cash equivalents included in the cash flow statement generally correspond to cash and cash equivalents in the balance sheet. At the end of financial year 2008, however, cash and cash equivalents in the amount of €3 million relating to the fair value measurement of derivative financial transactions were deposited with banks as a security. They were not part of cash and cash equivalents in the cash flow statement.

(€ million)	2008	2007
Operating cash flow	386	328
Cash flow from operating activities	187	109
Cash flow from investing activities	72	-378
Cash flow from financing activities	-123	295
Changes in cash and cash equivalents	136	25
Cash and cash equivalents at the beginning of the period	154	130
<b>Cash and cash equivalents at the end of the period</b>	<b>294</b>	<b>154</b>

Despite the business-related increase in net working capital, cash flow from operating activities rose to €187 million in the reporting year from €109 million a year earlier. This was primarily attributable to higher income before taxes of €463 million in financial year 2008 as compared to €210 million in the previous year.

Despite cash outflows related to the acquisition of Temtco Steel (€122 million) and the remaining shares in the Swiss subsidiary (€127 million), the successfully concluded disposal of KVT and Namasco Ltd. provided for a positive cash flow from investing activities of €72 million in financial year 2008. Reduced investments in other tangible and intangible assets, which declined to €48.1 million from €61.0 million, also contributed to this development.

Net proceeds were used in particular to reduce net financial debt. Under consideration of dividend payments to shareholders of Klöckner & Co SE in the amount of €37 million (2007: €37 million), financing activities produced a net cash outflow of €123 million (2007: cash inflow of €295 million).



### 3.3 Net assets, balance sheet structure

At €3,075 million, total assets were slightly higher than the previous year's level of €2,966 million.

(€ million)	Dec. 31, 2008	Dec. 31, 2007
<b>Non-current assets</b>	<b>803</b>	<b>735</b>
Current assets		
Inventories	1,001	956
Trade receivables	799	930
Other current assets	175	191
Cash and cash equivalents	297	154
<b>Total assets</b>	<b>3,075</b>	<b>2,966</b>
<b>Equity</b>	<b>1,074</b>	<b>845</b>
Non-current liabilities		
Financial liabilities	813	813
Other non-current liabilities	362	339
Current liabilities		
Financial liabilities	48	73
Trade payables	392	610
Other current liabilities	386	286
<b>Total equity and liabilities</b>	<b>3,075</b>	<b>2,966</b>

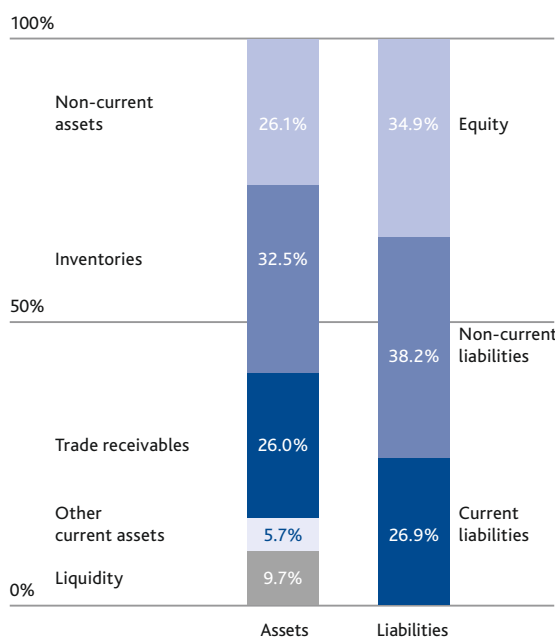
Non-current assets rose from €735 million to €803 million. This was due mostly to acquisitions of subsidiaries. Non-current assets totaling €76 million were recognized in the required purchase price allocation. Intangible assets, including goodwill, accounted for the major share of these assets.

The equity-assets ratio stood at about 147.5% as of December 31, 2008, compared with 124.3% a year earlier. Including long-term capital, the excess of such capital over non-current assets amounted to €1,446 million after €1,262 million in 2007.

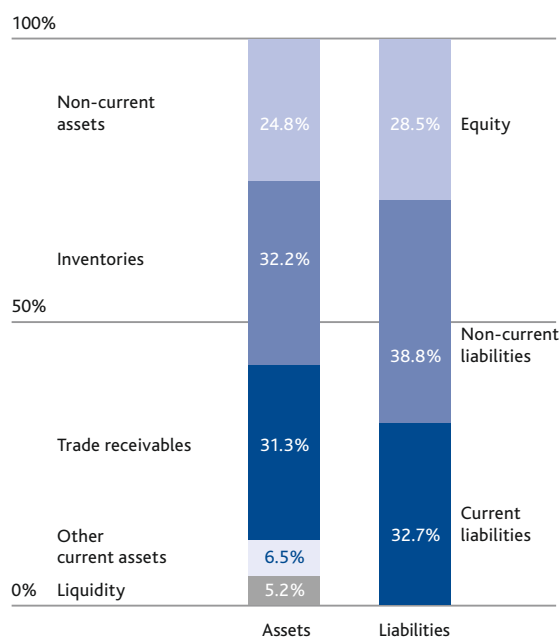


The asset and capital structure for 2008 and 2007 can be summarized as follows:

#### Balance sheet total 2008: €3,075 million



#### Balance sheet total 2007: €2,966 million



The development of working capital reflected the deteriorating macroeconomic parameters. Despite the prompt introduction of measures to reduce procurement volumes, the drop in demand in the fourth quarter caused fourth quarter inventories to increase to €1,001 million from €956 million in the prior year. Declining sales volume in the fourth quarter was mirrored in reduced customer orders to €799 million from €930 million year over year. However, procurement adjustments also resulted in a decline in trade payables to €392 million from €610 million in the previous year. Total additional locked-up capital bounding was limited to €84 million (2007: €105 million).

(€ million)	Dec. 31, 2008	Dec. 31, 2007
Working capital	1,407	1,323

Given the current capital market environment, the Group strategically held a high liquidity reserve of €297 million (2007: €154 million).

The Group's equity improved by €229 million to €1,074 million as of the end of the financial year. The positive effect from net income for the period of €384 million and currency translation adjustment recognized equity totaling €42 million were offset against a decline in equity due to the acqui-



sition of additional shares in the Swiss subsidiary (€127 million), dividend payments of €37 million and the recognition of unrealized losses of €–30 million of derivative financial instruments qualifying as cash flow hedges. The equity ratio markedly improved to 34.9% from 28.5%.

As a result of the high liquidity reserve, financial debt declined only slightly to €861 million from €886 million. Net cash indebtedness, however, was reduced substantially to €571 million from €746 million.

While pension provisions remained largely unchanged at €180 million (2007: €188 million) as a result of the so-called corridor method, the funded status (i.e. pension obligations less plan assets) deteriorated as a result of the generally poor capital markets to €171 million from €94 million.

The increase in other current liabilities is driven, among other things, by additional provisions in connection with the antitrust fine of €169 million levied against KDI S.A.S. Despite the reversal of provisions and the derecognition of liabilities in the context of the global settlement with the former shareholder Balli, other liabilities rose to €386 million from €286 million.

### 3.4 Overall statement on the current business situation of the Group

Based on the information available at the time the combined management report was compiled in early March 2009, the Group's business situation deteriorated markedly in 2009 compared with the full year of 2008. Given that forecasts on global economic trends and individual customer sectors are continually being adjusted and revised downward, an assessment of the Group's business development in the current financial year cannot be made at this time. Demand for steel products and thus their prices depend too heavily on macroeconomic factors.

The drop in demand that started in the fourth quarter of 2008 continued in the first months of 2009. It was due both to sharply declining real demand and to the continued destocking along the entire supply chain. Given continued destocking by our customers and the persistent deterioration of macroeconomic parameters, there were no signs of a recovery of demand. An estimation of price developments during the course of the current financial year also cannot be made at this point as leading indicators are showing diverging trends.

Declining demand and adverse price developments have resulted in unsatisfactory business trends at the Group during the first quarter of 2009. As explained above, Klöckner & Co has responded to the deteriorating sales prospects and initiated another package of measures to adapt its cost structures to the altered parameters.

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#### 4 Individual financial statements of Klöckner & Co SE

##### 4.1 Notes to the annual financial statements of Klöckner & Co SE

Klöckner & Co SE is the managing holding company of the Klöckner & Co Group. Central management functions including strategy, finance and controlling are bundled in the Company. The position of Klöckner & Co SE is determined by the activities and business development of the Group.

The annual financial statements of Klöckner & Co SE are prepared in accordance with the regulations of the German Commercial Code and the Stock Corporation Act. Consolidated net income totaled €17.7 million compared with €48.5 million in the previous year. The retained profit amounts to €17.7 million compared to €37.2 million in the prior year.

#### Balance sheet of Klöckner & Co SE (condensed)

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Intangible assets and property, plant and equipment	608	484
Shares in affiliated companies	258,303	258,303
Fixed assets	258,911	258,787
Receivables from affiliated companies	481,511	526,494
Other receivables	14,668	3,897
Cash and cash equivalents	174	26
Current assets	496,353	530,417
Prepaid expenses	45,504	57,703
<b>Assets</b>	<b>800,768</b>	<b>846,907</b>
Equity	421,038	440,538
Provisions	15,350	14,563
Convertible debt	325,000	325,000
Liabilities to affiliated companies	33,093	56,037
Other liabilities	6,287	10,769
<b>Total capital</b>	<b>800,768</b>	<b>846,907</b>

Assets of Klöckner & Co SE reflect the holding character of the Company. Fixed assets consist almost entirely of financial assets, primarily the stake held in the intermediate holding company Multi Metal Beteiligungs GmbH. Liabilities of Klöckner & Co SE is further shaped by a convertible bond issued as part of Group financing. The proceeds from the sale were transferred to the Group's central financial holding company, Klöckner & Co Verwaltung GmbH. As a result, they were reflected in receivables from affiliated companies.



On December 31, 2008, the equity ratio of Klöckner & Co SE was nearly unchanged at 52.6% (2007: 52.0%).

#### Income statement of Klöckner & Co SE (condensed)

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Income from investments	38,441	75,988
Interest income	7,520	5,507
Income and other expenses, net	-28,065	-31,503
Result from ordinary activities	17,896	49,992
Taxes	-196	-1,488
<b>Consolidated net income</b>	<b>17,700</b>	<b>48,504</b>
Transfer to other revenue reserves	0	-11,304
<b>Retained profit</b>	<b>17,700</b>	<b>37,200</b>

The income from investments of Klöckner & Co SE resulted from dividends and profit transfers from subsidiaries passed through intermediate holding companies. In the reporting year, income totaling €38.4 million (2007: €76.0 million) was received as a result of a profit-and-loss transfer agreement with Multi Metal Beteiligungs GmbH.

Other income and expenses, net improved from €31.5 million in the previous year to €28.1 million. One reason for this change was lower personnel expenses of €18.0 million compared to €14.1 million, namely due to lower stock-based compensation.

The Management Board and the Supervisory Board will propose to the Annual General Meeting on May 26, 2009, not to pay a dividend for 2008 but to carry forward retained profits to new account.

As a result of current macroeconomic conditions, the long-range dividend policy will be temporarily suspended. Under this policy, the dividend volume should amount to 30% of the consolidated net income after the deduction of special items.

Given the dividend potential of the retained profits in subsidiaries, 2009 should produce a balanced result at the very least.

The annual financial statements of Klöckner & Co SE received the unqualified auditor's opinion. They will be published in the Electronic Federal Gazette. The annual statements can be obtained at the Company's headquarters and are available on the Internet at [www.kloeckner.de](http://www.kloeckner.de).

#### 4.2 Legal information relating to takeovers

**Report pursuant to sections 289 para. 4, 315 para. 4 of the German Commercial Code in conjunction with section 120 para. 3 Sentence 2 of the German Stock Corporation Act and Article 52 of the European SE Regulation**

##### Composition of share capital

On December 31, 2008, the share capital of Klöckner & Co SE was €116,250,000. It was divided into 46,500,000 no-par-value registered shares with full voting rights. All shares have the same rights and obligations. Each share grants one vote.

##### Restrictions related to voting rights and transfer of shares

The Management Board knows of no restrictions that would affect voting rights or the transfer of shares – including agreements among stockholders.

### **Interests in share capital exceeding 10% of voting rights**

Direct or indirect interests in share capital of Klöckner & Co SE that exceeded 10% of voting rights as of December 31, 2008, have not been reported to the Company.

### **Shares with special rights that confer powers of control**

There are no shares with special rights conferring powers of control.

### **Exercise of voting rights in case of employee participations in the share capital**

Shares held by employees of the Klöckner & Co Group are not subject to voting rights control regulations.

### **Legislation and provisions of the Articles of Association governing the appointment and dismissal of members of the Management Board and amendments to the Articles of Association**

The Management Board of Klöckner & Co SE consists of one or more members who are appointed and dismissed by the Supervisory Board (Article 9, para. 1, Article 39, para. 2 and Article 46 of the European SE Regulation; Sections 84, 85 of the German Stock Corporation Act; Section 6 of the Articles of Association).

As a rule, amendments to the Articles of Association require a two-thirds majority of votes cast. Pursuant to section 19 para. 2 Sentence 2 of the Articles of Association of Klöckner & Co SE, amendments can be resolved by a simple majority of votes cast if at least half of the share capital is

represented. This, however, does not apply to changes in the purpose of the Company, relocation of the registered head office to another Member State and to instances for which a larger capital majority is required by mandatory law. For resolutions that require a three-fourths capital majority under the German law applying to Aktiengesellschaften (stock corporations), a three-fourths majority of votes cast is necessary at Klöckner & Co SE. Under section 21 of the Articles of Association, the Supervisory Board is authorized to alter the wording of the Articles of Association when necessary.

### **Authority of the Management Board to issue and repurchase shares**

The Management Board of Klöckner & Co SE has the following authority to issue and repurchase stock:

Until June 20, 2011, it is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €50,000,000 by issuing new no-par-value registered shares on one or more occasions in exchange for cash and non-cash contributions. Further details are covered by section 4 para. 2 of the Articles of Association.

Until June 20, 2013, it is further authorized to issue registered option bonds and/or convertible bonds on one or more occasions and to grant the holders option or conversion rights up to 4,650,000 no-par-value registered shares of the Company with a pro rata sum in the share capital of up to €11,625,000. Further details are covered by section 4 para. 4 of the Articles of Association.



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In addition, a conditional capital increase of €11,625,000 also exists. This increase may be carried out only if conversion rights from bonds issued by the Company or its subsidiaries on the basis of the authorization granted by the Annual General Meeting on June 20, 2007, are exercised. Further details are covered by section 4 para. 3 of the Articles of Association.

Pursuant to section 71 para. 1 No. 8 of the Stock Corporation Act and in accordance with the resolution of the Annual General Meeting on June 20, 2008, the Company is authorized to acquire the Company's own shares up to 10% of the relevant share capital of €116,250,000. This authorization is valid until December 19, 2009.

#### **Material agreements of the Company that are subject to a change of control provision as a result of a takeover bid**

The terms and conditions of the convertible bond issued in July 2007 totaling €325,000,000 allow for an early redemption by the holder in the event of a change of control. The redemption amount will be based on the nominal value plus accrued interest. A change of control is deemed to have occurred if, among other things, a person or persons acting in concert directly or indirectly obtain legal or commercial ownership to more than 50% of the voting rights in the Company.

Under virtually the same conditions, individual lenders under the €600 million multi-currency revolving credit facility issued in May 2007 may request repayment of the respective outstanding amount.

Other major credit arrangements and the Group's ABS program contain customary change-of-control clauses.

#### **Compensation agreements of the Company with members of the Management Board or employees that address a takeover bid**

If a threshold of 30% of voting rights is exceeded, the Management Board members Dr. Ludwig and Mr. Rühl have the right to terminate their employment contracts. If this right is exercised, they will be entitled to their individual target salary (including target bonuses) for the remaining life of their contracts (both: May 31, 2011), capped at three times the annual salary. Furthermore, all virtual stock options granted but not issued up to this point in time vest immediately and may be exercised in full.

#### **4.3 Dividend planning**

It will be proposed to the Annual General Meeting that the retained profits for financial year 2008 should be carried forward to the new account and that no dividend be paid. This proposal is being made in connection with the expanded action program arising from the difficult macroeconomic situation to cut costs and reduce outstanding debt as well as the uncertain outlook for financial year 2009.

In taking this step, Klöckner & Co SE will deviate from its previous dividend policy. Under this policy, the dividend volume should amount to 30% of the consolidated net income after the deduction of special items. In each of the past two years since the initial public offering in 2006, a dividend totaling €0.80 per no-par share entitled to voting rights was paid.

## 5 Subsequent events

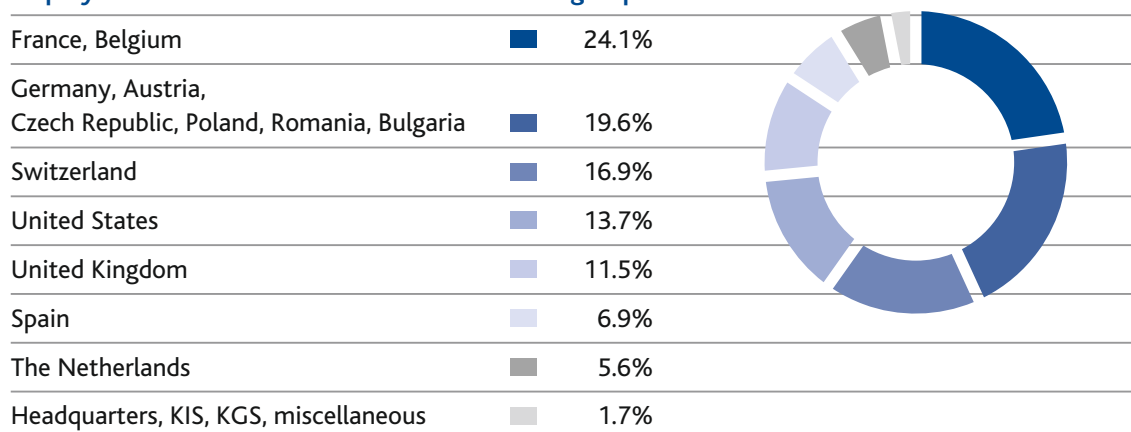
Faced with a continuing strong drop in demand, the Management Board has approved a further package of measures to lower costs and inventories. In a program that builds on the initial measures taken last October, personnel-related actions will be increased again, operating expenses will be reduced in all areas, and inventories will be decreased further. After the initiated cutting of jobs of 800 employees as part of the initial package of measures, the workforce is expected to be reduced by an additional 700 employees in a decision that will significantly lower fixed costs.

## 6 Employees

The foundation of Klöckner & Co's sustainable success as a service provider in warehousing and the distribution of multi metals are the Company's more than 10,000 employees. About 14% of the Company's workforce is in North America and 86% is in Europe. Klöckner & Co uses this broad international positioning to apply and exchange know-how across borders.

During the past financial year, the number of employees was reduced by about 300 people compared with the previous year. This decrease was based on the decreasing net effect of changes in the scope of consolidation and on the adjustments made in the workforce in response to the weakening demand for steel products in the fourth quarter. This applies to the workforces in both Europe and North America. As a result of the sale of the Canadian company Namasco Ltd. and KVT of Switzerland, the number of employees was reduced by about 650.

### Employees international – overview based on subgroups







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### Training and professional development

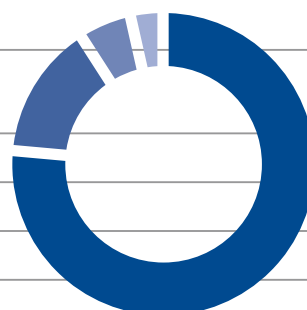
Training and professional development continued to be energetically provided. As part of Germany's dual-training system, employees are prepared not only to meet the needs of the Company but also to further their careers. Training is provided to people working to become management assistants in wholesale and international trade, specialists in inventory management, office management assistants as well as management assistants in computer science and IT systems. The apprentice share at the Klöckner & Co Group in Germany is 7.7%, roughly the same as the average for the market segment, 7.6% (source: Germany Labor Agency). Average training costs in Germany amount to about €8,700 per apprentice per year. In countries that do not have dual-training systems, Klöckner & Co primarily uses the Company's own training centers. This is the case in France and the Netherlands.

Klöckner & Co also actively works with professional development institutions. The goal of the Klöckner & Co Group is to generally fill management positions from the Company's own ranks. Individual, tailored programs for these employees facilitate recruitment in individual countries.

Even though steel distribution has traditionally been the domain of men, Klöckner & Co is determined to increase the percentage of women in all hierarchical levels and offer attractive career opportunities. But further intensive efforts are required to make the steel sector more appealing to women.

### Distribution of apprenticeship occupations at the Klöckner & Co Group within Germany

Management assistants in wholesale and international trade	79%
Specialists in inventory management	15%
Office management assistants	4%
IT management assistants	2%



### **Internal communication**

Internal communications, an area that can link employees to a constant flow of information and facilitate interactive discussions, is a high priority at Klöckner & Co. The virtual alliance of all country subsidiaries through the Klöckner & Co intranet serves two purposes: It allows all employees to have access to Group-wide information. And it enables the country subsidiaries to exercise editorial independence on their own intranets. The Group-wide communication platform is extensively used by employees and is a management tool that keeps employees informed, particularly in these challenging times.

### **SE Works Council**

As part of the transformation of Klöckner & Co Aktiengesellschaft into an SE (Societas Europaea) in August 2008, employee codetermination was extended to the European level. Every country subsidiary that is based in a member state of the European Union or of the European Economic Area elects members to the SE Works Council, which is responsible for cross-border issues of Klöckner & Co SE. Employee representatives from 14 countries are members of this group. The council will focus on the issues of equal opportunity, discrimination, occupational health and safety as well as training and professional development.

### **Health and safety**

To place greater emphasis on national activities in the area of health and safety, Group-wide health and safety working groups have been formed. These groups will meet for the first time in the spring of 2009. Their objective is to develop concepts that will reduce on-the-job accidents and introduce prevention programs in the individual country subsidiaries.

As an international Group, Klöckner & Co is determined to preserve and protect employees' interests. Because a broad array of cultures is represented in the Klöckner & Co Group, Klöckner & Co expressly affirms its commitment to diversity. It also explicitly acknowledges moral, ethical and religious principles. The employment of minors is expressly prohibited in every country subsidiary of the Klöckner & Co Group, with the exception of apprenticeship programs.



## 7 Remuneration report

The remuneration report of the combined management report is also a section of the corporate governance report (p. 24 et seq.).

### Management Board

Remuneration of the Management Board has three components: a fixed annual salary, a variable annual bonus linked to the accomplishment of quantitative and qualitative objectives set jointly with the Supervisory Board at the beginning of the financial year, and a mid- to long-range program of virtual stock options. In addition, members of the Management Board are entitled to pension benefits under the regulations of the Essener Verband as well as to other benefits, including company cars, accident insurance, etc. to the customary extent.

The virtual stock option program for members of the Management Board has two variations: Variation 1 from 2006 consists of five annual tranches, each of 186,000 phantom stock options. The strike price of the first allotment in 2006 was the price for the initial public offering of €16 per share. This price increases for each subsequent tranche by 5% of the previous year's strike price, rising to €19.45 per share by the fifth tranche. The virtual stock options of each tranche can be exercised annually. But this may not be done before a period of 30 stock-trading days after the Annual General Meeting that follows the allotment of the tranche. Subsequently, the options of the allotted tranches may be exercised in full or in part at any time. The cash-payment obligation of Klöckner & Co SE corresponds to the difference between the average price of the last 30 trading days (Xetra trading, Deutsche Börse AG, Frankfurt a.M.) prior to the exercise of the option and the value at grant.

To conform to Section 4.2.3 of the German Corporate Governance Code, the current virtual stock option program was amended in 2007 to include a limitation option that took effect with the second tranche. A consensus solution was necessary here as a result of the employment contracts of the affected members of the Management Board that run through May 31, 2011. In addition to a limitation on the cash-payment entitlement from the virtual stock option program, this agreement included a change-of-control clause that enables the affected members of the Management Board to resign from their positions if a change of control occurs. If this right is exercised, they will be entitled to the payment of the target annual salary (including the target bonus) until the end of the contract term, but not exceeding three times the annual figure. Furthermore, all virtual stock options that have not been allocated until this point will be considered to be allocated. The affected members of the Management Board will receive the right to exercise these virtual stock options in full at this time.

The remuneration agreement with the Management Board member appointed in 2008 complies completely with the German Corporate Governance Code. Variation 2 of the virtual stock option program reached here has five tranches, each with 60,000 shares that can be distributed as of January 1, 2009, as well as a tighter cap on the maximum cash-payment per share. Furthermore, the calculation of the issue price was fundamentally changed: For Variation 2, this price is calculated on the basis of the average price of the past 30 trading days of the allocation year. The strike price of the first tranche that can be exercised for the first time 30 trading days after the Annual General Meeting in 2009 will be €9.99 per share.

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The total pay of the Management Board in the consolidated financial statements of Klöckner & Co SE pursuant to section 314 para. 1 No. 6 of the German Commercial Code totaled €4,489 thousand in 2008, of which €2,072 thousand is related to the fair value of the virtual stock options issued in 2008. In 2008, the Management Board also exercised virtual stock options from previous years valued at €2,773 thousand. The total pay of the Management Board in the annual financial statements of Klöckner & Co SE (individual financial statements) pursuant to section 285, Sentence 1, No. 9 of the German Commercial Code totaled €4,379 thousand in 2008. The difference from the consolidated total is the result of the omission of Supervisory Board remuneration at subsidiaries. The total amount of employer contributions to pensions or pension funds for members of the Management Board in 2008 [Section 4.2.5 of the German Corporate Governance Code] was €828 thousand. No remuneration was paid to former members of the Management Board or survivors.

### **Supervisory Board**

The amount and structure of remuneration for the Supervisory Board that are regulated by section 14 of the Articles of Association and are available on the Company's Web site were unaffected by the amendments to the Articles of Association approved by the Annual General Meeting during the course of the Company's change in legal form. The remuneration consists of fixed and variable components, which are pro rata temporis in the event of changes in the financial year. Furthermore, reasonable expenses and value added tax are reimbursed. Basic meeting compensation totals €2,000 per meeting. All payments are due after the end of the Annual General Meeting in the following year.

The fixed basic remuneration for the financial year was €17,000. A variable compensation component of €150 is paid for each full €1 million by which the consolidated net profit exceeds €50 million. The chairman of the Supervisory Board receives three times and his or her deputy twice the amount of both remuneration components. The variable remuneration paid to each member of the Supervisory Board may not exceed total fixed remuneration by more than 100%. This cap was applied in 2008 as a result of the high consolidated net profit. Committee work, including holding the position of chairman or deputy chairman, affects remuneration only in terms of compensation for meetings. There are no virtual stock options for the Supervisory Board. The total pay of the Supervisory Board pursuant to section 314 para. 1 No. 6 of the German Commercial Code (consolidated financial statements) and section 285 Sentence 1, No. 9 of the German Commercial Code (individual financial statements) totaled €708 thousand in 2008.



## 8 Opportunities and risks

### 8.1 Opportunity and risk management

The current risk monitoring at Klöckner & Co requires up-to-date, cross-border information about trends in purchase and sales prices of product groups. The available quantities of the individual product groups, driven primarily by demand, are monitored and controlled through IT-related key figures until an order is completed. This work also includes the related inventory risks. After products are delivered, receivables are subject to strict customer credit management. In most countries, default risks are limited primarily by commercial credit insurance. Interest-rate and currency risks are hedged by derivative financial instruments. To limit expenses and cashflows for granted and approved further grants of virtual stock options until 2011 the Group entered into hedging transactions (options) in January 2008. The optimized inventory-management system being introduced is designed to limit inventory risks even more thoroughly.

The systematic identification and monitoring of opportunities and risks are constantly adapted to changing requirements. They were also carried out during the period under review. The core tool of risk reporting and risk monitoring is the quarterly updating of identified opportunities and risks in an opportunities/risk report. The opportunities/

risk report is compiled by the central auditing department of Klöckner & Co using an array of information gathered systematically from operational and administrative areas. It addresses risks and opportunities in the economy, price trends, inventories, receivables and procurement. The report also includes the Company's own measures, documents strategic programs like the current freeze on acquisitions and investments, and provides information about key legal cases. Furthermore, it examines questions regarding financing and outstanding debt in terms of the type of financing and in consideration of covenants. This review extends to pension obligations, tax risks and insurance issues as well. IT security and exchange-rate risks are subjected to constant monitoring.

The communication of and explanations about formalized documents are performed on a quarterly and a case-by-case basis. The opportunities/risk report is circulated in particular to the Management Board, the auditor and the functional departments. The Management Board reports to the Supervisory Board as the superordinate control and advisory body at meetings of the Supervisory Board and committees, additionally in monthly management reports given to all members of the Supervisory Board in written form and monthly meetings with the chairman of the Supervisory Board.

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## 8.2 Short-term and medium-term opportunities and risks

### Uncertainty rises dramatically

Against the backdrop of the worldwide crisis in the capital and financial markets, it is impossible at the moment to predict the future economic direction of Klöckner & Co's core markets in Europe and North America. A foundation must be formed before the world economy can recover, a development that will most likely be a slow process. No one can predict at the moment when this will occur. But it is generally expected that a gradual economic recovery will begin in the second half of 2009.

The global recession affects the risk profile of Klöckner & Co particularly in terms of trends in sales volumes and steel prices as well as the securing of financing. Additional risks arising from the current situation primarily arise from the increase in loss of receivables.

### Further pressure on sales volume and steel prices cannot be ruled out

The turbulence that swept through global steel markets in the fourth quarter of 2008 and continued at the beginning of 2009 has little in common with previous steel cycles. Its impact is also significantly more dramatic than in the past. The simultaneous collapse of volume and prices is unprecedented in terms of size, speed and range. Because no trend reversal is in sight at the moment, margin losses and warehouse inventory devaluations, and reductions in sales volume are probable.

Furthermore, steel prices could be subjected to further pressure if the contracted prices for iron ore and coking coal between mining companies and steel producers are renegotiated in the second quarter. If demand has not picked up by then, there is a risk that steel producers will pass on the major price reductions expected for iron ore and coking coal to the market.

Government economic support programs could have a stabilizing effect on demand and, as a result, on steel prices. For the ongoing financial year, though, this will be the case in the fourth quarter at best.

### Business model of Klöckner & Co offsets sales volume and financing risks

More than half of the asset side of the balance sheet at Klöckner & Co consists of inventories and trade receivables. Subtracting liabilities, this produces the net working capital, which totaled about €1.4 billion at the end of the financial year 2008. When prices and volumes rise, as they did during the first half of 2008, net working capital typically rises. In the process, it places a strain on operative cash flow. By contrast, earning power is strengthened by so-called inventory gains during such periods. Inventory gains arise because stored steel products can be sold with an increased gross profit margin as a result of the rising prices. In the first half of 2008, this effect bolstered the Company's already good earnings situation. On the one hand, the reversal of this effect since the fourth quarter of 2008 produced a very negative earnings result in the fourth quarter. On the other hand, the decrease of the net working capital generated higher cash flow and a significant reduction of



outstanding debt by the year's end. This trend continued at the start of the ongoing financial year. Further reductions in prices and volumes do create a further drag on earnings power. At the same time, though, net financial debt is lowered further by the positive cash flow. As a result of this business-specific process, the fundamental current risks faced by Klöckner & Co that arise from lower sales volume and potential financing problems could be eased with an immediate action program.

Sales volume plunged approximately 27% in the fourth quarter compared with the previous year and dropped further in the first months of the ongoing financial year. Should sales volume continue to fall, the massive utilization problems of Klöckner & Co could increase further. This could lead to losses as a result of the fixed-cost block that could not be lowered as rapidly. The immediate action program initiated in the beginning of October 2008 and then expanded in March 2009 can only partially offset the impact of falling sales volumes depending on intensity. On the other hand, cash flow will significantly rise as a result of the previously described process and outstanding debt will continue to be markedly reduced.

The two central financing instruments are a syndicated loan and ABS programs with covenants. Under the €600 million syndicated loan agreement, the ratio of net financial debt to EBITDA of the past 12 months may not exceed 300% at the end of a quarter. For the European ABS program with a total volume of about €420 million net financial debt may not exceed five times EBITDA of the last 12 months.

As a result of the process described above, falling EBITDA that is caused by lower sales volume is partially offset by sinking net financial debt. Overall, financing in 2009 and beyond 2009 can be seen as secured. But an increase in the very good financing terms obtained up to now would eventually be unavoidable.

#### **Risk management further extended**

As the global financial crisis has accelerated, risk management in the financial department of Klöckner & Co Group was further expanded. The central treasury now plays a bigger role in managing operative liquidity of the country subsidiaries. As added support to the central liquidity management of the daily business, the finance management at the headquarters and the country subsidiaries hold weekly telephone conferences. Besides liquidity management and net working capital management, the coordination process includes intensified monitoring and supervision of the decentrally organized debtor and creditor management. The management is based on goals in order to secure continuing liquidity security at the Group and to further reduce outstanding debt. Intensifying debtor management reduces credit risks from operative receivables that have risen during the financial crisis. Depending on the risk profile of the country subsidiary, about 70% of receivables are indeed covered by credit insurers at this time. But the insurers may gradually reduce their commitments as the economic crisis unfolds.

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Within the framework of its operating business, the Klöckner & Co Group is exposed to interest rate and currency risks that are hedged by derivative financial instruments. In this process, only standard instruments with adequate market liquidity are used. Furthermore, central foreign currency management is performed exclusively to hedge against transaction risks. Risks associated with changes in interest rates are also centrally monitored. Interest-hedging instruments are utilized to reduce or limit the impact of interest-rate changes on financing costs for long-term loans with variable interest rates.

As another result of the financial crisis, switches had to be made in international insurance coverage for tangible assets, business interruptions and liability risks. All of our insurers are being constantly and critically monitored in terms of the fulfillment of their commitments.

The risks of a long IT breakdown were minimized through additional measures. Furthermore, a security concept was implemented. It addresses extreme scenarios and will rapidly restore system availability during a catastrophic computer failure. The data on the central server are continuously stored at a geographically different location to form a virtual mirror. This step will prevent a potential loss of data. Within a short period of time, system operation can be resumed at this location.

#### **Other risks are manageable**

Several old risks and the opportunities arising from them that Klöckner & Co has discussed for years became clearer in 2008. For instance, the risks arising from the so-called Balli Complex were completely eliminated in 2008 as a result of the global settlement reached in September 2008 and then implemented. Existing provisions could substantially be included in income during the third and fourth quarters of 2008. The outcome of the French antitrust case pending since 2004 went in the opposite direction. The ruling handed down in December 2008 against an associated company in France had a much stronger impact on consolidated net income in the fourth quarter of 2008 than expected. It will also likely result in a liquidity outflow of up to €169 million in spring 2009. In terms of the final penalty, for which third-party guarantees totaling €70 million exist, the Management Board thinks that the chances of achieving a reduction are good, taking into consideration the economic as well as the legal background. An appeal has been filed. The chances of having the payment of the penalty delayed or agree on an installment plan are difficult to estimate, but do exist.

In two other cases, antitrust investigations have been launched against companies of the French country subsidiary. It cannot be foreseen at the moment whether the suspicions will be supported, and an official inquiry will be opened. Several investigations have been initiated, but have not found evidence to support antitrust officials' suspicions up to now.



By introducing a central procurement system on the European level, Klöckner & Co has the opportunity to exploit its strong, central negotiating positions particularly in times of plunging demand and achieve price advantages against its competitors. In the fourth quarter, for instance, Klöckner & Co was able to reduce the procurement price of incoming deliveries to the current price level for the first time, an achievement that was not possible in decentralized structures.

#### **Opportunities through government economic programs**

Government economic programs offering historic amounts of assistance focus on investments in infrastructure and modernization projects directly through investment programs and indirectly through tax breaks. The impact on steel consumption cannot be assessed at the moment. It can be assumed, however, that the positive effects will take hold beginning in the fourth quarter of the ongoing financial year, a development from which Klöckner & Co can benefit.

### **8.3 Strategic opportunities and risks**

The acquisition strategy suspended in the wake of the financial crisis also offers future opportunities to fuel the consolidation process in multi metal distribution. Additional opportunities could emerge as the financial and economic crisis proceeds. As a rule, the primary risk associated with acquisitions arises from prompt integration to generate synergy effects and – as the current situation shows – their sustainable financing.

When economic expansion weakens, the primary market risk for steel distribution consists of imbalances in supply and demand arising from overcapacities and the lack of adjustments to production. Slumping prices caused by this development could lead to shrinking margins and – just like the fourth quarter of 2008 – result in write-downs on inventory. The important countermeasure is timely inventory management based on demand trends. By introducing this process and constantly refining it, significant competitive edges can be created. The critical goal of the new international product management section created as part of the expansion of the Management Board is to initially centralize procurement across Europe. This step can result in economies of scale in procurement and markedly higher transparency regarding inventories and orders. Another strategic task of product management is to develop the assortment and customer structure in such a way that the cyclical nature of business is reduced and sales volume trends are stabilized more strongly than before.

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Despite the current crisis, the Management Board continues to assume that the growth of the steel industry and steel distribution will continue over the long term. Reasons for this expected development are the growing demand of general infrastructure investments unrelated to the crisis, the long-range and increasing buying power of the emerging countries of China and India as well as in Central and Eastern Europe and in South America, as well as the fundamentally good outlook of oil-exporting countries. Without the fundamental disruption in the financial markets, a moderate cooling of the overheated steel sector that resulted from the boom in China in recent years would have occurred in 2009/2010, and the long-range trend would be easier to see. For Klöckner & Co, the chances are good that the Company will return to its growth path once the crisis subsides.

#### **8.4 General statements about opportunities and risks**

Overall, the Management Board expects that all recognizable accounting risks seen during the compilation of the financial statements have been hedged through sufficient provisions on the level of the individual Group companies and the holding Company or through guarantees of third parties. It is also expected that massive compliance violations will be discovered in a timely manner or prevented before damage becomes threatening as a result of the Group-wide, compliance-monitoring organization that was established in 2007/2008. Since December 2008, communication activities with the Company's employees about avoiding all forms of violations as well as research and inquiries conducted with the assistance of external experts have also been intensified.

In assessing the activities to limit the market risks described here, the Management Board believes the Group has been sufficiently protected as a result of the implemented or planned measures as well as the business system described here. Seen from the perspective of the beginning of March 2009 and projected one year to two years into the future, the short- and mid-term market risks associated with the world economic crisis are significantly larger, less manageable and more difficult to counteract than in past years. No specific risks that could jeopardize the Company as an ongoing concern have been identified, thanks to measures that have been implemented and prepared – particularly through liquidity protection.



## 9 Forecast report

In the face of the continuing, unprecedented turbulence in the world economy, it is difficult to issue an outlook for financial year 2009. Given the economic forecasts for the regions of Europe and North America that are so vital to Klöckner & Co and in all important customer sectors, particularly the construction industry, the automotive industry including suppliers, and mechanical engineering, the Management Board is expecting a deep recession in 2009.

Based on the assumptions of the International Monetary Fund (IMF) released at the end of January 2009, the world's economy will virtually stagnate with a growth rate of +0.5%. Global trade will decrease for the first time year on year since World War II at a rate of -2.8%. In the regions of Europe that are so critical to Klöckner & Co, the economic forecasts are even worse than those in the United States, whose economy is expected to shrink by -1.6%, according to the IMF forecast. China, a critical factor for global steel demand, is expected to achieve a much slower growth rate of +6.5% than it had in previous years because of weakened demand in its key international markets. Still, the economy is slowing at a high level compared to other countries.

There is hope – albeit elusive – that the extreme phase of economic weakness can slowly be overcome in the second half of 2009. This hope stems from the overall favorable direction of prices for raw materials and oil as well as government support programs introduced in important countries to revitalize the banking sector and to revive demand. This trend is expected to continue in 2010. The IMF expects growth of +1.6% in the United States in 2010 but only +0.5% in the European Union.

As a result, Klöckner & Co anticipates significantly lower sales volumes than in 2008. At the moment, it cannot be estimated if the steps already taken and planned will be sufficient. Even if a larger drop in earnings than the one foreseen from today's perspective seems unavoidable in financial year 2009, a positive earnings result is forecast. For 2010, an even more positive performance is expected as a result of slowly improving conditions.

In addition to the immediate action programs described in this report and the efficiency-enhancing program, high credit lines form a solid foundation. It should also be noted that not even half of these credit lines have been used. Overall, Klöckner & Co is well positioned to successfully meet the challenges of the future.

Duisburg, March 3, 2009

The Management Board

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# JUST IN TIME

Our customers know one thing. We make deliveries at just one point in time: the scheduled one.



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## DECLARATION OF THE MANAGEMENT BOARD



### Declaration of the Management Board on the consolidated financial statements and the management report

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report which has been combined with the management report for Klöckner & Co SE, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Duisburg, March 3, 2009

The Management Board

**Dr. Thomas Ludwig**  
Chairman  
of the Management Board

**Ulrich Becker**  
Member  
of the Management Board

**Gisbert Rühl**  
Chief Financial Officer  
and Member of the  
Management Board

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## AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Klöckner & Co SE, 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 which is combined with the management report of Klöckner & Co SE for the business year from January 1 to December 31, 2008. 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 section 315a para. 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 section 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 section 315a para. 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 3, 2009

KPMG Hartkopf + Rentrop Treuhand KG  
Wirtschaftsprüfungsgesellschaft

Philippi  
Wirtschaftsprüfer

Michels-Scholz  
Wirtschaftsprüfer

KLÖCKNER & CO SE  
 Consolidated statement of income  
 for the 12-month period ending December 31, 2008



(€ thousand)	Notes	2008	2007
Sales	(7)	6,749,595	6,274,143
Other operating income	(8)	371,182	96,689
Change in inventory		10,832	4,434
Own work capitalized		73	40
Cost of materials	(9)	-5,394,417	-5,057,937
Personnel expenses	(10)	-546,272	-509,160
Depreciation, amortization and impairments		-67,372	-63,858
<i>thereof impairment losses: 0 (2007: -287)</i>			
Other operating expenses	(11)	-590,612	-439,029
<b>Operating result</b>		<b>533,009</b>	<b>305,322</b>
Income from investments		0	1,484
Finance income		6,981	4,998
Finance expenses		-76,763	-102,169
<b>Financial result</b>	(12)	<b>-69,782</b>	<b>-97,171</b>
<b>Income before taxes</b>		<b>463,227</b>	<b>209,635</b>
Income taxes	(13)	-79,254	-53,579
<b>Net income</b>		<b>383,973</b>	<b>156,056</b>
thereof attributable to			
– shareholders of Klöckner & Co SE		398,134	133,385
– minority interests		-14,161	22,671
<b>Earnings per share</b>	(14)		
– basic		<b>8.56</b>	<b>2.87</b>
– diluted		<b>8.11</b>	<b>2.87</b>

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# KLÖCKNER & CO SE

## Consolidated balance sheet as of December 31, 2008

### Assets

(€ thousand)	Notes	December 31, 2008	December 31, 2007
<b>Non-current assets</b>			
Intangible assets	(15 a)	235,931	197,581
Property, plant and equipment	(15 b)	479,421	482,138
Investment property	(15 c)	13,188	0
Financial assets		2,364	2,661
Other assets	(18)	25,545	19,736
Deferred tax assets	(13)	46,491	33,336
<b>Non-current assets</b>		<b>802,940</b>	<b>735,452</b>
<b>Current assets</b>			
Inventories	(16)	1,000,612	955,644
Trade receivables	(17)	798,618	929,964
Current income tax receivable	(13)	29,388	6,572
Other assets	(18)	141,845	86,367
Liquid funds	(19)	296,636	153,558
<i>thereof cash and cash equivalents</i>		<i>293,531</i>	<i>153,558</i>
<i>thereof restricted cash</i>		<i>3,105</i>	<i>0</i>
Assets held for sale	(20)	4,942	98,596
<b>Total current assets</b>		<b>2,272,041</b>	<b>2,230,701</b>
<b>Total assets</b>		<b>3,074,981</b>	<b>2,966,153</b>



## Equity and liabilities

(€ thousand)	Notes	December 31, 2008	December 31, 2007
<b>Equity</b>			
Subscribed capital		116,250	116,250
Capital reserves		260,496	260,496
Retained earnings		702,034	412,227
Accumulated other comprehensive income		- 16,368	- 28,332
<b>Equity attributable to shareholders of Klöckner &amp; Co SE</b>		<b>1,062,412</b>	<b>760,641</b>
Minority interests		11,998	84,283
<b>Total equity</b>	(21)	<b>1,074,410</b>	<b>844,924</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	(23)	180,095	188,457
Other provisions	(24)	36,924	59,151
Income tax liabilities	(13)	50	92
Financial liabilities	(25)	813,000	813,076
Other liabilities	(27)	59,634	8,962
Deferred tax liabilities	(13)	85,028	82,364
<b>Total non-current liabilities</b>		<b>1,174,731</b>	<b>1,152,102</b>
<b>Current liabilities</b>			
Other provisions	(24)	284,766	144,355
Income tax liabilities	(13)	19,139	18,223
Financial liabilities	(25)	48,112	72,644
Trade payables	(26)	392,183	609,863
Other liabilities	(27)	81,640	91,748
Liabilities associated with assets held for sale	(20)	0	32,294
<b>Total current liabilities</b>		<b>825,840</b>	<b>969,127</b>
<b>Total liabilities</b>		<b>2,000,571</b>	<b>2,121,229</b>
<b>Total equity and liabilities</b>		<b>3,074,981</b>	<b>2,966,153</b>

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# KLÖCKNER & CO SE

## Consolidated statement of cash flows

for the period from January 1 to December 31, 2008



(€ thousand)	2008	2007
Income before taxes	463,227	209,635
Financial result	69,782	97,172
Depreciation and amortization	67,372	63,873
Other non-cash expenses and income	63,187	-3,375
Gain on disposal of subsidiaries and other non-current assets	-277,414	-39,549
<b>Operating cash flow</b>	<b>386,154</b>	<b>327,756</b>
Changes in provisions	-722	-46,469
Changes in other assets and liabilities		
Inventories	-6,444	-70,783
Trade receivables	143,449	29,176
Other assets	-43,071	-17,930
Trade payables	-223,699	-63,584
Other liabilities	24,681	-545
Income taxes paid	-93,464	-49,117
<b>Cash flow from operating activities</b>	<b>186,884</b>	<b>108,504</b>
Proceeds from the sale of non-current assets and assets held for sale	11,565	38,314
Proceeds from the disposal of consolidated subsidiaries	376,101	0
Payments for intangible assets, property, plant and equipment	-48,111	-60,697
Acquisition of subsidiaries	-264,360	-355,833
Margin deposits for derivative transactions	-3,105	0
<b>Cash flow from investing activities</b>	<b>72,090</b>	<b>-378,216</b>
Equity component of convertible bond	0	62,098
Dividends paid to		
– Shareholders of Klöckner & Co SE	-37,200	-37,200
– Minority interests	-2,478	-9,579
Borrowings	425,187	1,270,021
Repayment of financial liabilities	-471,186	-912,862
Interest paid	-45,398	-81,943
Interest received	7,636	4,312
<b>Cash flow from financing activities</b>	<b>-123,439</b>	<b>294,847</b>
<b>Changes in cash and cash equivalents</b>	<b>135,535</b>	<b>25,135</b>
Effect of foreign exchange rates on cash and cash equivalents	4,438	-1,733
Cash and cash equivalents at the beginning of the period	153,558	130,156
<b>Cash and cash equivalents at the end of the period</b>	<b>293,531</b>	<b>153,558</b>

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## KLÖCKNER & CO SE

### Summary of changes in equity

(€ thousand)	Subscribed capital Klöckner & Co SE	Capital reserves Klöckner & Co SE
<b>Balance as of January 1, 2007</b>	<b>116,250</b>	<b>197,699</b>
Income/expenses directly recognized in equity		
Foreign currency translation		
Gain/loss from cash flow hedges		
Related income tax		
Net income		
<b>Comprehensive income</b>		
Acquisition of minority interests		
Equity component of convertible bond		62,797
Dividends		
Other changes		
<b>Balance as of December 31, 2007</b>	<b>116,250</b>	<b>260,496</b>
<b>Balance as of January 1, 2008</b>	<b>116,250</b>	<b>260,496</b>
Income/expenses directly recognized in equity		
Foreign currency translation		
Gain/loss from cash flow hedges		
Related income tax		
Reclassification to profit and loss due to sale of foreign subsidiaries		
Net income		
<b>Comprehensive income</b>		
Acquisition of minority interests		
Dividends		
<b>Balance as of December 31, 2008</b>	<b>116,250</b>	<b>260,496</b>





Retained earnings	Accumulated other comprehensive income		Equity attributable to shareholders of Klöckner & Co SE	Minority interests	Total
	Currency translation adjustment	Fair value adjustments of financial investments			
381,915	-9,204		686,660	112,789	799,449
	-18,645		-18,645	-1,873	-20,518
		-858	-858		-858
	112	263	375		375
133,385			133,385	22,671	156,056
			114,257		
-66,493			-66,493	-39,725	-106,218
-490			62,307		62,307
-37,200			-37,200	-9,579	-46,779
1,110			1,110		1,110
412,227	-27,737	-595	760,641	84,283	844,924
412,227	-27,737	-595	760,641	84,283	844,924
	46,568		46,568		46,568
		-43,807	-43,807		-43,807
	-5,336	13,449	8,113		8,113
	1,090		1,090		1,090
398,134			398,134	-14,161	383,973
			410,098		
-71,127			-71,127	-55,646	-126,773
-37,200			-37,200	-2,478	-39,678
702,034	14,585	-30,953	1,062,412	11,998	1,074,410

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## KLÖCKNER & CO SE

### Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg, as of December 31, 2008

#### (1) Company information

Klöckner & Co SE ("Klöckner & Co" or "the Company") originated from Klöckner & Co AG by legal transformation on August 8, 2008. As this change was made prior to the compilation of these financial statements the Company is referred to as such in this document. Klöckner & Co SE is entered in the commercial register of the Duisburg Local Court under HRB 20486, and is a listed corporation domiciled in Duisburg, Am Silberpalais 1. The consolidated financial statements of Klöckner & Co SE and its subsidiaries ("Klöckner & Co Group" or "Group") were authorized for issuance to the Supervisory Board by way of resolution of the Management Board on March 3, 2009. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it will approve the consolidated financial statements.

The Klöckner & Co Group is the largest mill-independent multi metal distributor in Europe and North America. Alongside trading of steel, aluminum and various industrial products, it also provides a range of associated services.

The shares of Klöckner & Co SE were listed in the MDAX® on January 29, 2007.

#### (2) Accounting policies

The consolidated financial statements as of December 31, 2008 were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, and the additional requirements of the German Commercial Code ("HGB") pursuant to section 315a (1) HGB. All binding IFRS and the associated interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") as of December 31, 2008 were applied.

The financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2008, are based on uniform accounting policies.

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (€ thousand). Deviations from the unrounded amounts may arise.

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

#### (3) Scope and principles of consolidation

The consolidated financial statements incorporate the financial statements of Klöckner & Co SE and the companies controlled by Klöckner & Co SE ("subsidiaries"). Control is achieved when Klöckner & Co holds the majority of the voting rights or by other means is able to govern the financial and operating policy of an entity in order to obtain the economic benefit from its activities.

Under the Group's European asset-backed securitization programs ("ABS programs") a total of 13 special-purpose entities were formed. None of the Group companies holds an equity interest in those special-purpose entities, but they were established for the sole purpose of purchasing and collecting receivables of Klöckner & Co subsidiaries. The economic substance of the relationship between Klöckner & Co and these special-purpose entities indicates that these companies are also controlled by Klöckner & Co and are therefore to be included in the consolidated financial statements. A further special entity which is responsible for the acquisition of trade receivables under the American Program is consolidated under the general consolidation rules.

The financial statements of subsidiaries acquired or disposed of in the course of the financial year are included in the consolidated financial statements from the time control is achieved to the time it is surrendered.



Intragroup receivables, liabilities and intercompany results are eliminated in consolidation. Consolidation entries are subject to deferred taxes. Deferred tax assets and liabilities are offset against each other if the payment term and levying taxation authority are identical.

The scope of consolidated companies changed as follows:

	2008	2007
Consolidated companies at the beginning of the financial year	154	138
+ Acquisitions	4	18
+ Newly formed/consolidated companies	2	7
– Mergers	– 15	– 8
– Disposals and liquidations	– 42	– 1
Consolidated companies at the end of the financial year	103	154
(thereof German companies including Klöckner & Co SE)	10	13

6 (2007: 7) subsidiaries which do not have a significant impact on the Group's net assets, financial results and results of operations are not consolidated. Sales and net income of these entities represent less than 0.01% of consolidated sales and net income, respectively. The impact on the Group's equity amounts to –1.21%. Such subsidiaries are accounted for as financial assets at cost as their fair value cannot be determined reliably.

A list of affiliated companies included in the consolidated financial statements is attached as annex.

#### (4) Significant accounting policies

##### Business combinations

Business combinations are accounted for under the purchase method whereby the cost of the investment is offset against the investee's net assets which is remeasured to fair value. The net assets are based on the fair values of the assets and liabilities, including identifiable intangible assets and contingent liabilities to be recognized as liabilities, as of the date of acquisition.

If published exchange or market prices cannot be obtained for allocating the purchase price, the fair values are calculated on the basis of suitable valuation techniques. Generally, the discounted cash flow method is used in such cases. Under this method, the expected future cash flows that can be generated by the asset are discounted to the date of the initial consolidation using a discount rate reflecting the inherent risk associated to the asset.

Any remaining excess of the cost of the acquired company over its proportional share of net assets is recognized separately as goodwill; any negative difference is upon reassessment of the acquired assets and liabilities directly recognized in the income statement.

Subsequent changes in interests in consolidated subsidiaries that do not result in a loss of control are treated as equity capital transactions.

##### Foreign currency translation

Transactions denominated in foreign currency are translated using the exchange rate at the time of the transaction. Monetary items are translated using the current exchange rate at the balance sheet date. Irrespective of any currency hedges, gains or losses from the remeasurement of monetary assets and liabilities are recognized in the income statement as other operating income or expenses.

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Applying the functional currency concept, the annual financial statements of the foreign subsidiaries prepared in foreign currency are translated into euros. The functional currency is determined by the primary economic environment in which the entity operates. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency for those entities is the local currency. The assets and liabilities of subsidiaries are translated at the middle rate on the balance sheet date, expenses and income

are translated at the average exchange rate of the reporting period. Differences arising from such translations applied to the assets, liabilities and components of net income are reported as a separate component of equity and accordingly do not have an impact on net income.

The exchange rate changes for the main currencies of the Group developed as follows:

1 € =	Year-end rate		Average rate	
	Dec. 31, 2008	Dec. 31, 2007	2008	2007
US Dollar (USD)	1.3918	1.4721	1.4708	1.3704
Pound Sterling (GBP)	0.9525	0.7333	0.7963	0.6843
Swiss Franc (CHF)	1.4850	1.6547	1.5874	1.6427
Canadian Dollar (CAD)	1.6998	1.4449	1.5593	1.4678

#### Revenue recognition

Revenues from sales of goods are recognized when the material risks and rewards associated with ownership have been transferred to the buyer and the amount of revenues can be reliably measured. This is generally the time of delivery. Prior to delivery, revenues are only recognized when goods have not been delivered at the request of the buyer but ownership has been transferred and the buyer has accepted billing. Sales are reported net of allowances such as bonuses, trade discounts and rebates.

Interest income is accrued on a time basis by reference to the principal amount and the effective interest rate. Dividend income is recognized when the right to receive payment has been established.

#### Share-based payment

The Group's share-based compensation plans are virtual stock option plans with cash settlement ("VOP"). As of the respective reporting date, a provision is recognized pro rata temporis in the amount of the fair value



of the payment obligation; any subsequent change in the fair value is recognized in profit or loss. After the expansion of the program the fair value of the virtual share options is calculated on the basis of an option pricing model based on a Monte Carlo simulation using the following parameters:

	%
Risk-free rate of return	2.1–2.4
Expected volatility	85.0

#### Earnings per share

Earnings per share are calculated by dividing net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period. The dilutive, potential shares of the outstanding convertible bond have been included in the calculation of diluted earnings.

#### Income taxes

Income tax expense represents the total of current and deferred tax expenses.

Current tax expenses are calculated on the basis of the taxable income for the financial year. The taxable income differs from the income before taxes for the year reported in the income statement as it does not include income or expenses that will not be taxable or tax deductible until later financial years, if at all. Tax liabilities are measured at the amount for which payment to the taxation authorities is expected. The liabilities are measured at the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are calculated in line with the concept of the balance sheet liability method. Deferred tax assets result from temporary differences in the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases

used in the computation of taxable profits and from consolidation entries. Such deferred tax assets or liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable profits or the accounting profits.

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow part of or the entire deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and a previously unrecognized deferred tax asset is recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which Klöckner & Co expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to set off current tax assets against current tax liabilities exists and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority and a net settlement is intended.

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Current and deferred taxes are recognized in income unless they relate to items that are recognized directly in equity. In such cases, they are also charged or credited to equity.

#### **Intangible assets**

Intangible assets with finite useful lives are carried at cost less accumulated amortization if the use of the asset entails an economic benefit and the costs of the asset can be reliably determined. Intangible assets are amortized on a straight-line basis in line with their estimated useful life over a period generally between two and 15 years. The useful life is reviewed annually and future expectations are adjusted if necessary. Intangible assets with an indefinite useful life that are not being amortized are reviewed for impairment annually or more frequently if indications for impairment arise.

#### **Property, plant and equipment**

Property, plant and equipment is carried at acquisition or manufacturing cost less accumulated depreciation. The manufacturing costs comprise all direct costs as well as attributable overheads, with the exception of financing costs. Administrative costs are capitalized to the extent they relate to production.

Maintenance and repair costs are expensed as incurred.

Property, plant and equipment subject to depreciation are amortized on a straight-line basis. On disposal or retirement, the cost and the corresponding accumulated depreciation are derecognized, any gain or loss is recognized in income.

Depreciation is based on the following useful lives:

	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
Operating and office equipment	3–15

#### **Leases**

Assets held under finance leases are initially recognized at fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as financial liability. Assets held under finance leases are depreciated over their expected useful lives, or where shorter, the term of the underlying lease.

#### **Investment property**

Land and buildings held to earn rentals or for capital appreciation rather than for use in the delivery of goods or for providing services or for administrative purposes are presented as investment property. Measurement of such property follows the cost model. The fair values of such property are disclosed in Note (15) Intangible assets, property, plant and equipment and investment property.

Depreciation methods and useful lives are similar to those for property, plant and equipment.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine if there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. The recoverable amount is the higher value of the fair value less costs to sell and the value in use. In those instances in which the recoverable amount for the specific asset cannot be estimated, the recoverable amount is determined for the cash-generating unit



to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income.

Goodwill arising from the acquisition of subsidiaries is tested for impairment at least annually. The impairment test is performed at the level of the cash-generating unit to which the goodwill has been assigned. Cash-generating units are the lowest reporting level in the Group at which management monitors goodwill for internal reporting purposes. For the Klöckner & Co Group the national sub-consolidation groups generally represent the cash-generating units. The annual impairment test for goodwill is performed in the fourth quarter of each financial year – or more frequently when there is an indication that the unit may be impaired. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the amount of the difference and cannot be reversed in subsequent periods.

The recoverable amount is the higher value of fair value less cost to sell and value in use. Value in use or fair value less cost to sell is usually determined using a discounted cash flow approach. The estimated cash flows are based on the Company's current business plan for the following three years, based on management's estimates for the respective business unit. The interest rates used reflect the risk specific to the underlying business and the country in which the business is operated.

Impairment losses are reported in the income statement under impairment losses. Reversals of impairment losses are included in other operating income.

### Inventories

Inventories are stated at the lower of cost and net realizable value. The manufacturing costs comprise production-related costs calculated on the basis of normal capacity. In addition to the directly attributable costs, material and production overhead expenses including depreciation are reflected in the manufacturing costs. Cost is generally assigned to inventories on the basis of the monthly moving average method. In selected cases the specific identification method is applied.

### Financial instruments

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group's financial assets primarily consist of cash and cash equivalents, available for sale financial instruments, trade receivables and derivative financial instruments with positive fair values. The Group's financial liabilities include bonds, liabilities due to banks, trade payables, finance lease liabilities and derivative financial instruments with negative fair values.

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

The fair value option provided by IAS 39 (Financial Instruments: Recognition and Measurement) is not applied.

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Financial instruments are initially measured at fair value, plus transaction costs directly attributable to the acquisition or issue unless such financial instruments are classified at fair value through profit or loss. Subsequent measurement of financial assets and liabilities depends on the financial instruments classification to categories of IAS 39.

a) Financial assets and financial liabilities  
(excluding derivative financial instruments) and  
equity instruments issued by Klöckner & Co

Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value and are stated at nominal value. Foreign currency balances are converted into euros at the bid-rate on the balance sheet date.

Financial assets at fair value through profit or loss include financial assets initially classified as held for trading. In the Klöckner & Co Group, this classification only applies for derivative financial instruments unless designated in a documented hedge. Such instruments are presented as other assets in the Group's consolidated financial statements.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Also assigned to this category are non-current loans and non-current securities that do not have a quoted market price in an active market, which are measured at amortized cost.

All identified risks are allowed for by making appropriate valuation adjustments to reflect the risk of default, taking into account the credit insurance that is in place. The carrying amounts of financial assets are assessed for impairment if there is objective evidence, such as substantial financial difficulty on the part of the obligor, knowledge of insolvency proceedings or being overdue.

Non-derivative financial assets that are not assigned to any of the other categories described in IAS 39 are classified as available for sale financial assets and are measured at fair value. Such assets include shares in unconsolidated subsidiaries and other equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are accounted for at cost. If required valuation allowances are established through profit or loss to account for an impairment loss. Impairment losses are reversed when the reasons for such impairment losses no longer apply unless they relate to available for sale financial assets that are accounted for at cost for which no reversal of impairment losses is allowed.

Financial instruments are initially recognized as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its liabilities. An equity instrument is recognized in the amount of the proceeds received from the issuance less directly attributable transaction costs.





The components of compound financial instruments such as the convertible bond are recognized separately as financial liabilities and equity. The fair value of the liability component was calculated using a market interest rate for equivalent financial instruments without conversion rights. Subsequent accounting of the liability component will be on an amortized cost basis until conversion or maturity of the bond. In line with the residual method the remaining difference represents the equity component which is reported within capital reserves with no subsequent adjustment. Financial liabilities are either classified as fair value through profit or loss or other financial liabilities.

Klöckner & Co Group only classifies derivative financial instruments that are not designated as hedge and are effective as liabilities measured at fair value through profit or loss. The negative fair value of such instruments is reported under other liabilities.

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

#### b) Derivative financial instruments

The Group uses a variety of derivative financial instruments to manage its exposure to interest and foreign exchange rate risks. These include forward exchange transactions, currency swaps, cross currency swaps, interest rate swaps and interest rate collars. Further information is disclosed in Note (30) Derivative financial instruments.

Derivative financial instruments are initially reported at fair value at the conclusion of the agreement. The fair value is adjusted at each subsequent balance sheet date. Any gain or loss arising from a change in the fair value of a derivative financial instrument that is not part of a cash flow hedging relationship and for which the hedging relationship is effective is recognized in the income statement. For derivative financial instruments designated in a hedging relationship the timing of the recognition of gains or losses is dependent on the nature of the hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. In addition, hedge accounting is applied for certain unrecognized firm commitments.

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 recognized in the income statement at the payment date or the 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, provided that no hedge accounting is applied, changes in the fair values are recognized in the income statement for the current reporting period.

Derivative financial instruments designated in hedging transactions are classified as non-current assets or liabilities if the remaining term of the hedging relationship is more than twelve months or as current assets or liabilities, respectively, if the remaining term of the hedging relationship is less than twelve months.

Derivative financial instruments not designated in a hedging relationship are classified either as current assets or liabilities.

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### c) Hedge accounting

Depending on volume, term and risk structure, the Klöckner & Co Group designates individual derivative financial instruments as cash flow hedges.

The relationship between the hedged item and the hedging instrument including the risk management objectives and the strategy for undertaking the hedge transaction are documented at the inception of the hedge. In addition, at the inception of a hedging transaction and over its term, the Company regularly reviews and documents whether the hedge is highly effective in terms of compensating the changes in the cash flows of the hedged item.

Information on the fair values of these derivative financial instruments is provided in Note (30) Derivative financial instruments; changes in the reserve for fair value adjustments of financial instruments within equity can be derived from the statement of changes in equity.

#### Cash flow hedges

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow hedges is recognized in equity; the ineffective portion is recognized directly in income or loss. The amounts recognized in equity are reclassified to profit or loss in the period in which the hedged item is recognized in income. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or is no longer deemed effective. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative profit or loss deferred in equity is immediately recognized in income or expense.

### Non-current assets held for sale and associated liabilities

Non-current assets or groups of such assets which are disposed of in a single transaction (disposal groups) including the associated liabilities are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the disposal is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Depreciation and amortization is no longer recognized on assets held for sale. They are carried at the lower of the carrying amount and fair value less costs to sell.

### Provisions for pensions and similar obligations

Pension obligations arising from defined benefit plans are determined using the projected unit credit method. The expected benefits, including dynamic components, are recognized over the total service period of the respective employee. Actuarial advice has been obtained.

Actuarial gains or losses resulting from deviations between forecast and actual changes in plan beneficiaries as well as actuarial assumptions that exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets are amortized over the expected remaining working lives of the participating employees.

Service costs are reported in personnel expenses, the interest costs in interest expense.

Any surplus of the assets over the liabilities to be recognized is limited to the cumulative, unrecognized, actuarial losses and past service cost, plus the present value of any available refunds and the reduction of future contributions to the plan.



Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise amortized on a straight-line basis over the average service period until the benefits become vested.

Employer contributions made by the Klöckner & Co Group to an independent entity under defined contribution plans and to which no further legal or constructive payment obligations may arise are expensed as incurred.

#### Other provisions

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), and with IAS 19 (Employee Benefits) if applicable, other provisions allow for all identified obligations and anticipated losses, as well as all uncertain liabilities, provided they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and that reliable estimate can be made of the amount of the obligation. A provision is only established for legal or constructive obligation against third parties.

Provisions are recognized at the amount which represents the best estimate of the expenditure required to settle the present obligation. Any reimbursement is treated as a separate asset and accordingly is not offset against the provision. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The present value is calculated using interest rates that reflect current market assessments and the risks specific to the liability.

#### Contingent liabilities

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

#### Presentation of the consolidated balance sheets and statement of income

Individual items have been combined in the consolidated balance sheet and the consolidated statement of income; further information is provided separately in the notes to the consolidated financial statements. Assets that will be realized within twelve months of the reporting date, as well as liabilities that will be settled within one year of the reporting date, are classified as current.

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

#### Use of estimates

The preparation of the consolidated financial statements requires the Klöckner & Co Group to make assessments, estimates and assumptions influencing the application of accounting policies in the Group and the reporting of assets, liabilities, income and expenses. The actual amounts may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates are recognized in the period in which the estimate is revised, if the change affects only that period or in the period of the revision and subsequent periods if both periods are affected.

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Estimates are particularly necessary for the valuation of intangible assets (e.g. in purchase price allocations), the recognition and measurement of deferred tax assets, the accounting for pension and other obligations as well as for impairment tests in accordance with IAS 36.

#### **New accounting standards and interpretations**

In the 2008 business year the revised standards IAS 39 (Financial Investments: Recognition and Measurement with the addition of the provision of the use of the fair value option) and IFRS 7 (Financial Investments: Disclosures) as well as the IFRIC 11 interpretation (IFRS 2 – Group and Treasury Share Transaction) were applied for the first time. The application did not have an impact on the consolidated financial statements.

In addition the International Accounting Standards Board (IASB) and IFRIC have issued the following standards and interpretations that are applicable for the Group but whose application is not yet mandatory in the reporting period. The application of the standards and interpretations is subject to endorsement by the EU, which for certain standards and interpretation is yet outstanding. Further standards and interpretations issued during the reporting period which are not further discussed in the following paragraphs will not have an impact on the Group's financial statements.

The IASB published IFRS 8 (Operating Segments) in November 2006. Under IFRS 8, the reporting segments of a company are defined in line with the internal reporting organization ("Management Approach"). The standard is to be applied for financial years beginning on or after January 1, 2009. First-time adoption will not have significant effect on the consolidated financial statements for Klöckner & Co.

In March 2007, the IASB published the amended standard IAS 23 (Borrowing Cost). In line with this standard, borrowing costs that are directly attributable to the acquisition, construction or manufacture of a qualifying asset must be capitalized. The standard is to be applied for financial years beginning on or after January 1, 2009. Klöckner & Co expects that the first-time adoption of the amended standard will not have significant impact on the consolidated financial statements.

In June 2007 the IFRIC issued IFRIC 16 (Hedges of a Net Investment in a Foreign Operation). The interpretation addresses the question of which risks are eligible for hedge accounting under IAS 39. The application of the interpretation, which is mandatory for the following financial year, will not have an impact on Klöckner & Co's consolidated financial statements.

The interpretation IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction), which was published in July 2007, provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus of a pension plan that can be recognized as assets. It also explains how statutory or contractual minimum funding requirements can affect pension assets or liabilities. The interpretation is to be applied for financial years beginning on or after January 1, 2009. Klöckner & Co is currently investigating the effects of the first-time application of the interpretation on the consolidated financial statements.



The revised version of IAS 1 (Presentation of Financial Statements) published by the IASB in September 2007 requires among other things separate presentation of changes in equity attributable to transactions with shareholders. The standard must be applied for financial years beginning on or after January 1, 2009. The first-time application of the amended standard will result in changes of presentation of changes in equity in the consolidated financial statements.

In January 2008, the IASB published amendments (Amendments to IFRS 2 – Vesting Conditions and Cancellations) to IFRS 2 (Share-based Payment) to clarify the terms vesting conditions and cancellations. Vesting conditions are service conditions and performance conditions only. Under the amendment, features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is effective for annual periods beginning on or after January 1, 2009. Klöckner & Co does not expect that the application of this standard will have a material impact on the consolidated financial statements.

In January 2008, the IASB published revised versions of IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements). Significant changes from the previous standards relate among other things to the recognition and measurement of assets and liabilities acquired in a business combination, the calculation of goodwill, the treatment of acquisition-related cost and the presentation of contingent considerations. The revised standards have not yet been endorsed for use in the EU. Klöckner & Co is currently evaluating the potential effects of the revised standards which are to be applied for business combinations in financial years starting on or after July 1, 2009.

In May 2008 the IASB issued "Improvements to IFRS" which affected 20 IFRS with both editorial changes and modifications that can effect presentation, recognition and measurement. Unless otherwise specified in the respective standard, the application of the amendments must be applied for annual periods beginning on or after January 1, 2009. Klöckner & Co does not expect that the application of the amendments will have a material impact on the consolidated financial statements.

#### (5) Acquisitions and disposals

The Group structure changed as a result of the following acquisitions and disposals in financial years 2008 and 2007.

#### Acquisitions 2008

**Taylor Equipment and Machine Tool Corporation**  
In April 2008, Klöckner & Co entered into an agreement to acquire the operating assets of the distribution company Taylor Equipment and Machine Tool Corporation (Temtco), headquartered in Louisville, Mississippi, USA. The acquisition is deemed to be a material business combination under IFRS 3. The activities have been included in the Group's consolidated financial statement since closing on May 5, 2008. Temtco Steel employs 180 staff in five locations in the US and generated sales of approximately €226 million in 2007.

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The effects of the purchase price allocation are as follows:

(in € million)	Carrying amounts and fair values as of initial consolidation date		
	Carrying amounts	Adjust- ments	Fair values
<b>Assets</b>			
non-current	3.4	57.2	60.6
<i>thereof goodwill</i>	0.0	9.3	9.3
current	75.6	5.1	80.7
<b>Liabilities</b>			
current	18.9	0.0	18.9
<b>Net assets acquired</b>	<b>60.1</b>	<b>62.3</b>	<b>122.4</b>
<b>Purchase price</b>			<b>122.4</b>
thereof paid in cash or cash equivalents			122.4

The fair value of non-current assets includes €42.4 million customer relationships and with €5.2 million the trade name. Goodwill primarily represents future earnings expectations.

The contribution of Temtco to consolidated sales as of December 31, 2008 was €149.8 million; the contribution to consolidated net income amounts to €8.2 million. The consolidated sales would have been €94.5 million higher and the consolidated net income would have been €7.3 million higher, if the acquisition had occurred on January 1, 2008.

#### Other acquisitions in 2008

In January 2008, the transaction to acquire a controlling stake of 77.3% from 7.3% previously held in Metalsnab Holding AD (Metalsnab), Sofia, Bulgaria, was completed. The name of the company was subsequently changed to Klöckner Metalsnab Holding AD, Sofia, Bulgaria.

Metalsnab has been included in the consolidated financial statements since January 1, 2008. After control was obtained the Group acquired further stakes of 22.5% in the third quarter of 2008. With 99.8% the Group now holds almost the entire shares of Metalsnab. By these acquisitions the minority interest was reduced

by €4.2 million; the remaining difference of €0.1 million between cost and acquired net assets was offset against retained earnings attributable to the shareholders of Klöckner & Co SE.

Also in January 2008, Klöckner & Co acquired 100% of the shares in Multitubes Ltd. (Multitubes), Brierley Hill, West Midlands, United Kingdom. The company was initially consolidated on January 1, 2008. The 2007 sales amounted to €5 million, generated by 16 employees.

By agreement of May 21, 2008, Sherex Industries Ltd. (Sherex), New York, USA, was acquired. Sherex is part of the disposal group Koenig Verbindungstechnik AG, Dietikon, Switzerland (KVT Group).

The carrying amounts and fair values at the date of the other acquisitions were as follows:

(in € million)	Carrying amounts and fair values as of initial consolidation date		
	Carrying amounts	Adjust- ments	Fair values
<b>Assets</b>			
non-current	14.0	0.9	14.9
<i>thereof goodwill</i>	0.0	0.9	0.9
current	18.1	2.2	20.3
<b>Liabilities</b>			
non-current	1.5	0.0	1.5
current	12.4	0.9	13.3
<b>Net assets acquired</b>	<b>18.2</b>	<b>2.2</b>	<b>20.4</b>
Minority interests	4.0	0.0	4.0
<b>Excess of net assets over cost</b>			<b>-1.2</b>
<b>Purchase prices</b>			<b>15.2</b>
thereof paid in cash or cash equivalents			15.2

The contribution of the other acquisitions to sales and net income for the year period amounts to €47.6 million and €-5.2 million, respectively. If all companies had been first consolidated on January 1, 2008 the contribution to sales and net income would have been €49.0 million and €-5.4 million respectively.



## Acquisitions 2007

### Primary Steel LLC

In April 2007, Namasco Corporation, Wilmington, Delaware, USA, signed an agreement to purchase a 100% stake in the distribution corporation Primary Steel LLC ("Primary"), with head offices in Middletown, Connecticut, USA, and two subsidiaries. Since closing on May 11, 2007, Primary has been consolidated. The cost of the acquisition amounted to €179.8 million. Primary operates seven branches in North America and employs some 400 staff. Upon completion of the purchase price allocation goodwill of €69.9 million was recognized. Separately from goodwill, customer relationships and a trade name were recognized at €63.6 million.

### Other acquisitions

	Date of initial consolidation
Tournier-Holding S.A.S. Group, Lagny-sur-Marne, France	January 1, 2007
Teuling Staal B.V, Barendrecht, The Netherlands	April 1, 2007
Westok Ltd., Horbury, United Kingdom	April 1, 2007
Edelstahlservice Verkaufsgesellschaft mbH, Frankfurt	May 1, 2007
Premier Steel Inc., Shreveport, USA	May 24, 2007
Max Carl GmbH & Co. KG, Coburg*)	June 1, 2007
Zweygart Fachhandelsgruppe GmbH & Co. KG, Stuttgart*)	June 1, 2007
Interpipe (UK) Ltd., Dudley, United Kingdom	September 30, 2007
Farmington Group, Inc., Madison, USA	November 1, 2007
ScanSteel Service Center, Inc., Jeffersonville, USA*)	November 1, 2007
Lehner et Tonossi S.A., Siders, Switzerland	December 31, 2007

\*) Asset deal

The acquisition costs for these business combinations amounted to €85.3 million. The purchase price allocation resulted in goodwill of €17.7 million and excess of the net assets acquired over the purchase price of €1.8 million which was immediately recognized in income.

### Acquisition of minority interests

#### 2008

In the first six months of 2008, Klöckner & Co Group acquired another 22.0% of the shares in Debrunner Koenig Holding AG (DKH), Switzerland, at a purchase price of approximately €126.7 million. Klöckner & Co now holds 100% in DKH. As a result of this transaction, the minority interests were reduced by €55.4 million. The difference between the acquired net assets in DKH and the purchase price was debited to the controlling equity interest and therefore has no effect on net income. Accordingly, the equity attributable to shareholders of Klöckner & Co SE was reduced by €71.2 million.

#### 2007

In May 2007, Klöckner & Co acquired an additional stake of 18.1% in DKH and then held a 78.0% stake as of December 31, 2007.

### Disposals

#### 2008

To further concentrate on the Group's core business the following entities were disposed of in 2008:

With effect of July 8, 2008 the sale of the Canadian subsidiary Namasco Ltd. was completed, the primary business of which is the processing of flat-rolled metal products for the North American automotive industry.

On September 4, 2008 the Group disposed of its interests in the Koenig Verbindungstechnik AG group (KVT). KVT's business activity is concentrated in the markets of fastening systems and sealing plugs.

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Based on the carrying amounts as of the respective disposal date the impact on the consolidated financial statements was as follows:

(€ million)	
<b>Assets</b>	
non-current	34.5
current	152.3
	<b>186.8</b>
<b>Liabilities</b>	
non-current	6.9
current	59.9
	<b>66.8</b>
<b>Disposed net assets</b>	<b>120.0</b>

The disposals resulted in gains of approximately €273.4 million which are largely attributable to the sale of KVT.

#### 2007

In July 2007, Klöckner & Co sold 49% of its interest in Klöckner Information Services GmbH (KIS) to the IT consultant Bitempo GmbH, Düsseldorf. Under the share purchase agreement Bitempo GmbH has been granted a put option for its shares. The put option has been recognized at the present value of the obligation (€1.5 million) and is included in other liabilities.

## Notes to the consolidated income statement

### (6) Specific items recognized in net income

In addition to the gain on sale of subsidiaries (see Note (5) Acquisitions and disposals) the Group's net income is impacted by the following special items:

#### Global Settlement Balli

Based on agreement (Global Settlement) reached in the third quarter, all disputes in connection with the former shareholder Balli were settled. The reversals of provisions for risks and pending litigation, allowances for bad debt and other liabilities resulted in a net gain of €38.7 million, which is included in other income.

#### Antitrust action against KDI

The French antitrust authority "Conseil de la Concurrence" announced on December 16, 2008 that it had imposed fines of about €575 million on steel distributors in France, of which €169.3 million were charged against the French subsidiary KDI S.A.S. It was alleged that the company had taken part in an anti-competitive price-fixing scheme throughout the period from 1999 until 2004. KDI S.A.S. has appealed the fine with the aim of significantly reducing the amount.

The fine negatively impacts the 2008 Group results of Klöckner & Co by a total of €79 million. Provisions had been established in the preceding years in the amount of €20 million. In addition, the Group is entitled to a compensation totaling €70 million towards previous owners of the Klöckner & Co Group resulting from the sale of the Group in 2005. The expense for the increased provisions (€149 million) are presented net of the compensation as other operating expense (€79 million) in accordance with IAS 37.54.

#### Rescission of sale of the Valencia premises

Triggered by the real estate and financial market crises in Spain the acquirer of the Valencia premises was no longer able to meet his payment obligations, and the sale of the Valencia premises was rescinded, resulting in other operating expenses of €18.2 million.





## (7) Sales

Group sales are broken down by region as follows:

(€ thousand)	2008	2007
Germany	1,462,369	1,430,031
EU excluding Germany	2,861,410	2,905,313
Rest of Europe	901,318	760,105
North America	1,379,522	1,079,119
Central and South America	19,054	8,966
Asia/Australia	26,669	21,448
Africa	99,253	69,161
<b>Sales by region</b>	<b>6,749,595</b>	<b>6,274,143</b>

## (8) Other operating income

(€ thousand)	2008	2007
Foreign currency exchange gains	23,448	5,642
Reversal of provisions	8,138	22,847
Global Settlement Balli	38,718	–
Gain on sale of consolidated subsidiaries	273,445	–
Gain on sale of non-current assets	4,833	39,948
Income from impaired receivables	3,886	3,975
Rental income	4,349	3,631
Excess of net assets over the purchase price of acquired subsidiaries	1,198	5,068
Other income	13,167	15,578
<b>Other operating income</b>	<b>371,182</b>	<b>96,689</b>

The increase in other income is largely driven by the gain on sale of the non-core activities KVT and Namascio Ltd. as described in Note (5) Acquisitions and disposals. Also included therein are net gains from the global settlement with the former shareholder Balli. Also refer to Note (6) Specific items recognized in net income.

Excess of net assets over the purchase price of acquired subsidiaries relate to the purchase price allocation of Metalsnab.

Other income comprises €1,847 thousand (2007: €2,504 thousand) excess customer payments for which the statute of limitation has been exceeded or credits which are not offset from/to customers and uncharged supplier deliveries and services as well as several income items each in the amount of less than €1.5 million.

Foreign currency exchange gains and losses resulting from the extension of Group internal financial receivables or financial liabilities are presented on a net basis as other income or other expenses. As such foreign currency exchange gains of €7,497 thousand (2007: €13,452 thousand) and foreign currency exchange losses of €6,109 thousand (2007: €13,519 thousand) have been offset against each other.

## (9) Cost of materials

(€ thousand)	2008	2007
Cost of materials and supplies, and purchased merchandise	5,387,035	5,050,163
Cost of purchased services	7,382	7,774
<b>Cost of materials</b>	<b>5,394,417</b>	<b>5,057,937</b>

## (10) Personnel expenses

(€ thousand)	2008	2007
Wages and salaries	448,669	412,964
Social security contributions and expenses for welfare benefits	84,707	80,384
Retirement benefit cost	12,896	15,812
<b>Personnel expenses</b>	<b>546,272</b>	<b>509,160</b>

The increase in personnel expenses is primarily due to the Temtco acquisition and the full year inclusion of last year's acquisition of Primary as well as due to initiated restructurings and the respective expenses. The majority of the personnel expenses relate to remuneration, which comprises wages, salaries, compensation and all other remuneration for work performed by employees of the Group in the financial year. The mandatory statutory contributions to be borne by the Company, including in particular social security contributions, are reported under social security contributions.

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Retirement benefit expenses relate to active and former staff or their surviving dependents. These expenses include net periodic pension costs, employer contributions to supplementary occupational pension plans and retirement benefit payments by the Company for its employees.

In the year under review, the following average staff was employed in the Klöckner & Co Group:

	2008	2007
Salaried employees	5,814	5,434
Wage earners	4,591	4,586
Apprentices	276	274
	<b>10,681</b>	<b>10,294</b>

#### (11) Other operating expenses

(€ thousand)	2008	2007
Forwarding costs (transportation logistics)	111,303	108,832
Antitrust action against KDI	79,300	5,000
Rents and leases	69,873	66,344
Repairs and maintenance	50,470	49,315
Third-party services	38,661	34,526
Supplies	49,252	37,468
Audit fees and consulting	20,508	18,449
Other taxes	23,830	19,768
Rescission of the sale of the Valencia premises	18,215	–
Travel costs	16,782	16,438
Postal charges and telecommunications	10,708	9,551
Bad debt expense	11,731	5,261
Credit insurance	8,936	9,814
Other insurance	9,738	9,939
Advertising and representation expenses	10,988	9,117
Foreign exchange rate losses	23,928	5,828
Other expenses	36,389	38,379
<b>Other operating expenses</b>	<b>590,612</b>	<b>439,029</b>

For further information on the French antitrust action and the rescission of the Valencia premises refer to Note (6) Specific items recognized in net income.

Other expenses include fringe benefits, office materials, expenses arising from secondary business and incidental bank charges.

#### (12) Financial result

(€ thousand)	2008	2007
Income from non-current securities and long-term loans	16	12
Other interest and similar income	6,965	4,986
Interest and similar expenses	–68,731	–95,296
Interest cost for post-employment benefits	–8,032	–6,858
Interest income, net	–69,782	–97,156
Impairment losses for non-current securities	–	–15
<b>Financial result</b>	<b>–69,782</b>	<b>–97,171</b>

Prior year's interest income, net was burdened by early repayment charges and redemption costs incurred in connection with the early redemption of the outstanding high yield bond (€38 million).



### (13) Income taxes

#### a) Income tax expense in the income statement

The income taxes comprise current and deferred taxes. The utilization of tax loss carryforwards resulted in increased income tax expense of €6,374 thousand (2007: €5,787 thousand) in 2008 due to the corresponding release of deferred tax assets. The first time recognition of deferred tax assets for loss carryforwards in 2008 led to a deferred tax benefit of €2,452 thousand (2007: €10,162 thousand).

In 2008 current tax expense of €850 thousand (2007: tax benefits €2,628 thousand) related to prior periods.

In the financial years 2008 and 2007, income tax expense for the Klöckner & Co Group is broken down as follows:

(€ thousand)	2008	2007
<b>Current income tax expense</b>	<b>77,774</b>	<b>55,016</b>
Expense (domestic)	737	351
Expense (foreign)	77,037	54,665
<b>Deferred income tax expense/benefit</b>	<b>1,480</b>	<b>-1,437</b>
Benefit/expense (domestic)	-1,845	1,296
Expense/benefit (foreign)	3,325	-2,733
<b>Income tax expense</b>	<b>79,254</b>	<b>53,579</b>

The combined income tax rate amounts to 30.7% comprising the corporate income tax including the solidarity surcharge of 15.8% and trade tax of 14.9%.

The expected tax expense is reconciled to the actual tax expense as follows:

(€ thousand)	2008	2007
Expected tax rate	30.70%	39.00%
<b>Income before income taxes</b>	<b>463,227</b>	<b>209,635</b>
Expected tax expense at domestic tax rate	142,211	81,757
Foreign tax rate differential	-28,910	-19,242
Tax rate changes	-886	1,505
Reduced tax rate	-	-5,109
Tax reduction due to tax-free income	-80,192	-1,542
Tax increase due to non-deductible expenses	68,796	5,322
Current income tax levied for prior periods	850	-2,628
Other permanent differences	-	803
Excess of net assets over the purchase price of acquired subsidiaries	-368	-1,094
Tax reduction due to first-time recognition of deferred tax assets on loss carryforwards and temporary differences related to prior periods	-5,626	-7,958
Tax decrease due to non-capitalization of deferred tax assets on loss carryforwards and temporary differences in prior periods	-18,793	-1,809
Tax increase due to non-capitalization of deferred taxes on loss carryforwards	1,956	204
Tax increase due to Group internal transfer of entities	-	2,694
Other tax effects	216	675
<b>Effective income taxes</b>	<b>79,254</b>	<b>53,579</b>
<b>Effective tax rate</b>	<b>17.11%</b>	<b>25.56%</b>

## b) Taxes recognized directly in equity

Current and deferred taxes are generally recognized as income or expense and included in the net profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period, directly in equity. Taxes recognized directly in equity amounted to €8,113 thousand (2007: €585 thousand).

## c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are presented in the balance sheet as follows:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Deferred tax assets	46,491	33,336
Deferred tax liabilities	85,028	82,364
Deferred taxes, net	-38,537	-49,028

Deferred tax assets and liabilities arise from the following:

Assets (€ thousand)	Dec. 31, 2008	Dec. 31, 2007
From temporary differences and consolidation operations	34,878	19,528
Intangible assets	2,147	3,219
Property, plant and equipment	-1,138	-1,227
Inventories	6,739	2,439
Provisions for pensions and similar obligations	7,023	9,614
Other provisions and accrued liabilities	4,227	3,060
Liabilities	15,697	1,231
Other items	183	1,192
From tax loss carryforwards*)	11,613	13,808
<b>Deferred tax assets</b>	<b>46,491</b>	<b>33,336</b>

\*) Including interest carryforward

Equity and liabilities (€ thousand)	Dec. 31, 2008	Dec. 31, 2007
From temporary differences and consolidation operations	85,028	82,364
Intangible assets	4,948	9,835
Property, plant and equipment	40,831	42,075
Non-current financial assets	-550	-540
Inventories	19,753	19,937
Receivables and other current assets	8,721	1,923
Provisions for pensions and similar obligations	-5,591	-5,935
Other provisions and accrued liabilities	15,131	15,469
Other items	1,785	-400
<b>Deferred tax liabilities</b>	<b>85,028</b>	<b>82,364</b>

A deferred tax asset for unused tax losses is only recognized if it is probable that this benefit can be realized.

Unused tax loss carryforwards as of the reporting date amount to €216.4 million (2007: €224.0 million) for corporate income tax losses of foreign and domestic entities and trade tax and similar losses of €120.2 million (2007: €118.6 million). Corporate income tax losses incurred by foreign and domestic subsidiaries of €184.8 million (2007: €182.9 million) and trade tax and similar losses of €90.9 million (2007: €91.5 million) were not recognized because it is not probable that they will be used.

The major part of the loss carryforwards do not expire under the current tax regulations, unless specific circumstances arise (e.g. change of control). To the extent loss carryforwards do expire, this will not occur prior to 2014.



Consistent with deferred tax assets for loss carry-forwards a deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets were not recognized for temporary differences amounting to €85.5 million (2007: €130.4 million) at December 31, 2008, as is not probable that the benefits can be realized.

Unrecognized deferred tax assets are as follows:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Temporary differences	26,255	40,038
Tax losses not yet utilized	43,176	42,925

#### d) Current tax

Tax receivables of €29,388 thousand (2007: €6,572 thousand) were recorded in the balance sheet for expected tax refunds. The income tax payables comprise liabilities of €1,269 thousand (2007: €323 thousand), if the payment obligation is nearly certain, and provisions of €17,920 thousand (2007: €17,992 thousand), if uncertainty exists concerning the amount or the date of payment.

#### (14) Earnings per share

	2008	2007
Net income attributable to shareholders of Klöckner & Co SE (€ thousand)	398,134	133,385
Weighted average number of shares (thousands of shares)	46,500	46,500
<b>Basic earnings per share (€/share)</b>	<b>8.56</b>	<b>2.87</b>
Net income attributable to shareholders of Klöckner & Co SE (€ thousand)	398,134	133,385
Interest expense on convertible bond (net of tax) (€ thousands)	11,687	4,888
Net income used to determine diluted earnings per share (€ thousands)	409,821	138,273
Weighted average number of shares (thousands of shares)	46,500	46,500
Dilutive potential shares from convertible bond (thousands of shares)	4,025	1,742
Weighted average number of shares for diluted earnings per share (thousands of shares)	50,525	48,242
<b>Diluted earnings per share (€/share)</b>	<b>8.11</b>	<b>2.87</b>

The dilutive, potential shares of the issued convertible bond were included in the calculation of diluted earnings (see Note (25) Financial liabilities).

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## Notes to the consolidated balance sheet

## (15) Intangible assets, property, plant and equipment and investment property

## a) Intangible assets

(€ thousand)	Licenses, similar rights and other intangible assets	Software	Goodwill	Total intangible assets
Cost as of Jan. 1, 2007	22,137	14,145	10,298	46,580
Accumulated amortization and impairments	-3,808	-10,543	-	-14,351
<b>As of Jan. 1, 2007</b>	<b>18,329</b>	<b>3,602</b>	<b>10,298</b>	<b>32,229</b>
Exchange rate differences	-7,389	-59	-7,299	-14,747
Changes in the scope of consolidation	104,881	9	88,219	193,109
Additions	68	3,358	-	3,426
Disposals	-	-1	-	-1
Amortization	-14,340	-2,095	-	-16,435
<b>As of Dec. 31, 2007</b>	<b>101,549</b>	<b>4,814</b>	<b>91,218</b>	<b>197,581</b>
Cost as of Dec. 31, 2007	118,939	16,417	91,218	226,574
Accumulated amortization and impairments	-17,390	-11,603	-	-28,993
<b>As of Jan. 1, 2008</b>	<b>101,549</b>	<b>4,814</b>	<b>91,218</b>	<b>197,581</b>
Exchange rate differences	6,558	-6	2,452	9,004
Changes in the scope of consolidation	38,970	-796	10,888	49,062
Additions	15	4,831	-	4,846
Disposal	-	-151	-	-151
Amortization	-22,797	-1,614	-	-24,411
Transfers	-30	30	-	-
<b>As of Dec. 31, 2008</b>	<b>124,265</b>	<b>7,108</b>	<b>104,558</b>	<b>235,931</b>
Cost as of Dec. 31, 2008	161,024	18,619	104,558	284,201
Accumulated amortization and impairments	-36,759	-11,511	-	-48,270

The value of intangible assets was corroborated by the impairment tests performed in the fourth quarter for each cash generating unit.

Key assumptions used by management in determining the value in use or the fair value less cost to sell comprise the assessment of expected future gross profit, expected inflations and discount rates. The assumptions are based both on historical data and expected market developments.



For the reporting period pre-tax discount rates between 10.4% and 12.8% depending on the respective cash generating unit were used. To monitor potential impairment exposure the Group performs simulations using

higher discount rates. Based on such simulations even a 10% increase in the respective discount rate will not trigger an impairment.

#### b) Property, plant and equipment

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total property, plant and equipment
Cost as of Jan. 1, 2007	658,606	249,335	213,109	17,725	1,138,775
Accumulated depreciation and impairments	-290,610	-179,496	-168,121	-	-638,227
<b>As of Jan. 1, 2007</b>	<b>367,996</b>	<b>69,839</b>	<b>44,988</b>	<b>17,725</b>	<b>500,548</b>
Exchange rate differences	-6,993	-1,999	-1,081	-583	-10,656
Changes in the scope of consolidation	16,198	7,845	5,224	8	29,275
Additions	22,378	12,923	12,867	8,782	56,950
Disposals	-18,329	-343	-539	-75	-19,286
Depreciation	-19,121	-15,246	-13,056	-	-47,423
Transfers	6,549	1,945	2,461	-10,955	-
Reclassification to assets held for sale	-17,482	-7,998	-1,666	-124	-27,270
<b>As of Dec. 31, 2007</b>	<b>351,196</b>	<b>66,966</b>	<b>49,198</b>	<b>14,778</b>	<b>482,138</b>
Cost as of Dec. 31, 2007	632,174	216,741	209,574	14,778	1,073,267
Accumulated depreciation and impairments	-280,978	-149,775	-160,376	-	-591,129
<b>As of Jan. 1, 2008</b>	<b>351,196</b>	<b>66,966</b>	<b>49,198</b>	<b>14,778</b>	<b>482,138</b>
Exchange rate differences	7,264	-760	2,252	367	9,123
Changes in the scope of consolidation	-3,133	1,076	-1,427	43	-3,441
Additions	6,939	12,125	12,452	11,414	42,930
Disposals	-2,971	-515	-1,049	-70	-4,605
Depreciation	-16,654	-13,694	-12,593	-	-42,941
Transfers	5,818	7,716	3,604	-17,138	-
Reclassification to assets held for sale	-3,783	-	-	-	-3,783
<b>As of Dec. 31, 2008</b>	<b>344,676</b>	<b>72,914</b>	<b>52,437</b>	<b>9,394</b>	<b>479,421</b>
Cost as of Dec. 31, 2008	636,104	225,779	216,873	9,514	1,088,270
Accumulated depreciation and impairments	-291,428	-152,865	-164,436	-120	-608,849

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Property, plant and equipment with a carrying amount of €120,032 thousand (2007: €175,281 thousand) have been used as collateral to secure borrowings of the Group.

In 2008 Klöckner & Co recognized no impairment losses (2007: €287 thousand).

#### Assets held under finance leases

As of the reporting date, the carrying amount of capitalized assets held under finance leases amounts to €13,363 thousand (2007: €14,221 thousand) for land and buildings, €6,325 thousand (2007: €4,149 thousand) for technical equipment and machinery, €519 thousand (2007: €306 thousand) for vehicles and €0 thousand (2007: €2,735 thousand) for assets under construction.

Klöckner & Co is party in the following key financing lease arrangements, the majority of which have purchase options:

- In connection with the consolidation of sites in Valencia, Spain, leasing agreements for real estate were concluded in 2004. Their carrying amount as of December 31, 2008 was €6,104 thousand (2007: €6,173 thousand).
- Also in 2004 real estate lease agreements were concluded for properties in Catalayud, Spain. The carrying amount of the assets capitalized under the agreements amounts to €921 thousand (2007: €956 thousand).
- A further lease, concluded in 2005, pertains to the Epila site in Spain. The carrying amount of the assets is €4,389 thousand (2007: €4,502 thousand) as of December 31, 2008.
- The carrying amount of the leased assets also includes two buildings in Austria (Vienna and Neumarkt) in the amount of €1,949 thousand (2007: €2,249 thousand).

#### c) Investment property

The Group's investment property only comprises the Valencia premises. In 2007 the Group did not hold any investment property.

(€ thousand)	2008
Cost	
<b>Balance as of January 1</b>	0
Additions	13,208
<b>Balance as of December 31</b>	<b>13,208</b>
Accumulated depreciation	20
<b>Net book value as of December 31</b>	<b>13,188</b>

In 2008 rental income amounts to €20 thousand (2007: €0 thousand); operating expenses attributable to the premises amounted to €15 thousand (2007: €0 thousand). The fair value amounts to €13.2 million based on an external appraisal.

#### (16) Inventories

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Raw materials and supplies	30,807	25,681
Work in progress	7,317	7,501
Finished goods and merchandise	948,415	913,249
Advance payments	14,073	9,213
<b>Inventories</b>	<b>1,000,612</b>	<b>955,644</b>





Of the inventories recognized as of December 31, 2008, €384,781 thousand (2007: €241,418 thousand) are stated at net realizable values. Write-downs to the net realizable value amount to €102,453 thousand (2007: €46,822 thousand).

In addition to customary reservations of title, inventories with a carrying amount of €74,328 thousand (2007: €41,308 thousand) serve as collateral for financial liabilities of 3,349 thousand (2007: €10,312 thousand).

### (17) Trade receivables

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

The Klöckner & Co Group regularly sells trade receivables under two ABS programs. The trade receivables

are sold by the participating Group companies to two special-purpose entities (SPE). As the programs do not qualify for derecognition under the requirements of IAS 39, the receivables are reported on the Group's consolidated balance sheet. The refinancing of the purchased receivables by the SPE is therefore reported in the consolidated financial statements as loans to the conduits.

The carrying amount of the receivables of the Group companies participating in the ABS program as of December 31, 2008 amounts to €605 million (2007: €722 million).

For further information to the ABS programs please see Note (25) Financial liabilities.

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

Trade receivables (in € thousand)	Of which: not overdue as of the balance sheet date	Of which: overdue by days as of the balance sheet date					Write- downs	Carrying amount
		1-30 days	31-60 days	61-90 days	91-120 days	>120 days		
<b>Dec. 31, 2008</b>								
827,664	643,495	128,767	30,274	10,834	7,035	7,259	-29,046	798,618
<b>Dec. 31, 2007</b>								
958,555	779,691	143,036	21,877	5,567	4,284	4,100	-28,591	929,964

Moreover, trade receivables in the amount of €3,903 thousand (2007: €6,067 thousand) were used as collateral for bank loans.

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**(18) Other assets**

(in € thousand)	Dec. 31, 2008		Dec. 31, 2007	
	Current	Non-current	Current	Non-current
Reimbursement receivable against former shareholder from French antitrust case	70,000	–	–	–
Receivable from the disposal of Valencia premises	–	–	31,659	–
Receivables from insurance companies	6,386	–	2,757	–
Commission claims	25,435	–	21,174	–
Reinsurance claims from pension funds	–	4,429	–	6,139
Prepaid pension cost	–	6,129	–	6,044
Employer contribution reserves, Switzerland	–	4,804	–	5,349
Claims for other taxes	3,259	–	2,732	–
Prepaid expenses	4,242	428	4,531	140
Fair value of derivative financial instruments	11,878	–	661	–
Other assets	20,645	9,755	22,853	2,064
<b>Other assets</b>	<b>141,845</b>	<b>25,545</b>	<b>86,367</b>	<b>19,736</b>

Other current assets include deposits of €1,417 thousand (2007: €2,836 thousand) and creditors with debit balances of €884 thousand (2007: €2,719 thousand). Other non-current assets relate with €5,883 thousand to escrow receivables from the sale of Namasco Ltd.

**(19) Liquid Funds**

Cash and cash equivalents predominantly include bank balances. Of these cash balances €3,105 thousand (2007: €0 thousand) serves as collateral for fair values of derivative financial instruments and are therefore restricted.

**(20) Non-current assets held for sale**

Non-current assets held for sale include assets no longer used in operations. The amount of €4,044 thousand (2007: 170 thousand) is attributable to land and buildings of the Europe segment and €739 thousand (2007: €0 thousand) to land and buildings and €159 thousand (2007: €150 thousand) to machinery, both of the America segment.

**(21) Equity and minority interests****a) Issued capital**

The subscribed capital of Klöckner & Co SE remains unchanged at €116,250 thousand and consists of 46,500,000 registered shares. In line with the resolution by the Annual General Meeting on June 21, 2006, the Management Board is authorized to raise share capital by up to €50,000 thousand by issuing additional shares until June 20, 2011 (authorized capital in line with sections 202 et seqq. of the Aktiengesetz (AktG – German Stock Corporation Act)). The capital increase can be made in cash or as contribution-in-kind with the option to exclude shareholders' subscription rights in certain cases.

By resolutions of the Annual General Meetings on June 20, 2007 and June 20, 2008 the Company's share capital has been conditionally increased up to €11,625,000 each by the issue of up to each 4,650,000 newly registered non-par-value shares that are entitled to profits from the beginning of the business year in which they are issued.

The conditional capital serves to grant subscription and/or conversion rights to the holders of option bonds and/or convertible bonds that are issued by the Company or a Group company in accordance with the authority of the Annual General Meeting of the Company.



In accordance with sections 21 para. 1, 22 para. 1 Wertpapierhandelsgesetz (WpHG – Securities Trading Act) the following shares in Klöckner & Co SE were held at the date of authorization of the financial statements:

Notifying institutions	Domicile	Voting interests in %	Date on which threshold was met
<b>Increase over threshold</b>			
FIL Investments International	Hildenborough, United Kingdom	3.66 b)	December 19, 2008
FIL Investment Management Limited	Hildenborough, United Kingdom	3.68 b)	December 19, 2008
FIL Limited	Hamilton, Bermuda	3.68 b)	December 19, 2008
Franklin Mutual Series Fund	Short Hills, USA	5.00 a)	February 19, 2007
<b>Decrease under threshold</b>			
Franklin Mutual Advisers, LLC	Short Hills, USA	9.89 b)	November 21, 2008

- a) Directly held  
b) Attributed holding, not cumulative

A full listing of notifications in accordance with section 21 para. 1 and section 22 para. 1 Wertpapierhandelsgesetz (WpHG – Securities Trading Act) is attached as appendix to notes to the consolidated financial statements.

**b) Capital reserves**

The additional paid-in capital remains unchanged at €260,496. This includes a premium of €87,750 thousand from the issue of new shares on June 28, 2006, and the equity component of €62,797 thousand attributable to the conversion feature of the convertible bond issued on July 18, 2007.

**c) Retained earnings**

Retained earnings include the accumulated undistributed earnings of the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, as well as effects on equity from consolidation.

Retained earnings are presented net of costs incurred in issuing the new shares and the issuance cost associated with the convertible bond, net of tax.

**d) Accumulated other comprehensive income**

Accumulated other comprehensive income comprises of foreign currency translation adjustments resulting from the translation of the financial statement of foreign subsidiaries and changes in the fair value of cash flow hedges.

**e) Minority interests**

Minority interests represent third party interest in consolidated subsidiaries.

The development of the individual components of consolidated equity and minority interests for the period from January 1, 2008 to December 31, 2008, and from January 1, 2007 to December 31, 2007, is shown in the statement of changes in equity.

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## (22) Share-based payments

Under the virtual stock option plan introduced in 2006, 930,000 virtual options were allocated to the Management Board. The program covers a five-year period in which equal annual tranches of 20% or 186,000 virtual stock options are granted to the Management Board. The strike price for the first tranche has been set to the IPO price of €16/share. The strike price for each subsequent tranche is increased by 5% over the previous year's strike price, and so will ultimately rise to €19.45/share for the fifth tranche. The individual strike price will be reduced by the dividend attributable to the allotment period.

In connection with the enlargement of the Management Board, the Board program was increased by 300,000 virtual stock options which will be issued in five annual tranches beginning in business year 2009. The strike price is based on the non-weighted average closing price of Klöckner & Co shares over the last 30 consecutive trading days prior to issuance reduced by dividends attributable to the program term.

The virtual stock options of each tranche can be exercised after a 30-day trading period after the Annual General Meeting following the allotment year of the respective tranche. Subsequently, the options of the relevant tranches may be exercised in full or in part at any time. The amount to settle the obligation corresponds to the difference between the average trading price of the last 30 trading days (XETRA trading, Deutsche Börse AG, Frankfurt a.M.) prior to exercising the option and the respective strike price of the tranche.

In addition 121,500 (2007: 112,000) virtual stock options were granted to certain members of the senior management throughout the Group during the first half year of 2008. The exercise conditions are largely identical to the Management Board program with, however, lower maximum payouts for certain members of senior management. Furthermore, for such individuals the strike price calculation follows the calculation of the extended Management Board program.

Of the granted virtual stock options a total of 233,000 (2007: 296,000) virtual stock options were exercised, leaving 934,500 virtual stock options unexercised as of December 31, 2008. As of the reporting date, provisions of €2,270 thousand (2007: €2,827 thousand) were established. Total expense recognized during the financial year amount to €2,864 thousand (2007: €11,716 thousand).

To limit expenses and cash flows for the granted and approved further grants of virtual stock options until and including financial year 2011 the Group entered into certain derivative financial instruments (i.e. stock options) in January 2008. The instruments are accounted for at fair value through profit or loss in accordance with IAS 39. The fair value changes, net of gains on exercise of certain instruments, for these instruments amounts to a negative €8,468 thousand (2007: €0 thousand) which has been recorded as personnel expenses. The fair values of such derivative financial investments are provided in Note (30) Derivative financial investments.

## (23) Provisions for pensions and similar obligations

Various types of pension schemes have been established for most employees of the Group, depending on the legal, economic and tax environment of the respective jurisdictions. Benefits provided are usually based on the length of service and the employees' salaries.

Benefits provided comprise of both defined contribution schemes and defined benefit plans.



For defined contribution plans, the Company contributes funds to private or public pension institutions on the basis of statutory or contractual requirements. With these payments the Company is discharged from all further obligations. Defined contribution expenses in 2008 amounted to €20,615 thousand (2007: €19,408 thousand). Included therein are employers' contributions to the statutory pension schemes in the amount of €16,240 thousand (2007: €15,697 thousand).

For the most part, the pension schemes are designed as defined benefit plans, either funded or unfunded.

The following actuarial assumptions were used in the actuarial calculations performed by third party actuaries:

	Germany in %	Austria in %	Switzer- land in %	Nether- lands in %	UK in %*)	France in %	US in %
Discount rate	6.00	6.00	3.50	6.00	6.40	6.00	5.89–6.32
Salary trend	3.20	3.20	2.00	2.65	4.30	2.00	3.50
Pension trend	2.25	2.25	0.50	2.00	2.70	1.25*)	0.00
Expected return on plan assets	4.50	–	4.50	5.80	7.00–7.40	4.50	7.50

\*) Depending on the respective pension scheme

Unchanged to the prior year, the Company uses Prof. Dr. Klaus Heubeck's 2005 G biometric tables ("Richttafeln") to calculate its obligations under German pension schemes. Such tables are widely recognized for use in the measurement of company pension obligations.

The discount rate assumption reflects the rates available for high-quality fixed income investments during the period to maturity of the benefit in the respective obligation. A uniform interest rate was used for the euro zone.

Expected returns on plan assets are calculated according to the allocation of plan assets. For investments in equity securities, the yield reflects the observable performance in the individual countries and the respective portfolio. The return on debt securities is derived from quoted prices of such securities. The expected return for real estate investments depends on the marketability, which is determined by local market conditions and individual contractual commitments.

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The pension obligations of the German Group companies arising from defined benefit plans are largely unfunded, whereas those of the foreign subsidiaries are predominantly funded. The defined benefit plans are structured as follows:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Defined benefit obligation of unfunded plans	144,897	147,204
Defined benefit obligation of fully or partly funded defined benefit plans	420,078	411,325
Fair value of plan assets	-393,515	-464,622
Unrecognized actuarial gains and losses	-1,623	18,383
Unrecognized past service cost	2,622	2,924
Amounts not recognized due to asset ceiling (IAS 19.58 (b))	1,507	67,199
Fair value of the reimbursement rights	-4,429	-6,139
Net amount recognized	169,537	176,274
Thereof:		
- Other assets in connection with pension obligations*)	10,558	12,183
- Provisions for pensions and similar obligations	180,095	188,457

\*) Also includes reimbursement rights recognized as assets

The reconciliation of the defined benefit obligation is as follows:

(€ thousand)	2008	2007
<b>Defined benefit obligation as of January 1</b>	<b>558,529</b>	<b>607,487</b>
Service cost	11,481	12,790
Interest cost	25,596	22,599
Employee contributions	15,785	11,686
Actuarial gains and losses	-11,090	-50,232
Exchange rate differences	15,403	-17,262
Benefits paid	-30,085	-28,654
Past service cost	-339	-422
Changes in the scope of consolidation	-18,643	537
Settlements	-1,662	-
<b>Defined benefit obligation as of December 31</b>	<b>564,975</b>	<b>558,529</b>

The fair values of the plan assets developed as follows:

(€ thousand)	2008	2007
<b>Fair value of plan assets as of January 1</b>	<b>464,622</b>	<b>434,395</b>
Expected return	24,010	22,250
Employee contributions	15,786	11,686
Employer's contributions	8,673	12,756
Actuarial gains and losses	-98,108	20,091
Exchange rate differences	19,832	-16,155
Benefits paid	-20,575	-20,707
Changes in the scope of consolidation	-20,725	306
<b>Fair value of plan assets as of December 31</b>	<b>393,515</b>	<b>464,622</b>



The current allocation of plan assets is as follows:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Shares	125,931	163,962
Bonds	137,680	171,035
Other assets	31,478	39,410
Real estate	98,426	90,215
	393,515	464,622

In 2008, financial instruments issued by the plan sponsor amounted to €0 thousand (2007: €898 thousand), own-used real estate and other assets used by the Company amounted to €11,117 thousand (2007: €10,614 thousand).

The changes in reimbursement rights are as follows:

(€ thousand)	2008	2007
<b>Reimbursement rights as of January 1</b>	<b>6,139</b>	<b>5,976</b>
Expected return	197	225
Employer's contributions	–	246
Actuarial gains and losses	–54	–194
Benefits paid	–8	–18
Settlements	–	–96
Changes in the scope of consolidation	–1,845	–
<b>Reimbursement rights as of December 31</b>	<b>4,429</b>	<b>6,139</b>

Reimbursement rights recognized contain life insurance policies and claims arising from other insurance concluded to cover the relevant pension obligations.

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

(€ thousand)	2008	2007
Service cost	–11,481	–12,790
Interest cost for funded plans	–17,564	–15,741
Expected return on plan assets	24,010	22,250
Expected return on reimbursement rights	197	225
Actuarial gains and losses	–68,608	48,858
Past service cost	640	301
Effect of plan curtailments and settlements	1,662	–
Effects of limitation in line with asset ceiling under IAS 19.58 (b)	63,947	–53,599
Interest cost for unfunded plans	–8,032	–6,858
<b>Total expenses for defined benefit pension obligations</b>	<b>–15,229</b>	<b>–17,354</b>

The actual loss on plan assets amounted to €74,112 thousand in 2008 (2007: return €42,341 thousand). The loss is primarily attributable to investments in equity and debt securities due to the general decline of the capital markets. The actual return on reimbursement rights totaled €3 thousand (2007: €31 thousand).

The funded status of defined benefit plans is as follows:

(€ thousand)	2008	2007	2006
Defined benefit obligation	564,975	558,529	607,487
Fair value of plan assets	393,515	464,622	434,395
Funded status	171,460	93,907	173,092

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In 2008 and 2007, experience adjustments to the present value of pension rights and the fair values of plan assets were as follows:

(€ thousand)	2008	2007
Defined benefit obligation	-3,585	2,428
Fair value of plan assets	-98,108	20,022

The employers' contributions to the plan assets for the 2009 financial year are expected to be €11,248 thousand.

Pension-related obligations include obligations for compensation payments.

#### (24) Other provisions

The provisions developed as follows:

(€ thousand)	As of January 1, 2008	Addition	Accretion	Utiliza- tion	Reversals	Other changes*)	As of Dec. 31, 2008
Other taxes	1,406	648	-	1,067	32	22	977
Personnel-related obligations							
- early retirement	8,471	5,491	204	3,487	488	-208	9,983
- anniversary payments	13,457	71	557	446	93	-702	12,844
- other	215	58	-	213	-	-1	59
Onerous contracts	2,915	3,631	-	685	170	176	5,867
Restructuring	5,117	9,241	-	2,635	1,007	-	10,716
KDI antitrust case	20,000	149,300	-	-	-	-	169,300
Litigation and other risks	22,401	2,531	-	2,194	7,422	-87	15,229
Miscellaneous provisions	43,112	24,250	-12	21,133	27,767	-619	17,831
	<b>117,094</b>	<b>195,221</b>	<b>749</b>	<b>31,860</b>	<b>36,979</b>	<b>-1,419</b>	<b>242,806</b>
Other accrued liabilities							
Personnel-related obligations	53,981	26,293	-	24,888	2,243	-1,274	51,869
Outstanding invoices	31,292	15,665	-	18,008	828	-2,787	25,334
Miscellaneous accrued liabilities	1,139	1,222	-	1,036	280	636	1,681
	<b>86,412</b>	<b>43,180</b>	<b>-</b>	<b>43,932</b>	<b>3,351</b>	<b>-3,425</b>	<b>78,884</b>
<b>Other provisions</b>	<b>203,506</b>	<b>238,401</b>	<b>749</b>	<b>75,792</b>	<b>40,330</b>	<b>-4,844</b>	<b>321,690</b>

\*) Change in scope of consolidations, foreign currency adjustments, reclassification and transfer to third parties





Reconciliation to balance sheet amounts:

(in € thousand)	Dec. 31, 2008		Dec. 31, 2007	
	Non-current	Current	Non-current	Current
Other taxes	–	977	–	1,406
Personnel-related obligations				
– early retirement	6,665	3,318	7,181	1,290
– anniversary payments	12,601	243	13,200	257
– other	–	59	–	215
Onerous contracts	1,087	4,780	1,330	1,585
Restructuring	–	10,716	303	4,814
KDI antitrust case	–	169,300	20,000	–
Litigation and other risks	10,382	4,847	10,744	11,657
Miscellaneous provisions	6,189	11,642	6,393	36,719
	<b>36,924</b>	<b>205,882</b>	<b>59,151</b>	<b>57,943</b>
<b>Other accrued liabilities</b>				
Personnel-related obligations	–	51,869	–	53,981
Outstanding invoices	–	25,334	–	31,292
Miscellaneous accrued liabilities	–	1,681	–	1,139
	–	<b>78,884</b>	–	<b>86,412</b>
<b>Other provisions</b>	<b>36,924</b>	<b>284,766</b>	<b>59,151</b>	<b>144,355</b>

The provision for onerous contracts is based on procurement and sale contracts for goods and other contractual obligations.

The provisions for restructuring relate to obligations in respect of termination benefits granted in redundancy programs and other restructuring expenses.

As stated in Note (6) Specific items recognized in net income antitrust penalties of €169,300 thousand were imposed against the French subsidiary KDI in December 2008. The Group has taken legal action aiming to reduce the amount to be paid.

The reduction of the provisions for litigation and other risks is largely attributable to the Global Settlement with the former shareholder Balli.

Miscellaneous provisions include an amount of €2,017 thousand (2007: €2,985 thousand) for compensation payments to former employees of a subsidiary acquired in 2000 due to the insolvency of the relevant insurance company. Furthermore, provisions for environmental remediation including decontamination and other risks are included under this caption.

Accrued liabilities for employee-related obligations include bonus payments of €35,023 thousand (2007: €36,949 thousand) and accrued vacation and accrued overtime of €15,022 thousand (2007: €14,987 thousand).

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**(25) Financial liabilities**

The table provides details of financial liabilities for the dates indicated:

(€ thousand)	Dec. 31, 2008				Dec. 31, 2007			
	up to 1 year	1–5 years	over 5 years	Total	up to 1 year	1–5 years	over 5 years	Total
Bonds	2,097	276,162	–	278,259	2,097	264,170	–	266,267
Liabilities due to banks*)	42,985	317,927	–	360,912	66,267	244,134	–	310,401
Liabilities under the ABS programs	524	209,962	–	210,486	1,204	293,609	–	294,813
Finance lease liabilities*)	2,506	7,386	1,563	11,455	3,076	9,675	1,488	14,239
	<b>48,112</b>	<b>811,437</b>	<b>1,563</b>	<b>861,112</b>	<b>72,644</b>	<b>811,588</b>	<b>1,488</b>	<b>885,720</b>

\*) 2007: excluding liabilities of Namasco Ltd. which are included in liabilities of disposal groups

Financial liabilities of €28,424 thousand (2007: €36,000 thousand) are secured by mortgages. Furthermore, inventories listed in Note (16) Inventories serve as collateral as well as receivables under the ABS program.

Transaction costs that are directly attributable to the issue of financial liabilities in the amount of €6,312 thousand (2007: €10,415 thousand) were offset against the respective obligation.

**Bonds**

In July 2007, Klöckner & Co SE issued via its wholly owned subsidiary Klöckner & Co Finance International S.A. convertible bonds with an aggregated nominal value of €325 million. Payments under the bond are guaranteed by Klöckner & Co SE. The bonds which are convertible into shares of Klöckner & Co SE have a maturity of five years and a coupon of 1.50%. The conversion price has been set at €80.75. For accounting

purposes the bond was bifurcated into an equity and a liability component. Subsequent accounting of the liability component will be on an amortized cost basis until conversion or maturity of the bond. The remaining equity component which amounts to €62.8 million is included in shareholders' equity within additional paid, in capital with no subsequent adjustment.

**Liabilities due to banks**

On May 2, 2007, Klöckner & Co signed an agreement for a multi-currency revolving credit facility with a total volume of €600 million of which €295 million (2007: €201 million) was utilized as of December 31, 2008. The credit facility has a term of 3 years, with two options allowing an extension up to 5 years.

Further liabilities due to banks exclusively comprise of bilateral borrowings of international subsidiaries, which are primarily used to finance working capital.



### Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has conducted a European ABS program with a term of five years. The European program has a volume of €420 million. In addition, the existing ABS program in the US was terminated in 2007 and replaced by a new program with a volume of USD 125 million (€90 million).

As of the balance sheet date, utilization of the programs of €213 million including interest breaks down as follows:

(€ million)	Dec. 31, 2008	Dec. 31, 2007
European program		
– Utilization	125	224
– Maximum volume	420	420
American program		
– Utilization	88	75
– Maximum volume	90	85

The utilization of the programs is recognized as loans given that the requirements for derecognition under IAS 39 of the receivables transferred were not met.

### Liabilities under finance leases

Liabilities from finance leases are carried at the present value of future lease payments which have the following terms:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Due within one year	3,086	3,265
Due between one and five years	8,506	10,783
Due after five years	1,636	1,768
<b>Future minimum lease payments</b>	<b>13,228</b>	<b>15,816</b>
Due within one year	580	189
Due between one and five years	1,120	1,108
Due after five years	73	280
<b>Interest included in future minimum lease payments</b>	<b>1,773</b>	<b>1,577</b>
Due within one year	2,506	3,076
Due between one and five years	7,386	9,675
Due after five years	1,563	1,488
<b>Present value of future minimum lease payments</b>	<b>11,455</b>	<b>14,239</b>

### (26) Trade payables

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Advance payments received	125	392
Trade payables	360,838	565,223
Bills payable	31,220	44,248
<b>Trade payables</b>	<b>392,183</b>	<b>609,863</b>

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**(27) Other liabilities**

(in € thousand)	Dec. 31, 2008		Dec. 31, 2007	
	Non-current	Current	Non-current	Current
Liabilities due to entities in which participations are held	–	37	–	109
Social security contributions	–	10,857	–	9,880
Customers with credit balances	–	14,770	–	13,063
Liabilities to employees	–	6,600	–	6,294
Value-added tax liabilities	–	19,688	–	32,223
Other tax liabilities	–	16,570	–	8,244
Contingent consideration for business combinations	3,874	–	5,675	–
Negative fair values of derivative financial instruments	53,716	2,181	1,277	1,274
Other liabilities	2,044	10,937	2,010	20,661
<b>Other liabilities</b>	<b>59,634</b>	<b>81,640</b>	<b>8,962</b>	<b>91,748</b>

Negative fair values of derivative financial instruments of €44,665 thousand (2007: €858 thousand) are attributable to cross currency swaps and interest rate swaps designated as cash flow hedges for which fair value changes are directly recognized in equity and thus do not effect net income.



## Other information

### (28) Information on capital management

The Group determines the amount of its capital in relation to risk. The capital structure is managed and, if necessary, adjusted in line with changes in the economic environment. Options for maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

The capital management is based on gearing. Gearing is calculated as the ratio of net cash indebtedness to equity as stated in the balance sheet. Net cash indebtedness is calculated as the difference between financial liabilities (adjusted for transaction costs) and cash and cash equivalents reported on the balance sheet. The Group's target is to maintain a gearing below 75% (2007: 150%) in order to be able to obtain finance at reasonable conditions.

Gearing is calculated as follows:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007	Change
Financial liabilities	861,112	893,071	- 31,959
Transaction costs	6,312	10,415	- 4,103
Liquid funds	- 296,636	- 157,077	- 139,559
<b>Net financial debt (before transaction costs)</b>	<b>570,788</b>	<b>746,409</b>	<b>- 175,621</b>
Equity	1,074,410	844,924	229,486
Gearing	53%	88%	

2007: includes amounts for Namasco Ltd. which are included in assets held for sale and liabilities of disposal groups, respectively

The improvement of the gearing ratio results primarily from the proceeds received from the sale of KVT.

The Company's mid term goal is to achieve investment grade rating.

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**(29) Additional information for financial instruments**

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

Financial assets as of December 31, 2008 (€ thousand)	IAS 39 measurement categories					Total carrying amount as of Dec. 31, 2008
	Fair value	At fair value through profit or loss	Available for sale	Loans and receivables	Not covered by the scope of IFRS 7	
<b>Non-current financial assets</b>						
Financial assets	789	–	410	379	1,575	2,364
Other assets	9,946	1,446	–	8,500	15,599	25,545
<b>Current financial assets</b>						
Trade receivables	798,618	–	–	798,618	–	798,618
Other assets	137,326	12,484	–	124,842	4,519	141,845
Liquid funds	296,636	–	105	296,531	–	296,636
Assets held for sale	–	–	–	–	4,942	4,942
	1,243,315	13,930	515	1,228,870	26,635	1,269,950

Financial liabilities as of December 31, 2008 (€ thousand)	IAS 39 measurement categories			Carrying amount under IAS 17	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2008
	Fair value	At fair value through profit or loss	Other liabilities			
<b>Non-current financial liabilities</b>						
Financial liabilities	733,762	–	804,050	8,950	–	813,000
Other liabilities	59,619	9,051	50,568	–	15	59,634
<b>Current liabilities</b>						
Financial liabilities	48,113	–	45,605	2,507	–	48,112
Trade payables	392,183	–	392,183	–	–	392,183
Other liabilities	34,524	2,383	32,142	–	47,115	81,640
Liabilities associated with assets held for sale	–	–	–	–	–	–
	1,268,201	11,434	1,324,548	11,457	47,130	1,394,569



Financial assets as of December 31, 2007 (€ thousand)	IAS 39 measurement categories					Total carrying amount as of Dec. 31, 2007
	Fair value	At fair value through profit or loss	Available for sale	Loans and receivables	Not covered by the scope of IFRS 7	
<b>Non-current financial assets</b>						
Financial assets	1,070	–	586	484	1,591	2,661
Other assets	1,814	–	–	1,814	17,922	19,736
<b>Current financial assets</b>						
Trade receivables	929,964	–	–	929,964	–	929,964
Other assets	82,836	661	–	82,175	3,531	86,367
Liquid funds	153,558	–	122	153,436	–	153,558
Assets held for sale	28,199	–	–	28,199	70,397	98,596
	1,197,441	661	708	1,196,072	93,441	1,290,882

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Financial liabilities as of December 31, 2007 (€ thousand)	IAS 39 measurement categories			Carrying amount under IAS 17	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2007
	Fair value	At fair value through profit or loss	Other liabilities			
<b>Non-current financial liabilities</b>						
Financial liabilities	811,712	–	801,913	11,163	–	813,076
Other liabilities	8,962	–	8,962	–	–	8,962
<b>Current liabilities</b>						
Financial liabilities	73,087	–	69,568	3,076	–	72,644
Trade payables	609,863	–	609,863	–	–	609,863
Other liabilities	41,079	1,274	39,805	–	50,669	91,748
Liabilities associated with assets held for sale	27,284	–	27,284	–	5,010	32,294
	1,571,987	1,274	1,557,395	14,239	55,679	1,628,587

### Fair values

The fair values of current financial assets are largely identical to their carrying amounts. The fair values of financial liabilities reflect the current market environment as of December 31, 2008 for the respective financial investments. The fair value is not reduced by transaction costs. For current financial liabilities for which no transaction costs are to be considered, the carrying amount approximates fair value.

### Net income by measurement categories

Cash and cash equivalents, trade receivables and other receivables predominantly are of short term maturity. Therefore, the carrying amounts at the reporting date closely approximate fair values.

Net income for the measurement category loans and receivables consists of foreign currency exchange gains and losses, impairments and write-offs, recoveries on impaired receivables and compensation by and fees for credit insurance. In financial year 2008, a net loss of €16,489 thousand (2007: €11,895 thousand) was incurred.

Net income for other liabilities consists of foreign currency exchange gains and losses (2007: plus early repayment charges and redemption costs and reversed transaction costs of the high yield bond). In financial year 2008, a net loss of €418 thousand (2007: €37,914 thousand) was incurred.

As a result of impairments of non-current securities there were no impairment losses in 2008 for financial assets (2007: €15 thousand). The impairment loss for trade receivables amounted to €8,504 thousand (2007: €3,118 thousand).

### Credit risks

The Company's exposure to credit risks mainly arises from its operating business. A credit risk is defined as an unexpected loss of financial assets, e.g. if a customer is unable to meet its obligations within the appropriate period. Throughout the operating businesses, receivables are locally monitored on an ongoing basis. Valuation allowances are recorded to reflect credit risks.

The maximum exposure to credit risk is reflected by the carrying amounts of the financial assets reported in the balance sheet. The Group counters the credit risk with its own credit management and with credit insurance. In 2008 approximately 70% of the trade receivables were covered by credit insurance.

### (30) Derivative financial instruments

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

In operating its business the Group is exposed to interest and currency risks. Such risks are hedged using derivative financial instruments.

The Group only uses standard instruments for which sufficient liquid markets exist. Derivative financial instruments are entered into and managed in compliance with internal directives that govern 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 of Klöckner & Co SE, which manages and coordinates such use. The transactions are concluded exclusively with counterparts with first-class credit ratings. Derivative financial instruments cannot be used for speculative purposes, but exclusively for hedging risks associated with underlying transactions.





IFRS 7 requires an entity to provide disclosure that enables users of financial statements to evaluate the nature and the extent of risks arising from financial investments. These risks encompass among others credit risk, market risk and liquidity risk.

Information with regard to credit risk is provided in Note (29) Additional information for financial instruments.

#### Information on interest rate risk

The Group is exposed to changes in interest rate levels primarily resulting from variable interest rates bearing financial liabilities.

The exposure is predominately arising in the euro zone and the United States. The central finance department monitors and controls the exposure by using interest rate hedging instruments.

Under the central financial regime funding requirements in the euro zone resulting from acquisitions were refinanced by the issuance of a convertible bond and revolving credit facilities. The variable interest on the non-current portion of such obligations was for a period of up to seven years in part fixed via interest rate swaps. Due to their term and volume these instruments qualify as cash flow hedges.

Changes in interest levels will have an impact on the reserve for fair value adjustments of financial instruments included in equity, and are therefore separately recognized in the sensitivity analysis.

Under consideration of the convertible bond and the fixed rate bilateral credit arrangements as of December 31, 2008, approximately 54% of the net financial indebtedness before transaction costs was of a fixed rate nature. If hedging instruments are incorporated in the analysis, the amount of a fixed interest debt included in the net cash indebtedness before transaction costs amounts to approximately 94%.

Under IFRS 7 interest rate risk is assessed using sensitivity analyses in which the impact of interest changes on interest income or expense and equity as of the balance sheet date is assessed. Interest rate risk is measured as cash flow risk.

The Group assesses equity and income statement effects under parallel shifting of the euro and US dollar yield curves. The cash flow impact from the parallel shifting is only assessed with regard to interest income and interest expense in the following reporting period.

If US dollar/euro interest rate levels as of December 31, 2008, had been higher by 100 basis points the financial result for the following year would have been impacted negatively by €1.3 million, representing approximately 2% of the Group's financial result.

At a US dollar/euro interest rate increase of 100 basis points the value of derivative financial instruments designated as cash flow hedges would have been positively increased by €10.4 million, which would have been reflected in equity in the reserve for fair value adjustments of financial instruments.

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**Information on foreign currency exchange risk**

The Group is exposed to foreign currency exchange risk resulting from financing activity, Group internal dividend payments and acquisitions of subsidiaries as well as from operating activity. The Group's hedging policy is focused on cash-flow-related exposure. Solely translation-related risks, which result from the conversion of assets and liabilities, are not hedged.

The Group operates a central foreign currency exchange management. Foreign and domestic subsidiaries are required to identify foreign currency exposure and to communicate the exposure to the central finance department, or within certain thresholds, hedge the exposure with financial institutions. The hedging transactions cover the exposure from actual and forecasted transactions.

As of the balance sheet date no material foreign currency exchange risks from the operating business or acquisitions were identified.

Financing activity foreign exchange risk is the risk that results from foreign currency loans of the holding companies. As part of the central Group financing these loans denominated in pounds sterling and US dollars were granted to subsidiaries and were fully hedged. In addition scheduled dividend payments for the first quarter of 2009 from the Swiss subsidiary Debrunner Koenig Holding AG were hedged using currency swaps.

Due to the volume and long-term nature of the US dollar financing both the principal and the interest payments were hedged using a cross currency swap, designated as cash flow hedge.

Loans granted in pounds sterling were hedged including interest payments via forward contracts and foreign currency swaps.

The impact of changes of foreign currency rate changes on foreign exchange gains and losses as well as on the Group's equity as of the balance sheet date is monitored by a sensitivity analysis. The exposure is assessed as cash flow risk for the following year.

The sensitivity analysis identifies compensating income effects of forward exchange contracts and swaps, since their maturity is consistent to the maturity of the underlying financial instrument.

Cross currency swaps designated as cash flow hedge can result in changes in the reserves for fair values of financial instruments included in equity. Increases or decreases in the US dollar to euro exchange rate would, if assessed in isolation, lead to changes of such reserves. However, compensating changes in the value of the underlying transaction would also be recorded in equity, because the underlying transaction is a net investment in a foreign entity.



### Information on liquidity risk

To ensure appropriate levels of liquidity the demand of liquidity is constantly monitored by the Group's central finance department. The Group maintains appropriate lines of credit and cash and cash equivalents at any time to cover the obligations for a defined period of time.

Including the convertible bond with a nominal amount of €325 million and finance leasing of approximately €11 million the Group has lines of credit of approximately €1.8 billion, of which as of December 31, 2008, €862 million or 47% were used. This amount includes €252 million collateralized debt, mainly in connection with the ABS program.

To hedge for market price risks resulting from the Group's virtual stock option program of the Management Board and certain other executives Klöckner & Co entered into option arrangements with a bank. These instruments are classified as a separate category of derivative financial instruments. The fair value of such options correlates to the share price of Klöckner & Co SE.

The following table illustrates the contractual undiscounted interest and principal payments of the non-derivative and derivative financial instruments for the periods indicated.

December 31, 2008

(€ thousand)		Cash outflows			Total
		Less than 1 year	1–5 years	More than 5 years	
Corporate bond	Capital	–	325,000	–	325,000
	Interest	4,875	14,625	–	19,500
	<b>Total</b>	<b>4,875</b>	<b>339,625</b>	<b>–</b>	<b>344,500</b>
Bank loans	Capital	42,985	319,737	–	362,722
	Interest	10,929	19,171	–	30,100
	<b>Total</b>	<b>53,914</b>	<b>338,908</b>	<b>–</b>	<b>392,822</b>
ABS	Capital	–	212,372	–	212,372
	Interest	8,222	9,520	–	17,742
	<b>Total</b>	<b>8,222</b>	<b>221,892</b>	<b>–</b>	<b>230,114</b>
Financial lease	Capital	2,506	7,386	1,563	11,455
	Interest	580	1,120	73	1,773
	<b>Total</b>	<b>3,086</b>	<b>8,506</b>	<b>1,636</b>	<b>13,228</b>
<b>Total financial liabilities</b>		<b>70,097</b>	<b>908,931</b>	<b>1,636</b>	<b>980,664</b>
Cash outflows from derivative financial statements designated in hedging relationships		6,713	10,084	786	17,583

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December 31, 2007

(€ thousand)		Cash outflows			Total
		Less than 1 year	1–5 years	More than 5 years	
Corporate bond	Capital	–	325,000	–	325,000
	Interest	4,875	19,500	–	24,375
	<b>Total</b>	<b>4,875</b>	<b>344,500</b>	<b>–</b>	<b>349,375</b>
Bank loans*)	Capital	66,267	246,765	–	313,032
	Interest	13,661	17,836	–	31,497
	<b>Total</b>	<b>79,928</b>	<b>264,601</b>	<b>–</b>	<b>344,529</b>
ABS	Capital	–	297,450	–	297,450
	Interest	18,464	25,949	–	44,413
	<b>Total</b>	<b>18,464</b>	<b>323,399</b>	<b>–</b>	<b>341,863</b>
Financial lease*)	Capital	3,519	10,430	1,558	15,507
	Interest	189	1,108	280	1,577
	<b>Total</b>	<b>3,708</b>	<b>11,538</b>	<b>1,838</b>	<b>17,084</b>
<b>Total financial liabilities</b>		<b>106,975</b>	<b>944,038</b>	<b>1,838</b>	<b>1,052,851</b>
Cash inflows (–) from derivative financial statements designated in hedging relationships		– 686	– 3,498	– 602	– 4,786

\*) Excluding liabilities of Namasco Ltd., which are included in liabilities associated with assets held for sale

Included are financial instruments for which payments have already been fixed as of the balance sheet date; expected payments on future obligations not yet incurred have not been included. Variable interest payments on financial instruments were determined on the interest rate fixed as of the balance sheet date. For the use of the revolving credit facility it was assumed that the level of drawings will be maintained until expiration of the facility.



The nominal and fair values of the derivative financial instruments used to hedge interest and foreign exchange exposures are as follows:

(€ million)	Dec. 31, 2008		Dec. 31, 2007	
	Not designated in hedge accounting	Designated in hedge accounting	Not designated in hedge accounting	Designated in hedge accounting
<b>Nominal values</b>				
Forward exchange transactions	280.6	–	52.2	–
Interest rate swaps	–	831.1	6.8	640.0
Other interest rate hedging instruments	35.9	–	34.0	–
Cross currency swap	–	223.7	–	160.0
<b>Fair values</b>				
Forward exchange transactions	11.9	–	0.6	–
Interest rate swaps	–	–12.9	–0.1	0.3
Other interest rate hedging instruments	–2.8	–	–1.1	–
Cross currency swap	–	–31.8	–	–1.2

The nominal values correspond to the gross amounts of the currency and interest rate portfolio.

837,000 (2007: 0) options are used to hedge the exposure resulting from the Group's virtual stock option programs. The fair values of these instruments amount to –€6.6 million (2007: €0 million).

The fair values of the derivative financial instruments are determined on the basis of banks' quoted market prices or on financial formulae based on models commonly used by banks. If fair values exist they correspond to the amount 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, irrespective of any off-setting changes in value in the underlying transactions.

Forward exchange transactions with a nominal amount of €280.6 million (2007: €52.2 million) have a remaining term of less than one year. To hedge its foreign currency exposure of long-term inter-group financing Klöckner & Co Verwaltung GmbH entered into cross currency swaps maturing in May 2013 and December 2014, respectively. With regard to the financing volume of US dollar 335 million the principal swap at the beginning and the end of the term as well as semi-annual or quarterly interest payments the interest rate was fixed at the inception of the swap agreement. Due to its duration and volume the cross currency swap qualifies as cash flow hedge under IAS 39.

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The interest rate swaps designated in a hedging relationship relate to forward interest rate swaps and interest rate swaps with volumes of €223.6 million each and a weighted fixed swap interest rate between 4.4% and 4.5%. The total term of these transactions covers a period of up to seven years. The interest rate swaps are used to hedge existing and future variable euro interest rate debt of the holding companies which relates to refinancing of non-current assets.

The other interest rate hedging instruments with a nominal amount of €35.9 million (2007: €34 million) refer to a US dollar interest collar of Klöckner & Co Verwaltung GmbH with a floor of 3.75% and a cap of 5.80%. The US dollar interest collar is used to hedge variable-interest-bearing US dollar loans of Namasco Corporation.

### (31) Contingent liabilities

The liabilities on bills amount to €67 thousand (2007: €159 thousand). In addition the Group has issued guarantees in connection with the disposal of subsidiaries. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

In the Klöckner & Co Group, there are other financial obligations arising in particular from agreements that qualify as non-cancelable operating leases. Operating leases mainly relate to real estate, machinery, vehicles, telephone systems and computer hardware. In some instances the leases include purchase options.

In addition during financial year 2007 two premises of a German branch were derecognized in a sale and lease-back transaction which qualifies as operating lease. The leaseback term is 15 years.

The future payments to be made under these leases are as follows:

(€ thousand)	Dec. 31, 2008	Dec. 31, 2007
Due within one year	45,199	35,664
Due between one and five years	104,609	91,419
Due after five years	63,039	65,832
<b>Future minimum lease payments (nominal amounts)</b>	<b>212,847</b>	<b>192,915</b>

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €2,098 thousand as of December 31, 2008 (2007: €12,604 thousand).



### (32) Related party transactions

Within the framework of its ordinary business activities, the Klöckner & Co Group has business relationships with numerous companies. These also include related parties that were accounted for at cost. Business relations with these companies do not fundamentally differ from trade relationships with other companies. No material transactions were conducted with any of these companies in the year under review.

The compensation model and compensation of the Management and Supervisory Boards is presented in the compensation report, which is included in the management report. In the reporting year, the members of the Management Board of Klöckner & Co SE received the following compensation.

(€ thousand)	2008	2007
Short-term benefits		
– fixed components	1,487	871
– variable components	930	2,089
Share-based compensation	2,072	2,800

The amount for share-based payments represents the fair value of the virtual stock options at the grant date. During financial year 2007 payouts for share-based compensation amounts to €2,773 thousand (2007: €7,591 thousand).

The additions to the statutory pension provisions for the Management Board amounted to €828 thousand (2007: €112 thousand).

Business with members of the Management Board is restricted to their above function as members of the Management Board.

Due to the resolution of the Annual General Meeting on June 7, 2006, individual disclosure of the Management Board compensation is omitted.

In the 2008 financial year, remuneration paid to the Supervisory Board of the Group amounted to €708 thousand (2007: €401 thousand).

A list of the members of the Management Board and the Supervisory Board is included on pages 8 and 9 of this annual report.

Related party in accordance with IAS 24 is further the pension fund of the Debrunner & Acifer group, Switzerland. The pension fund leases premises to the Swiss subsidiaries. Rental expenses for 2008 amounts to €903 thousand (2007: €741 thousand).

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### (33) Supplemental cash flow information

The cash flow statement is presented in line with IAS 7 (Cash Flow Statement). The cash flow statement is of central importance in assessing the financial position of the Klöckner & Co Group.

The changes in balance sheet items that provide the basis for the cash flow statement cannot be directly reconciled to the balance sheet due to the effects of currency translation and changes in the scope of consolidation which are eliminated in compiling the cash flow statement.

#### Cash flow from operating activities

Cash flow from operating activities amounted to €186.9 million in the financial year 2008 (2007: €108.5 million). Despite the negatively impacted income and financial situation for the multi metal distribution in the fourth quarter the operating cash flow before changes in balance sheet items and income tax payments increased to €386.2 million, which is considerably higher than the prior year's amount of €327.8 million. The increase in working capital was limited by a continuously stringent trade receivable collection and inventory management. Net of foreign currency exchange effects, changes in the scope of consolidation and reclassifications to assets held for sale, working capital increased by €86.7 million to €1,407 million.

#### Changes

(€ thousand)	2008/2007	2007/2006
Inventories	+ 6,444	+ 70,783
Trade receivables*)	- 143,449	- 29,176
Trade payables	+ 223,699	+ 63,584
Working capital	+ 86,694	+ 105,191

\*) Including sold receivables under the ABS programs

The substantial increase in working capital was again fully covered by the operating cash flow, i.e. without additional loans.

#### Cash flow from investing activities

Net cash inflow from investments and disinvestments was €72.1 million in 2008. Cash received from divestments of €387.7 million primarily related to disposal of KVT and Namasco Ltd.

Cash outflows for investing activity, excluding acquisition of subsidiaries relate mainly to modernizing and expanding existing facilities (€48.1 million). Cash outflows for the acquisition of subsidiaries primarily relate to the acquisitions outlined in Note (5) Acquisitions and disposals for which, including the acquisition of further stakes in Debrunner Koenig Holding AG, €266.5 million were paid, net of cash and cash equivalents acquired of €2.1 million.





#### Cash flow from financing activities

Proceeds from disposal activities were among other things used to reduce the Group's net financial debt. Overall, the net outflow from financing activities amount to €123.4 million (2007: cash inflow €294.8 million).

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 repay working capital credits.

#### Liquid funds

Liquid funds comprise cash and cash equivalents including short-term securities amounting to €293.5 million as of December 31, 2008. Cash and cash equivalents include bank balances of €43,392 thousand (2007: €47,064 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the ABS programs.

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## (34) Segment reporting

(€ thousand)	Europe		North America	
	2008	2007	2008	2007
External sales	5,373,659	5,197,178	1,375,936	1,076,965
– of which with third parties	5,373,659	5,197,178	1,375,936	1,076,965
– of which with other segments	–	–	–	–
Investments in intangible assets/ property, plant and equipment	55,449	50,426	3,566	9,240
Segment earnings (EBITDA)	376,681	326,167	148,624	64,500
Earnings before interest and taxes (EBIT)	335,954	286,272	126,685	48,011
Amortization on intangible assets and depreciation of property, plant and equipment	40,727	39,608	21,939	16,489
Impairment losses for intangible assets and property, plant and equipment	–	287	–	–
Other non-cash income/expenses	–166,316	3,375	–	–

(€ thousand)	Europe		North America	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Segment assets	2,015,557	2,225,566	562,102	499,319
Unallocated assets	–	–	–	–
Total assets	–	–	–	–
Segment liabilities	728,978	745,131	57,993	111,824
Unallocated liabilities	–	–	–	–
Total liabilities	–	–	–	–

Europe	North America		Headquarters	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Employees at year-end	8,696	8,799	1,409	1,628



Headquarters		Consolidation		Total	
2008	2007	2008	2007	2008	2007
44,623	26,419	-44,623	-26,419	6,749,595	6,274,143
-	-	-	-	6,749,595	6,274,143
44,623	26,419	-44,623	-26,419	-	-
1,969	710	-	-	60,984	60,376
75,076	-20,003	-	-	600,381	370,664
70,370	-27,477	-	-	533,009	306,806
4,706	7,474	-	-	67,372	63,571
-	-	-	-	-	287
103,129	-	-	-	-63,187	3,375

Headquarters		Consolidation		Total	
Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
690,900	527,365	-568,047	-481,637	2,700,512	2,770,613
-	-	-	-	374,469	195,540
-	-	-	-	3,074,981	2,966,153
636,224	571,069	-568,047	-481,637	855,148	946,387
-	-	-	-	1,145,423	1,174,842
-	-	-	-	2,000,571	2,121,229

Total		Total	
Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
177	154	10,282	10,581

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The multi metal distribution business is classified from a geographical perspective. The markets in Europe and North America are both largely similar with regard to their economic environment, suppliers and currency developments. As such segment reporting is provided for these regions. They include all companies domiciled in the two regions. In addition, all of the central functions that cannot be assigned to a segment, as well as consolidation effects, are shown in a separate column.

The segments use the same accounting policies as described in Note (4) Significant accounting policies except for effects of intergroup investments (e.g. profit distributions), which are eliminated within the individual segments.

The external sales comprise all sales generated with third-party customers. Sales between segments are disclosed separately to allow reconciliation to consolidated sales. Intersegment sales are invoiced at arms' length. These are deliveries by the central purchasing company Klöckner Global Sourcing GmbH, Duisburg. EBITDA is defined as earnings before interest, taxes, depreciation and amortization and reversals of impairments of intangible assets and property, plant and equipment.

The segment assets and liabilities contain assets and liabilities that contributed to generating segment earnings.

Receivables and liabilities and income and expenses between the segments are eliminated in consolidation.

The other non-cash income and expenses are explained in Note (6) Specific items recognized in net income.

### (35) Subsequent events

Faced with a continuing strong drop in demand, the Management Board has approved a further package of measures to lower costs and inventories. In a program that builds on the initial measures taken last October, personnel-related actions will be increased again, operating expenses will be reduced in all areas, and inventories will be decreased further. After initiated job cuttings of 800 employees as part of the initial package of measures, the workforce is expected to be reduced by an additional 700 employees in a decision that will significantly lower fixed costs.

### (36) Fees and services of the auditor of the consolidated financial statements

The following fees were incurred for services performed by the auditor KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne and affiliated companies in the financial year:

(€ thousand)	2008	2007
Audit of financial statements	1,864	1,274
Other assurance or valuation services	338	355
Tax advisory services	63	432
Other services	516	804
	2,781	2,865

The fees for auditing primarily include the audit of the consolidated financial statements in line with IFRS and audits of the stand-alone financial statements of the companies included in the consolidated financial statements. Other assurance services include review reports on interim financial statements.

The increased fees for audit services rendered as compared to the prior year are due to extended scope of reportable audit firms. KPMG LLP (UK), KPMG Switzerland and KPMG Spain (both with effect of October 1, 2008) are now affiliated companies to KPMG Hartkopf + Rentrop Treuhand KG.



The fees for tax advisory services relate to advice on individual matters and consulting on other national and international tax issues.

The fees for other services relate mainly to project-related consulting services.

### **(37) Application of section 264 para. 3 of the German Commercial Code**

In 2008 the following domestic subsidiaries made use in part of the exemption clause included in section 264 para. 3 of the German Commercial Code (HGB):

- Multi Metal Beteiligungs GmbH, Duisburg
- Klöckner & Co International GmbH, Duisburg
- Klöckner & Co Verwaltung GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Klöckner Global Sourcing GmbH, Duisburg

### **(38) Declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG**

On December 15, 2008 the Management Board and Supervisory Board issued the declaration of compliance in accordance with section 161 AktG (German Stock Corporation Act) and made it permanently available to the shareholders on the Klöckner & Co Web site.

Duisburg, March 3, 2009

Klöckner & Co SE  
The Management Board

Dr. Thomas Ludwig

Ulrich Becker

Gisbert Rühl

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# ON TRACK, THANKS TO FLEXIBILITY

As a producer-independent distributor, we have broad procurement leeway – extending around the world.



## INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

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## DECLARATION OF THE MANAGEMENT BOARD



### Declaration of the Management Board on the financial statements and the management report

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Klöckner & Co SE, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Duisburg, March 3, 2009

The Management Board

Dr. Thomas Ludwig  
Chairman  
of the Management Board

Ulrich Becker  
Member  
of the Management Board

Gisbert Rühl  
Chief Financial Officer  
and Member of the  
Management Board

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## AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Klöckner & Co SE, Duisburg which is combined with the Group management report, for the business year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related

internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne  
March 3, 2009

KPMG Hartkopf + Rentrop Treuhand KG  
Wirtschaftsprüfungsgesellschaft

Philippi  
Wirtschaftsprüfer

Michels-Scholz  
Wirtschaftsprüfer

KLÖCKNER & CO SE  
Income statement  
for the period from January 1 to December 31, 2008



(in € thousand)	2008	2007
Other operating expenses	7,607	5,560
Personnel expenses	- 14,050	- 18,047
Depreciation of intangible assets and property, plant and equipment	- 237	- 274
Other operating expenses	- 21,385	- 18,742
Income from investments	38,441	75,988
Other interest and similar income	27,093	14,176
Interest and similar expenses	- 19,573	- 8,669
<b>Result from ordinary activities</b>	<b>17,896</b>	<b>49,992</b>
Income taxes	- 165	- 1,462
Other taxes	- 31	- 26
Net income	17,700	48,504
Transfers to other revenue reserves	0	- 11,304
<b>Retained profits</b>	<b>17,700</b>	<b>37,200</b>

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KLÖCKNER & CO SE  
Balance sheet as of December 31, 2008

Assets

(in € thousand)	December 31, 2008	December 31, 2007
Intangible assets	158	167
Property, plant and equipment	450	317
Financial assets	258,303	258,303
<b>Fixed assets</b>	<b>258,911</b>	<b>258,787</b>
Trade receivables	3	3
Receivables from affiliated companies	481,511	526,494
Other assets	14,665	3,894
Cash and cash equivalents	174	26
<b>Current assets</b>	<b>496,353</b>	<b>530,417</b>
Prepaid expenses	45,504	57,703
<b>Total assets</b>	<b>800,768</b>	<b>846,907</b>



## Equity and liabilities

(in € thousand)	December 31, 2008	December 31, 2007
Subscribed capital	116,250	116,250
Capital reserves	260,496	260,496
Other revenue reserves	26,592	26,592
Retained profits	17,700	37,200
<b>Equity</b>	<b>421,038</b>	<b>440,538</b>
Provision for pensions and similar obligations	6,679	4,961
Tax provisions	0	1,286
Other provisions	8,671	8,316
Bonds	325,000	325,000
Liabilities to banks	0	0
Trade payables	390	623
Liabilities to affiliated companies	33,093	56,037
Other liabilities	5,897	10,146
<b>Total equity and liabilities</b>	<b>800,768</b>	<b>846,907</b>

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## KLÖCKNER & CO SE

### Movements in intangible assets, property, plant and equipment and non-current investments in 2008

(in € thousand)	Balance Dec. 31, 2007	Cost		Balance Dec. 31, 2008
		Additions	Disposals	
<b>I. Intangible assets</b>				
Concessions, industrial rights and similar rights and licences in such rights and assets	317	133	0	450
<b>II. Property, plant and equipment</b>				
1. Buildings	19	91	0	110
2. Other equipment, operating and office equipment	408	137	3	542
<b>III. Non-current investments</b>				
Investments in affiliated companies	258,303	0	0	258,303
	259,047	361	3	259,405



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Accumulated amortization and depreciation					
Balance Dec. 31, 2007	Current year amortization and depreciation	Disposal	Balance Dec. 31, 2008	Book value Dec. 31, 2007	Book value Dec. 31, 2008
150	142	0	292	167	158
10	10	0	20	9	90
100	84	2	182	308	360
0	0	0	0	258,303	258,303
260	236	2	494	258,787	258,911

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# KLÖCKNER & CO SE, Duisburg

## Notes to the financial statements

### for the period ending December 31, 2008

#### 1. General information

Klößner & Co SE ("the Company") is the parent company of the Klößner & Co Group. With more than 260 locations in Europe and North America, the Klößner & Co Group is the largest mill-independent distributor of steel products and other materials for the combined European and North American market.

The main activity of Klößner & Co SE is the management of operations of the Klößner & Co Group. The Company directly or indirectly controls the management companies of the Group's operating subsidiaries in Germany and Austria, the Netherlands, France and Belgium, the UK, Spain, Switzerland and in Eastern Europe and the US.

The shares of Klößner & Co SE that was formed by a change of legal form on August 8, 2008, have been listed on the official market of the Frankfurt Stock Exchange since the IPO on June 28, 2006, and the shares were added to Deutsche Börse's MDAX® index on January 29, 2007.

#### 2. Accounting policies

The financial statements for the financial year from January 1 to December 31, 2008 were compiled in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Stock Corporation Act) as required for large corporations. Klößner & Co SE compiles consolidated financial statements under International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements will be published in the electronic Federal Gazette.

The presentation of the financial statements adheres to the sections 266–278 HGB.

#### Assets

Acquired intangible assets as well as property, plant and equipment are generally carried at cost less accumulated amortization and depreciation in accordance with the German Commercial Code. Moveable property, plant and equipment subject to depreciation are

amortized on a straight-line basis. Low-value assets are expensed on acquisition. Impairment losses are recognized if the carrying amount exceeds fair value. Other property and equipment is amortized over useful lives between three and 13 years.

Non-current financial assets are stated at acquisition cost; impairment losses are recognized for other than temporary declines in value.

Receivables and other assets are generally stated at cost. Specific valuation allowances are established to account for identifiable risks. Receivables denominated in foreign currencies are translated at the exchange rate at the date of the transaction date or, if lower, at the exchange rate at the reporting date.

#### Liabilities

Provisions for pensions and similar obligations are calculated in accordance with the tax-based going concern value ("Teilwertverfahren") using a discount rate of 6%.

Provisions for anniversary payments are also calculated under actuarial methods. The discount rate for such provisions amounts to 5.5%.

Other accrued expenses account for all identifiable and pending risks. Liabilities are generally stated at their pay-off amount.

#### Income statement

The income statement is prepared according to the nature of expense method per section 275, para. 2 HGB.

#### 3. Property, plant and equipment and non-current investments

The development of property, plant and equipment and non-current investments is presented as an appendix (movement schedule).

Klößner & Co SE holds via its shares in the intermediate holding company Multi Metal Beteiligungs GmbH ("MMB"), Duisburg, an investment in Klößner & Co





International GmbH, Duisburg ("Klöckner & Co International GmbH"), which has a 100% stake in the Klöckner & Co Verwaltung GmbH. Klöckner & Co Verwaltung GmbH directly or indirectly holds the operating companies of the Klöckner & Co Group. In addition the company holds 100% of the shares of Klöckner Finance International GmbH, Luxembourg, which has issued a convertible bond in the reporting year.

A listing of all subsidiaries is presented in the appendix.

#### 4. Accounts receivables and other assets

(€ thousand)	2008	2007
Trade receivables	3	3
Accounts receivables due from affiliated companies	481,511	526,494
Other assets	14,665	3,894
	496,179	530,391

The accounts receivable due from affiliated companies are with €152,857 thousand (2007: €185,444 thousand) attributable to MMB and predominantly relate to loans, the 2008 profit transfer and the current clearing. Furthermore, loan receivables of €321,588 thousand (2007: €330,510 thousand) due from Klöckner & Co Verwaltung GmbH relate to the issuance of the convertible bond by Klöckner & Co Finance S.A., Luxembourg. Accounts receivable due from Klöckner Stahl- und Metallhandel GmbH, Duisburg, of €6,447 thousand (2007: €10,254 thousand) primarily originate from the fiscal unity for VAT purposes.

Other assets comprise corporation tax credits and solidarity surcharge of €9,939 thousand (2007: €0 thousand) from the repayment of the capital reserve of Klöckner & Co Beteiligungs GmbH to their parent Klöckner & Co Verwaltung GmbH. In addition, reinsurance claims from pension funds exist in the amount of €1,986 thousand (2007: €1,391 thousand) as well as SAP licenses €1,559 thousand (2007: €1,684 thousand).

#### 5. Cash and cash equivalents

Cash and cash equivalents consist of bank balances.

#### 6. Prepaid expenses

The discount on issuance of the convertible bond of €62,797 thousand has already been capitalized as prepaid expenses in 2007 and will be amortized over the duration of the bond. In 2008, amortization expenses of €12,559 thousand (2007: €5,233 thousand) were recorded. The remaining discount was stated at €45,005 thousand (2007: €57,564 thousand) as of the end of the financial year 2008. In addition prepaid expenses include prepaid rents.

#### 7. Equity

The subscribed capital of Klöckner & Co SE remains unchanged at €116,250 thousand and consists of 46,500,000 registered shares. In line with the resolution by the Annual General Meeting on June 21, 2006, the Management Board is authorized to raise share capital by up to €50,000 thousand.

By resolution of the Annual General Meeting on June 20, 2007 and 2008 the share capital of the Company has been conditionally increased up to €11,625 thousand to grant subscription and/or conversion rights to the holders of the convertible bond.

The capital reserve amounts, unchanged from prior year, to €260,496 thousand.

#### 8. Other provisions

(€ thousand)	2008	2007
Other provisions for		
– personnel expenses	5,725	6,665
– outstanding invoices	1,075	898
– miscellaneous other	1,871	753
	8,671	8,316

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## 9. Liabilities

(€ thousand)	2008	2007
Convertible bond	325,000	325,000
Trade payables	390	623
Liabilities due from affiliated companies	33,093	56,037
Other liabilities	5,897	10,146
	364,380	391,806

In July 2007, Klöckner & Co SE issued via its wholly owned subsidiary Klöckner & Co Finance International S.A. convertible bonds with an aggregated nominal value of €325 million. Payments under the bond are guaranteed by Klöckner & Co SE. The bonds which are convertible into shares of Klöckner & Co SE have a maturity of five years and a coupon of 1.50% per annum. The conversion price has been set at €80.75.

Klöckner & Co Finance International S.A. was contractually required to grant a loan to Klöckner & Co SE in the amount of the issue proceeds of €325 million. The proceeds were directly paid to Klöckner & Co SE. The economic substance of the loan was a transfer of the obligations under the convertible bond from Klöckner & Co Finance International S.A. to Klöckner & Co SE. As such, Klöckner & Co SE assumed the legal position of the Klöckner & Co Finance International S.A. As a result the convertible bond was deemed to be issued by Klöckner & Co SE.

Liabilities due from affiliated companies include liabilities to Klöckner & Co Verwaltung GmbH of 30,532 thousand from the clearing account.

Other liabilities include:

(€ thousand)	2008	2007
Tax payables	5,866	10,087
Social securities	16	0

Tax payables relate with €5,846 thousand (2007: €9,938 thousand) to VAT in connection with a VAT tax unity.

Except for the convertible bond all liabilities have a remaining maturity of less than one year.

## 10. Commitments

Future minimum lease payments for long-term operating leases relate with €3,239 thousand (2007: €3,069 thousand) to 2009 and with €13,239 thousand (2007: 12,813 thousand) to financial years 2010 until 2013. In periods subsequent to 2014 the obligations amount to €10,703 thousand (2007: 13,740 thousand).

## 11. Other income

Other income contains income attributable to prior periods from the reversal of provisions of €864 thousand (2007: €1,098 thousand).

## 12. Personnel expenses

(€ thousand)	2008	2007
Wages and salaries	11,576	16,787
Social securities	877	630
Post-retirement benefits	1,586	625
Welfare	11	5
	14,050	18,047

Average number of employees:

	2008	2007
Salaried employees	75	60
Wage earners	3	2
	78	62

On January 25, 2008, Ulrich Becker was appointed as a member of the Management Board effective April 1, 2008. Ulrich Becker will assume responsibility for the Europe segment and take on functional responsibility for purchasing.



In the reporting year, the members of the Management Board of Klöckner & Co SE received the following compensation from Group companies:

(€ thousand)	2008	2007
Short-term benefits		
– fixed components	1,487	871
– variable components	820	914
Share-based compensation	2,072	2,800

The amount for share-based payments represents the fair value of the virtual stock options at the grant date. During financial year 2008 payouts for share-based compensation amount to €2,773 thousand (2007: €7,591 thousand).

The additions to the pension provisions for the Management Board amounted to €828 thousand (2007: €112 thousand).

Business with members of the Management Board is restricted to their above function as members of the Management Board.

The Annual General Meeting on June 7, 2006 unanimously voted in accordance with section 286, para. 5 HGB not to disclose the compensation and other benefits of the members of the Management Board on an individual basis for the financial years from 2006 up to and including 2010 as required by section 285, para. 9 HGB.

### 13. Other expenses

In the 2008 financial year, remuneration paid to the Group Supervisory Board amounted to €708 thousand (2007: €401 thousand).

The following fees included in other expenses were incurred for services performed by the auditor KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne, and KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin:

(€ thousand)	2008	2007
Audit of financial statements	526	669
Other assurance or valuation services	218	232
Tax advisory services	52	432
Other services	399	403
	1,195	1,736

Other expenses relate with €354 thousand (2007: €403 thousand) to prior periods.

### 14. Income from investments

Income from investments comprises income from the profit and loss transfer agreement with Multi Metal Beteiligungs GmbH, Duisburg.

### 15. Interest expense, net

(€ thousand)	2008	2007
Other interest and similar income		
– affiliated companies	27,093	14,176
Interest and similar expenses		
– affiliated companies	–7,011	–3,436
– other interest and similar expenses	–12,562	–5,233
	7,520	5,507

Interest income relates with €20,742 thousand (2007: €8,992 thousand) to a loan to Klöckner & Co Verwaltung GmbH.

Interest income is with €12,559 thousand (2007: €5,233 thousand) attributable to the amortization of the discount on the convertible bond.

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## 16. Taxes

(€ thousand)	2008	2007
Taxes on income	165	1,462
Other taxes	31	26
	196	1,488

## 17. Contingent liabilities

The contingent liabilities of €339,908 thousand result from a guarantee for drawings of Klöckner & Co Verwaltung GmbH under the holding credit arrangement ("Holding Facility") in the amount of €297,575 thousand and a further guarantee for obligations of Klöckner & Co Verwaltung GmbH of €37,646 thousand incurred in connection with the forward contracts under a master agreement with a bank. Besides that, the Company guarantees the credit line for a foreign subsidiary in the amount of €3,825 thousand as well as a contracted purchase price adjustment amounting to €862 thousand for another foreign subsidiary.

## 18. Other information

### Information pursuant to section 160, para. 1

#### No 8 AktG

In accordance with sections 21 para. 1, 22 para. 1 Wertpapierhandelsgesetz (WpHG – Securities Trading Act) the following shares in Klöckner & Co SE were held at the date of authorization of the financial statements:

Notifying institutions	Domicile	Voting interests in %	Date on which threshold was met
<b>Increase over threshold</b>			
FIL Investments International	Hildenborough, United Kingdom	3.66 b)	December 19, 2008
FIL Investment Management Limited	Hildenborough, United Kingdom	3.68 b)	December 19, 2008
FIL Limited	Hamilton, Bermuda	3.68 b)	December 19, 2008
Franklin Mutual Series Fund	Short Hills, USA	5.00 a)	February 19, 2007
<b>Decrease under threshold</b>			
Franklin Mutual Advisers, LLC	Short Hills, USA	9.89 b)	November 21, 2008

a) Directly held

b) Attributed holding, not cumulative

A full listing of notifications in accordance with section 21 para. 1 and section 22 para. 1 Wertpapierhandelsgesetz (WpHG – Securities Trading Act) is attached as appendix to notes to the financial statements.



### Corporate bodies

A listing of the members of the corporate bodies is attached as appendix.

### Declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG

On December 15, 2008, the Management Board and Supervisory Board issued the declaration of compliance in accordance with section 161 AktG and made it permanently available to the shareholders on the Klöckner & Co SE website.

### Profit distribution proposal

We propose to the Shareholder's Meeting that the retained profits of Klöckner & Co SE in the amount of €17,699,907.99 be carried forward to new account.

Duisburg, March 3, 2009

Klöckner & Co SE  
The Management Board

Dr. Thomas Ludwig

Ulrich Becker

Gisbert Rühl

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**Subsidiary listing according to sections 285 No. 11/313 para. 2 German Commercial Code (HGB)**

Curr. no.	Company	Participation percentage
1	Klöckner & Co Societas Europaea, Duisburg, Germany	
<b>I. Consolidated affiliated companies</b>		
2	Klöckner & Co Finance International S.A., Luxembourg	100.00
3	Multi Metal Beteiligungs GmbH, Duisburg, Germany	100.00
4	Klöckner & Co International GmbH, Duisburg, Germany	100.00
5	Klöckner & Co Verwaltung GmbH, Duisburg, Germany	100.00
6	Klöckner & Co Beteiligungs GmbH, Duisburg, Germany	100.00
7	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00
8	Davum Construction S.A., Crissier, Switzerland	100.00
9	Debrunner Acifer AG, St. Gallen, Switzerland	100.00
10	Debrunner Acifer AG Landquart, Landquart, Switzerland	100.00
11	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00
12	Debrunner Acifer S.A. Giubiasco, Giubiasco, Switzerland	100.00
13	Debrunner Acifer S.A. Romandie, Crissier, Switzerland	100.00
14	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00
15	Klöckner Stahl AG, St. Gallen, Switzerland	100.00
16	Koenig Feinstahl AG, Dietikon, Switzerland	100.00
17	Molok (Valais) S.A., Siders, Switzerland	100.00
18	Metall Service Menziken AG, Menziken, Switzerland	100.00
19	Klockner Limited, i. L., Douglas, Isle of Man, United Kingdom	99.95 0.05
20	Kloekner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00
21	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00
22	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00
23	Namasco Corporation, Wilmington, Delaware, USA	100.00
24	Namasco Holding Corporation, Wilmington, Delaware, USA	100.00
25	Namasco Metals L.P., Dallas, Texas, USA	99.00 1.00
26	Klöckner Namasco Receivables Corporation, Roswell, USA	100.00
27	Namasco Receivables Corporation, City of Dover, Delaware, USA	100.00
28	NC Receivables Corporation, Wilmington, Delaware, USA	100.00
29	Primary Steel LLC, Middletown, Connecticut, USA	100.00
30	Kloekner Burlington Limited, Burlington, Ontario, Canada	100.00
31	Kloekner Alberta Limited, Calgary, Alberta, Canada	100.00



Held by current no.	Currency	Equity in local currency	Net income local currency	Sales in local currency
1	EUR	149,657.61	116,310.67	–
1	EUR	257,932,945.30	– <sup>1)</sup>	–
3	EUR	357,899,443.92	– <sup>1)</sup>	–
4	EUR	257,862,067.19	– <sup>1)</sup>	–
5	EUR	459,804,920.91	427,366,663.29	–
6	CHF	214,436,082.50	595,642,627.46	–
7	CHF	4,470,890.08	697,150.75	29,000,208.74
7	CHF	107,031,815.48	25,774,478.05	778,058,175.01
7	CHF	11,234,065.53	5,780,483.72	87,666,312.36
7	CHF	12,079,437.43	3,841,045.44	64,858,143.72
7	CHF	6,621,065.16	1,535,591.48	46,647,061.74
7	CHF	22,880,623.92	6,963,543.97	185,127,360.47
7	CHF	2,877,776.58	829,151.67	–
7	CHF	108,161.19	2,040.63	–
7	CHF	25,468,828.92	6,377,093.77	112,183,563.78
11	CHF	374,953.56	1,564.90	–
7	CHF	9,274,404.62	324,881.04	110,213,513.76
6	GBP	2,177.00	87,182,777.89	–
45				
5	EUR	160,025,000.00	– <sup>1)</sup>	–
5	USD	165,925,739.31	68,128,636.94	–
21	USD	446,416,821.30	72,987,263.62	–
22	USD	446,495,996.39	23,698,676.44	824,858,704.65
23	USD	109,714,417.27	–	–
24	USD	110,822,825.53	26,666,173.48	242,289,885.06
23				
25	USD	–	–	–
25	USD	–	–	–
25	USD	2,294,352.74	27,190.81	–
23	USD	240,514,675.52	23,012,639.50	682,424,563.08
48	CAD	4,025,841.01	65,828.87	–
48	CAD	1,045,817.74	–546,954.14	–

<sup>1)</sup> Profit and loss transfer agreement

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Curr. no.	Company	Participation percentage
32	Temtco Steel, LLC, Wilmington, Delaware, USA	100.00
33	Klöckner Distribution Industrielle S.A., Aubervilliers, France	90.00
34	Buysmetal N.V., Harelbeke, Belgium	99.99 0.01
35	KDI S.A.S., Aubervilliers, France	100.00
36	Adrien Targe S.A., La Grand Croix, France	100.00
37	Davum Ocean Indien S.A.S., Le Port, La Réunion, France	100.00
38	KDI Export S.A.S., Cergy-Pontoise, France	100.00
39	KDI Immobilier S.A.S., Aubervilliers, France	100.00
40	Prafer SNC, Woippy, France	100.00
41	Tournier Holding S.A.S., Lagny sur Marne, France	100.00
42	Tournier S.A.S., Croissy Beaubourg, France	100.00
43	SNPI S.A.S. Croissy Beaubourg, France	100.00
44	Reynolds European S.A.S., Rueil Malmaison, France	100.00
45	Klöckner Global Sourcing GmbH, Duisburg, Germany	100.00
46	Klöckner Information Services GmbH, Duisburg, Germany	51.00
47	Debrunner Koenig Informatik AG, Dietikon, Switzerland	50.00 50.00
48	Klöckner Netherlands Holding B.V., Barendrecht, the Netherlands	100.00
49	Klöckner & Co Financial Services B.V., Rotterdam, the Netherlands	100.00
50	ODS B.V., Rotterdam, the Netherlands	100.00
51	ODS Metals N.V., Antwerp, Belgium	99.50
52	O-D-S N.V., Antwerp, Belgium	100.00
53	O-D-S Transport B.V., Barendrecht, the Netherlands	100.00
54	Teuling Staal B.V., Barendrecht, the Netherlands	100.00
55	Klöckner Participaciones S.A., Madrid, Spain	100.00
56	Comercial de Laminados S.A., Barcelona, Spain	100.00
57	Aesga Aceros Especiales S.A., Madrid, Spain	100.00
58	Cortichapa S.A., Valencia, Spain	85.00 15.00
59	Hierros del Cantábrico S.A., Asturias, Spain	100.00
60	Hierros del Ebro S.A., Zaragoza, Spain	100.00
61	Hierros del Turia S.A., Valencia, Spain	80.00
62	Hierros Guadalquivir S.A., Seville, Spain	100.00
63	Klöckner Aluminio Ibérica S.A., Madrid, Spain	100.00
64	Materiales Siderúrgicos S.A., Madrid, Spain	100.00
65	Perfiles Aragón S.A., Zaragoza, Spain	100.00
66	Suministros Loinaz S.A., Guipuzcoa, Spain	100.00





Held by current no.	Currency	Equity in local currency	Net income local currency	Sales in local currency
21	USD	201,465,318.37	8,595,395.93 <sup>5)</sup>	220,352,177.82
5	EUR	66,077,048.00	-13,242,388.00	-
33 35	EUR	16,071,122.63	3,132,087.42	65,153,539.54
33	EUR	6,935,642.00	-150,026,524.00	1,016,888,731.00
35	EUR	5,113,111.00	374,413.00	31,748,639.00
35	EUR	3,854,329.00	1,058,428.00	27,492,044.00
35	EUR	765,686.00	-791,229.00	98,678,146.00
35	EUR	71,003,771.00	5,726,990.00	10,846,568.00
35	EUR	1,950,706.00	844,412.00	12,987,184.00
35	EUR	8,595,733.00	1,061,432.00	-
41	EUR	5,253,824.00	1,180,649.00	32,635,205.00
41	EUR	1,609,250.00	391,303.00	8,290,319.00
33	EUR	12,897,496.00	-3,098,242.00	114,751,097.00
5	EUR	30,032.06	- <sup>1)</sup>	49,546,592.16
5	EUR	2,830,894.07	1,619,180.72	15,168,046.59
7 46	CHF	172,370.22	72,370.22	1,347,102.75
5	EUR	95,381,087.29	55,788,674.94	-
48	EUR	19,091,909.25	635,724.16	-
48	EUR	59,086,706.87	13,878,672.64	367,460,287.01
50	EUR	990,614.11	260,101.75	9,007,717.61
50	EUR	1,343,945.40	341,660.88	5,020,466.71
50	EUR	18,000.00	-	-
50	EUR	7,671,251.83	2,357,094.23	15,179,674.82
5	EUR	2,462,263.02	2,937,730.28	-
55	EUR	48,418,691.89	-1,487,346.65	145,068,399.85
56	EUR	2,859,464.10	658,805.84	14,510,100.78
56 61	EUR	9,498,954.04	2,245,000.98	6,017,917.53
56	EUR	11,470,752.05	4,262,924.70	48,002,175.70
56	EUR	12,398,368.21	1,594,989.56	51,873,613.07
56	EUR	18,816,383.95	-26,632,210.97	70,092,746.95
56	EUR	18,687,704.33	1,526,759.16	66,968,874.82
56	EUR	1,060,220.46	-914,692.46	6,808,158.04
56	EUR	7,312,100.31	722,174.02	36,724,393.25
56	EUR	11,052,727.78	346,993.41	22,358,163.82
56	EUR	7,640,723.69	533,803.81	42,191,387.72

<sup>1)</sup> Profit and loss transfer agreement

<sup>5)</sup> Short period May 5 to December 31, 2008

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Curr. no.	Company	Participation percentage
67	Klöckner Stahl- und Metallhandel GmbH, Duisburg, Germany	100.00
68	Edelstahlservice Mágocs Nemesacélfeldolgozó Kft, Mágocs, Hungary	100.00
69	Dobbertin Drahthandel GmbH, Hamburg, Germany	100.00
70	Klöckner Romania S.R.L., Bucharest, Romania	95.00 5.00
71	Klöckner Stahl und Metall Ges.m.b.H, Vienna, Austria	100.00
72	Metall- und Service-Center GmbH Nfg. KG, Vienna, Austria	51.00
73	Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic	100.00
74	Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland	99.99 0.01
75	Klöckner Metalsnab AD, Sofia, Bulgaria	99.75
76	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00
77	ASD Limited, Leeds, United Kingdom	100.00
78	ASD Metal Services Ltd., Leeds, United Kingdom	100.00
79	ASD Interpipe Ltd., Leeds, United Kingdom	100.00
80	Klöckner Metal Services Ltd., Leeds, United Kingdom	100.00
81	Klöckner UK Holdings Ltd. i. L., Leeds, United Kingdom	100.00
82	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00
83	Armstrong Plate Ltd., Leeds, United Kingdom	100.00
84	Berry Hill Group Ltd., Leeds, United Kingdom	100.00
85	James & Tatton Ltd., Leeds, United Kingdom	100.00
86	Gardiner, Barugh & Jones Ltd., Leeds, United Kingdom	100.00
87	Grange Steels Ltd., Leeds, United Kingdom	100.00
88	Hilton Steels Ltd., Leeds, United Kingdom	100.00
89	Humber Steel Stockholders Ltd., Leeds, United Kingdom	100.00
90	John O. Holt & Sons Ltd., Leeds, United Kingdom	100.00
91	Armstrong Steel Ltd., Leeds, United Kingdom	100.00
92	JRS Steel Stockholders Ltd., Leeds, United Kingdom	100.00
93	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00
94	Parkin Steel Stockholders Ltd., Leeds, United Kingdom	100.00
95	Peterborough Steels Ltd., Leeds, United Kingdom	100.00
96	RW Doncaster Ltd., Leeds, United Kingdom	100.00
97	RW Project Metals Ltd., Leeds, United Kingdom	100.00
98	Westgarth Aberdeen Ltd., Bathgate, United Kingdom	100.00
99	ASD Westok Limited, Leeds, United Kingdom	100.00
100	ASD Multitubes Ltd., Leeds, United Kingdom	100.00
101	Klöckner S.à r.l., Luxembourg	100.00



Held by current no.	Currency	Equity in local currency	Net income local currency	Sales in local currency	
5	EUR	81,934,377.62	- <sup>1)</sup>	1,438,159,151.43	Declaration of the Management Board 71
67	HUF	31,452,722.00	6,181,930.00	198,071,509.00	Auditor's report 72
67	EUR	134,515.52	8,440.96	-	Consolidated statement of income 73
67 69	RON	-3,877,276.44	-3,460,705.00	19,565,672.00	Consolidated balance sheet 74
67	EUR	2,675,558.41	1,476,456.66	-	Consolidated statement of cash flows 77
71	EUR	6,892,752.37	2,927,998.54	74,419,565.96	Summary of changes in equity 78
67	CZK	39,288,086.75	-7,637,106.13	430,668,788.38	Notes to the consolidated financial statements 80
67 69	PLN	4,381,333.51	-5,047,082.30	105,237,378.41	Individual financial statements of Klöckner & Co SE 134
5	BGN	22,254,028.46	13,958,199.02	83,084,832.32	Subsidiary listing 148
5	GBP	35,228,028.00	14,265,898.00	-	Information pursuant to sec. 160 AktG 156
76	GBP	45,968,168.00	7,525,313.00	304,554,798.00	Additional mandates 158
77	GBP	2.00	-	-	Glossary 164
76	GBP	1,449,785.00	496,921.00	15,254,319.00	
76	GBP	8,585,015.00	1,669,880.00	68,871,178.00	
76	GBP	-	860,868.00	-	
76	GBP	17,379,253.00	-	-	
82	GBP	-584,019.00	-	-	
82	GBP	1,872,067.00	-	-	
84	GBP	2,096,520.00	-	-	
82	GBP	1,561,971.00	-	-	
82	GBP	558,489.00	-	-	
82	GBP	-83,890.00	-	-	
82	GBP	2,371,118.00	-	-	
82	GBP	249,843.00	-	-	
90	GBP	19,094,504.00	4,470,363.00	95,728,372.00	
82	GBP	-762,236.00	-	-	
82	GBP	2,803,828.00	-	-	
82	GBP	343,591.00	-	-	
82	GBP	-370,622.00	-	-	
82	GBP	-319,199.00	-	-	
82	GBP	46,299.00	-	-	
82	GBP	-116,022.00	-	-	
76	GBP	7,051,863.00	2,946,644.00	30,054,046.00	
76	GBP	-71,542.00	-77,709.00	4,387,579.00	
4	EUR	12,500.00	-	-	

<sup>1)</sup> Profit and loss transfer agreement

Curr. no.	Company	Participation percentage
102	Klöckner Investment SCA, Luxembourg	96.77 3.23
103	Klöckner Finance S.à r.l., Luxembourg	100.00
<b>II. Non-consolidated affiliated companies</b>		
104	KDI Courtages SARL, Paris, France	99.80
105	Klöckner Steel Company Ltd., Leeds, United Kingdom	100.00
106	O-D-S do Brasil Sistemas de Medição LTDA Campinas, São Paulo, Brazil	80.00
107	Richardson Westgarth Employees Trustees Ltd., Leeds, United Kingdom	100.00
108	Sammi Klöckner International GmbH, Duisburg, Germany	100.00
109	UAB Klöckner Baltija, Klaipeda, Lithuania	100.00
<b>III. Associates</b>		
110	Birs-Stahl AG, Birsfelden, Switzerland	50.00
<b>IV. Participations over 20%</b>		
111	GIE Mer, La Réunion, France	20.00



Held by current no.	Currency	Equity in local currency	Net income local currency	Sales in local currency
4 101	EUR	-1,608,800.77	15,053,647.77	-
102	EUR	30,541.24	7,629.86	-
33	EUR	25,749.00	296.00	16,593.00
6	GBP	61,266.00	-	-
50	BRL	957,183.97	-43,972.03 <sup>4)</sup>	-
82	GBP	1.00	-	-
6	EUR	-14,050,597.13	-6,841.19 <sup>3)</sup>	-
5	LTL	97,093.00	-2,907.00 <sup>2)</sup>	-
9	CHF	611,536.53	36,472.30 <sup>3)</sup>	1,970,011.05
37	EUR	-12,288.00	-20,288.00 <sup>3)</sup>	15,000.00

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<sup>2)</sup> Financial statements as of 31.12.2006

<sup>3)</sup> Financial statements as of 31.12.2007

<sup>4)</sup> Financial statements as of 30.09.2008

Annex to the notes to the financial statements and notes to the consolidated statements  
of Klöckner & Co SE

Information pursuant to section 160 para. 1 No. 8 AktG

Notifying institutions	Domicile	Voting interests in %	Date on which threshold was met
<b>Increase over threshold</b>			
FIL Investments International	Hildenborough, United Kingdom	3.66	December 19, 2008
FIL Investment Management Limited	Hildenborough, United Kingdom	3.68	December 19, 2008
FIL Limited	Hamilton, Bermuda	3.68	December 19, 2008
Deka Investment GmbH	Frankfurt, Germany	3.07	October 13, 2008
Deka Investment GmbH	Frankfurt, Germany	3.00	January 23, 2008
UBS AG	Zürich, Switzerland	5.57	May 26, 2008
UBS AG	Zürich, Switzerland	5.25	January 21, 2008
UBS AG	Zürich, Switzerland	3.01	May 15, 2008
UBS AG	Zürich, Switzerland	3.28	January 16, 2008
TPG-Axon Partners, L.P.	New York, USA	3.25	December 14, 2007*)
TPG-Axon Partners, L.P.	New York, USA	5.38	December 19, 2007*)
TPG-Axon Partners (Offshore), Ltd.	Georgetown, Cayman Islands	3.25	December 14, 2007*)
TPG-Axon Partners (Offshore), Ltd.	Georgetown, Cayman Islands	5.38	December 19, 2007*)
TPG-Axon Partners GP, L.P.	Delaware, USA	3.25	December 14, 2007*)
TPG-Axon Partners GP, L.P.	Delaware, USA	5.38	December 19, 2007*)
TPG-Axon Capital Management, L.P.	New York, USA	3.25	December 14, 2007*)
TPG-Axon Capital Management, L.P.	New York, USA	5.38	December 19, 2007*)
TPG-Axon GP, LLC	Delaware, USA	3.25	December 14, 2007*)
TPG-Axon GP, LLC	Delaware, USA	5.38	December 19, 2007*)
Dinakar Singh LLC	Delaware, USA	3.25	December 14, 2007*)
Dinakar Singh LLC	Delaware, USA	5.38	December 19, 2007*)
Dinakar Singh	USA	3.25	December 14, 2007*)
Dinakar Singh	USA	5.38	December 19, 2007*)
Virmont S.à r.l.	Luxembourg, Luxembourg	3.11	June 7, 2007*)
Virmont S.à r.l.	Luxembourg, Luxembourg	5.01	November 13, 2007*)
<b>Decrease under threshold</b>			
Alken Fund SICAV	Luxembourg, Luxembourg	4.85	January 29, 2008
Alken Fund SICAV	Luxembourg, Luxembourg	2.97	February 3, 2009
Alken Asset Management, LLP	London, United Kingdom	4.95	January 29, 2008**)
Virmont S.à r.l.	Luxembourg, Luxembourg	2.97	February 3, 2009
Virmont S.à r.l.	Luxembourg, Luxembourg	4.85	January 29, 2008



Notifying institutions	Domicile	Voting interests in %	Date on which threshold was met
Franklin Mutual Advisers, LLC	Short Hills, USA	9.89	November 21, 2008
Deka Investment GmbH	Frankfurt, Germany	2.91	October 22, 2008
Deka Investment GmbH	Frankfurt, Germany	2.9966	February 8, 2008
TPG-Axon Partners, L.P.	New York, USA	4.88	August 21, 2008
TPG-Axon Partners, L.P.	New York, USA	2.84	September 12, 2008
TPG-Axon Partners (Offshore), Ltd.	Georgetown, Cayman Islands	4.88	August 21, 2008
TPG-Axon Partners (Offshore), Ltd.	Georgetown, Cayman Islands	2.84	September 12, 2008
TPG-Axon Partners GP, L.P.	Delaware, USA	4.88	August 21, 2008
TPG-Axon Partners GP, L.P.	Delaware, USA	2.84	September 12, 2008
TPG-Axon Capital Management, L.P.	New York, USA	4.88	August 21, 2008
TPG-Axon Capital Management, L.P.	New York, USA	2.84	September 12, 2008
TPG-Axon GP, LLC	Delaware, USA	4.88	August 21, 2008
TPG-Axon GP, LLC	Delaware, USA	2.84	September 12, 2008
Dinakar Singh LLC	Delaware, USA	4.88	August 21, 2008
Dinakar Singh LLC	Delaware, USA	2.84	September 12, 2008
Dinakar Singh	USA	4.88	August 21, 2008
Dinakar Singh	USA	2.84	September 12, 2008
TIAA Board of Overseers	New York, USA	0.00	August 20, 2007*)
Teachers Insurance and Annuity Association of America	New York, USA	0.00	August 20, 2007*)
UBS AG	Zürich, Switzerland	2.20	May 27, 2008
UBS AG	Zürich, Switzerland	0.99	January 22, 2008
FIL Investments International	Hildenborough, United Kingdom	5.01	October 25, 2007*)
FIL Investments International	Hildenborough, United Kingdom	4.72	April 29, 2008
FIL Investments International	Hildenborough, United Kingdom	2.99	May 13, 2008
FIL Investment Management Limited	Hildenborough, United Kingdom	5.03	October 25, 2007*)
FIL Investment Management Limited	Hildenborough, United Kingdom	4.72	April 29, 2008
FIL Investment Management Limited	Hildenborough, United Kingdom	2.99	May 13, 2008
Fidelity International Limited	Hamilton, Bermuda	5.03	October 25, 2007*)
FIL Limited	Hamilton, Bermuda	4.72	April 29, 2008
FIL Limited	Hamilton, Bermuda	2.99	May 13, 2008
Fidelity Investment Funds	Hildenborough, United Kingdom	3.36	January 29, 2008
Fidelity Investment Funds	Hildenborough, United Kingdom	2.78	April 30, 2008

\*) Notification in 2008  
 \*\*) Notification subsequently rescinded

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## KLÖCKNER & CO SE

### Additional information concerning the individual and consolidated financial statements

#### Additional Mandates of the Members of the Management Board of Klöckner & Co SE Section 285, para. 1 no. 10 HGB

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

##### **Group Mandates**

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, Chairman of the Supervisory Board
- Comercial de Laminados, Madrid, Spain, Chairman, until October 8, 2008
- Debrunner Koenig Holding AG, St. Gallen, Switzerland, Chairman, until May 29, 2008
- Klöckner Distribution Industrielle S.A., Aubervilliers, France, Chairman
- Klöckner Investment S.C.A., Luxembourg, Luxembourg
- Klöckner Metalsnab AD, Sofia, Bulgaria, Chairman
- Klöckner UK Holdings Ltd., Leeds, UK, Chairman, (in liquidation)
- Klöckner Namasco Holding Corporation, Atlanta, USA, Chairman
- Namasco Limited, Toronto, Canada, Chairman until August 8, 2008
- ODS B.V., Rotterdam, the Netherlands, Chairman

##### **Other Mandates**

- Trimet Aluminium AG, Essen, Chairman of the Supervisory Board
- Bandstahl Schulte & Co. GmbH, Hagen, Chairman of the Advisory Board
- 3A Aluminium AG, Düsseldorf, Member of the Supervisory Board
- Rölfs W. P. Partner AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, Chairman of the Supervisory Board
- (7S) Personal GmbH, Hamburg, Chairman of the Advisory Board

##### **Ulrich Becker,** **Member of the Management Board**

(since April 1, 2008)

##### **Group Mandates**

- Comercial de Laminados, Madrid, Spain, Chairman, since October 8, 2008
- Debrunner Koenig Holding AG, St. Gallen, Switzerland, Chairman, since May 29, 2008
- Klöckner Distribution Industrielle S.A., Aubervilliers, France, since April 23, 2008
- ODS B.V., Rotterdam, the Netherlands, since January 1, 2009
- Klöckner Metalsnab AD, Sofia, Bulgaria, since January 15, 2009

##### **Other Mandates**

- Wickeder Westfalenstahl GmbH, Wickede (Ruhr), Member of the Advisory Board





**Gisbert Rühl,**  
**Chief Financial Officer and**  
**Member of the Management Board**

**Group Mandates**

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, Member of the Supervisory Board
- Comercial de Laminados, Madrid, Spain, Deputy Chairman
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner & Co Financial Services B.V., Rotterdam, the Netherlands, Chairman
- Klöckner Distribution Industrielle S.A., Aubervilliers, France, Deputy Chairman
- Klöckner Investment S.C.A., Luxembourg, Luxembourg
- Klöckner Metalsnab AD, Sofia, Bulgaria
- Klöckner Namasco Holding Corporation, Atlanta, USA
- Namasco Limited, Toronto, Canada, until August 8, 2008
- ODS B.V., Rotterdam, the Netherlands

**Other Mandates**

- Deutsche Bank Aktiengesellschaft, Essen branch, Member of the Regional Advisory Board
- DAL Deutsche Afrika Linien GmbH & Co KG, Hamburg, Member of the Advisory Board
- Walter Services Holding GmbH, Ettlingen, Chairman of the Shareholders' Committee and Chairman of the Supervisory Board, both until August 14, 2008; Member of the Shareholders' Committee, since December 1, 2008, and Member of the Supervisory Board, since December 5, 2008

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**Additional Mandates of the Members  
of the Supervisory Board of Klöckner & Co SE  
Section 285, para. 1 no. 10 HGB**

**Prof. Dr. Dieter H. Vogel, Chairman**

- sevenload GmbH,  
Member of the Supervisory Board,  
from November 25, 2008<sup>2)</sup>
- HSBC Trinkaus & Burkhardt AG,  
Member of the Advisory Board<sup>2)</sup>
- Ernst & Young AG,  
Member of the Advisory Board<sup>2)</sup>
- Debrunner Koenig Holding AG,  
Member of the Board of Directors  
until May 29, 2008<sup>2)</sup>
- HDI-Gerling-Industrie Versicherung AG,  
Member of the Advisory Board<sup>2)</sup>
- Board of Trustees of the Bertelsmann  
Foundation, Chairman<sup>2)</sup>

**Dr. Michael Rogowski, Deputy Chairman**

- Voith AG, Chairman of the Supervisory Board  
and of the Shareholders' Committee<sup>1)</sup>
- HDI V.a.G./Talanx AG,  
Member of the Supervisory Board<sup>1)</sup>
- IKB Deutsche Industriebank AG,  
Member of the Supervisory Board  
until August 28, 2008<sup>1)</sup>
- Carl Zeiss AG,  
Member of the Supervisory Board<sup>1)</sup>
- Vattenfall Europe AG,  
Member of the Supervisory Board,  
from June 19, 2008<sup>1)</sup>
- Freudenberg & Co., Deputy Chairman  
of the Shareholders' Committee<sup>2)</sup>
- Deutsche Bank AG,  
Member of the Central Advisory Board<sup>2)</sup>

**Robert J. Koehler**

- Benteler AG,  
Chairman of the Supervisory Board<sup>1)</sup>
- Pfeleiderer AG,  
Member of the Supervisory Board  
until June 12, 2008<sup>1)</sup>
- Heidelberger Druckmaschinen AG,  
Member of the Supervisory Board<sup>1)</sup>
- Demag Cranes AG,  
Member of the Supervisory Board<sup>1)</sup>
- Lanxess AG, Member of the Supervisory Board<sup>1)</sup>

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by section 125 AktG (German Stock Corporation Act)

<sup>2)</sup> Membership of similar corporate Supervisory Bodies in Germany and abroad as defined by section 125 AktG (German Stock Corporation Act)



## Frank H. Lakerveld

- Sonepar Nederland B.V., Vice Président du Conseil de Surveillance<sup>2)</sup>
- Encon Safety Products, Inc., Président du Conseil<sup>2)</sup>
- Hagemeyer North America, Inc., Président du Conseil<sup>2)</sup>
- Hagemeyer PPS Ltd., Président du Conseil<sup>2)</sup>
- Vallen Corporation, Président du Conseil<sup>2)</sup>
- Sonepar Holding S.A., Président du Conseil<sup>2)</sup>
- Sonepar Deutschland GmbH, Président de la Gérance<sup>2)</sup>
- Sonepar Canada, Inc., President<sup>2)</sup>
- Oтра N.V., Membre du Conseil de Surveillance<sup>2)</sup>
- Sonepar S.A., Directeur Général délégué<sup>2)</sup>
- S.I.F. S.A.S. à CA, Administrateur de S.A.S.<sup>2)</sup>
- Trommel Holding GmbH, Administrateur<sup>2)</sup>
- Lawrence & Hanson Group Pty Ltd., Administrateur<sup>2)</sup>
- Osso Electric Supplies, Inc., Administrateur<sup>2)</sup>
- Sonepar Canada, Inc., Administrateur<sup>2)</sup>
- Sonepar Nordic A/S, Administrateur<sup>2)</sup>
- Sonepar Iberica, S.A., Administrateur<sup>2)</sup>
- Sonepar USA Holdings, Inc., Administrateur<sup>2)</sup>
- Sonepar France S.A., Administrateur<sup>2)</sup>
- Supermoon Holding Ltd., Administrateur<sup>2)</sup>
- Sonepar Italia SpA, Administrateur<sup>2)</sup>
- Sonepar Mexico S.A. de C.V., Administrateur<sup>2)</sup>
- Foshan Shunching Supermoon Trading Co., Ltd. Foreign Invested JV, Administrateur<sup>2)</sup>
- Hite Electric Technology Co., Ltd., Administrateur<sup>2)</sup>
- Sonepar Nordic Sweden AB, Administrateur<sup>2)</sup>
- CEBCO S.A., Administrateur<sup>2)</sup>

## Dr. Jochen Melchior

- AXA Service AG, Member of the Supervisory Board<sup>1)</sup>
- Nationalbank AG, Member of the Supervisory Board<sup>1)</sup>
- Tecon Technologies AG/Seven Principles AG (change of the company's name), Chairman of the Supervisory Board, until December 8, 2008<sup>2)</sup>
- Mattson Technology Inc, Chairman until June 3, 2008, Member of the Board of Directors from June 4, 2008<sup>2)</sup>
- Ernst & Young AG, Member of the Advisory Board<sup>2)</sup>
- Universitätsklinikum Essen AöR, Member of the Supervisory Board Chairman from April 21, 2008<sup>2)</sup>
- Schauenburg-Gruppe, Member of the Board, from December 12, 2008<sup>2)</sup>

## Dr. Hans-Georg Vater

- ENRO Geothermie AG, Deputy Chairman of the Supervisory Board until February 27, 2008<sup>1)</sup>
- MEDION AG, Deputy Chairman of the Supervisory Board<sup>1)</sup>
- Athens International Airport S.A., Member of the Board of Directors<sup>2)</sup>
- HAPIMAG AG, Member of the Board of Directors<sup>2)</sup>
- DEMATIC GmbH & Co. KG, Member of the Advisory Board<sup>2)</sup>
- OWA Odenwald Faserplattenwerk GmbH, Member of the Advisory Board<sup>2)</sup>
- Universitätsklinikum Essen AöR, Member of the Supervisory Board, from January 10, 2009<sup>2)</sup>

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by section 125 AktG (German Stock Corporation Act)

<sup>2)</sup> Membership of similar corporate Supervisory Bodies in Germany and abroad as defined by section 125 AktG (German Stock Corporation Act)

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## GLOSSARY

### **Asset-Backed Securitization Programs**

Group finance programs under which Klöckner trade receivables are converted into cash. Asset-backed securities are generally issued by a special purpose entity which are collateralized by an asset portfolio (i.e. Klöckner trade receivables). The sole purpose of the special purpose entities is to purchase receivables of Klöckner Group companies and to refinance such purchases by issuance of securities. As the programs do not meet criteria under the respective accounting standards the legally transferred receivables are not derecognized from the Group's balance sheet, but the funds received are presented as loans due to the purchasers of the receivables.

### **Cap**

With a cap derivative financial instrument floating rate interest payments on bond liabilities can be limited to a defined maximum rate. If the maximum amount is exceeded, compensating payments in the amount of the difference between the maximum interest rate and the actual interest rate are made to the holder of the instrument.

### **Cash Flow Hedge**

A hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognized asset or liability, such as all or some future interest payments on variable rate debt or a highly probable forecast transaction which could affect profit or loss. If the hedge is considered highly effective income effects of such instruments can be directly recorded in equity bypassing the income statement.

### **Conduits**

Conduits are special purpose entities of banks in ABS programs that refinance themselves on the money market based on the purchase of receivables.

### **Cross Currency Swap**

Foreign exchange agreement between two parties to exchange a principal amount and the respective periodic interest payment of one currency for another and, after a specified period of time, to transfer back the original amounts swapped.

### **Derivative financial instrument**

Contractual agreement based on an underlying value (e.g. reference interest rate, securities prices, foreign exchange rates) and a nominal amount. Little or no payment is necessary at the time the agreement is concluded.

### **Dilution**

Describes the reduction in amount earned per share in an investment due to an increase in the total number of shares (e.g. due to convertible bonds). As the number of shares outstanding increases the proportional share embodied in each share decreases (i.e. dilutes).

### **Discounted Cash Flow Method (DCF)**

Valuation technique used to estimate the value of individual assets or group of assets. Under the approach all future cash flows are discounted to their present value as of the valuation date. The interest rate is determined using the Capital Asset Pricing Model (CAPM), a widely known approach in the financial asset portfolio theory.





### EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) is an internal metric that is used to evaluate profitability.

### Fair Value

The price at which assets, liabilities and derivative financial instruments are transferred from a willing seller to a willing buyer, each having access to all the relevant facts and acting freely.

### Floor

Financial instrument between two parties under which compensating payments are made to the holder of the instrument if the value of the underlying financial instruments falls under a defined threshold.

### Foreign Currency Swap

Financial instrument which combines a spot foreign exchange transaction, and a forward foreign exchange transaction.

### Goodwill

The portion of the market value of a business entity not directly attributable to its assets and liabilities; it normally arises only in case of an acquisition. It reflects the ability of the entity to make a higher profit than would be derived from selling the tangible assets.

### Interest Collars

Combination of Floor and Cap. Derivative financial instrument which provides compensating payments based on an underlying notional amount to the holder of the instrument when either the market interest rate falls under or exceeds the defined threshold.

### Interest Rate Swap

An interest rate swap is a derivative in which one party exchanges a stream of interest payments (fixed or variable) for another party's stream of cash flows.

### International Financial Reporting Standards (IFRS)

Under regulations No. 1606/2002 passed by the European Parliament and the European Council as of July 19, 2002, capital-market-oriented companies in the EU such as Klöckner & Co must apply IFRS for compiling its financial statements. Those standards encompass the statements issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) and the respective interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as well as the interpretations of the former Standing Interpretations Committee (SIC).

### Leasing

Method of financing investments whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

### Monte Carlo Simulation

Approach to calculate option values (e.g. virtual stock options). The price of the underlying share is calculated as statistical movement based on a large number of simulations. The individual simulations provide an expected payout to the plan participants based on the individual option agreement. The fair value of a virtual stock option is equal to the present value of the expected payout (average amount).

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**Multi-Currency Revolving Credit Facility**

Line of credit which has been issued by a number of participating banks by way of syndication with an initial term of three years allowing Klöckner & Co to draw funds in various amounts, currencies and maturities. This line of credit is primarily used for general purpose financing.

**Net financial debt**

Net balance of cash and cash equivalents and financial liabilities.

**Option**

The right, not the obligation, to buy or sell an underlying asset (e.g. securities) on a specific day or during a specified period of time at a predetermined price from or to a counterparty or seller.

**Regular-Way Contracts**

A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

**Sale and Leaseback**

Special form of leasing in which usually real estate is sold to a leasing company which then is leased back by the seller lessee.

**Virtual Stock Program**

Stock-based compensation program for Management Board members and certain other executives which is settled in cash. The exercise gain equals the difference between share price over a thirty-day period prior to the exercise and the strike price at the exercise date.

**Working Capital**

Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.



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## IMPORTANT ADDRESSES

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### Head Office

#### **Klückner & Co SE**

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– Ulrich Becker  
– Gisbert Rühl

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– Hans Jürgen Weißer

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– Ralf Jordan

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– Mark Breckheimer

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# FOCUS ON: OUR BUSINESSES IN EUROPE



Spain,  
Alcobendas

Further reference to our country operation can be found under "Important Addresses" on pages 168–170.



United Kingdom, Leeds

Belgium,  
Harelbeke

The Netherlands, Barendrecht

Germany, Duisburg

France,  
Aubervilliers

Lithuania, Klaipeda

Czech Republic,  
Prague

Switzerland,  
St. Gallen

Austria, Vienna

Poland, Poznań

Romania, Bucharest

Bulgaria, Sofia





USA,  
Louisville, Mississippi

USA, Roswell, Georgia

Further reference to our country operation can be found under "Important Addresses" on pages 168–170.



# FOCUS ON: OUR BUSINESSES IN NORTH AMERICA

 USA, Middletown, Connecticut

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March 31	Annual statement 2008
May 14	Q1 Interim Report 2009
May 26	Annual General Meeting 2009 Düsseldorf
August 13	Q2 Interim Report 2009
November 13	Q3 Interim Report 2009

Subject to subsequent changes

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