KLÖCKNER & CO SE ANNUAL REPORT 2011

ANNUAL REPORT 2011

klöckner & co

multi metal distribution

Content

5 years in figures

(in € million)		2011	2010	2009	2008	2007	Change in % 2011 – 2010
Sales		7,095	5,198	3,860	6,750	6,274	+36.5
Earnings before interest, taxes, depreciation and amortization (EBITDA)		217	238	-68	601	371	-8.9
Earnings before interest and taxes (EBIT)		111	152	-178	533	307	-26.9
Earnings before taxes (EBT)		27	84	-240	463	210	-68.1
Earnings after taxes (EAT)		10	80	-186	384	156	-87.1
Earnings per share (basic)	€	0.14	1.17	-3.61	8.56	2.87	-88.0
Earnings per share (diluted)	€	0.14	1.17	-3.61	8.11	2.87	-88.0
Cash flow from operating activities		6	35	565	187	109	-82.4
Cash flow from investing activities		-483	-188	-8	72	-378	-157.1
Liquid funds		987	935	827	297	154	+5.5
Net working capital		1,534	1,017	637	1,407	1,323	+50.8
Net financial debt		471	137	-150	571	746	+244.4
Equity ratio	%	39.2	37.0	41.4	35.1	28.5	+5.9
Balance sheet total		4,706	3,491	2,713	3,084	2,966	+34.8
Turnover (to ´000)		6,661	5,314	4,119	5,974	6,478	+25.4
Employees as of December, 31		11,381	9,699	9,032	10,282	10,581	+17.3

Review by quarter 2011

(in € million)	Q1 2011 Jan. 1 – Mar. 31	Q2 2011 Apr. 1 – Jun. 30	Q3 2011 Jul. 1 – Sep. 30	Q4 2011 Oct. 1 – Dec. 31
Turnover (to ´000)	1,498	1,763	1,765	1,636
Sales	1,587	1,885	1,885	1,739
Earnings before interest, taxes, depreciation and amortization (EBITDA)	104	62	37	14
Earnings before interest and taxes (EBIT)	86	36	8	-18
Earnings before taxes (EBT)	66	15	-15	-39
Earnings after taxes (EAT)	44	5	-12	-27

All over the world

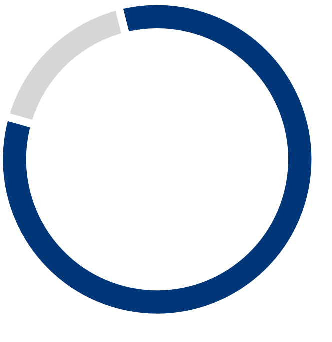
MORE THAN 170,000 CUSTOMERS ARE SUPPLIED THROUGH AROUND 290 DISTRIBUTION AND SERVICE LOCATIONS BY OVER 11,000 EMPLOYEES IN MORE THAN 20 COUNTRIES.

Sales by segments (in € million)

2011

2011		2010
2,052	Americas	887
5,043	Europe	4,311
7,095	Total	5,198

2010



WE WANT TO CREATE AN OUTSTANDING COMPANY THAT WILL BE NUMBER ONE IN TERMS OF SIZE AND GLOBAL POSITION, GROWTH, PROCESSES AND SYSTEMS AS WELL AS MANAGEMENT AND EMPLOYEES IN THE STEEL AND METAL DISTRIBUTION INDUSTRY WORLDWIDE.

LETTER TO THE SHAREHOLDERS

Gisbert Rühl
Chairman of the Management Board

Dear Ladies and Gentlemen,
Dear Shareholders,

In the past fiscal year, we once again had to cope with the volatility that is typical for our industry, and which has intensified even further since the escalation of the financial crisis. After an excellent start, the momentum in the economy has gradually been losing pace since the middle of last year. In this climate, we started by exploiting the opportunities for further growth that have arisen, notably through two, for us, significant acquisitions. We then reacted early and decisively to the economic downturn with an extensive profitability action plan. This helped us to achieve many of our targets for 2011; on others we must continue to work hard.

We made good progress in a challenging environment, especially in the first half of the year, with the implementation of our "Klöckner & Co 2020" strategy: Through the takeover of Macsteel Service Centers USA, we doubled our sales in the United States, which is an extremely attractive market for us. We successfully broke into the emerging markets with the acquisition of a majority interest in Frefer in Brazil and the setting up of a service center in China. We then secured further growth capital by successfully placing a capital increase with net proceeds of €516 million. We responded immediately to the economic slowdown in the second half of the year. As part of an extensive profitability action plan, administration costs and overheads are going to be cut and low-margin business segments and regions discontinued.

Overall, we increased sales by 36.5% in the fiscal year to around €7.1 billion and closed the year with a slightly positive net income of €10 million. We are, of course, just as dissatisfied with this as with the development of our share price. We will therefore continue to channel all our efforts into focusing and optimizing our structures, expanding our product portfolio with higher-valued products, offering additional services and maintaining above-average growth.

Our plans are as follows: In Europe, we anticipate at best very moderate growth in steel consumption over the next few years. In peripheral countries as well as in Eastern Europe, demand is more likely to continue falling, also due to savings measures. Accordingly, we will reduce our capacities in these regions and in some cases consider withdrawing completely. In view of our growth targets, there is no point in injecting further capital and management resources into a market environment that will remain weak in the long term. In the other European countries in which we operate, we aim to increasingly offer higher-valued products and services, and thus reduce the commodity bias in our activities. We intend to support this process through strategic acquisitions. By the end of it, we will have a more focused presence in Europe, i.e., in fewer countries, but with a higher-margin range of products and services.

Thanks to its clear separation of production and distribution, the North American market is enduringly more attractive and efficient than the European market. The takeover of Macsteel Service Centers USA has boosted our share of the North American market to more than a third of total sales and we are now in the excellent position of being the third largest provider in this region. In our key product and service segments, we are even the number one or two. Building on this, we aim to maintain our above-average growth over the next few years and further expand our market position, in part through acquisitions.

The takeover of a majority interest in Frefer in Brazil and the setting up of a service center in China mark our successful entry into the emerging economies in line with our "Klöckner & Co 2020" strategy. Although business performance in Brazil remained disappointing in the last year, this move ensures that Klöckner & Co retains attractive growth potential over the long term. For this reason, we will look for favorable market entry opportunities in other growth regions worldwide going forward.

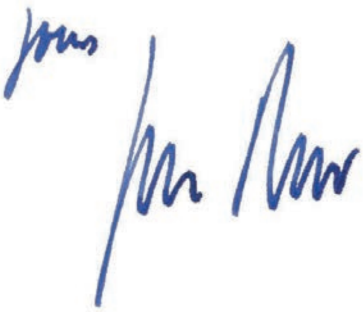
Thus Klöckner & Co's strategy is clearly defined: focus on Europe, with growth in higher-valued product and service segments; continued expansion of our activities in the structurally attractive North American market; and exploitation of additional growth opportunities in emerging economies. In addition, we will, of course, continue to further optimize our processes and expand the Group's management potential.

Even if 2012 proves to be another challenging year due to the high degree of prevailing uncertainty, the initiated measures should enable us to further increase turnover, sales and operating income. In terms of financing, we are extremely well positioned to exploit opportunities or weather downturns without difficulty, not least thanks to last year's capital increase and the early introduction of measures to increase profitability.

For you as shareholders it is, of course, disappointing that we are again unable to pay a dividend for the past fiscal year. But we are working on that as well. The objective of the strategy we have presented and the measures outlined is to reduce the volatility of our earnings performance and at the same time create a stable, positive trend.

Dear shareholders, I would like to thank you for your confidence, which we hope to build on further. I would also like to thank our employees for their tireless efforts and flexibility in a period of great challenges.

Best regards,



Gisbert Rühl
Chairman of the Management Board

MANAGEMENT BOARD

GISBERT RÜHL

Chairman of the Management Board
(CEO/CFO)

Born in 1959. CEO and CFO since November 1, 2009, CFO since July 2005, appointed until December 31, 2012. He is responsible for the coordination of the Management Board and functionally responsible for headquarters functions of Corporate Controlling & Development/M&A, Corporate Taxes, Finance & Accounting, Human Resources/Legal & Compliance, Internal Audit, Investor Relations & Corporate Communications, Executive HR & Talent Management.

ULRICH BECKER

Member of the Management Board
(COO)

Born in 1961. Member of the Management Board since April 1, 2008, appointed until March 31, 2013. His operating responsibilities include the Group's European and Asian activities and he is functionally responsible for headquarters functions of International Product Management & Global Sourcing and Process Management & IT.

WILLIAM A. PARTALIS

Member of the Management Board

Born in 1953. Member of the Management Board since October 1, 2011, appointed until December 31, 2014. William A. Partalis represents the Americas' segment on the Board. In addition, he is as CEO of the US-subsidiaries responsible for managing the American business operations.

SUPERVISORY BOARD

SUPERVISORY BOARD

PROF. DR. DIETER H. VOGEL
Managing Partner, Lindsay Goldberg Vogel GmbH, Düsseldorf,
Chairman

DR. MICHAEL ROGOWSKI
Former Chairman of the Management Board, Voith AG, Heidenheim,
Deputy Chairman

ROBERT J. KOEHLER
Chairman of the Management Board, SGL CARBON SE, Wiesbaden

FRANK H. LAKERVELD
Former Member of the Management Board, Sonepar S.A., Paris
(until May 20, 2011)

DR. DR. H.C. JOCHEN MELCHIOR
Former Chairman of the Management Board of the former STEAG AG, Essen

HAUKE STARS
Managing Director, Hewlett-Packard (Switzerland) GmbH, Dübendorf, Switzerland
(since May 20, 2011)

DR. HANS-GEORG VATER
Former Member of the Management Board, HOCHTIEF AG, 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[1]
Chairman

DR. MICHAEL ROGOWSKI

PROF. DR. DIETER H. VOGEL

[1] independent financial expert within the meaning of Section 100 (5) German Stock Corporation Act

REPORT OF THE SUPERVISORY BOARD

In fiscal 2011, the Supervisory Board once again diligently performed the supervisory and advisory tasks required of it by law, under the Articles of Association and under the Supervisory Board's Rules of Procedure. It advised the Management Board on its management of the Company, supervised continuously the Company's corporate governance by the Management Board and satisfied itself that the corporate governance practices were in good order. Where required by law, the Articles of Association or the Rules of Procedure, the Supervisory Board adopted resolutions after giving the matter at hand thorough and careful consideration.

The Supervisory Board was involved on a timely basis in all important Company matters. To this end, the Management Board provided the Supervisory Board with written and verbal reports on planning, the Company's business and financial position, and all transactions of importance to the Company and the Group, both at and between Supervisory Board meetings. A significant proportion of the reporting was dedicated to the companies acquired in the US and Brazil in the past fiscal year and the rights issue placed in the second quarter. The risk exposure, risk management and compliance were also reported on in detail. In each case, the Management Board provided the Supervisory Board with pertinent documentation.

Items on the agenda at all Supervisory Board meetings included the overall economic situation, the industry situation, the business performance of Klöckner & Co and its segments, with particular attention being devoted to the Group's key performance indicators and Klöckner & Co's share price performance. In 2011, the core elements of the written reports provided between Supervisory Board meetings were once again the detailed monthly Board Reports on the sales, results of operations and cash flows of the Group and its main operating segments and units, capital market developments and Klöckner & Co's share price performance relative to that of other companies in the steel and steel distribution industry. In addition, the Chairman of the Supervisory Board regularly met in person with the Chairman of the Management Board, and with other Management Board members as needed, to discuss current business development and other current issues concerning the Group. Furthermore, the Management Board and the Chairman of the Supervisory Board remained in constant contact for the purposes of exchanging information and coordinating on important matters.

ORGANIZATION OF THE WORK OF THE SUPERVISORY BOARD AND CORPORATE GOVERNANCE

The Supervisory Board consists of six members, all of whom are elected by the Annual General Meeting. The Supervisory Board has established two committees to carry out its duties: an Executive Committee and an Audit Committee, each of which has three members.

The members of the plenary Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Michael Rogowski (Deputy Chairman), Robert J. Koehler, Frank H. Lakerveld (until May 20, 2011), Dr. Jochen Melchior, Hauke Stars (since May 20, 2011) and Dr. Hans-Georg Vater. The Executive Committee is made up of Prof. Dr. Dieter H. Vogel (Chairman), Dr. Michael Rogowski and Dr. Hans-Georg Vater, and the Audit Committee of Dr. Hans-Georg Vater (Chairman), Dr. Michael Rogowski and Prof. Dr. Dieter H. Vogel. Dr. Vater is a financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG).

The committees prepare the Supervisory Board's tasks, topics and decisions. The Executive Committee also carries out the functions of a Personnel Committee, a Committee for Urgent Matters and a Nomination Committee. Where permitted by law, certain decision-making powers have been delegated to the committees.

The Management Board is closely involved in the work of the Supervisory Board. The meetings and teleconferences of the Supervisory Board are usually attended by all members of the Management Board; the meetings of the Executive Committee are attended by the Chairman of the Management Board and other Management Board members as needed, and the meetings of the Audit Committee by the Chairman of the Management Board in his capacity as Chief Financial Officer.

The Supervisory Board held a total of five plenary meetings in fiscal year 2011, four of them ordinary face-to-face meetings and one extraordinary meeting in the form of a teleconference when Macsteel Service Centers USA (MSCUSA) and a 70% interest in Brazilian group Frefer were acquired. The Audit Committee had six meetings during the reporting period, on three occasions in face-to-face meetings, and on a further three occasions via teleconference to discuss the quarterly reports with the Chairman of the Management Board in his capacity as Chief Financial Officer on the day before their publication. The Executive Committee held three face-to-face meetings in fiscal year 2011. In its capacity as the Committee for Urgent Matters, it also held a teleconference when the Company's authorized capital was used in connection with the rights issue against cash contributions. At the plenary meetings, the committee chairmen reported regularly and in depth on the subject matter and outcome of the committee meetings.

Every Supervisory Board and committee member attended all meetings in fiscal year 2011, including teleconferences, and voted on all resolutions adopted by the committee in question.

SUPERVISORY BOARD MEETINGS AND RESOLUTIONS

A prominent topic in the first half of the year was the implementation of the "Klöckner & Co 2020" strategy decided upon in the previous fiscal year, particularly by way of the acquisitions in North America and Brazil. In the second half of the past fiscal year, the Supervisory Board dealt once again with the effects of the global financial and economic crisis on the Company's business and financial situation, this time triggered by the sovereign debt crisis, which is causing problems especially in the European economic area. In this context, special attention was given to the profitability action plan promptly initiated by the Management Board.

The Supervisory Board also dealt specifically with the following topics:

Based on the Audit Committee's preliminary review and deliberations, and following intense discussion with the Management Board and the auditors present at its meeting on March 4, 2011, the Supervisory Board approved the Company's financial statements for 2010, the consolidated financial statements and the Management Board's proposal on the appropriation of the balance sheet profit. The Supervisory Board also noted with approval the Management Board's Corporate Governance Statement. At the same meeting, the Supervisory Board approved various actions proposed by the Management Board to further optimize the financing and maturity portfolio, which in addition to renewing and extending existing financing agreements included issuing a further promissory note. Following an in-depth discussion that focused primarily on the proposals for authorizations to raise capital as well as for the election of three Supervisory Board members, the Supervisory Board passed the proposed resolutions for the Company's Annual General Meeting. In line with the Executive Committee's proposals, the Supervisory Board approved the annual bonus (short-term bonus) for fiscal year 2010 and the Management Board members' targets for calculating the short-term bonus for fiscal year 2011. In addition to the business and financial position, a further topic discussed at length was the status of plans to acquire MSCUSA and the Frefer Group in Brazil, and the financing of those acquisitions.

At the extraordinary meeting held via teleconference on April 29, 2011, the Supervisory Board dealt with the acquisition of all shares in MSCUSA, including the financing planned for that acquisition and the repayment of MSCUSA's net working capital finance, as well as the acquisition of a 70% interest in Brazilian group Frefer. Alongside the strategic considerations and those relevant to the purchase price and its financing, a particular topic of discussion with the Management Board comprised the significant findings of the due diligence exercise and the safeguarding of risks identified in the course of that exercise. The Supervisory Board devoted special attention to the arrangements agreed with the Brazilian Frefer Group's minority shareholder regarding the future management, its supervision and the mechanisms for the possible acquisition of the shares held by the minority shareholder. The Supervisory Board approved both acquisitions.

Besides the preparations for the subsequent Annual General Meeting, the discussions and voting on the rights issue from authorized capital 2010 proposed by the Management Board were the primary focus of the Supervisory Board meeting on May 20, 2011. To finance further acquisition plans, in particular, the Supervisory Board and the Executive Committee gave their approval to carry out this corporate action, which was placed successfully in mid-June 2011. The final key data, most notably the number of shares to be issued and the subscription price, were approved by the Executive Committee based on a Supervisory Board resolution delegating it the power to do so. In addition, the Group's current business and financial situation and the current status of MSCUSA's integration into Klöckner's North American organization were discussed with the Management Board at the meeting held on May 20, 2011.

The Annual General Meeting was followed by the constitutive meeting of the Company's new Supervisory Board. The Chairman and Deputy Chairman of the Supervisory Board were elected along with the members of the Executive and Audit Committees.

One focal point of the Supervisory Board meeting on September 20, 2011 consisted of the discussions regarding the appointment of and terms of contract for a further member of the Management Board. Following the substantial expansion of the Company's North American operations, and its simultaneous entry into the emerging market of Brazil by way of the acquisitions made in the second quarter of 2011, the Supervisory Board considered it appropriate to extend the Company's Management Board. It was intended that the new Management Board member would be responsible for the Group's Americas segment. William A. Partalis, for many years CEO of the Namasco Corporation and most recently responsible for all activities in North America, was selected to fill the new position. The Supervisory Board appointed Mr. Partalis as an ordinary member for the period from October 1, 2011 to December 31, 2014 on the recommendation of the Executive Committee and also approved the signing of his contractual arrangements. Changes to the Management Board's schedule of responsibilities were decided at the same time.

A further focus of the meeting was the presentation of the profitability action plan agreed between the Management Board and the Group's country organizations. The Supervisory Board satisfied itself in discussions with the Management Board that the adopted action plan can improve margins even amid severe changes in the market environment, and generally put the Company on a more profitable base. On the basis of the examination by, and recommendation of, the Audit Committee, the Supervisory Board also commissioned the auditors elected by the Annual General Meeting for fiscal year 2011. Once the Executive Committee had completed its preparatory discussions, a review was conducted in plenary session of the efficiency of the Supervisory Board's work, this time on a cursory basis following the extensive review conducted in the previous year. Following a discussion of the key criteria for assessing the efficiency of the Supervisory Board's work, no need for action was seen. The review once again emphasized the efficient and loyal cooperation within the Supervisory Board and its committees and with the Management Board. A further detailed evaluation of the Supervisory Board's work is scheduled for autumn 2012.

As well as the Klöckner & Co Group's current business and financial position and the forecasts of the Company's key performance indicators at year-end, the Supervisory Board meeting on December 15, 2011 dealt in detail with the budget planning for fiscal year 2012. The plenary Supervisory Board satisfied itself of the plausibility of, and gave its approval for, the budget presented by the Management Board. The profitability action plan and its effects on the financial statements for fiscal year 2011 were additionally discussed with the Management Board. The Supervisory Board also discussed with the Management Board the Chief Compliance Officer's annual report. The Supervisory Board satisfied itself that the Company has a compliance management system capable of promoting lawful conduct within the Company, with precautionary measures to minimize the risk of violations and the capability for prompt identification and elimination of any violations that nonetheless occur. A further item on the agenda was the Management Board's report on the status of the management review of employees at the three levels of management below the Management Board.

REPORTS FROM THE COMMITTEES

During the past year, the Executive Committee was active in its capacity as the Personnel Committee, the Nomination Committee and the Committee for Urgent Matters. Acting as the Personnel Committee, the Executive Committee dealt in particular with the appointment of a further Management Board member for the Americas segment, the service contract to be signed in that context and the necessary changes to the Management Board's schedule of responsibilities. The Executive Committee also discussed the Management Board members' annual bonus (short-term bonus) for fiscal year 2010 and drew up targets for the short-term bonus for fiscal year 2011. In each case, the Executive Committee presented proposals for resolutions to the Supervisory Board following in-depth discussion.

Acting in its capacity as the Nomination Committee at its meeting in March of the past fiscal year, the Executive Committee dealt with the nominations for election to the Supervisory Board. Three seats were up for reelection. When nominating suitable candidates for election to the Supervisory Board, the Nomination Committee observed the Rules of Procedure of the Company's Supervisory Board by taking into account the fact that the Supervisory Board should, where possible, also include members who are female, live or work primarily in a country (other than Germany) that is of particular relevance to the Company and/or are under the age of 60. Prof. Dr. Vogel and Dr. Rogowski, two of the three Supervisory Board members whose term of office ended at the close of the 2011 Annual General Meeting, had indicated their willingness to make themselves available for a further term of office. Both gentlemen have many years' experience as supervisory board members, including at other companies. First of all, it was decided that Prof. Dr. Vogel and Dr. Rogowski should again be put forward to the Annual General Meeting for election so that the Company's Supervisory Board could retain the two gentlemen's outstanding industrial expertise and wealth of experience in the interests of the Company. For the third vacant seat, it was decided to seek a new candidate. For this, the Nomination Committee engaged an external expert, drew up a list of criteria together with the expert and subsequently instructed the expert to carry out the search. Using a results matrix of the candidates that had been identified, the Nomination Committee decided to conduct more detailed interviews with a short-list of candidates. Bearing in mind the criteria set down in the Rules of Procedure, Ms. Hauke Stars emerged as the most suitable candidate. Hauke Stars is a computer scientist serving as managing director at a Swiss subsidiary of a global IT group. On the recommendation of the Executive Committee, the Supervisory Board put Ms. Stars forward to the Annual General Meeting for election as a new Supervisory Board member along with Prof. Dr. Vogel and Dr. Rogowski.

In its capacity as the Committee for Urgent Matters, the Executive Committee met only once in the past fiscal year, on May 26, 2011. On the basis of a Supervisory Board resolution delegating it the power to do so, the Executive Committee approved the amount of the increase in the Company's subscribed capital from authorized capital 2010 proposed by the Management Board and the terms and conditions of the rights issue.

Further focal points of the Executive Committee's discussions included the action plan to increase profitability presented by the Management Board in the fall of 2011 and the 2012 budget, which was presented for resolution to the plenary Supervisory Board in December.

The Audit Committee held a teleconference prior to the publication of each interim report, during which it discussed the development in the Group's business and financial position with the Chief Financial Officer based on the key performance indicators.

Regular topics of discussion at face-to-face meetings comprised risk management issues, including the findings of the Internal Audit Department, and compliance issues. On selected agenda items, the committee received a direct report from the head of the Internal Audit Department and the Chief Compliance Officer. Discussions at the March meeting focused on the Company's annual and consolidated financial statements for 2010 and the proposal put to the plenary Supervisory Board regarding the election of the auditors. The auditors reported to the committee in detail on the focal points of their audit activities as well as the material findings of their audit of the annual and consolidated financial statements for fiscal year 2010. Following the vote by the Annual General Meeting, the Audit Committee prepared for the plenary Supervisory Board to commission the auditors and notably examined the fee offered and the matter of establishing further focal points of the auditors' activities.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

Following in-depth discussion, the Supervisory and Management Boards issued the updated Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG) on December 15, 2011. This is permanently available to shareholders on the Company's website and states that Klöckner & Co SE complies with the recommendations of the German Corporate Governance Code, as amended, with a small number of exceptions, for which reasons are given. Further information on corporate governance can be found on pages 17 ff. of the 2011 Annual Report.

The Management and Supervisory Boards monitor changes to the recommendations and suggestions of the German Corporate Governance Code and their implementation in a timely manner. The Supervisory Board addressed the issue of diversity in the composition of the Supervisory Board in the year under review, among other things by nominating Ms. Hauke Stars when suggesting to the Annual General Meeting candidates for election to the Supervisory Board.

AUDIT OF THE 2011 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Klöckner & Co SE's annual financial statements for fiscal year 2011, the consolidated financial statements and the Combined Management Report were audited by, and received an unqualified audit opinion from, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditors elected by the Annual General Meeting and commissioned by the Supervisory Board. Klöckner & Co SE's annual financial statements and the Combined Management Report for Klöckner & Co SE and the Group were prepared in accordance with German commercial law. Pursuant to Section 315a of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The audit reports and further financial statement documents were available to all members of the Supervisory Board in good time. The documents were dealt with in detail by both the Audit Committee and the plenary Supervisory Board in the presence of the auditors.

At the meeting held on March 6, 2012 to approve the annual financial statements, the Chairman of the Audit Committee reported to the Supervisory Board on the attention given to the annual and consolidated financial statements by the Audit Committee. The auditors took part in both the Audit Committee's discussions and the Supervisory Board meeting, reported on the material findings of their audit and answered questions. With regard to the risk detection system, the auditors stated that the Management Board had taken the measures required by Section 91 (2) AktG, in particular to establish a monitoring system in an appropriate manner, and that the monitoring system was capable of promptly identifying developments that threaten the Company's ability to continue as a going concern. The Supervisory Board received and approved the auditors' findings and the explanations provided by the Chairman of the Audit Committee.

On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the Combined Management Report, and in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on March 6, 2012, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted. The Supervisory Board discussed with the Management Board the latter's proposal on the appropriation of the balance sheet profit and, after its own examination taking into account the Company's results of operations and cash flows, endorsed the Management Board's proposal to transfer the balance sheet profit to other revenue reserves.

PERSONNEL CHANGES

The term of office of Prof. Dr. Dieter H. Vogel, Dr. Michael Rogowski and Frank H. Lakerveld as members of the Supervisory Board ended at the close of the Annual General Meeting on May 20, 2011. While the first two gentlemen were nominated for a further term of office, Frank H. Lakerveld was not available to stand again. The Supervisory Board thanked Mr. Lakerveld for the strong working relationship and his loyal cooperation. In addition to the re-nominated Prof. Dr. Vogel and Dr. Rogowski, the Annual General Meeting on May 20, 2011 elected Hauke Stars as the first female member of the Company's Supervisory Board. As already reported, the Management Board was expanded by the appointment of William A. Partalis with effect from October 1, 2011.

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

Duisburg, March 6, 2012

The Supervisory Board

Prof. Dr. Dieter H. Vogel
Chairman

GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report for Fiscal Year 2011

1. OVERVIEW

- Turnover and sales rise sharply year on year, by 25.4% to 6.7 million tons and 36.5% to €7.1 billion respectively, primarily on the back of acquisitions
- Slightly positive net income of €10 million despite the economic downturn in the second half of the year
- "Klöckner & Co 2020" strategy systematically implemented with two significant acquisitions made in the first half of the year
- Early response with an action plan to the economic slowdown in the second half of the year
- Successful capital increase with net proceeds €516 million to leverage further growth options
- Turnover, sales and earnings expected to rise in 2012 despite uncertainty

We increased turnover and sales significantly in fiscal 2011 thanks primarily to the acquisitions of Macsteel Service Centers USA (MSCUSA) and Frefer. Turnover was up by 25.4% from 5.3 million tons to 6.7 million tons. Sales grew at an even faster pace, climbing from €5.2 billion in fiscal 2010 to €7.1 billion (up 36.5%). Klöckner & Co therefore fully made up for the shortfalls in turnover and sales from 2009 and for the first time lifted sales above €7 billion.

Our earnings performance during the year was non-uniform. While we were able to post a year-on-year rise in first-quarter operating income (EBITDA), earnings momentum then slowed significantly in subsequent quarters due to the cooling economy. Full-year EBITDA was 8.9% down on the prior-year figure of €238 million at €217 million. Also burdened by higher depreciation, amortization and interest charges as a result of acquisitions, net income likewise came in well below the prior-year figure of €80 million at €10 million.

Despite the increased need for funding due primarily to acquisitions, net financial debt at the end of 2011 was up only moderately from €137 million to €471 million thanks to the net proceeds of €516 million from the capital increase. Gearing therefore remained at a low level of 29%. We once again increased our financial headroom and extended the term of central financing instruments to around three years. The Group therefore has access to credit facilities of some €2.7 billion in total, of which €1 billion may be used for acquisitions.

In the first half of the year in particular, we systematically implemented our "Klöckner & Co 2020" strategy, acquiring MSCUSA and Frefer in Brazil and opening the first service center in China. In the second half of the year, the focus was on action to boost profitability in light of the cooling economy. In this context, there are plans not only for cuts in overheads, but also for structural measures at the country organizations, including the sale of non-core activities.

In 2012, we expect turnover and sales to rise – also due in part to the contributions made by the acquisitions – although the rate of increase is likely to vary considerably from region to region. For the Europe segment, we currently anticipate a decline in economic output and a commensurately negative impact on steel consumption, while for the Americas segment and the USA in particular, we expect further robust growth in gross domestic product, leading to a mid-single-digit percentage increase in steel turnover.

On the earnings front, too, we expect a significant improvement notably in the Americas segment, while the action to boost profitability mainly in Europe is aimed at cushioning against the negative impact of a decline in turnover. Overall, we expect operating income to rise noticeably in 2012.

2. BUSINESS AND ECONOMIC CONDITIONS

2.1 GROUP STRUCTURE

Klöckner & Co SE is the parent and the ultimate holding company of the Klöckner & Co Group. In accordance with internal lines of responsibility and management reporting structures, the activities of the two acquisitions MSCUSA and Frefer were assigned to the former North America segment, which was renamed the Americas segment with effect from the second quarter. The parent controls the management companies of the Europe and Americas segments. In the past reporting period, several holding companies were merged on and into Klöckner & Co SE by way of a multi-step merger process aimed at simplifying the corporate structure. Klöckner & Co SE primarily follows the provisions of the European Company Regulation, its Articles of Association and the German SE Implementation Act (SEAG). It is also subject, in particular, to the provisions of the German Stock Corporations Act.

Following the capital increase, Klöckner & Co SE's subscribed capital totals €249.4 million, composed of 99.75 million no-par-value registered shares carrying full voting rights. Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market since the initial public offering at the end of June 2006 and have been a component of Deutsche Börse's MDAX® index since January 2007.

BUSINESS ACTIVITIES/BUSINESS MODEL

Klöckner & Co is the largest producer-independent, stockholding steel and metal distributor and one of the leading steel service center companies operating in Europe and the Americas. We act as a connecting link between producers and consumers. As we are not tied to any particular steel producer, our customers benefit from our centrally coordinated procurement activities and wide range of national and international sourcing options spanning around 70 main suppliers worldwide. Our key competitive factors are economies of scale in global procurement and the customer access provided by an extensive logistics and distribution network. Our network spans some twenty countries and provides our customers with local access to around 290 distribution and service locations. Our products are constantly available, largely eliminating the need for customers to hold their own inventories. Our customer base comprises more than 170,000 mostly small to medium-sized steel and metal consumers, primarily from the construction as well as the machinery and mechanical engineering industries. We also supply intermediate products for the automotive, shipbuilding and consumer goods industries. We offer our customers an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual deliveries and 24-hour service.

Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented into wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and 1,200 in the more consolidated North American market. In Europe, our market share in steel and metal distribution is approximately 7%. In the USA, the acquisition of MSCUSA enabled Klöckner & Co to double its market share to around 3% and significantly increase its share of the market in the flat steel product segment in particular. By doing so, we became one of the top three distributors and service centers in the USA, too, at the same time establishing ourselves as the second-largest supplier in the carbon steel market.

2.2 CORPORATE GOVERNANCE STATEMENT

Klöckner & Co SE's management and supervisory bodies are guided by the principles of responsible, good corporate governance. This Corporate Governance Statement includes a corporate governance report as provided by the German Corporate Governance Code (DCGK – Deutscher Corporate Governance Kodex).

Good corporate governance denotes responsible business management and control geared to long-term value creation. The Management Board and Supervisory Board of Klöckner & Co SE consider it their duty to practice responsible corporate governance with a long-term view to ensuring the Company's continuation as a going concern and sustained growth in value.

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Klöckner & Co SE once again devoted considerable attention in the year under review to meeting the recommendations and suggestions of the German Corporate Governance Code, as most recently amended on May 26, 2010. In applying the recommendations and suggestions of the German Corporate Governance Code, as amended, as our fundamental guidance, we advance the Code's purpose of promoting the confidence of international and national investors, customers, employees and the general public in the management and supervision of German listed companies.

The most recent Declaration of Conformity in accordance with Section 161 of the German Stock Corporations Act (AktG) was resolved by the Management Board and the Supervisory Board and made permanently available on the Company's website on December 15, 2011. The Declaration of Conformity states four points in which the Company departs, with reason, from recommendations contained in the German Corporate Governance Code. All past declarations of conformity are permanently available on the Company's website.

GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

Klöckner & Co SE is a company under European law whose Articles of Association stipulate a two-tier management system as for a German stock corporation (Aktiengesellschaft). The two-tier system is characterized by strict separation, with no shared membership, between the executive decision-making body (the Management Board) and the advisory and supervisory body (the Supervisory Board).

The Management Board and the Supervisory Board work together closely to further the Company's interests. Intensive ongoing dialogue between the two bodies provides a sound basis for efficient corporate management. Their joint objective is to ensure the Company's continuation as a going concern and its sustained profitable growth.

MANAGEMENT BOARD

The Management Board of Klöckner & Co SE has full responsibility for management of the Group and the Group holding company. This management responsibility, which the Management Board discharges as a collegiate body, includes corporate goal setting, Group strategy, Group management and control, corporate planning and Group financing.

Overall responsibility for management is shared by the members of the Management Board, who work cooperatively and keep each other informed of important measures and developments in their portfolios. They develop corporate strategy and see to its implementation in consultation with the Supervisory Board. Notwithstanding the overall responsibility of all Management Board members, the individual members each manage their allotted portfolios on their own responsibility within the framework of Management Board resolutions.

The Management Board of Klöckner & Co SE currently consists of three individuals who are appointed and replaced by the Supervisory Board in accordance with the European Companies Regulation, the German Stock Corporations Act (AktG) and the Articles of Association: Chairman of the Management Board Gisbert Rühl, who performs the responsibilities of both Chief Executive Officer (CEO) and Chief Financial Officer (CFO), Ulrich Becker, who is in charge of the operating business in Europe and Asia, and William A. Partalis, who is responsible for the operating business in North and South America.

Mr. Partalis was appointed to the Management Board effective October 1, 2011 following the substantial expansion of the North American business and the Group's simultaneous entry into the emerging Brazilian market.

The work of the Management Board is governed among other things by detailed Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure state the responsibilities in each Management Board portfolio, matters that are reserved for the full Management Board, decision-making procedures as well as the rights and obligations of the Chairman of the Management Board. They also contain rules on reporting to the Supervisory Board and a list of transactions for which the Management Board requires Supervisory Board approval. These include material, high-risk or unusual transactions and decisions of a fundamental nature.

The Rules of Procedure require the Management Board to hold regular meetings at least once a month, although in normal circumstances the Management Board meets every two weeks. At such meetings, the Management Board coordinates its work and makes joint decisions. In addition to 21 meetings held in the year under review, members of the Management Board on numerous occasions held coordinating discussions and met with the management teams of the major country organizations.

In view of the ongoing volatility of the steel industry operating environment and its impacts on the Group's business, the Management Board continued to maintain a heightened level of monitoring and consultation with country organizations during 2011. This included fortnightly teleconferences and for the most part monthly meetings with the management teams of major country organizations.

SUPERVISORY BOARD AND COMMITTEES

The Supervisory Board of Klöckner & Co SE advises the Management Board and oversees the latter's management of the Company. The Supervisory Board consists of six members, all of whom represent the shareholders and are elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel; his deputy is Dr. Michael Rogowski. Both have extensive experience in managing and supervising international corporations and, like all members of the Supervisory Board, possess the high level of professional expertise required to carry out their duties. All Supervisory Board members are independent within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the German Corporate Governance Code.

The Management Board provides regular, timely and comprehensive written and verbal reporting to the Supervisory Board. Written reporting centers around the monthly Board Report. This provides information on the financial position, cash flows and results of operations of the Group as well as of the Europe and Americas operating segments. The report also covers capital market developments, economic indicators relevant to Klöckner & Co, industry rankings, and trends in steel and metal prices. Items on the agenda at all Supervisory Board meetings include the overall economic situation, the industry situation, the business performance of Klöckner & Co and its operating segments, and the performance of the Klöckner & Co share price relative to industry peers.

In accordance with the Supervisory Board Rules of Procedure, resolutions are adopted by simple majority unless otherwise stipulated by law or by the Articles of Association. As in past years, all resolutions were adopted unanimously in the year under review, and all members of the Supervisory Board voted on all resolutions.

The plenary work of the Supervisory Board is supplemented by the activities of a three-member Executive Committee and a three-member Audit Committee. The Chairman of the Executive Committee is the Chairman of the Supervisory Board, Prof. Dr. Dieter H. Vogel. The remaining members of the Executive Committee are Dr. Michael Rogowski and Dr. Hans-Georg Vater. In accordance with the Rules of Procedure, the Executive Committee also acts as Personnel Committee for the purpose of preparing staffing decisions at Executive Board level. In addition, the Executive Committee acts, with decision-making power, as a Committee for Urgent Matters. The Executive Committee further acts as a Nomination Committee. In this capacity, it proposes suitable candidates for the plenary Supervisory Board to nominate for election at the Annual General Meeting. The Supervisory Board's Rules of Procedure stipulate that, alongside factors qualifying a potential candidate such as management experience and industry knowledge, fundamental consideration must also be given to diversity in the composition of the Supervisory Board. It is therefore taken into account in nomination that the Supervisory Board should, where possible, also include members who are female, who are under the age of 60 and/or who live or work in a country other than Germany that is of particular relevance to the Company. Also to be taken into account in nomination is that the Supervisory Board should, if possible, have at least one financial expert to satisfy the requirements of Section 100 (5) of the German Stock Corporations Act (AktG). The current financial expert is Dr. Hans-Georg Vater.

The plenary Supervisory Board holds at least four, and the Executive Committee holds at least three, regular meetings a year. The two bodies also hold meetings on an ad-hoc basis as needed. The Supervisory Board held five meetings in the year under review, the Executive Committee four meetings and the Audit Committee six meetings. The committees' chairmen provide the plenary Supervisory Board with regular and comprehensive reporting on the agendas and outcomes of committee meetings. The Management Board provides relevant documentation for all meetings of the Supervisory Board and its committees.

The Supervisory Board evaluates and reviews the efficiency of its own activities once a year. Additional committees have not been set up in view of the relatively small number of Supervisory Board members and the resulting high level of efficiency in plenary work. The Supervisory Board does not consider any major change to be necessary in the preparation, running and agendas of meetings. It considers the division of its work to be well balanced between strategic issues, advisory and supervisory activities. The Supervisory Board itself reports annually in detail on its work and the main focus of its activities in each fiscal year in its report to the Annual General Meeting (see p. 8 ff).

The Audit Committee primarily reviews the financial statements and prepares them for approval, as well as supervising accounting, risk management, internal audits, financial statement audits and compliance. The Audit Committee is also entrusted by the Supervisory Board with discussing half-year and quarterly financial reports with the Management Board ahead of publication. The Chairman of the Audit Committee, Dr. Vater, is an independent financial expert within the meaning of Section 100 (5) of the German Stock Corporations Act (AktG) and Section 5.3.2 of the German Corporate Governance Code and, based on his many years of service as the Chief Financial Officer of a listed major international construction group, has specific expertise and experience in applying financial reporting principles and internal control procedures. The Audit Committee meets at least six times a year, including three teleconferences held to discuss the interim reports. Alongside Dr. Vater, the Committee Chairman, the other members of the Audit Committee are Chairman of the Supervisory Board Prof. Dr. Vogel and his deputy Dr. Rogowski. The membership of the Audit Committee and the Executive Committee is thus identical.

ANNUAL GENERAL MEETING

The shareholders of Klöckner & Co SE exercise their rights, including their voting rights, at the Annual General Meeting (AGM).

The most recent Annual General Meeting took place in Düsseldorf on May 20, 2011. The next will likewise be held in Düsseldorf, on May 25, 2012. The Management Board and Supervisory Board have provided that the shareholders receive all support and information in accordance with the law, the Articles of Association and the recommendations and suggestions of the German Corporate Governance Code. We publish the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on our website. Since 2010, the opening of the Annual General Meeting by the Chairman of the Meeting, the CEO's speech and the report of the Supervisory Board are broadcast live online, and after the Annual General Meeting are made available in recorded form.

REMUNERATION REPORT

The full Remuneration Report covering the compensation system and compensation for the Management Board and Supervisory Board in 2011 is included as Section 7 in this Combined Management Report.

DIRECTORS' DEALINGS

Under Section 15a of the German Securities Trading Act (WpHG), members of the Management Board and Supervisory Board as well as closely associated individuals and legal entities are required by law to disclose to Klöckner & Co SE and to the German Federal Financial Supervisory Authority (BaFin) any significant purchases or disposals of shares or related financial instruments, including derivatives. Such disclosures are published immediately by the Company and are provided for viewing on the Company website. There were 13 such transactions between January 1, 2011 and February 24, 2012. These related to shares in Klöckner & Co and subscription rights under the capital increase.

The table below summarizes the main information from disclosures during the period.

Date	Name	Position	Instrument	Purchase/ Sale	Quantity	Price per unit	Total price
05/27/2011	Ulrich Becker	Management Board	Shares	Purchase	3,395	€15.85	€53,810.75
05/30/2011	Dr. Jochen Melchior	Supervisory Board	Shares	Purchase	1,429	€15.85	€22,649.65
06/03/2011	Gisbert Rühl	Management Board	Shares	Purchase	37,500	€15.85	€594,375.00
06/03/2011	Gisbert Rühl	Management Board	Rights	Sale	30,000	€2.07	€62,100.00
06/03/2011	Gisbert Rühl	Management Board	Rights	Sale	7,500	€1.96	€14,700.00
06/09/2011	Dr. Hans-Georg Vater	Supervisory Board	Shares	Purchase	1,429	€15.85	€22,649.65
08/11/2011	Gisbert Rühl	Management Board	Shares	Purchase	5,000	€10.05	€50,250.00
08/11/2011	Gisbert Rühl	Management Board	Shares	Purchase	5,000	€10.08	€50,424.50
08/11/2011	Ulrich Becker	Management Board	Shares	Purchase	10,000	€10.19	€101,931.90
08/11/2011	Cassiopeia GmbH[1)]	Supervisory Board	Shares	Purchase	10,000	€10.05	€100,500.00
08/19/2011	Gisbert Rühl	Management Board	Shares	Purchase	2,500	€9.61	€24,024.58
09/09/2011	Gisbert Rühl	Management Board	Shares	Purchase	2,500	€9.90	€24,750.00
09/26/2011	Robert J. Koehler	Supervisory Board	Shares	Purchase	2,000	€8.90	€17,800.00

[1)] Closely associated with Prof. Dr. Dieter H. Vogel within the meaning of the second sentence of Section 15a (1) of the German Securities Trading Act (WpHG)

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Financial reporting by the Klöckner & Co Group is performed in accordance with International Financial Reporting Standards (IFRS). The financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB). For reasons of simplicity and clarity, the Management Report takes the form of a combined management report covering the separate and consolidated financial statements. By law, the auditor of the separate and consolidated financial statements is elected by the Annual General Meeting. The audit mandate for the separate and consolidated financial statements is prepared by the Audit Committee and then discussed and issued by the Supervisory Board. The Management Board provides a detailed report on opportunity and risk management in the Klöckner & Co Group as Section 8 in this Combined Management Report.

TRANSPARENCY

Reporting on the Group's situation and on significant events relating to the Group is provided in the Annual Report containing the financial statements, the Management Report as well as other statutory and voluntary disclosures. Other elements of reporting include the half-year financial report in August, the first-quarter interim report in May and the third-quarter interim report in November of each year. A financial statements press conference as well as an analysts' and investors' conference are held on publication of the Annual Report. We hold teleconferences for journalists, analysts and investors on publication of quarterly and half-year reports. We also organize events and numerous consultations with financial analysts and investors in Germany and internationally, as well as with journalists.

We use the Internet as our main channel of communication for providing shareholders and the public with equal access to timely, comprehensive information. Roadshow presentations for financial analysts and investors are made available to the general public on our website soon after each roadshow. We also publish press releases as needed.

Regular dates and events relating to Klöckner & Co are listed in the financial calendar on our website. Specific information likely to have significant influence on the Klöckner & Co share price is additionally published in ad-hoc announcements as required by the German Securities Trading Act (WpHG). Such matters are governed by a Group policy and an internal committee of experts who obtain outside advice (particularly on legal issues) as needed.

FUNDAMENTAL CORPORATE PRACTICES AND COMPLIANCE

Compliance – in the sense of measures to ensure adherence to statutory requirements and internal company policies, and observance of those measures by Group companies, their decision-making bodies and workforces – is a fundamental management and supervisory responsibility at Klöckner & Co. A compliance program centered on antitrust law and anti-corruption policies was introduced immediately following the IPO and is subject to regular review and refinement. The compliance program has since grown very substantially and has been assigned more personnel. Within our compliance program, we have adopted extensive measures to ensure adherence to anti-corruption and antitrust rules and regulations as well as to Group policies based on them.

The Management Board of Klöckner & Co SE has unequivocally expressed its non-acceptance of antitrust violations and corruption in "Tone from the top" on the Klöckner & Co website. Anticompetitive arrangements and corruption are strictly rejected. In the event of any antitrust violation, Klöckner & Co will take action in labor law against the employees involved and will hold them personally liable for any loss (such as fines) incurred. Antitrust violations and corruption are not tolerated in any way and result in sanctions against the employees concerned. Employees are each called upon to work actively toward implementing the compliance program in their areas of responsibility.

The Code of Conduct published on the Company website sets out basic principles and rules for our corporate and social responsibility. The Code of Conduct is supplemented by a range of Group policies and publications explaining and illustrating the relevant laws. Members of the Management Board and all managerial personnel lead by example and have heightened responsibility for ensuring that the Code of Conduct is put into practice.

A compliance system has been established to manage and implement the program and continue its development. As part of this system, full-time compliance officers hold regular training sessions in which employees learn about the relevant law and internal policies, and serve as points of contact for individual questions as they arise. Classroom training is complemented by a Group-wide interactive e-learning program focusing on antitrust law and corruption, and completed by some 2,100 employees so far. Another Group-wide e-learning program on the Code of Conduct follows in 2012 and is to be completed by the entire workforce.

As an additional compliance element, Klöckner & Co has launched a Compliance Helpdesk for whistleblowers. Accessible from the Klöckner & Co website, the helpdesk is available for Group employees and outsiders to report potential compliance violations at Group companies. The helpdesk can be accessed from anywhere in the world and is free of charge.

Other compliance measures relate to areas such as capital market laws and relevant Group policies. Statutory provisions prohibiting inside are supplemented with a Group insider-trading policy governing transactions in Company securities by board members and employees. The inside policy also ensures transparency concerning insider-trading information. A long-standing committee on ad-hoc communication, made up of representatives from various functions within the Company, assesses matters that potentially come under ad-hoc reporting requirements to ensure that any inside information is dealt with in accordance with the law. Individuals who have legitimate access to inside information as part of their work are listed in an insider list.

DECLARATION OF CONFORMITY DATED DECEMBER 15, 2011

The 2011 Declaration of Conformity is reprinted below and is also available from the Klöckner & Co SE website. Past Declarations of Conformity are also available on the website.

2011 JOINT DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE BY THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF KLÖCKNER & CO SE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

The recommendations of the German Corporate Governance Code, as amended, have been and continue to be complied with apart from the following exceptions:

SECTION 3.8 OF THE CODE (DIRECTORS' AND OFFICERS' (D&O) LIABILITY INSURANCE, DEDUCTIBLE FOR BOARD MEMBERS)

The D&O policy taken out by the Company for its Supervisory Board members does not provide for a deductible. The Management Board and the Supervisory Board do not expect a deductible to affect the quality of the Supervisory Board's work.

SECTION 4.2.3 SENTENCE 8 OF THE CODE (STOCK OPTIONS AND SIMILAR ARRANGEMENTS)

The virtual stock option program (phantom stocks) for the Management Board does not make reference to comparison parameters because in Europe there are no suitable comparable companies in the steel distribution sector from which such comparison parameters could be derived.

SECTION 4.2.3 SENTENCE 13 OF THE CODE (PAYMENTS PROMISED IN THE EVENT OF PREMATURE TERMINATION OF MANAGEMENT BOARD MEMBER'S CONTRACT DUE TO A CHANGE OF CONTROL)

The payments promised in the event of premature termination of the Management Board members' contracts due to a change of control have not been, and are not formally, limited to 150% of the severance payment cap. If a board member ceases his Management Board activity due to a change of control, the remaining outstanding (maximum of three) annual tranches of the virtual stock option program will be allocated to him. As a precautionary measure only and in view of the uncertainty regarding treatment and valuation of (virtual) stock options in applying this recommendation, the Company assumes that this compensation component may cause the threshold of 150% of the severance payment cap to be exceeded.

SECTION 5.4.5 OF THE CODE (NUMBER OF SUPERVISORY BOARD MANDATES IN NON-GROUP COMPANIES)

One member of the Supervisory Board of the Company, who is a member of the Management Board of a listed company, is, besides the office at Klöckner & Co SE, also member of two other Supervisory Boards of non-group listed companies as well as of one company with similar requirements. The recommended number of in total three such mandates thus has been and is exceeded. However, we do not believe that this detracts from the ability of the individual concerned to diligently perform his duties as a member of the Company's Supervisory Board.

Duisburg, December 15, 2011

The Supervisory Board The Management Board

SUGGESTIONS CONTAINED IN THE GERMAN CORPORATE GOVERNANCE CODE

In general, the Management Board and Supervisory Board treat suggestions in the German Corporate Governance Code no differently from recommendations. The suggestions given in the Code have thus largely been followed in the past and continue to be followed. In one departure from the suggestions, the Articles of Association of Klöckner & Co SE make no provision for performance-related compensation for members of the Supervisory Board to include components based on the long-term performance of the enterprise (fifth sentence of Section 5.4.6 of the German Corporate Governance Code).

2.3 COMPANY STRATEGY

"KLÖCKNER & CO 2020" GROWTH STRATEGY

Our long-term growth strategy, "Klöckner & Co 2020", was presented in October 2010 in response to the changes in the overall environment brought about by the financial crisis of 2008 and has since been pursued systematically. It sets the Group's strategic direction for the current decade, putting it on course to become a global distributor and service partner in steel and metals. Alongside further growth, we will continue to optimize our existing portfolio by discontinuing or disposing of unprofitable lines of business. We will do so based on the profitability action plan that was launched in September 2011 in response to the further deteriorating economic outlook and as a complement to our long-term strategy, "Klöckner & Co 2020".

The "Klöckner & Co 2020" strategy is built on the four pillars of external growth, organic growth, business optimization, and personnel and management development:

1. External growth: In our slower-growing core market of Europe, our focus is on acquiring companies with higher-margin products, services and customer segments, while at the same time reducing our reliance on the construction industry. In North America, we have significantly expanded our service center business – and therefore our market share – by acquiring MSCUSA. The acquisition of Frefer in Brazil and the opening of a service center in China have paved the way for further growth in emerging markets, which in the coming years is yet to be boosted further. A more balanced geographical presence means we are less vulnerable to dynamics of regional economic cycles and thus provides a sound basis for future growth.

2. Organic growth: The overall environment in our core markets of Europe and North America has undergone lasting change since the escalation of the global financial crisis. While we were previously selling into a growing market, we now find ourselves competing fiercely for a smaller market volume. We must therefore continue to build customer loyalty and increase customer value by providing higher-value products and prefabrication services.

3. Business optimization: For a global distributor such as Klöckner & Co, optimized, harmonized processes are a critical success factor and a key feature differentiator from our competitors. We will therefore continue to give high priority to fine-tuning procurement, the logistics network and IT. New internal programs have been drawn up to boost the effectiveness and efficiency of the sales organization by clearly defined means and are being implemented to a strict timetable at the country organizations.

4. Personnel and management development: For us as a service provider, personnel and management development is key to our success in realizing our growth ambitions. We are aware that access to technical and managerial talent is becoming one of the main hurdles to business success. In an initial step in 2011, we placed the emphasis on internationally coordinated HR activities by introducing a Group-wide management competency model and management development interviews.

Through these four thrusts, we intend to develop Klöckner & Co into the first global multi metal distributor. Our aim is to create an outstanding company, which, in terms of size, global presence, growth, processes and systems, and management and workforce, is a global leader in steel and metal distribution.

PROFITABILITY ACTION PLAN

After signs of renewed economic slowdown multiplied over the course of the third quarter of 2011, we immediately initiated a comprehensive action plan, to which we continue to add the finer details. Alongside cuts in administration costs and sales overheads, which are to be achieved partly by reducing headcount by a total of 6%, the plan centers on structural changes in the country organizations, including the discontinuation of insufficiently profitable business activities. Our aim in implementing the plan is to lift the EBITDA margin on an annualized basis by around 1% and operating income by an annual amount in the mid to higher double-digit millions of euros. The full effect of the action plan will be seen in 2013. The total once-only expenditure required to achieve this is expected to be in the low double-digit millions of euros and will be met in full out of disposal proceeds.

2.4 MACROECONOMIC CONDITIONS

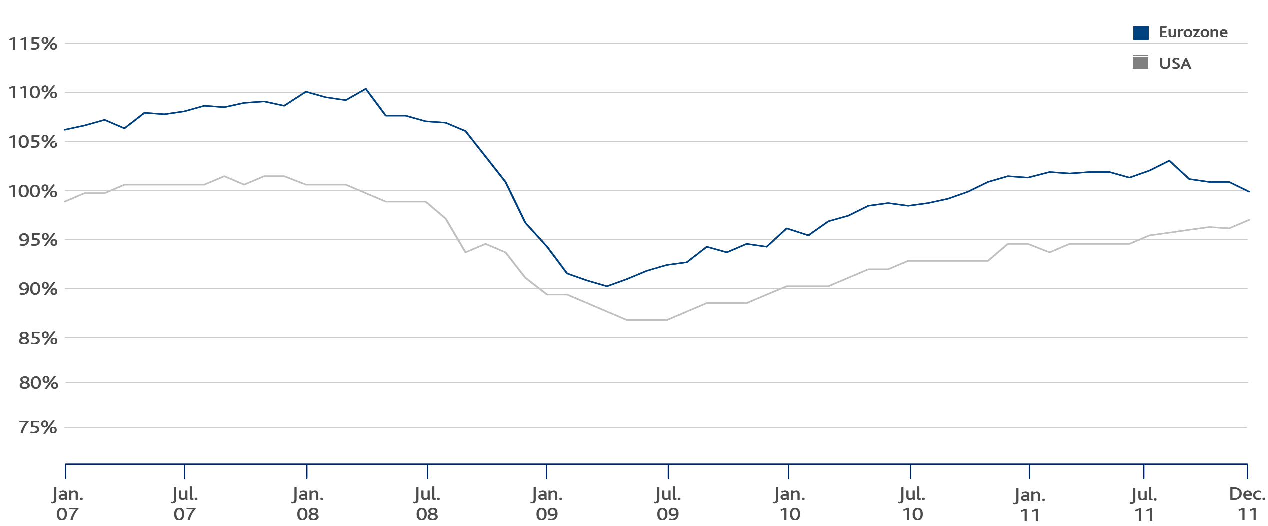
After a first quarter marked by strong economic performance, expectations progressively took a less positive turn during the past fiscal year. According to the International Monetary Fund (IMF), the global economy is again in a precarious position. Leading economic research institutes repeatedly revised their estimates sharply downward over the course of the year. The further worsening of the sovereign debt crisis – especially in the peripheral countries of the eurozone – and the resulting uncertainties are factors contributing continually to slowing growth in the Western industrialized nations. Investors again lost confidence in the financial markets. Rating agencies reacted to this turmoil with a string of downgrades of those economies affected. With more expensive refinancing, the countries in question are increasingly being forced to implement fiscal consolidation measures that will affect the real economy. In addition, banks, particularly those in the peripheral states, will be lending more restrictively so that they can fulfill stricter equity requirements. Against this background, most research institutes are currently expecting at least a mild recession in Europe in 2012.

According to IMF estimates, the gross domestic product (GDP) rose by 3.8% worldwide in 2011 after growing 5.2% in the prior year. The global economic recovery is proceeding at two different speeds, as in 2010. The established industrialized countries saw their economies grow only by a restrained 1.6% in 2011, whereas this figure was 3.2% the year before. In the United States, growth was 1.8% after 3.0% in the previous year. The eurozone expanded by only 1.6%, down from 1.9% in the prior year.

In 2011, the emerging economies grew by 6.2%, down from the previous year's 7.3%, according to IMF estimates. China's GDP increased 9.2% (2010: 10.4%), whereas Brazil's year-on-year growth was muted, at 2.9% (2010: 7.5%). In the same way as with macroeconomic developments, regional differences were evident in industrial production trends. Production in the eurozone stagnated (up 0.1%), while the United States saw production grow by around 3%. China in turn was again able to greatly boost production, this time by 12.8%. Despite positive GDP growth, Brazil's production level was down 1.2% from the previous year's figure due to a steep rise in imports.

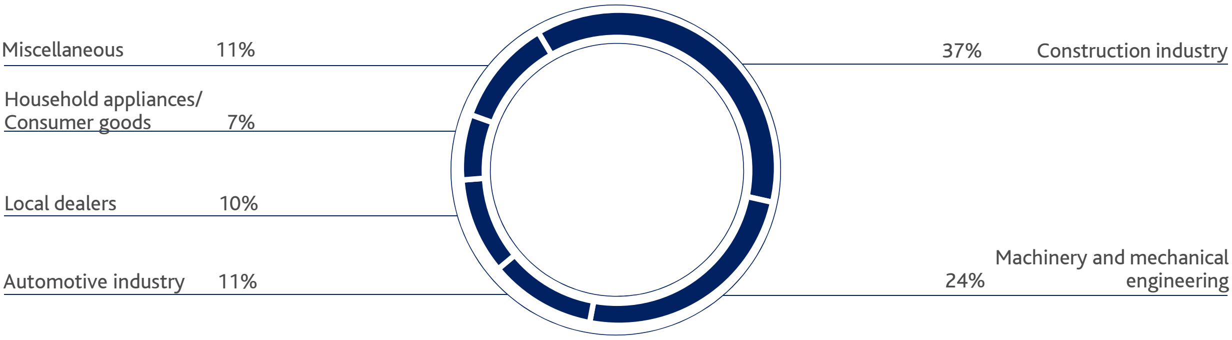
In 2012, the IMF anticipates global economic expansion of 3.3%, but this will be driven mainly by the continued strong growth in the emerging economies. China and Brazil, the growth markets relevant to Klöckner & Co, are thus expected to grow by 8.2% and 3.0%, respectively. The United States economy is still forecasted to expand by 1.8%, whereas the eurozone's economic output is anticipated to shrink by 0.5% due to projected weak performance in the first half-year.

Development of industrial production ***in %***



2.5 SECTOR ENVIRONMENT

Customer sectors of Klöckner & Co SE (sales)



The share of sales attributable to the construction industry in the past fiscal year was 37%, and therefore around 2% below the prior-year figure in line with our strategic targets. The machinery and mechanical engineering sector's share was up slightly to 24%, making this the second-largest customer sector ahead of the automotive industry, whose share also increased somewhat to 11%.

CONSTRUCTION INDUSTRY

After a strong first quarter, thanks to weather conditions, construction activity slowed down in Europe during the course of the year. An estimate by industry association Euroconstruct indicates that construction activity in Europe declined by 0.6% in 2011. In addition, the association believes that the impact of the public debt crisis, which escalated in 2011, will not be felt in its entirety in the construction industry until 2012. Especially in heavy construction, which is heavily dependent on public-sector spending, growth is expected to remain sluggish. However, it seems likely that the low point will be reached with a stabilization in the construction industry (–0.3%) in 2012. From 2013 onward, construction activities in Europe are projected to pick up again, notably in building construction. In residential housing construction, the focus will be on building renovation due to factors including stepped-up climate protection measures. A north-south divide is evident in commercial construction, a segment sensitive to economic cycles. Whereas in northern Europe solid increases are forecast, the commercial segment has nearly ground to a halt in southern Europe.

US construction industry statistics show that sales declined by 2.0% in the past fiscal year. Due to expiring US government economic stimulus programs, the volume of public-sector orders fell especially sharply by 6.5%. In contrast, the commercial sector important to Klöckner & Co saw growth of 2.4%. Further growth in commercial construction is also expected in the current fiscal year for reasons including the availability of additional funds for infrastructure investments. No positive trend is currently discernible in residential housing construction, but this segment is not a priority for Klöckner & Co in any case because of its low requirement for steel.

In the emerging economies China, India and Brazil, this sector grew more sharply again in 2011. However, the pace of this trend, although at a high level, appears to be weakening in 2012.

MACHINERY AND MECHANICAL ENGINEERING

A further pronounced upswing was experienced by the machinery and mechanical engineering sector, particularly in Germany, in 2011. According to the German Engineering Federation industry association (VDMA), production in the machinery and mechanical engineering sector was up 12%, although growth slowed over the course of the year. German manufacturers of agricultural machinery and harvesters, equipment for steelworks and rolling mills, and machinery for steel processing and tool making experienced strong demand. In contrast, machinery orders for the printing and paper industries and wood processing took a downturn. Demand within Europe remained relatively stable on the whole, despite the debt crisis.

At the end of February 2012, VDMA revised its forecast of 4% growth for the current fiscal year and currently anticipates stagnation in the machinery and mechanical engineering sector in Germany.

In the United States, however, the momentum in the machinery and mechanical engineering sector is expected to continue, especially in the agricultural machinery, oil and gas industry equipment, and construction equipment segments.

AUTOMOTIVE INDUSTRY

The global automotive industry was in robust health with growth of 6% in 2011, although the regional picture varied. While the United States and emerging markets such as China and India displayed double-digit growth rates, turnover in the European market fell slightly by 1.4% according to the German Association of the Automotive Industry (VDA). In the past year, German automakers were able to capture additional market share both within, and outside of, Europe and do business successfully in an overall environment marked by insecurity.

In 2012, VDA expects the European automotive market to stabilize at the prior-year level as long as performance is not negatively impacted by additional turmoil on the markets.

The US market is recovering noticeably. For the year as a whole, turnover in the Unites States rose by 10.3% to 12.8 million vehicles, although this figure is still well below that of record years. The strained European market could put downward pressure on the US automobile industry in 2012 because currently around 20% of the vehicles produced are exported to Europe. In 2012, manufacturers and industry associations forecast growth of approximately 5% for the US automotive market.

In China, the auto market is still relatively strong although it lost some momentum in 2011, with growth sliding to 8.4% from 34% in the prior year. This development is primarily the result of the expiration of government incentives for fuel-efficient vehicles. Expectations for growth in the Chinese automotive market in 2012 lack uniformity. Whereas Chinese groups such as the National Passenger Car Information Exchange Association believe the auto market will stagnate and might even shrink, VDA projects solid growth of 8% in 2012.

DEMAND FOR STEEL

In Europe, turnover at the distribution level increased by around 7% overall and by some 4% in the market relevant to Klöckner & Co, according to DISMET (Study Group of Distributors of Steel, Tubes and Metals). The flat steel-intense service center business posted growth of 13%, from which Klöckner & Co benefited particularly thanks to BSS. The Metals Service Center Institute reports that steel turnover in the United States performed even better, showing a 14.2% improvement. Despite this positive development, steel consumption in Europe and in the Unites States was still lower than the 2007 level by 20% and 10%, respectively.

The Eurometal industry association forecasts a decline in real steel demand of 0.6% and a decrease of 2% in apparent steel consumption in 2012.

STEEL PRODUCTION

Worldwide steel production increased by 6.8% in 2011, setting a record volume of 1,527 million tons of raw steel. Of the top-ten steel-producing countries, production dropped slightly only in Japan due to the natural disasters in spring 2011. According to the World Steel Association, China remained by far the largest steel producer with a market share of 44.7%, or 683.3 million tons, followed by Japan at 108 million tons. Asia and South America at 7.9% and 10.2%, respectively, posted above-average growth. The United States also saw production expand to an above-average degree, with growth of 7.1%, whereas steel production in the European Union increased by only 2.8%. In Spain and the UK, steel production was particularly weak with declines of 5% and 2%, respectively. Despite the positive trend, the total volume of production in the European Union is still more than 15% below that of the record-setting year 2007.

Due to economic uncertainties, the World Steel Association declined to issue a forecast for 2012.

Steel production

(in million tons)	2011	2010	Variance
France	15.8	15.4	+ 2.6 %
Germany	44.3	43.8	+ 1.1 %
Spain	15.6	16.3	– 4.6 %
Great Britain	9.5	9.7	– 2.1 %
EU (27), total	**177.4**	**172.6**	**+ 2.8 %**
Rest of Europe	37.2	31.9	+ 16.6 %
C.I.S. total	112.4	108.1	+ 3.9 %
United States	86.2	80.5	+ 7.1 %
North America, other	32.7	30.9	+ 5.8 %
North America, total	**118.9**	**111.4**	**+ 6.7 %**
South America, total	**48.4**	**43.9**	**+ 10.2 %**
Africa	14.0	16.3	– 14.1 %
Middle East	20.3	18.9	+ 7.4 %
China	683.3	627.5	+ 8.9 %
Asia, other	270.9	256.6	+ 5.6 %
Asia, total	**954.2**	**884.1**	**+ 7.9 %**
Oceania, total	**7.2**	**8.1**	**– 11.1 %**
Other countries	**37.0**	**34.7**	**+ 6.6 %**
Total	**1,527.0**	**1,430.0**	**+ 6.8 %**

Source: World Steel Association (January 2012)

2.6 CAPITAL MARKET ENVIRONMENT

KLÖCKNER & CO SHARES

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

- Share price impacted by market uncertainty
- Capital increase successfully placed in the amount of 50% of the subscribed capital
- Majority of analysts recommend Klöckner & Co as a “buy”

SHARE PRICE PERFORMANCE IMPACTED BY UNCERTAIN ECONOMIC ENVIRONMENT

The shares trended up in the first quarter of 2011, driven by general capital market sentiment toward an improvement in the economy and forecasts for the steel sector. Supported by higher commodity prices, steel and metal prices also rose – something the capital market views as favorable for Klöckner & Co as a stockholding distributor. The “Klöckner & Co 2020” growth strategy and the preliminary agreement to acquire Macsteel Service Centers USA signed in January 2011 also garnered reward from the capital market. Over the course of the second quarter, however, the shares’ performance was slightly weaker, due primarily to the technical response following the capital increase.

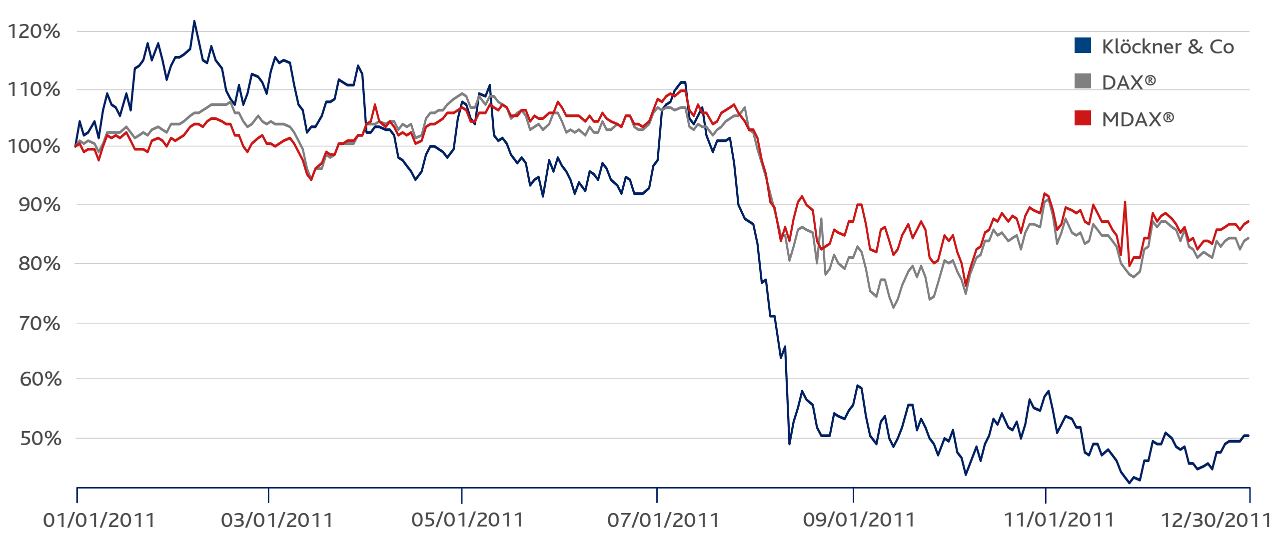
Klöckner & Co being an early-cycle, high-beta stock, the shares came under particularly strong pressure from August onward, due to the uncertain macroeconomic environment and the weak steel price environment. This impacted the share price performance through to the end of the year. US investors in particular stayed away from European shares as a result of the euro crisis. Shares such as those of Klöckner & Co are affected by this to a greater extent.

Key data - Klöckner & Co share

		2011	2010	2009	2008	2007
Share capital	€	**249,375,000**[2)]	166,250,000	166,250,000[1)]	116,250,000	116,250,000
Number of shares	in shares	**99,750,000**[2)]	66,500,000	66,500,000[1)]	46,500,000	46,500,000
Closing price (XETRA, Close)	€	**9.92**	21.01	17.85	12.29	27.50
Market capitalization	€ million	**990**	1,397	1,187	571	1,279
High (XETRA, Close)	€	**23.42**[2)]	23.46	18.93[1)]	40.50	63.20
Low (XETRA, Close)	€	**8.28**[2)]	13.65	4.87[1)]	7.65	25.88
EPS (basic)	€	**0.14**	1.17	– 3.61	8.56	2.87
Average daily trading volume	in shares	**1,539,240**[2)]	935,942	761,087	901,919	759,379
Dividend per share[3)]	€	**-**	0.30	-	-	0.80
Dividend yield based on closing stock price	%	**-**	1.4	-	-	2.9
Total dividend paid	€ million	**-**	20.0	-	-	37.2

[1)] Adjusted in light of the capital increase on September 18, 2009.
[2)] Adjusted in light of the capital increase on June 8, 2011.
[3)] In each case for the fiscal year.

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

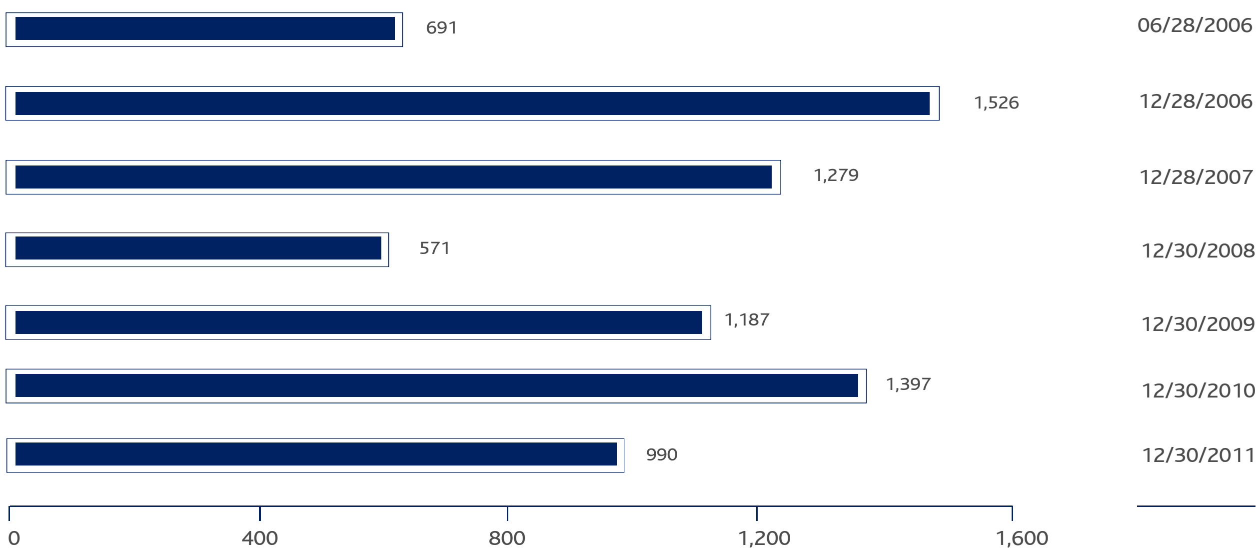


On December 30, 2011, the shares closed at €9.92, a fall of around 53% from the 2010 year-end closing price. The MDAX® lost around 13% and the DAX® around 16% compared with the 2010 year-end.

MARKET CAPITALIZATION

The market capitalization declined year on year due to the turmoil on the capital market. At the end of the fiscal year, the market capitalization was approximately €990 million.

Market capitalization *in € million*



CAPITAL RESOURCES BOLSTERED THROUGH A CAPITAL INCREASE

In June 2011, we raised capital through a successful capital increase, issuing 33,250,000 new no-par-value registered shares in order to be able to leverage further growth opportunities and maintain our sound financial and balance sheet structure in spite of the financial crisis. These shares have a no par value of €2.50. The transaction increased the subscribed capital by €83,125,000 to €249,375,000. The subscription price for the new shares was €15.85. The new shares were offered to our shareholders in a one-for-two capital increase, meaning that, for two old shares, shareholders were able to purchase one new share at a price of €15.85. More than 99% of the subscription rights were exercised, with the underwriting banks guaranteeing a subscription ratio of 100%. The new shares have been included in the existing listing (German securities code KC0100) since June 10, 2011, and entitled to dividends since January 1, 2011. The net issue proceeds of some €516 million are to be used primarily to continue the "Klöckner & Co 2020" growth strategy.

KLÖCKNER & CO CONVERTIBLE BONDS: KEY DATA

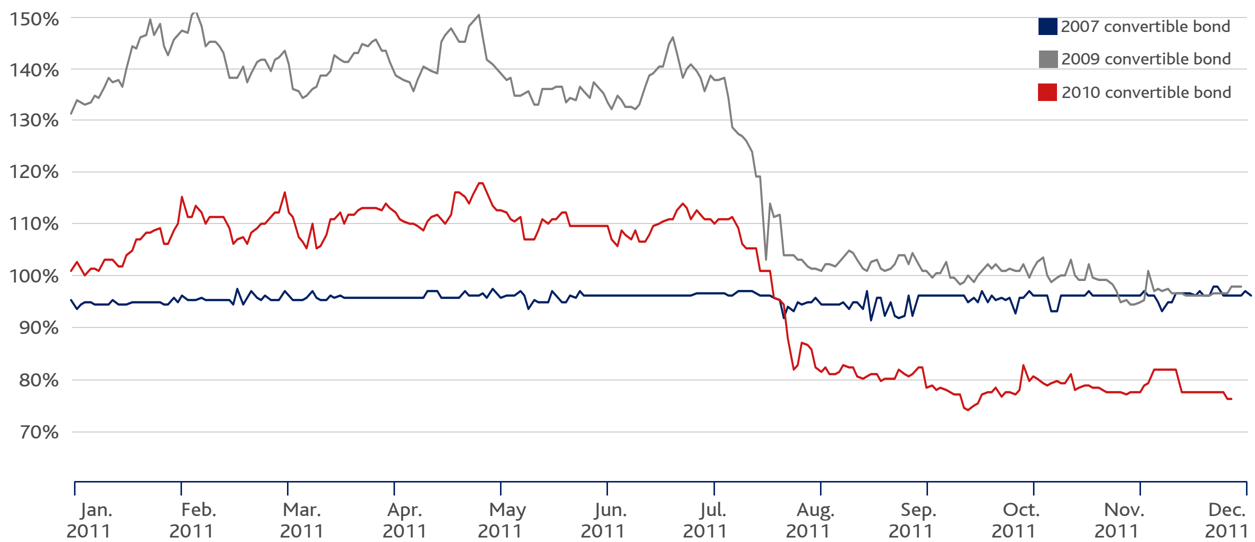
	2007 Convertible Bond	2009 Convertible Bond	2010 Convertible Bond
German securities code	A0N0J0	A1AHTR	A1GKFA
ISIN	DE000A0N0J03	DE000A1AHTR5	DE000A1GKFA1
Volume	€325 million	€97.9 million	€186.2 million
Issue date	July 27, 2007	June 9, 2009	December 22, 2010
Maturity date	July 27, 2012	June 9, 2014	December 22, 2017
Coupon	1.5%	6.0%	2.5%
Conversion price	€63.95[1)]	€16.47[2)]	€25.10[3)]
Standard & Poor's-Rating	B+ (Long-term rating)	B+ (Long-term rating)	B+ (Long-term rating)

[1)] Adjusted in light of 2009 and 2011 capital increases.
[2)] Adjusted in light of 2011 dividend payment and 2009 and 2011 capital increases.
[3)] Adjusted in light of 2011 dividend payment and 2011 capital increase.

PERFORMANCE OF KLÖCKNER & CO CONVERTIBLE BONDS

The convertible bonds issued in 2009 and 2010 tracked the price of Klöckner & Co shares as anticipated, while the 2007 convertible bond remained virtually constant due to the high conversion price. On December 30, 2011, the 2007 convertible bond was trading at 97.5%, the 2009 convertible bond at 99.0% and the 2010 convertible bond at 78.1%.

Performance of Klöckner & Co Convertible Bonds (Month-end figures)



MAJORITY OF ANALYSTS RECOMMEND KLÖCKNER & CO AS A "BUY"

Klöckner & Co's shares were being watched and rated by 26 analysts at year-end. These published a total of 231 research reports in the past fiscal year. At the end of 2011, 24 investment firms gave our shares a "buy" recommendation, one gave a "hold" recommendation and one a "sell" recommendation. We provide an up-to-date overview of the research recommendations on our website under Investors/Share/Analysts.

Klöckner & Co shares are analyzed by the following banks and investment firms:

Bankhaus Lampe	HSBC Trinkaus & Burkhardt
Bank of America Merrill Lynch	Independent Research
Barclays Capital (new)	JP Morgan Securities
Berenberg Bank	Kepler Equities
BHF Bank	MainFirst Bank
CA Cheuvreux	Metzler Equity Research
Citigroup	Montega
Close Brothers Seydler Research	Morgan Stanley
Commerzbank	Nomura Equity Research
Credit Suisse	SRH AlsterResearch
Deutsche Bank	Steubing
DZ Bank	UBS Equities
Exane BNP Paribas	WestLB

2011 ANNUAL GENERAL MEETING

Klöckner & Co SE's fifth Annual General Meeting in Düsseldorf, Germany, on May 20, 2011, was attended by approximately 300 shareholders and shareholder representatives. In total, over 36% of the voting capital was represented. All the motions put by the Supervisory Board and the Management Board were carried by a large majority.

In 2011, shareholders were once again able to register for the Annual General Meeting on our website at www.kloeckner.de, where an online tool ensures that they are able to order an entry ticket as well as submit authorizations and instructions for proxy holders quickly and easily. The tool also allows shareholders to request the invitation to the Annual General Meeting electronically through the e-mail service ("electronic delivery"). In the coming years, e-mail delivery will replace postal delivery for registered participants. Of course, no information will be lost as a result of using this electronic delivery method. This new service has been very well received by our shareholders and will be available to them again for the coming Annual General Meeting in Düsseldorf on May 25, 2012.

After the Annual General Meeting, shareholders can find all the relevant information and documents for the Annual General Meeting as well as the voting results on our website at www.kloeckner.de. They can also follow the speeches by Supervisory Board Chairman Prof. Dr. Dieter H. Vogel and Management Board Chairman Gisbert Rühl live on the Internet. After the Annual General Meeting, live recordings of the speeches will be available to shareholders and interested parties at www.kloeckner.de.

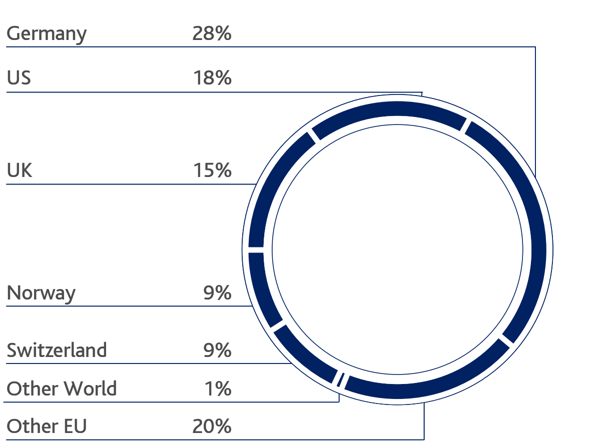
OWNERSHIP STRUCTURE

Last year, Klöckner & Co once again commissioned regular shareholder identification analyses in order to gain a better view of the regional distribution of its investors. The data enable investor relations work to be targeted appropriately and roadshows and conferences to be planned effectively. The most recent analysis was conducted in December 2011 and identified around 80% of shareholders.

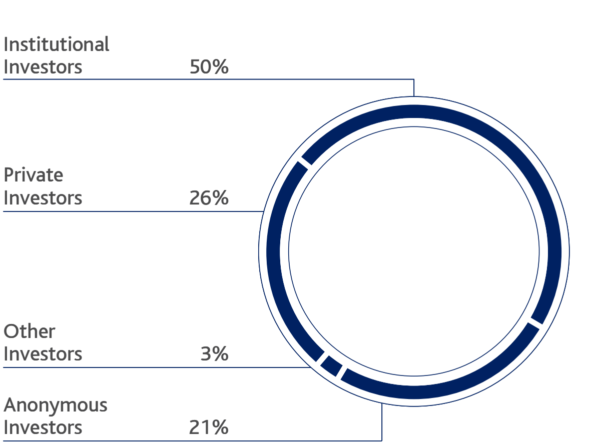
This most recent analysis showed that identified institutional investors held 50% of the share capital and private individuals 26%.

Geographically, the largest proportion of identified institutional investors in our Company are located in Europe. Some 28% of the institutional investors are based in Germany, followed by 18% in the USA. The UK takes third place with 15%, followed by Switzerland and Norway, each with 9%.

Geographic breakdown of investors of the Klöckner & Co SE



Shareholder structure of the Klöckner & Co SE



At the time of preparation, according to mandatory notifications between December 2011 and February 2012, our largest shareholders were Dimensional Holdings Inc. with 3.06%, Templeton Investment Counsel, LLC with 3.04%, Allianz Global Investors Kapitalanlagegesellschaft mbH with 3.02% and Amundi S.A. with 3.01%.

TRANSPARENT AND CONTINUOUS COMMUNICATIONS

At Klöckner & Co, Investor Relations is all about transparent and continuous communications with private and institutional investors. In 2011, members of the Management Board and the IR team once again kept international investors informed about the Klöckner & Co Group's results and potential, not only at the Annual General Meeting, but also at a total of twelve roadshows and just as many conferences in all the major financial centers in Europe and Americas, as well as at more than 50 additional individual meetings. During the past year, increasing use was made of teleconferences in order to respond even more quickly to the information requirements of capital market players and enter into dialogue without any time delay.

In addition to the Klöckner & Co Group's current results, discussions focused primarily on the "Klöckner & Co 2020" growth strategy, with participants showing particular interest in our progress in integrating the largest acquisition and the capital increase.

Around the time of the 2011 capital increase, just as he did around the time of the quarterly results, Management Board Chairman Gisbert Rühl also addressed shareholders in a video message, in which he explained the reasons and the procedure behind the corporate action. As this direct communications tool has been so well received, we have used it on a regular basis since the 2009 capital increase. In a podcast available on our homepage, the Chairman of the Management Board provides a brief explanation of the key data and trends in the past reporting period to coincide with each set of full-year and quarterly results. We will continue this service in fiscal year 2012.

Moreover, the IR team is always happy to answer any questions interested shareholders may have by phone, e-mail or letter.

In addition to direct contact with investors, our website at www.kloeckner.de forms an integral part of our financial communications efforts. Interested parties can find all the relevant information about Klöckner & Co shares and the convertible bonds in the Investors section of our website at www.kloeckner.de/en/investors.html. This includes financial reports, the financial calendar, information on corporate governance and current data on share and convertible bond performance. All information about Klöckner & Co SE's Annual General Meeting in Düsseldorf on May 25, 2012 will also appear on the website.

Our newsletter keeps shareholders and other interested parties up to date of current developments in the Group. You are welcome to sign up for this newsletter via ir@kloeckner.de.

The Investor Relations team looks forward to your questions and suggestions.

3. RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The key figures for the results of operations, financial position and net assets for 2011 are as follows:

Key figures

(€ million)	2011	2010
Sales	**7,095**	5,198
EBITDA	**217**	238
Cash flow from operating activities	**6**	35

(€ million)	December 31, 2011	December 31, 2010
Net working capital	**1,534**	1,017
Net financial debt	**471**	137

3.1 RESULTS OF OPERATIONS

TURNOVER AND SALES

In fiscal year 2011, Klöckner & Co's turnover of 6.7 million tons was up 25.4% on the prior year (2010: 5.3 million tons), largely as a result of completed acquisitions. Turnover went up by 5.5% in Europe and 98.9% in the Americas segment. Adjusted for acquisitions in 2010 and 2011, organic growth in turnover was 1.3% in the Europe segment and 14.6% in the Americas. The adjusted increase in turnover for the Group as a whole was 4.6%.

Turnover performance differed across product lines in the Europe segment due to divergent regional market trends. While we boosted turnover in Germany thanks to the comparatively good economic climate, our Spanish subsidiary was unable to decouple of the economic situation in southern Europe and saw turnover further decreasing. Steel demand in markets relevant to Klöckner & Co grew by some 4% year on year overall, although the Group's organic turnover growth of 1.3% in the Europe segment was below the market trend due to portfolio streamlining in particular in the fourth quarter. The streamlining under the profitability action plan announced in September mainly related to the beams and merchant bars business, while flat steel, aluminum and stainless steel grew stronger than the market. The Becker Stahl-Service Group (BSS) acquired in 2010 once again showed above-average turnover performance buoyed by a healthy business situation in the automotive sector. Unlike in the Europe segment, in the Americas segment we were able to slightly outperform market growth with our activities in the USA, where we did not carry out any portfolio streamlining, and thus achieved growth well above the Group average. In contrast, our expectations were not met for the two new acquisitions, MSCUSA and Frefer in 2011.

The uptrend in machinery and mechanical engineering allowed us to achieve above-average turnover growth in heavy plate, quality steel and stainless steel. Selling prices trended upward from the start of the year before leveling out from the third quarter on, especially when it came to flat products. Prices of flat products only picked up again for the time being in the USA toward the year-end. Overall, strong price increases early in fiscal 2011 meant that average selling prices were above the prior-year comparative period, despite the downward trend in the second half.

Due to price factors and acquisitions, we were able to boost sales by an even larger percentage than turnover, with sales growth of 36.5% to some €7.1 billion. Organic sales growth amounted to 17.1% overall. The Europe segment generated sales of €5.0 billion and the Americas segment increased sales to €2.1 billion.

EARNINGS

Driven by the positive overall business trend – notably in the first half-year – and acquisition-related effects, gross profit climbed by 15.7% year on year to €1,315 million.

Gross profit moved downward, however, as the year progressed in line with the general trend in prices. The gross profit margin fell accordingly from 21.9% in fiscal 2010 to 18.5% in the year under review.

EBITDA by segments

(€ million)	Q4 2011	Q4 2010	2011	2010
Europe	12	45	167	223
Americas*)	13	7	81	33
Headquarters	– 11	– 4	– 31	– 18
Klöckner & Co Group	**14**	**48**	**217**	**238**

*) 2010: North America.

The Europe segment closed 2011 with EBITDA of €167 million, compared with €223 million in the prior year. The Becker Stahl-Service (BSS) Group, taken over in 2010, and the Swiss country organization once more accounted for the main part of the segment EBITDA. The contribution to EBITDA from all other country organizations followed a downward slope from the second quarter due to growing pressure on margins. The Spanish country organization once again posted the weakest operating income by far.

EBITDA for the Europe segment includes about €10 million in restructuring expenses for the profitability action plan. In the opposite direction, the figure also contains around €6 million in income posted in the second quarter on reversal of provisions recognized in past periods for a legal dispute with a customer now settled.

The Americas segment includes the activities of MSCUSA from May 1, and of Frefer from June 1. EBITDA increased from €33 million to €81 million, mostly on an organic basis but also through the inclusion of MSCUSA, although neither MSCUSA nor Frefer came up to expectations. Alongside the effect of the acquisition, the improvement was largely driven by significantly better business with heavy plate compared with the prior year, in terms of both quantities and margins.

Headquarters EBITDA is impacted by higher consulting expenses and higher personnel costs compared with the prior year.

Reconciliation of operating income (EBITDA) to consolidated net income:

Reconciliation to net income

(€ million)	2011	2010
EBITDA	**217**	**238**
Depreciation, amortization and impairments	– 106	– 86
Financial result	– 84	– 68
Income taxes	– 17	– 4
Net income	**10**	**80**

Brought down by higher depreciation and amortization following the acquisitions, earnings before interest and taxes (EBIT), at €111 million, is down on the prior-year figure of €152 million and thus followed the same trend as EBITDA. The financial result for fiscal 2011 comes to €– 84 million, compared with €– 68 million in the prior year. The larger net interest expense reflects the higher annual average level of debt as a result of the acquisitions.

Earnings before taxes (EBT) amounted to €27 million (2010: €84 million). Net income dropped from €80 million to €10 million.

Basic earnings per share came to €0.14, compared with €1.17 in the prior year.

3.2 FINANCIAL POSITION, FINANCING AND LIQUIDITY

FINANCING AND FINANCIAL MANAGEMENT

Group financing is generally centrally managed through Klöckner & Co SE, which took on this function from Klöckner & Co Verwaltung GmbH after the merger of intermediate holding companies. We back the liquidity of our group companies primarily by central and bilateral credit facilities. We use an international cash pooling system for this purpose. Centralized financing strengthens our negotiating position with banks and other lenders, making it easier to implement a uniform finance policy and limit financing risk.

We further optimized the financing portfolio in the year under review. The focus was on improving the maturity profile and harmonizing the contractual framework of financing instruments.

Financing for the Group is secured on a flexible basis using a diversified portfolio including convertible bonds, promissory notes, a syndicated loan, an asset-based lending facility, ABS programs and bilateral credit agreements.

CONVERTIBLE BONDS

Our three convertible bonds make up a substantial component of our long-term Group financing.

We issued the first €325 million convertible bond in July 2007. The issuer is Klöckner & Co Financial Services S.A., a wholly owned Luxembourg subsidiary of Klöckner & Co SE. The bond is guaranteed by Klöckner & Co SE and has a five-year maturity and a coupon of 1.5% p.a. The initial €80.75 conversion price, meanwhile adjusted to €63.95 to reflect intervening capital increases, marked a 35% premium over the reference price of €59.81 per share on the issue date. The bond matures on July 27, 2012 and will be repaid out of cash.

In June 2009, we placed a second convertible bond with institutional investors for €98 million with a maturity of five years and a 6% coupon. The bond – which is convertible into Klöckner & Co SE shares – was issued by Klöckner & Co Financial Services S.A. The conversion price was €21.06 when the bond was issued (35% above the reference price of €15.60). In the meantime this has been adjusted to €16.47 to reflect capital increases and dividends.

In December 2010, we placed a further convertible bond for €186 million. The issuer is once again Klöckner & Co Financial Services S.A. and the bond is guaranteed by Klöckner & Co SE. The bond has a seven-year maturity. The coupon on the bond was set at 2.5% p.a. Under the bond terms, the holders of the bond are entitled to require early redemption after five years at par value plus accrued interest. The conversion price was set at €28.00. This was equal to a 35.07% premium over the reference price of €20.73. The conversion price of the bond has been adjusted to €25.10 reflecting the capital increase and the dividend.

PROMISSORY NOTES

The issuance of promissory notes has given us access since 2010 to the promissory note market normally accessible only to companies with investment-grade ratings. We issued further promissory notes for a total of €198 million in the second quarter of 2011, increasing the total for all issues to €343 million. The promissory notes have maturities of between three and five years.

The promissory notes are based on basic, standard documentation using the same financial covenants as the syndicated loan. Of the total amount, €123 million is fixed-interest-bearing and €220 million has variable interest rates.

SYNDICATED LOAN

In March 2011, the syndicated loan (a multi-currency revolving credit facility) was extended early until May 2014, and its terms were modified to allow more flexibility with regard to additional debt (priority debt) to be incurred in connection with future acquisitions. The credit facility is provided by a syndicate of 13 banks. The balance sheet-based covenants adopted in 2009 have been retained. Drawings stood at €225 million at the year-end.

Under the covenants, net financial debt must not exceed equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 28, 2010 by more than a factor of 1.5. The same adjusted equity figure must equal at least €500 million. The scope for drawings on the syndicated loan is now also contractually tied to the current totals for unrestricted receivables and inventories by way of virtual collateral.

All covenants were complied with throughout the reporting period.

ASSET-BACKED SECURITIZATION PROGRAMS

Group working capital funding is additionally secured through a centrally managed European Asset-Backed Securitization (ABS) program launched in 2005 and extended in March 2011 to March 2013. The European program is accompanied by a USD 200 million ABS program in the USA that runs for five years and was restructured in 2011. Utilization under the programs totaled €175 million as of the reporting date.

The covenants on both the European and the US ABS programs were complied with throughout the reporting period.

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

The bilateral credit facilities for a total of approximately €610 million were only 21% drawn at the end of 2011. The US credit facilities were restructured in connection with the acquisition of MSCUSA. Alongside the ABS program, the US country organizations now have a USD 250 million asset-based lending facility with a five-year term.

CAPITAL INCREASE STRENGTHENS BASIS FOR ONGOING EXPANSION

The Company's subscribed capital was increased by €83.1 million in the second quarter, from €166.3 million to €249.4 million. The capital was raised by issuing 33.25 million no-par-value shares, each representing a notional €2.50 and entitled to dividends from January 1, 2011. The new shares were offered to Klöckner & Co shareholders in a one-for-two capital increase at a subscription price of €15.85 per share. The capital increase consequently generated gross proceeds of some €528 million. After issue-related costs, the net proceeds amounted to €516 million.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

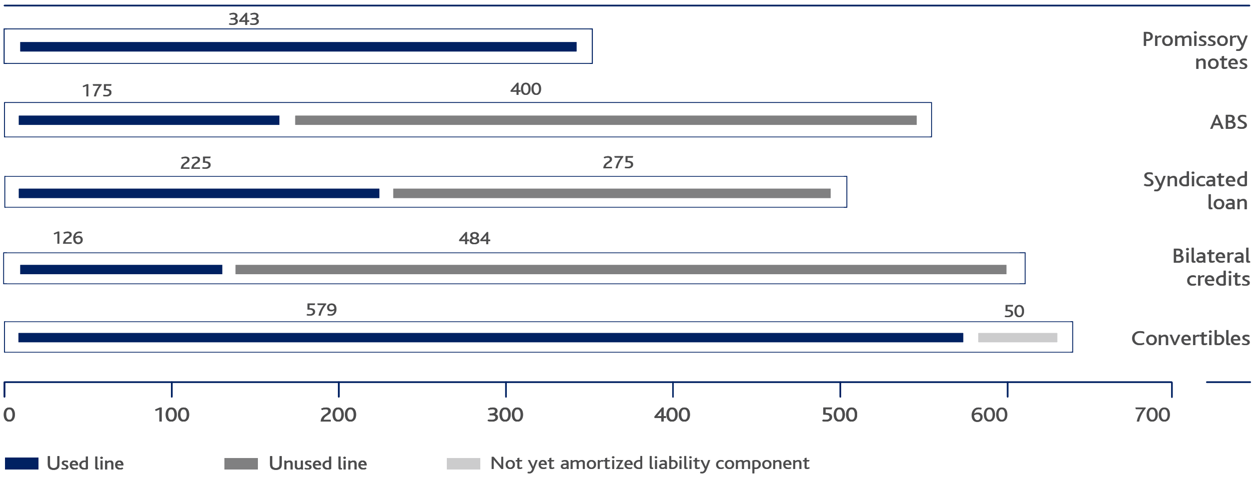
The Group uses an international cash pooling system to handle inter-company settlements and cash management. Our country organizations in Switzerland and the Americas segment are not included in this system to date, as they have their own credit facilities. Financing of our Group companies, including working capital for the operating business of the individual country organizations, was secure at all times throughout 2011.

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Following the enlargement and extension of credit facilities, Klöckner & Co has facilities totaling around €2.7 billion at its disposal. The average remaining term of central financing instruments is currently around three years.

As shown below, drawings as of December 31, 2011 totaled approximately €1.5 billion, only representing 55% of the total.

Financial volume* *)** ***in € million



*) Excluding foreign currency conversion effects

Including cash and cash equivalents, but excluding transaction costs, net financial debt totaled €471 million as of December 31, 2011 (2010: €137 million).

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

Net financial debt

(€ million)	December 31, 2011	December 31, 2010
Net financial debt	**471**	137
Gearing (Net financial debt/shareholders' equity*)	**29 %**	11 %

*) Consolidated equity less non-controlling interest less goodwill from business combinations subsequent to May 28, 2010.

Gearing was 29% as of December 31, 2011, well within both the internal year-end target of less than 75% and the 150% limit under the syndicated loan. Klöckner & Co's operating business entails interest-rate, currency and credit risks. The instruments used to hedge and manage these risks and their possible effects on earnings are described in detail in the Notes to the Consolidated Financial Statements under the notes on financial instruments.

We safeguard liquidity both with rigorous inventory and receivables management and with internally defined indicators. The latter include a minimum limit for the equity ratio and a maximum limit for gearing. Group-wide financial guidelines govern how financial risk is handled. We use derivative financial instruments to hedge interest-rate and currency risk. Derivatives are used exclusively to hedge risks related to underlying transactions and do not serve any speculative purposes. Group companies identify their foreign currency exposure and generally hedge against currency risk at corporate level, or, where applicable, via individual forex trading lines with banks. We also centrally monitor and hedge interest-rate risk.

CASH FLOW ANALYSIS

The consolidated statement of cash flows shows the sources and uses of cash flows during the fiscal year. The full consolidated statement of cash flows is presented on page 71 as part of the consolidated financial statements. Cash and cash equivalents in the consolidated statement of cash flows correspond to cash and cash equivalents in the consolidated statement of financial position.

Consolidated statement of cash flows (condensed)

(€ million)	2011	2010
Operating cash flow	**212**	235
Cash flow from operating activities	**6**	35
Cash flow from investing activities	**– 483**	– 188
Cash flow from financing activities	**542**	252

Operating cash flow – i.e., primarily before funds tied up in working capital – was €212 million, below the prior-year figure of €235 million. After deducting €–127 million for changes in net working capital and €–79 million for changes in other operating assets and liabilities and income taxes paid, cash flow from operating activities was €6 million in 2011, compared with €35 million in the prior year.

Largely as a result of our ongoing acquisition strategy, investing activities produced a substantially larger cash outflow of €– 483 million in 2011 than in 2010 (€– 188 million). This includes payment of the purchase prices (less acquired cash and cash equivalents) of €444 million for MSCUSA and Frefer. Payments for capital expenditure on property, plant and equipment and intangible assets amounted to €56 million (2010: €27 million). Payments for capital expenditure were partly offset by proceeds from the sale of property, plant and equipment and consolidated subsidiaries totaling €18 million, and significantly higher than the prior-year figure of €4 million. The sale proceeds relate to assets not required for operating activities in the Europe and Americas segments.

The cash inflow from the capital increase was the main factor to generate a positive, €542 million cash flow from financing activities (2010: €252 million), despite repayment of financial debt taken on in the MSCUSA acquisition.

The Group had €987 million in cash and cash equivalents at the year-end (2010: €935 million).

3.3 NET ASSETS, BALANCE SHEET STRUCTURE

Consolidated balance sheet

(€ million)	December 31, 2011	December 31, 2010
Non-current assets	1,295	856
Current assets		
Inventories	1,362	899
Trade receivables	922	703
Other current assets	140	98
Liquid funds	987	935
Total assets	4,706	**3,491**
Equity	1,843	1,290
Non-current liabilities and provisions		
Financial liabilities	1,068	1,020
Other non-current liabilities and provisions	458	341
Current liabilities		
Financial liabilities	377	40
Trade payables	750	585
Other current liabilities and provisions	210	215
Total equity and liabilities	4,706	**3,491**

Total assets came to €4,706 million as of December 31, 2011. This represented a 34.8% increase on the prior-year figure of €3,491 million.

The main change in the balance sheet structure relates to the acquisitions of MSCUSA and Frefer, including the resulting additions to net working capital. Non-current assets increased from €856 million to €1,295 million (+ 51%) as of December 31, 2011. The €439 million increase mainly reflected additions to intangible assets (€333 million) and property, plant and equipment (€115 million). MSCUSA and Frefer accounted for €484 million of non-current assets as of December 31, 2011.

The equity-to-fixed-assets ratio stood at 152.3% as of December 31, 2011 (2010: 169.4%).

Adding in non-current liabilities, the excess of shareholders' equity and non-current liabilities over non-current assets amounted to €2,074 million, compared with €1,795 million in 2010.

Net working capital developed as follows:

Net working capital

(€ million)	December 31, 2011	December 31, 2010
Inventories	1,362	899
Trade receivables	922	703
Trade payables	– 750	– 585
Net working capital	**1,534**	**1,017**

The net working capital of €1,534 million is well above its level at the end of fiscal 2010. The increase mainly relates to the acquisitions of MSCUSA and Frefer, which accounted for net working capital of €361 million as of December 31, 2011. Inventories rose compared with the prior year from €899 million to €1,362 million. Higher sales are also reflected in higher trade receivables, which increased from €703 million to €922 million year on year. Trade payables, were significantly above the prior year's level at €750 million (2010: €585 million). In total, net working capital rose by €517 million (2010: €380 million), representing an increase of 51%.

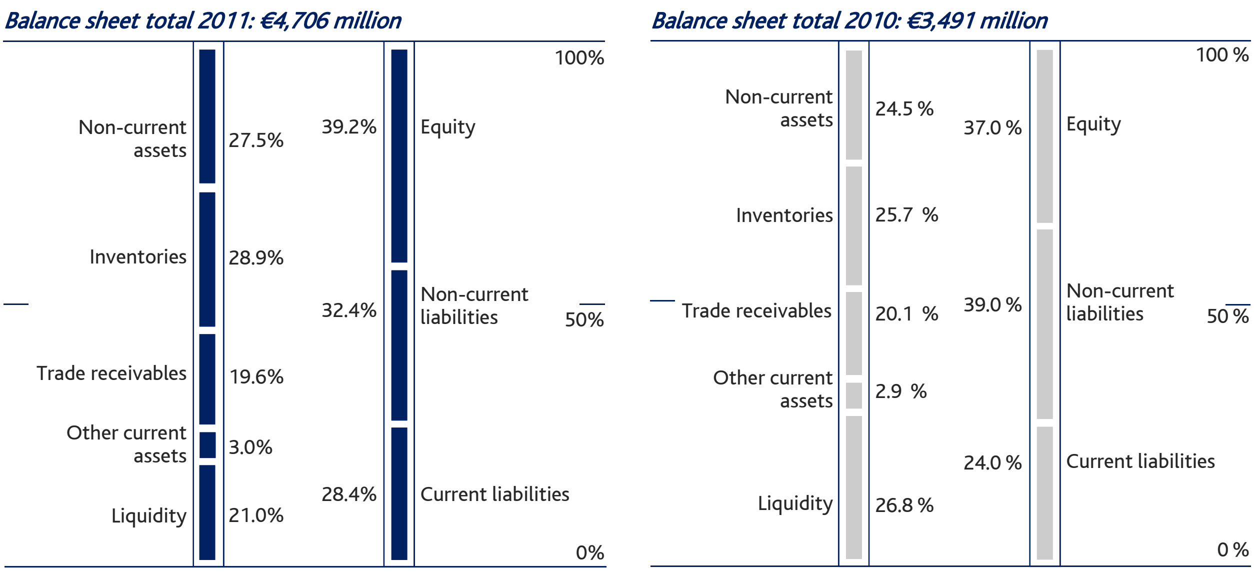
We currently have a liquidity reserve in the form of cash and cash equivalents totaling €987 million (2010: €935 million).

As a result of the capital increase equity increased by €520 million (including deferred tax effects), from €1,290 million to €1,843 million. This put the equity ratio to some 39% at the end of the reporting year, compared with 37% in the prior year. If cash and cash equivalents were used to eliminate financial debt, the equity ratio would be 50%.

Due to acquisitions financial liabilities in the consolidated statement of financial position increased from €1,060 million in the prior year to €1,445 million in 2011. Deducting cash and cash equivalents and transaction costs, net financial debt came to €471 million.

Provisions for pension obligations totaling €183 million (2010: €174 million) were largely unchanged due to the use of the corridor method of accounting, which continues to apply for the time being; the funded status (the amount by which pension obligations exceed plan assets) increased from €180 million to €268 million.

The chart below summarizes our asset and capital structure for 2011 and 2010:



3.4 OVERALL STATEMENT ON THE CURRENT BUSINESS SITUATION OF THE GROUP

Based on the information available at the end of February 2012 when the Combined Management Report was compiled, the current economic outlook is regionally non-uniform. While the USA is expected to see strong growth in GDP in 2012, Europe is likely to slide into a mild recession. Reluctance to commit capital expenditure due to the most recent turbulence on the capital markets and the possibility of a banking credit crunch due to enhanced equity requirements also inhibit growth.

In line with the GDP growth forecast, the outlook for US steel demand is positive with mid-single-digit percentage growth that we will benefit from, in particular with the combined activities of Namasco and MSCUSA. This contrasts with our expectation of up to a mid-single-digit percentage decline in steel demand in Europe. With surplus capacity still persisting, the steel industry can be expected to stay volatile and not find a stable balance, and this will be reflected in price fluctuation combined with both temporary production cutbacks and periods of oversupply. Given the uncertainty in Europe, customers will continue responding sensitively to changing economic expectations and will keep inventories low. With our profitability action plan to supplement the "Klöckner & Co 2020" growth strategy, we have geared up in good time to a contractionary environment in Europe, and will already be able to visibly cushion the effects of a fall in demand this year. Despite the difficult market environment in Europe, we expect, on the basis of the substantially larger percentage of turnover generated in the Americas segment and the measures taken, to increase turnover, sales and operating income in 2012.

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 parent company of the Klöckner & Co Group and is in charge of the Group's operating management. After a merger of several intermediate holding companies effective January 1, 2011, the Company directly holds the ownership interests in most management companies heading the Group's national and international country organizations and in individual country operating organizations themselves. Since these changes took effect, Klöckner & Co SE is also in charge of central Group financing, which was previously dealt with through Klöckner & Co Verwaltung GmbH.

The merger limits the comparability of the balance sheet and of the income statement with the prior year.

Balance sheet of Klöckner & Co SE (condensed)

(€ thousand)	December 31, 2011	December 31, 2010
Intangible assets and property, plant & equipment	8,903	1,155
Financial assets	1,282,619	258,328
Fixed assets	**1,291,522**	**259,483**
Receivables from affiliated companies	511,341	1,064,132
Other receivables	14,343	18,233
Liquid funds	844,238	9
Current assets	**1,369,922**	**1,082,374**
Prepaid expenses	51,827	73,630
Total assets	**2,713,271**	**1,415,487**
Equity	1,283,555	762,395
Provisions for pensions and similar obligations	95,183	9,018
Other provisions	46,323	8,814
Bonds	609,100	609,100
Liabilities to affiliated companies	95,414	21,913
Liabilities to banks	575,532	-
Other liabilities	8,164	4,247
Total equity and liabilities	**2,713,271**	**1,415,487**

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

Klöckner & Co SE's financial position reflects its holding company character and central Group financing activities. Fixed assets consist almost entirely of financial assets, mostly comprising the investments in management companies heading the Group's national and international country organizations and in individual country operating organizations themselves, and long-term loans to those companies. Other major items in the balance sheet relate to the convertible bond issues and liabilities to banks, which include drawings on the syndicated loan and the promissory notes. The proceeds from the convertible bonds were likewise made available to Group companies.

Klöckner & Co SE's equity ratio declined to 47.3% as of December 31, 2011 (2010: 53.9%).

Income statement of Klöckner & Co SE (condensed)

(€ thousand)	2011	2010
Income from investments	183,239	62,152
Impairment of investments	– 89,944	-
Interest income, net	– 38,671	6,735
Other income and expenses, net	– 38,616	– 21,954
Result from ordinary activities	**16,008**	**46,933**
Extraordinary result	925	383
Taxes	– 3,449	36
Net income	**13,484**	**47,352**
Retained profits carried forward	47,352	17,700
Dividends	– 19,950	-
Appropriation to other revenue reserves	– 27,402	– 17,700
Unappropriated profits	**13,484**	**47,352**

The income from investments consists of profit distributions and profit transfers from subsidiaries.

(€ thousand)	2011	2010
Income from profit transfer agreements	72,079	62,152
Dividends received from affiliated companies	111,160	-
	183,239	**62,152**

The profit distributions consist of dividend income from Klöckner Netherlands Holding B.V., Barendrecht, the Netherlands, Debrunner Koenig Holding AG, St. Gallen, Switzerland, Klöckner Distribution Industrielle S.A., Aubervilliers, France and of distribution from reserves at Becker Stahl-Service GmbH, Duisburg, Germany accumulated prior to the latter's tax consolidation. The income under profit transfer agreements relates to agreements with Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner Global Sourcing GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg and Becker Besitz GmbH, Duisburg, Germany.

A €75.0 million capital increase was carried out in the year under review, to strengthen the capital base of the Spanish country organization, Klöckner Participaciones S.A., Madrid, Spain. In view of the ongoing adverse economic environment and the fact that the impairment was likely to be other than temporary, the €85.2 million carrying amount of the investment in the company was subsequently impaired. An impairment determined to be probably other than temporary was likewise identified and the €4.7 million carrying amount of the investment written off in respect of Klöckner Metalsnab AD, Sofia, Bulgaria.

The negative balance on other income and expenses, net, widened from €– 22.0 million in 2010 to €– 38.6 million in 2011.

Net income came to €13.5 million in 2011, compared with €47.4 million in 2010. We will be proposing at the Annual General Meeting to allocate total unappropriated profits for the year to other revenue reserves.

In view of the potential for distribution of retained profits at subsidiaries, we expect that net income will once again be positive in 2012 and 2013.

The complete annual financial statements including the auditor's unqualified opinion are published by Klöckner & Co SE in the company register. Interested parties can obtain the annual financial statements at the Company's headquarters and on the Internet at www.kloeckner.de.

4.2 LEGAL INFORMATION RELATING TO TAKEOVERS

REPORT PURSUANT TO SECTION 289 (4) AND SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE READ IN CONJUNCTION WITH SECTION 176 (1), SENTENCE 1 OF THE GERMAN STOCK CORPORATIONS ACT AND ARTICLE 52 OF THE EUROPEAN COMPANY REGULATION

STRUCTURE OF SHARE CAPITAL

As of December 31, 2011, Klöckner & Co SE's subscribed share capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares have the same rights and obligations. Each share has one vote.

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions on voting rights or the transfer of shares, including any agreements between shareholders.

INTERESTS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2011, no direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of voting rights had been reported to the Company.

SHARES WITH SPECIAL CONTROL RIGHTS

There are no shares with special control rights.

EXERCISE OF VOTING RIGHTS BY EMPLOYEES OWNING SHARES IN THE COMPANY

Shares held by employees of the Klöckner & Co Group are not subject to any rules controlling voting rights.

LEGISLATION AND PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPOINTMENT AND REPLACEMENT 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 replaced by the Supervisory Board (Article 9 (1) c, Article 39 (2) and Article 46 of the European Company Regulation; Sections 84, 85 of the German Stock Corporations Act; Section 6 of the Articles of Association).

Under Article 59 (1) of the European Company Regulation, amendments to the Articles of Association always require a two-thirds majority of votes cast, unless the German Stock Corporations Act requires or permits a greater majority. Under Article 59 (2) of the European Company Regulation and Section 51, sentence 1 of the German SE Implementation Act (SEAG), read in conjunction with Section 19 (2), sentence 2 of the Klöckner & Co SE Articles of Association, amendments can be implemented with a simple majority of votes cast if at least one half of the share capital is represented. Article 51, sentence 2 of the SEAG exempts from this rule amendments to the Company's business purpose, resolutions on cross-border relocation of the Company's headquarters and cases for which a larger majority representing capital is mandatorily required by law. For resolutions that require a three-fourths majority of capital under the German Stock Corporations Act, a three-fourths majority of votes cast is also necessary at Klöckner & Co SE.

Under Section 21 of the Articles of Association, the Supervisory Board is authorized to make certain formal changes to the Articles of Association itself as and when required.

POWERS OF THE MANAGEMENT BOARD TO ISSUE AND REPURCHASE SHARES

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

The Management Board has been authorized to issue warrant-linked and/or convertible bonds or combinations of such instruments at any time prior to May 19, 2016, on one or more occasions, in one or more separate tranches, and to grant holders option or conversion rights on up to 13,300,000 no-par-value registered shares in the Company with a proportionate amount of the share capital of up to € 33,250,000.

There are four authorizations for contingent capital increases of €16,625,000, €16,625,000, €16,625,000 and €33,250,000, respectively, which may only be carried out upon exercise of the conversion rights from the convertible bonds that were issued by the Company or its subsidiaries under the authorization by the Annual General Meeting on June 20, 2007, under authorization by the Annual General Meeting on May 26, 2009 or under authorization by the Annual General Meeting on May 26, 2010, or will be issued under authorization of May 20, 2011. For further details see Section 4 (2), Section 4 (4), Section 4 (5) and Section 4 (6) of the Articles of Association.

Under Section 71 (1) No. 8 of the German Stock Corporations Act, and in accordance with the resolution of the Annual General Meeting on May 26, 2010, the Company is also authorized to acquire treasury stock of up to 10% of the Company's share capital of €166,250,000 in issue at the time of the resolution of the Annual General Meeting. This authorization is valid until May 25, 2015.

SIGNIFICANT AGREEMENTS TO WHICH THE COMPANY IS PARTY AND WHICH ARE CONDITIONAL ON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

The terms and conditions of the convertible bonds issued in July 2007, June 2009 and December 2010 totaling €325 million, €97.9 million and €186.2 million, respectively, allow for early redemption by the holder at par value plus accrued interest in the event of a change of control. Under the terms and conditions of each bond issue, 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 beneficial ownership of more than 50% of the voting rights in the Company. Bondholders are also each entitled to exercise their conversion rights at an adjusted conversion price.

Under largely the same conditions, lenders under the €500 million multi-currency revolving credit facility agreed in May 2010 may each demand repayment of any loan outstanding they have disbursed. The same provision applies to holders of various promissory notes issued by Group companies totaling €343 million.

Other material loan agreements and the Group's ABS program contain customary change-of-control clauses. In addition, virtual stock options granted to Group managers include a provision under which the options may be exercised immediately if a threshold of 30% of voting rights is exceeded.

AGREEMENTS BETWEEN THE COMPANY AND MEMBERS OF THE MANAGEMENT BOARD OR EMPLOYEES PROVIDING FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

If a threshold of 30% of voting rights is exceeded, members of the Management Board have the right to early termination of their service contracts. If they exercise this right, they will be entitled to payment of their budgeted salary (fixed component plus budgeted bonus) up to the end of the contract term, capped at three times their total compensation received in the last full fiscal year before termination of their service contracts. Furthermore, all virtual stock options not yet granted at such early termination date will be deemed granted and may be exercised either at the end of the contractual vesting period, or three years from the respective issue date, whichever is sooner.

4.3 DIVIDEND PLANNING

For fiscal year 2011, the Management Board and the Supervisory Board propose to the Annual General Meeting on May 25, 2012 the appropriation of the balance sheet profit to other revenue reserves, and in light of the uncertain economic environment, not to pay out a dividend in order to preserve liquidity. In general, Klöckner & Co SE follows a dividend policy of distributing 30% of consolidated net income before special items. The Company plans to return to this normal dividend policy in the future subject to the appropriate earnings situation.

5. SUBSEQUENT EVENTS

No material events have arisen subsequent to the reporting date.

6. RESPONSIBILITY

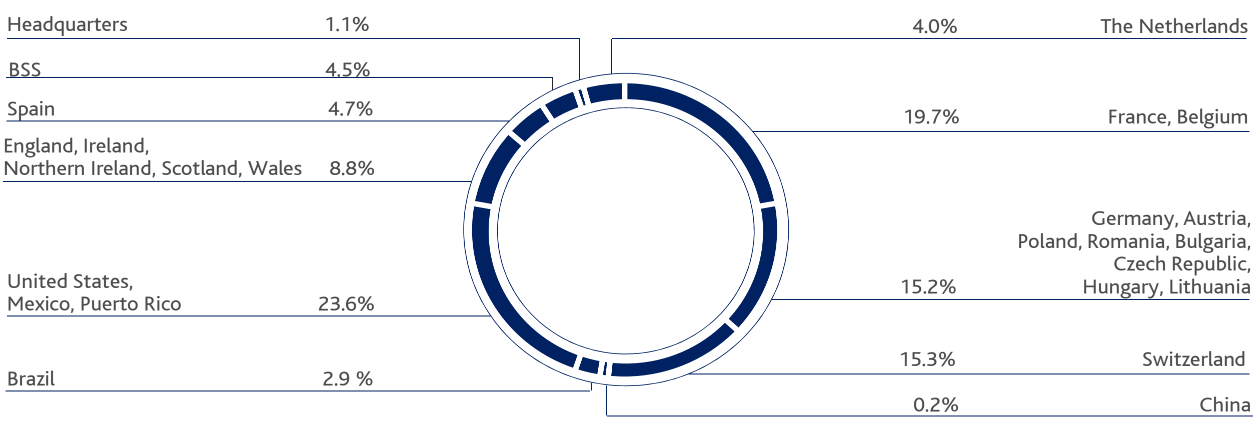
Klöckner & Co traces its corporate history back more than 100 years and pursues long-term strategic goals going forward. Due to our major international presence our business activities impact a large number of stakeholders inside and outside the Company. This is why we attach special importance to corporate responsibility in interactions with our investors, customers and suppliers, our employees and interested members of the public.

Since 2009, we have systematically built up our sustainability management activities. First, we analyzed external and internal requirements and identified four issues as a focus for our work: our employees, the environment, our value chain and corporate citizenship. We formed a Sustainability Committee comprising Group decision makers to coordinate conceptual implementation. Since then, numerous projects addressing each of these four pillars have been launched throughout the Group, some of which are managed centrally and some locally in the country organizations.

EMPLOYEES

In an international distribution and service company, employees along with their skills and motivation drive the business and create lasting value. Klöckner & Co has over 11,000 employees in around 290 locations in over 20 countries serving more than 170,000 customers. The acquisitions of MSCUSA and Frefer increased the workforce from 9,699 to 11,381 employees as of year-end 2011. The majority is still employed in Europe (73%), but today around 27% work in the Americas. Against the backdrop of the expected economic developments in Europe, workforce adjustments are unfortunately unavoidable in this region if we wish to remain competitive in the future. We are fully aware of our responsibility towards our employees in this regard and seek to make such reductions as socially acceptable as possible.

Employees international



The Company also aims to actively cultivate employee diversity and potential so that we can provide tailor-made solutions for our customers' needs. Focused personnel and management development is key to our Company's success and as such is anchored in our "Klöckner & Co 2020" strategy as one of the initiative's four pillars. These activities throughout the Group are managed by the Executive HR & Talent Management Department set up for this purpose in the Group's Duisburg headquarters. The first step in 2011 was to focus on coordinating international human resources activities by introducing standardized management competencies and management development interviews. In 2012, this will lead to additional projects on performance management, talent management, gender diversity and employer branding to be implemented in the country organizations according to a strict time schedule.

As a corporation with international operations serving customers of any size in any industry, diversity within the workforce and the management team is especially important to us as it reflects the diversity of our customer base. In the countries in which we do business, we aim to always offer our employees the best possible opportunities for career development.

Although steel distribution has traditionally been a mostly male-dominated industry to date, Klöckner & Co considers it very important to increase the proportion of women on all levels and believes this as a competitive advantage. We hope to expand the competencies and skill set of management by explicitly fostering female technical and managerial talent. We want to offer women better career opportunities than in the past and significantly boost the number of female executives in management. Specifically, we intend to increase the percentage of women in management positions in our Group from the current 8% to 20% by 2020. In 2011, we took crucial steps toward meeting this goal: In addition to electing Hauke Stars as the first female member of the Klöckner & Co SE Supervisory Board, requirements for fostering women in leadership positions were communicated to the management teams of our country organizations in their target agreement. We also launched the Group-wide "Gender Diversity@Klöckner" initiative that involves both female and male executives, and developed corresponding measures. The first of these measures will already be implemented in the Group in the course of 2012.

Through partnerships with universities and other educational institutions, we promote the dialogue between the world of academia and business, participate in the latest research developments and gain access to well-qualified and dedicated future employees. In 2010, we continued our partnership with the European Business School in Oestrich-Winkel, Germany. In addition to presenting at conferences there, we incorporated real-life lessons from our Company's day-to-day business into the introductory week for first-semester students. We also accept selected students for internships during which they can apply content from their studies to real business situations. In conjunction with "Initiativkreis Ruhr", we have been offering high school students from the Ruhr region the chance to meet the Chairman of the Management Board for open discussions for several years now, as part of the "Youth Dialogue" event.

We have been offering dual courses of study in our Company's training and continuing education program in Germany since 2009, with comparable courses also running in other European country organizations. In addition, our employees can attend job-specific, in-house training sessions, take language classes or receive personalized support for their own continuing education plans. Klöckner & Co's commitment reaps rewards. Our Swiss country organization, for example, secured a place as one of the top 25 companies in the "Swiss Employer Award" ranking in 2011. The newly created Executive HR & Talent Management Department is aimed at actively fostering and cultivating high-potentials throughout the Group and in management positions, a major task in addition to developing and implementing the "Klöckner People Strategy".

As a responsible employer, the health and safety of our employees is a particular concern. Consequently, two measures for encouraging occupational safety were included in the projects of the international committee responsible for managing quality, health, safety and environmental issues newly formed in 2011. The introduction of an occupational safety management system aims to methodically reduce accident risk, thereby reducing the number of days employees are absent from work due to accidents. Apart from systematic data collection in terms of accident statistics, we will identify sources of danger in the workplace in the future by gradually introducing a near-miss accident log. Certification according to the leading British BS OHSAS 18001 standard already implemented in the Swiss country organization is expected to be implemented in other European country organizations.

In nearly all country organizations, voluntary medical consultations offered to employees at least once a year and annual flu vaccinations were again among the services provided to our staff in 2011. Such services allowed us to keep our illness rate comparatively low in our European and American country organizations once again during the year under review.

ENVIRONMENT

We strive to use natural resources responsibly and preserve them for future generations. As a distribution and service company, our business activities entail fewer risks in this regard than those of a steel producer, for instance. Nonetheless, using all resources in a cost and energy efficient manner, continually optimizing our logistics operations and systematically managing quality can noticeably contribute to meeting this goal.

Streamlining our logistics and fleet management activities also aims to reduce carbon emissions and lessen the Company's impact on the environment. As one of only a few MDAX®-listed companies to do so, Klöckner & Co participated in the Carbon Disclosure Project for the third time in 2011, and collected data on the CO_2 emissions of all of our European country organizations. The project was originated by institutional investors and corporations with the aim of evaluating long-term opportunities and risks in the participating companies and developing ways to decrease CO_2 emissions in a sustainable manner. We are committed to continuing our participation in and support for this international project. A particular focus is on optimizing our freight planning and continually improving the capacity utilization of our vehicle fleet. We are also working on refining the energy supply to our service centers and warehouses. We endeavor to permanently improve our carbon footprint. In view of these efforts, we also constantly review opportunities for using renewable energies. The first steps have already been taken in this direction. Accordingly, we are planning to use solar energy at multiple locations in France, yet another way we will balance environmental and economic issues.

Improving workflows and results for our customers is at the forefront of our quality management activities. In 2011, we further integrated our existing activities and created a centralized committee at European level that meets regularly to coordinate all quality, health, safety and environmental issues. This enables us to discuss and share the best ideas from our country organizations internationally to the benefit of all participants. One of the first joint projects involves developing a uniform list of criteria across countries to measure the quality of delivered goods. In our opinion, continuous improvement in service and product quality is the key to permanent customer satisfaction. Therefore it goes without saying that our optimization and development efforts are always ongoing. A large number of our country organizations are certified according to the ISO 9001 quality standard recognized worldwide. The sites with strong ties to the automotive industry, such as Becker Stahl-Service or our site in Velten near Berlin, additionally hold ISO/TS 14949 automotive standard certification. In the future, further standards like the ISO 14001 environmental management standard will be implemented in parts of the Group.

COMPLIANCE IN THE VALUE CHAIN

We regard sustainability as a holistic concept and also consider ourselves responsible for adjacent links of the value chain beyond our Company's activities. As a steel and metal distributor with international operations, Klöckner & Co maintains relationships with suppliers, steel and metal producers, logistics companies and service providers around the globe, as well as with our customers, of course. In our numerous supply and service relationships, it is important to us that we always operate within the scope of the applicable laws and without tolerating any leeway for violations. To further bolster our position as a company that operates in a fair manner, we set up an extensive compliance organization in the holding company and the country organizations. We want to distinguish ourselves from other market players by competing equitably and winning over our customers with the quality of our products and services. Anyone violating our compliance guidelines or Code of Conduct violates not only the law, but also the standards we have set for ourselves as a Company. Our policy is clear: zero tolerance for compliance violations. Sanctions will be imposed for any infringement. Our Code of Conduct defines clear rules of conduct that are binding for all employees.

We make new employees in all countries aware of anti-trust law and anti-corruption compliance issues through on-site and e-learning programs. Regular refresher training sessions maintain continuous awareness of these important issues, and we ensure that our employees are informed about changes and new developments. Should there ever be any doubt about the correct action to take in day-to-day business; the Compliance Office is available for advice to our employees. In 2011, we also developed an e-learning program covering the content of the Code of Conduct that will be used to train all employees in the new fiscal year. In our country organizations, we monitor and verify compliance with statutory provisions and our in-house rules and guidelines on a regular basis with the help of systematic risk analyses of compliance issues and special compliance audits. Comparisons with other companies allow us to test our compliance management system at regular intervals. The findings of the KPMG Compliance Benchmark Study 2011 indicate that our compliance management system is set up to suitably address the risks inherent in the business model.

We also include our contractual partners outside the Company and trust that our suppliers concur with our Code of Conduct and its standards for ethical and legal business practices, a clear commitment to fighting corruption and child labor, and compliance with regulations concerning occupational safety and environmental protection. We review all third-party brokers as a precaution against corruption risk, in particular, and have established rules for their hiring. All of these measures are continually refined and adapted to new developments and circumstances based on our experience.

CORPORATE CITIZENSHIP

As a company operating in international markets, Klöckner & Co is aware of its responsibility towards society and has been involved for several years in the regional environment surrounding its sites. We focus on projects aimed at meeting basic needs and educating socially disadvantaged children because all children should have the same opportunities for successful development regardless of their social status. With our contribution, we want to lay the foundation for the cause of equal opportunity. In addition, we sponsor selected scientific, sports, art and cultural initiatives, as well as supporting social and humanitarian projects.

We apply uniform criteria and a defined process to the selection of recipients and the disbursement of funds, donations in kind and sponsoring contracts. Our philanthropy committee ensures the transparency of the process, checks the identity of recipients and determines how donations will be used, thereby avoiding conflicts of interest. As a rule, we do not donate to political parties, individuals, for-profit organizations or organizations whose goals conflict with our governance principles.

In Duisburg, where our headquarters are based, our activities revolve around the Marxloh neighborhood, which has a large immigrant population. We began financing healthy lunches at an elementary school in 2009 and in the reporting year gradually expanded this program to additional institutions in the area. Since 2010, we have also supported the artistic and creative development of children in Duisburg-Marxloh. In 2011, we cooperated with "Initiativkreis Ruhr's" education project to develop a concept for fostering music and art in different types of schools.

Our Group companies abroad also operate sponsorship and donation programs in accordance with our guidelines and report about their activities at the end of the year. Each country has its own focus within our donation guidelines. For instance, the US country organization has become increasingly involved in health projects, whereas the British country organization concentrates on supporting sports activities for children and young people.

We actively engage in shaping public opinion through regular contact with the political and media spheres as well as cultural organizations and industry associations. In May 2011, Klöckner & Co signed the “Leitbild der deutschen Wirtschaft,” a vision statement on the German economy. In this way, we aim to participate further in the active dialogue about values and responsibility.

For several years now, we have supported the work of Transparency International Deutschland in their fight against corruption.

7. REMUNERATION REPORT

The Remuneration Report summarizes the salient features of the compensation systems for the Management Board and the Supervisory Board and explains the amount and structure of compensation.

The Remuneration Report takes into account the recommendations of the German Corporate Governance Code.

MANAGEMENT BOARD COMPENSATION

In accordance with the German Act on Appropriateness of Management Remuneration (VorstAG), the setting of individual compensation is the responsibility of the Supervisory Board sitting in plenary session. Proposals are made for this purpose by the Executive Committee acting in its capacity as Personnel Committee under a provision to this effect in the Rules of Procedure for the Supervisory Board.

The compensation system set out in the following was presented at the Annual General Meeting 2011 and approved by 89.3% of votes cast. It applies for the compensation of all Management Board members, regardless of length of contract and of any diverging arrangements in the past.

Compensation for Management Board members consists of non-performance-linked and performance-linked components. The non-performance-linked components comprise a basic (fixed) salary and ancillary benefits together with pension benefits. The performance-linked part of Management Board compensation normally consists of three components: a variable annual bonus, a variable three-year bonus and a medium- to long-term virtual stock option (VSO) program. The performance-linked components thus mainly give long-term performance incentives, gearing the compensation structure toward the sustained onward development of the Company.

The annual fixed salary for ordinary members of the Management Board is €480,000; total annual compensation (including fixed salary) subject to 100% target attainment for the bonus components just mentioned is €840,000. The CEO receives one-and-a-half times these amounts. Virtual stock options and ancillary benefits are provided in addition.

The ancillary benefits primarily consist of insurance premiums and private use of company cars, in some cases with a driver.

Alongside the compensation components set out above, Management Board members have defined-benefit pension plans in accordance with the rules of Essener Verband and, in the case of Management Board member William A. Partalis, a comparable pension plan commensurate with the arrangements at the US country organization applicable to him prior to his appointment to the Management Board.

BONUSES

Alongside a variable annual bonus, Management Board members receive a variable three-year bonus whose target figure is normally three times that for the annual bonus.

The variable annual bonus is paid if the quantitative targets set jointly with the Supervisory Board at the beginning of each fiscal year are met. For this purpose, target figures for EBITDA net of special items and cash flow from operating activities net of special items were set for the reporting year based on the Group's budget.

The targets set jointly with the Supervisory Board for the variable three-year bonus reflect the Group's strategy and include growth targets (50% weighting), targets relating to business optimization (30% weighting) and targets relating to improvements in the area of personnel and management development (20% weighting). Annual advance payments are made on the three-year bonus subject to later repayment if the criteria are ultimately not met. The decision as to whether the targets have been met is made after the end of the third year.

The annual bonus for ordinary members of the Management Board at 100% target attainment is €180,000 subject to a maximum of €240,000. The three-year bonus for ordinary members of the Management Board at 100% target attainment is €540,000 subject to a maximum of €720,000. The annual and three-year bonus for the CEO is normally one-and-a-half times the respective amount for ordinary members of the Management Board. The maximum figure for the CEO is 200% of the target bonus. Under the Management Board members' contracts, the Supervisory Board also has discretionary power to award special bonuses for exceptional performance or exceptional accomplishment.

Determination of the amount and the payment of variable compensation take place retroactively after adoption of the Company's annual financial statements – for the annual bonus once annually and for the three-year bonus after adoption of the annual financial statements for the last year of the three-year period concerned.

VIRTUAL STOCK OPTIONS (VSOS)

The virtual stock option program agreed with the members of the Management Board consisted in fiscal year 2011 of two types:

Type I (VSO I) dates from 2006 and originally consisted of five annual tranches. The strike price for the first allotment in 2006 was the IPO price of €16 per share in June 2006. This price increased for each subsequent annual tranche by 5% of the previous year's strike price but was adjusted for any dividend distributions and dilutive capital increases in the interim. The vesting period for the first third of a tranche is three years, for the second third of the tranche four years and for the last third of the tranche five years from the allotment date. The individual tranches are allocated annually. Klöckner & Co SE's cash payment obligation corresponds to the difference between the average price of the last 30 trading days (Xetra trading, Deutsche Börse AG, Frankfurt am Main) prior to the exercise of the option and the underlying strike price, but is capped at €37 per option.

For the Type II VSOs (VSO II), the strike price is equal to the average Klöckner & Co share price over the last 30 trading days of the year before allocation of the respective tranche. The cap is €25 per option. The vesting periods are as for VSO I, i.e., three to five years.

Mr. Rühl was allocated the last tranche of the VSO I program (65,100 options) in 2011. He and Mr. Becker were also granted one tranche each of the VSO II program (55,800 and 60,000 options, respectively). Mr. Partalis was not a member of the Management Board at the time of the allocation in 2011. In accordance with his contract, he will be granted 60,000 options under the VSO II program each year from 2012 to 2014.

The VSO program ensures that through this compensation component Management Board members participate in the long-term development of the Company.

OTHER ARRANGEMENTS

Management Board contracts provide for compensation on early termination of office other than for cause. Such compensation is capped at two years' annual compensation subject to the remaining contract term.

Under a change-of-control provision, the Company's Management Board members have a special right of termination if a threshold of 30% of the voting rights is exceeded. On exercising this right, they are entitled to payment of their target income to the end of their contract term, capped at three times the total compensation they received in the last fiscal year ended prior to the termination date. In addition, all virtual stock options not yet granted up to that date are then deemed granted and may be exercised at the end of the contractual vesting period or three years from the issue date, whichever is sooner.

The Company has D&O insurance, including for members of the Management Board. Management Board members have a deductible of 10% of any claim, subject to a maximum of one-and-a-half times their fixed annual compensation.

Mr. Partalis, who is in charge of the Americas segment, is normally resident in the United States. His contract, which provides for compensation in euros, therefore includes an anti-devaluation clause to limit the impact of exchange rate changes.

APPROPRIATENESS

Criteria determining the appropriateness of Management Board compensation include the individual Management Board member's responsibilities, his or her personal performance, the business situation, earnings and future prospects of the Company, the extent to which the remuneration matches that of industry peers, and the compensation structure adopted by the Company. Both positive and negative developments are taken into account in designing the performance-linked compensation components.

Compensation levels are set overall to be internationally competitive and to give incentives geared to the sustained onward development of the Company and sustained growth in value in a dynamic environment. To aid the Supervisory Board in setting and regularly reviewing the fixed and variable components in Management Board contracts, a horizontal comparative survey of compensation is carried out based, among other things, on an independently compiled study of regular management board and CEO compensation at other German MDAX® companies. Due to the lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies are included in the analysis. Horizontal comparison of the Management Board compensation with other companies showed Klöckner & Co to be in the normal range regarding the amount and structure of compensation. It should, however, be taken into account that total expenses for the Management Board, which until September 2011 had only two and since then has three members, are lower than the average total expenses at comparable companies.

In an additional, vertical comparison, the Supervisory Board examined total CEO compensation at the main country organizations in the Klöckner & Co Group. This comparison likewise showed no major discrepancies.

Overall, the Supervisory Board determined from the analysis findings that the structure and amount of total Management Board compensation is commensurate with their duties and performance, as well as with the situation of the Company, is geared to the Company's sustained onward development and does not exceed normal levels.

COMPENSATION FOR 2011

The table below shows the individual compensation entitlements of Management Board members for 2011.

(€ thousand)		Gisbert Rühl, CEO/CFO	Ulrich Becker, COO	William A. Partalis	Total
Fixed components	2011	720	480	120	1,320
	2010	600	480	-	1,080
Bonusses					
shortterm*)	2011	281	206	90	577
	2010	333	240	-	573
midterm**)	2011	270	180	-	450
	2010	225	180	-	405
Other remunerations	2011	34	51****)	5	90
	2010	34	46****)	-	80
Total excluding share based payment	**2011**	**1,305**	**917**	**215**	**2,437**
	2010	**1,192**	**946**	**-**	**2,138**
Share-based payment***)	2011	839	357	-	1,196
	2010	812	411	-	1,223
Total	**2011**	**2,144**	**1,274**	**215**	**3,633**
	2010	**2,004**	**1,357**	**-**	**3,361**
Present value of benefit obligation	2011	1,843	595	3,307	5,745
	2010	1,618	386	-	2,004
Change in benefit obligation	2011	225	209	215	649
	2010	740	217	-	957

*) 2011 compensation paid, less prior-year provision plus provision recognized at end of reporting year.
**) Advance payment subject to later repayment. Target attainment is determined after the end of the third year.
***) Fair value on the grant date for each VSO tranche.
****) Includes €30,000 in paid-out pension benefits.

For a meaningful presentation of Management Board compensation properly allocated to periods, the above table gives the figures for tranches granted under the VSO programs in each year. No VSOs were exercised and consequently no amounts paid out in the year under review (2010: €537,000).

The accounting disclosure of total Management Board compensation in the 2011 separate financial statements and consolidated financial statements of Klöckner & Co SE, in accordance with Section 285 No. 9 and Section 314 (1) No. 6 of the German Commercial Code (HGB), is provided in Note 31 of the Notes.

No pension benefits were incurred for former Management Board members or surviving dependants.

SUPERVISORY BOARD

The amount and structure of compensation for the Supervisory Board are laid down in Section 14 of the Articles of Association available on the Company's website. Compensation consists of fixed and variable components allocated pro rata temporis in the event of personnel changes during the fiscal year. Members also receive an attendance fee and are reimbursed reasonable out-of-pocket expenses and value-added tax.

The fixed basic compensation per fiscal year is €17,000. A variable compensation component of €150 is paid for each full €1 million by which consolidated net income 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 is not permitted to exceed total fixed remuneration by more than 100%.

The attendance allowance is €2,000 per meeting; the Chairman of the Supervisory Board and the Chairman of a Supervisory Board committee each receive three times this amount and his or her deputy twice this amount.

As in past years, there are no virtual stock options for the Supervisory Board. Pursuant to Section 314 (1) No. 6 of the German Commercial Code (consolidated financial statements) and Section 285 No. 9 of the German Commercial Code (separate financial statements), Supervisory Board remuneration totaled €344 thousand in 2011 (2010: €382 thousand).

Pursuant to Section 5.4.6, sentence 6 of the German Corporate Governance Code, the table below shows the individual compensation entitlements of Supervisory Board members for 2011. All payments are due after the end of the Annual General Meeting in 2012. No compensation or benefits were incurred for personally rendered services, including for consulting and intermediary services.

(in €)	Fixed remuneration	Variable remuneration	Basic compensation	Total
Prof. Dr. Dieter H. Vogel (Chairman)	51,000	-	66,000	117,000
Dr. Michael Rogowski (Deputy Chairman)	34,000	-	40,000	74,000
Robert J. Koehler	17,000	-	10,000	27,000
Frank H. Lakerveld	7,084	-	6,000	13,084
Dr. Jochen Melchior	17,000	-	10,000	27,000
Hauke Stars	11,333	-	4,000	15,333
Dr. Hans-Georg Vater	17,000	-	54,000	71,000
	154,417	**-**	**190,000**	**344,417**

8. OPPORTUNITIES AND RISKS

Our risk management system once again proved highly efficient in fiscal 2011, even in the face of the slowdown in demand from our main customer industries, declining market prices from April onward, and ongoing uncertainty in the financial markets due to high sovereign debt levels in a number of European countries and the USA. Early identification of specific, material risks enables us to appropriately manage our risk position. From a current perspective, all risks are limited and manageable, and the Company's ability to continue as a going concern is thus assured.

Risks are frequently unavoidable in our business activities. Leveraging market opportunities often entails taking risks. However, we only make business decisions after first conducting risk analyse.

8.1 RISK POLICY

On the basis of central authority to issue guidelines, we have established and developed a uniform understanding of risk within the Group. Our risk management system is a flexible system subject to continuous improvement. It meets the company-specific requirements of an internationally operating steel and metal distribution group.

The Risk Management System (RMS) and Internal Control Structures (ICS) are based on recognized standards, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for enterprise risk management.

It should be noted, however, that even with an appropriate and properly functioning system in place, there can be no absolute guarantee that risks will be fully identified and managed and their potential negative impact entirely averted.

8.2 RISK MANAGEMENT AND INTERNAL CONTROL STRUCTURES

The primary objectives of the RMS are to identify and assess opportunities and risks and to eliminate going concern risk. Identified risks are continually monitored in our risk management system, enabling us to prevent or limit their potential negative impact. Specific quantifiable risks with a potential impact of more than €1 million are transferred provided it is possible and cost-effective to insure the risk in question. In addition, legal disputes involving amounts of €100,000 or more must be reported to corporate headquarters and are subject to ongoing centralized intra-Group monitoring. This enables us to ensure our Group's long-term ability to continue as a going concern while systematically and continuously increasing its value.

The management of each country organization decides what ranks as a material or going concern risk in close consultation and coordination with Corporate Headquarters and, to the extent the entire Group is affected, in consultation with the Management Board and the relevant Corporate Headquarter Departments. When evaluating risks, we also consider the nature and scope of existing lines of business.

The objective of the ICS is to use the controls that have been implemented to obtain reasonable assurance that identified risks can be monitored and managed. Key elements of the ICS include the stipulation of guiding principles, clearly defined responsibilities and application of the dual control principle, under which no significant transaction is entered into by Klöckner & Co without further cross-checking. In addition, the ICS promotes the separation of functions between execution, recording and administrative duties – as, for example, between procurement, accounting and logistics.

A further objective of our RMS and ICS is to manage compliance risk, focusing on competition and corruption. Starting in fiscal 2011, risk reporting was extended to include the quantifiable risk categories Technical Property Management (TPM) and Health & Safety. These primarily relate to risks from any failure to invest in technical equipment at warehouse locations or comply fully with safety standards, and from inadequate occupational safety and the resulting risks to our employees' physical well-being as well as to existing tangible assets.

Of the significant types of risk in international metal distribution, strategic and direct operational risks are the responsibility of the full Management Board and/or the management of the country organizations. Further significant risks fall within the coordinating responsibilities of the Corporate Headquarters Departments. In addition to Group financing and Group accounting, these also indirectly support the country organizations' operating responsibilities. Cross-border risks are managed centrally so as to protect the overall interests of the Group.

At process level, both the RMS and the ICS are set up uniformly throughout the Group and therefore organized centrally, with Group guidelines playing a key role in laying down requirements, opportunity and risk reporting, and risk monitoring.

The quarterly report on opportunities and risks documents identified opportunities and risks and is one of our key risk management tools. It is supplemented as and when necessary by ad hoc reporting on any material and/or going concern risks emerging at short notice. The report addresses opportunities and risks stemming from the economic environment, price trends, changes in inventories and receivables, and procurement, together with opportunities and risks associated with the Company's own activities. Klöckner & Co also documents the integration status of acquisitions and the status of material legal disputes. In addition to tax risks, the report examines issues relating to financing and borrowing, including compliance with credit facility covenants, and provides information on existing pension obligations. Insurance issues, IT systems and IT projects are also continually monitored.

Reporting takes place quarterly and if necessary on an ad hoc basis. The Management Board of Klöckner & Co regularly reports on changes in significant opportunities and risks at meetings of the Supervisory Board's Audit Committee. At the regular monthly meeting, the Chairman of the Supervisory Board receives a detailed overview of the Company's results of operations and cash flows as well as the related opportunities and risks for Klöckner & Co.

Interactions between control mechanisms in operating processes and performance-related controls are particularly important to the understanding of internal control processes. Such controls are performed by the country organizations' and the holding company's control functions. In addition, process-oriented checks are carried out by the Corporate Internal Audit Department.

The country organizations' control units produce monthly reports, which Corporate Controlling aggregates segment by segment into the Group Board Report. At regular meetings between the management of the country organizations and the Management Board member responsible for the respective segment, participants discuss all significant and quantifiable factors that impact results at country level.

The Corporate Internal Audit Department regularly examines the organizational structures and processes, thereby supplementing the system of applied controls. The primary purpose of these checks is to ensure that our internal controls are functioning properly. At the end of 2010 – and in February 2012 by way of a follow-up assessment – a quality assessment carried out by a certified, independent external auditor confirmed our compliance with international quality standards for internal auditing promulgated by the Institute of Internal Auditors (IIA) and the German Institute for Internal Auditing (Institut für Interne Revision e. V. (IIR)).

8.3 BUSINESS RISKS IN INTERNATIONAL METAL DISTRIBUTION

STRATEGIC RISK AND ACQUISITIONS

Despite the ongoing changes in the economic environment, we are holding to our "Klöckner & Co 2020" growth strategy and have pressed ahead with it by making two acquisitions. As part of our M&A strategy, we select acquisition targets based on clearly defined selection criteria. All M&A activities are governed by a comprehensive M&A policy, compliance with which we monitor centrally. All acquisitions undergo thorough due diligence. Valuation of the acquisition targets requires assumptions to be made about future economic developments. Alongside integration risk, there is a risk that actual developments may differ from these assumptions. Negative divergences may, for example, make it necessary to recognize impairment losses on intangible assets recognized in purchase price allocation. No later than three years after an acquisition, the Corporate Internal Audit Department carries out an investment review.

MARKET AND ENVIRONMENT-RELATED RISK

For Klöckner & Co as a stockholding multi metal distributor, market risk is mostly determined by demand and price trends, non-uniform economic trends and the competitive environment.

Risk may also result from the current mood of uncertainty on financial markets in the face of high sovereign debt levels in a number of European countries and the USA, potentially resulting in liquidity shortfalls and increased borrowing costs for customer industries, combined with a decrease in capital investment.

While we are not able to actively influence the economic trends in our market environment, analyzing trends and leading indicators along with available forecasts nevertheless enables us to respond to market change as quickly as possible, for example by taking specific measures in inventory management. One important element of our quarterly opportunity and risk reporting is therefore to quantify market- and environment-related risks. Based on our findings, we make stipulations day by day for local inventory management.

Our market risk is determined to a particularly large extent by the competitive landscape. For example, excess inventories may prompt individual competitors to introduce special offers, leading to price pressure in the market, which may have a negative impact on earnings. We therefore monitor our competitive environment very closely.

PRICE AND INVENTORY RISK

In addition to trends in demand, price trends also entail significant risk as we sell most products at spot market prices. The time span of up to several months between procurement price setting and sales invoicing means we are constantly exposed to significant inventory and valuation risk. Excessive inventory values can have a substantial negative impact on current earnings. When preparing the financial statements, it may also be necessary to write down inventories.

Inventory and valuation risk is classed as non-material at December 31, 2011. Following a decline in procurement and sales prices at times during the second and third quarters, prices in almost all product categories were stabilizing or rising slightly by the end of the fourth quarter of 2011. We expect this trend to continue in the first quarter of 2012, with prices rising moderately and failing to match Q1 2011 levels due to the more challenging economic outlook for 2012.

Price and inventory risk management is based on a comprehensive set of tools and continual monitoring of price trends in regional, national and international markets. We collect price information using a price information system and exchange it online within the Group. Procurement coordination is centralized in the International Product Management & Global Sourcing department, enabling us to respond quickly to changed situations in the procurement market. In this way, we are able to manage our portfolio of suppliers and obtain preferential prices, quantities and terms. Centralized procurement coordination is supported by a centralized monitoring function for inventories and orders in the Group. The same function also regularly identifies price trends, based on which Klöckner & Co determines the risk of write-downs on individual products. An inventory and product range policy tailored to demand and the specialty and central warehouses that have been introduced also reduce price risk. Although some capacity has been mothballed, we expect that prices will continue to be affected at least partially in 2012 by the structural imbalance between production capacity and actual demand. Our Group therefore continues to place special emphasis on price and inventory risk management.

Inventory management and valuation are central elements of the monthly reporting process. They allow us to quickly detect major discrepancies and immediately introduce the necessary countermeasures. In addition, the Corporate Internal Audit Department regularly reviews our inventories, both at the level of the country organizations and for branches selected according to risk considerations.

FINANCIAL RISK

Group financing is generally centrally managed. Klöckner & Co ensures the liquidity of Group companies primarily through central and bilateral credit facilities. Financial risk management is governed by a Group-wide financial guideline. This stipulates the scope of action, responsibilities and the necessary controls. We continued to fine-tune Group financing in 2011 from a risk perspective. In doing so, we increased the flexibility of our financing, further improved the maturity structure and optimized the contractual terms for central financing instruments.

RATING

Klöckner & Co SE as a Group is currently rated by the two leading rating agencies, Moody's and Standard & Poor's. Moody's has assigned a Ba2 rating and Standard & Poor's a BB rating. Despite the deteriorating economic environment, both rating agencies maintained the outlook at "stable" in light of the successful capital increase in June.

CREDIT RISK/DEFAULT RISK

A deterioration in a customer's creditworthiness could cause us to incur higher bad debt losses and lead to a shortfall in demand. It could then also become more difficult and costly to cover goods transactions through credit insurers, which is common practice in the industry. This would have a negative impact on turnover and earnings.

We identify and monitor operations-related credit risk locally as part of the country organizations' receivables management. Receivables and default risk are continuously monitored in the process. We set credit limits, which help to further reduce risk. At most country organizations, we use commercial credit insurance. In addition, the Corporate Finance & Accounting Department is involved in monitoring the decentralized management of receivables and payables, where the focus is on monitoring the solvency of large customers.

LIQUIDITY RISK

As part of the annual Group planning process, we compile a three-year financial plan. On a weekly basis, we also update a rolling cash budget with a time horizon of five weeks in line with our business model. The cash budget includes all Group companies requiring financing. Group financing is flexibly managed using a diversified credit portfolio consisting of capital market instruments, ABS programs, a syndicated credit facility, an asset-based lending facility and bilateral credit facilities. As a result of the financial crisis, we also continue to hold substantial reserves of cash and cash equivalents, which we have invested with the Group's prime-rated core banks and can transfer to operating companies as and when necessary. We use a cross-border cash pooling system for intra-Group settlements and for liquidity management. Banks' creditworthiness is regularly reviewed by monitoring spreads on credit default swaps.

We continued to fine-tune our financing structure in the past fiscal year. In March, the syndicated loan was extended and modified by taking advantage of a contractually agreed extension option. The amended credit terms provide greater flexibility in the use of bilateral financing instruments for working capital finance, particularly in connection with future acquisitions. The long-term financing for the acquisition of MSCUSA was hedged against exchange rate risk by entering into USD 300 million of cross-currency swaps. Hedge accounting is applied to these hedges in the consolidated financial statements. Back in March, the European ABS program was confirmed for two years and the terms amended. In May and June, Klöckner & Co issued further promissory notes totaling €198 million. The terms and conditions predominantly comply with the promissory notes issued during the previous year. The time to maturity of the promissory notes ranges from three to five years. In addition, a capital increase for a gross amount of €528 million was successfully placed in June. The capital increase will be used primarily to leverage further growth opportunities and stabilize our financial and balance sheet structure in light of the ongoing financial and economic crisis.

Continuous monitoring of contractual obligations and key performance indicators limit financial risk.

CURRENCY RISK

At Group level, currency risk results from financing, internal dividend payments, acquisitions and operating activities.

Klöckner & Co operates a centralized foreign currency management system. The domestic and foreign companies are required to identify foreign currency risks, which they must hedge through the Corporate Finance & Accounting Department or individually through banks within specified limits. We hedge currency risks using derivative financial instruments.

INTEREST RATE RISK

In the Klöckner & Co Group, interest rate risk stems primarily from variable-rate financial liabilities and from investing cash and cash equivalents with banks. Our Group is exposed to interest rate fluctuations mainly in the eurozone and the USA. The Corporate Finance & Accounting Department operates a centralized interest rate management system on the basis of the financial guideline. In doing so, it monitors and manages interest rate risk using interest rate derivatives.

Liquidity, currency and interest rate risk are considered in specific audit engagements of our Corporate Internal Audit Department.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

We hedge the above-mentioned financial risks arising from foreign currencies and changes in interest rates using over-the-counter derivative financial instruments, primarily forward transactions and swaps. In doing so, we use only sufficiently liquid, marketable instruments. Hedges cover currency risk on booked and pending business.

Derivative financial instruments are entered into and settled in accordance with the financial guideline. Another key task of the Corporate Finance & Accounting Department is to manage and coordinate the use of derivative financial instruments. We only enter into transactions with prime-rated counterparties, using such instruments solely to hedge risks associated with underlying transactions.

Under no circumstances may derivative financial instruments be used for speculation.

RISKS RELATED TO THE EURO CRISIS

If the euro crisis were to escalate, the direct operating risks to our Group would be relatively limited. The distributed structure of our country organizations gives the Group a considerable amount of flexibility. At the same time, potential currency exposure is extremely low due to an almost complete absence of cross-border business. Dependence on the economic performance of the eurozone was reduced in 2011 through acquisitions that have increased the proportion of Group sales generated in the Americas segment to around a third of the total.

Due to the impact on the banking sector, however, any escalation of the euro crisis would likely lead to a noticeable reduction in the financing options available, resulting in turn in a sharp increase in financing costs and, due to the possible unavailability of lending banks, greater dependence on the performance of the capital markets.

RISKS ARISING FROM PENSION OBLIGATIONS

The Group recognizes pension provisions for current and future benefits to eligible current and former employees. Defined benefit or defined contribution plans have been put in place depending on the legal, economic and tax environment in each country.

The risk associated with defined benefit pension obligations corresponds to the size of the obligation. These are calculated on the basis of actuarial assumptions and also require the use of estimates. Benefit costs may increase or – in the case of funded plans – additional contributions to fund assets may be necessary due to tighter legal requirements.

In the case of funded pension obligations, such as in the USA, the UK and the Netherlands, the fund assets set aside to cover benefits are exposed to capital market risk. As part of our risk analysis, we regularly commission independent experts to produce asset/liability studies and, where necessary, adapt our investment policy accordingly.

Worldwide, decisions on the allocation of funds to pension schemes are made centrally by the Klöckner Global Retirement Benefits Committee. These decisions require the approval of the Group's Management Board.

8.4 ADDITIONAL BUSINESS RISKS

PERSONNEL RISK

As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees. The loss of employees in key positions therefore poses the greatest personnel risk.

We actively compete for highly qualified specialists and executives and have made personnel and management development one of the four pillars of our "Klöckner & Co 2020" strategy. In 2010, we separated management development from traditional HR work and established a Corporate Executive HR & Talent Management Department. Our aim is to extend the skills of our employees, identify, retain and develop promising talent, and enhance our attractiveness as an employer. We expect that this will significantly enhance the promotion of young talent and make us a more attractive employer for high-caliber individuals. Our remuneration systems are designed to retain and motivate employees, as are our personnel development programs and measures. The same applies when integrating newly acquired companies, most of all with regard to employees in key positions.

The monitoring of potential personnel risks forms part of our regular opportunity and risk reporting.

LEGAL AND COMPLIANCE RISK

Our aim is to promptly address potential risks arising from the many civil, tax, environmental, antitrust and other regulations and laws. We therefore ensure strict compliance with such legislation and make use of the comprehensive legal advice provided by both our own experts and qualified external specialists.

Subsidiaries of Klöckner & Co are directly or indirectly affected by ongoing investigations by the French and Spanish competition authorities. Should those investigations uncover any violations of applicable antitrust laws, this could lead, for example, to fines that would have a negative impact on our results of operations, cash flows and financial position. Given the nature of the charges under investigation, the Management Board currently foresees only a minor financial risk that does not require separate recognition in the financial statements.

Significant legal disputes at our country organizations and at Klöckner & Co SE itself are subject to continuous monitoring as part of the quarterly risk reporting. Ongoing legal disputes upward of a specific amount must be reported at Group level. Legal matters and their significance for our Group are closely monitored.

Our Group-wide compliance program stresses value-driven management based on ethical and law-abiding conduct. Our clear goal is to ensure that conduct toward employees, customers and suppliers is responsible and respectful. We have set up an online whistleblower system on our website that makes it easier for both employees and third parties to report possible instances of non-compliance to the central Corporate Compliance Office. We continuously examine the effectiveness of the compliance program by conducting our own audits. This once again resulted in modifications to existing tools and adoption of a new tool in the year under review.

We expect to prevent compliance violations on a proactive basis to a greater extent with the aid of the Group-wide compliance system established in 2007 to 2008, and subsequently expanded, as well as with the aid of training provided as part of that system. This will enable us to stop damage from reaching a threatening level. Despite the extensive measures taken, however, we cannot rule out the possibility that isolated violations will occur or past violations will come to light. Any suspicions will be fully investigated by the Corporate Compliance Office wherever possible and the necessary action taken. Even though any violations are not likely to be serious, there is a possibility that fines will be imposed.

As a preventative measure aimed at avoiding any kind of violation, we continued to carry out training in the reporting period in order to raise employee awareness. In addition to classroom training, the measures primarily include an e-learning tool that is mandatory throughout the Group. The Group-wide introduction of our Code of Conduct and other compliance-related Group guidelines, in particular regarding measures to combat corruption, on antitrust law and on the engagement of sales agents and other intermediaries, is a key element of our Group-wide compliance program. Our aim here is to maintain a clear, unambiguous stance on ethical, law-abiding conduct both internally and externally, which, among other things, will help to prevent risk.

ENVIRONMENTAL PROTECTION/OCCUPATIONAL SAFETY RISKS

Environmental risks may arise primarily at Group locations where we operate equipment that produces emissions, such as sandblasting and painting equipment. Cutting and sawing equipment may also pose environmental risks. Our equipment meets the relevant technical requirements. It is inspected by external experts at prescribed intervals in order to minimize environmental risks. There are no other significant environmental protection risks.

In 2011, the reporting processes for occupational accidents were harmonized and fine-tuned across the Group. The improved analyses allow more detailed conclusions to be drawn about the causes and thus help to promptly identify and continuously reduce risks.

TAX RISKS

Tax risks arise in connection with acquisitions, restructuring and financing. Tax authorities in different jurisdictions sometimes vary in their understanding of the law, and the tax environment may also change as a result of changes in legislation. Under guidelines and directives in force, Klöckner & Co SE’s Corporate Tax Department is involved in the legal assessment of such matters. The same applies for official tax audits in the countries we operate in. This allows us to promptly identify any risks arising from such audits and, if necessary, take suitable measures to minimize the risks and recognize provisions as appropriate. Tax risks also arise in connection with existing loss carryforwards. Firstly, country-specific changes in tax rates and other changes in legislation may affect the recoverability of recognized deferred tax assets. Secondly, changes in ownership structure may result in the partial or complete loss of tax loss carryforwards.

RISK TRANSFER

We insure transferable risks as part of our risk management. In addition to going concern risk and significant default risks, we also insure outstanding receivables through the country organizations’ credit insurance. Other transferable risks insured Group-wide include cross-border risks arising from damage to property, interruptions to business and industrial liability.

In addition, we have Group-wide D&O protection and employer liability insurance to cover potential compensation claims from employees for discrimination and other matters.

A Group-wide insurance guideline sets out the risk considerations that determine whether further risks must be covered locally. In addition, since 2005, Klöckner & Co has maintained a central database that allows it to fully track claims management for insurable risks worldwide.

INFORMATION SECURITY RISKS

Business processes in the Klöckner & Co Group heavily depend on installed IT systems. These include not only our administrative systems, but also the systems in procurement, sales and logistics together with their respective reporting frameworks. In Europe, with few exceptions, we have already successfully migrated all significant applications to SAP R/3 and largely completed the migration to SAP ERP 6.0. The aim is to optimize and harmonize our Group's business processes, thereby also improving cross-border cooperation within the Group. We are working quickly and systematically to roll out the SAP ERP 6.0 model in other European countries.

As SAP ERP 6.0 becomes more widely used, country-level risk and control structures are being standardized. Based on the knowledge of these structures, they can be selectively fine-tuned by the holding company. These projects are coordinated by the Corporate Process Management and IT Department. Working in cooperation with country IT coordinators and external IT service provider KIS Information Services GmbH, we systematically upgrade the information technology in our Group on an ongoing basis.

The IT guidelines required for this purpose were thoroughly revised in 2010 and provide for the further development and operation of the SAP system. IT security is governed by the Group-wide IT Security Manual. Klöckner & Co has implemented a security plan that will quickly restore system availability in the event of disaster.

8.5 OPPORTUNITIES AND OPPORTUNITY MANAGEMENT

Even as the economic environment becomes more challenging, and despite the change in current economic conditions, we see significant opportunities for our Group and are therefore holding on to our "Klöckner & Co 2020" growth strategy. We have continued to improve our competitive position on the back of a secure financial structure, steadily increasing efficiency, and effective procurement and inventory management. Our acquisitions of MSCUSA and Frefer in Brazil provide major impetus for our long-term growth strategy. Our opportunity management also remains geared to this strategy, which is centered around four main thrusts: external growth, organic growth, business optimization, and personnel and management development.

At the holding company, the coordination and control side of opportunity management is primarily the responsibility of the Corporate Controlling & Development/M&A Department. Financing and implementation of the strategic direction laid down by the Management Board with regard to investments, acquisitions and other measures are supported by Corporate Headquarters and the country-level management teams. Strategic projects are managed and monitored at country level together with the holding company management.

STRATEGIC OPPORTUNITIES IN MARKET CONSOLIDATION

As part of our "Klöckner & Co 2020" strategy, we intend to grow externally by making selective acquisitions. We see significant growth potential above all in emerging economies. We intend to participate in this growth and, again based on the "Klöckner & Co 2020" strategy, we entered the Brazilian and Chinese markets in 2011. In the case of Brazil, we did so by acquiring the majority of the third-largest independent steel and metal distributor, Frefer. In China, we opened our first distribution and service center in Changshu with a view to gradually establishing ourselves in the Chinese market. We also aim to further extend our position in our established markets in Europe and North America. Following the acquisition of the Becker Stahl-Service Group, Bläsi AG, Angeles Welding & Mfg. Inc. and Lake Steel Ltd. in the previous year, we took the opportunity in 2011 to significantly increase the pace of growth in the USA and improve our long-term profitability by acquiring MSCUSA. The ongoing trend toward market consolidation is likely to gather pace in mature markets due to the fallout from the financial and economic crisis.

Another pillar of our corporate strategy is organic growth. Alongside the restructuring measures to improve costs and liquidity, we are pressing ahead with our growth strategy, taking action aimed at gaining market share by expanding our product and service portfolio, customer base and geographic presence. Because of the contraction in market volumes caused by the financial and economic crisis and the resulting increase in competition, we have also acted to fine-tune customer targeting in sales. In this context, a cross-border project is currently underway in France, Germany and the UK to introduce a new sales system called Sales Dynamics. The aim here is to increase effectiveness and efficiency in sales with a view to lifting turnover and EBITDA margins. We plan to introduce an active sales organization with clear responsibilities, workflows and structures, as well as a more transparent reporting system and an improved pricing system. Preparations for the system's implementation in 2012 were completed by the end of the year.

OPERATIONAL OPPORTUNITIES

Since 2005, we have been implementing a comprehensive efficiency drive, which has been further enhanced and fine-tuned as part of the "Klöckner & Co 2020" strategy.

Continuously and successfully optimizing our business processes, especially in procurement, warehousing and sales, provides opportunities to increase the profitability of our activities, partly through synergies from acquisitions.

Centralized procurement and product management allows us to coordinate and manage procurement at European level as well as optimize procurement terms and product structures. In warehouse management, we can leverage further potential by improving the network structure, concentrating our inventories at individual locations and adjusting inventory levels. Such measures reduce working capital and make us less vulnerable to inventory valuation effects.

Workflows and structures in internal logistics, prefabrication and transport logistics are being lastingly improved by a system that has been rolled out extensively across Europe called the 10 Commandments of Operations. This harmonizes processes, exchanges best practice across borders and lays the foundations for a continuous improvement process. Implementation of the measures is monitored in the course of assessments of the individual operations carried out by headquarters, while improvements in performance are supported using a uniform key indicator system. Systematically maintaining the 10 Commandments of Operations system provides further opportunities to improve supplier performance, efficiency and occupational safety. Additional opportunities to increase efficiency result from improved auxiliary processes, particularly in IT systems.

8.6 KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS, IN ACCORDANCE WITH SECTION 289 (5) AND SECTION 315 (2) NO. 5 OF THE GERMAN COMMERCIAL CODE (HGB)

ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

The internal management and control system at Klöckner & Co SE is primarily the responsibility of the Corporate Finance & Accounting, Corporate Controlling and Corporate Internal Audit Departments, assisted by the Corporate Tax and Corporate Legal Departments. The Group's Supervisory Board, in particular as represented by the Audit Committee, is also an integral part of our control system.

Controls in the Klöckner & Co Group take place both, as part of an integrated process and on an ad hoc basis. In addition to system-based (IT-based) controls, we also use manual controls such as application of the four-eye principle. Administrative, execution, invoicing and approval functions are separated, reducing the possibility of fraudulent acts that may harm the Company.

IT SYSTEMS IN FINANCIAL REPORTING

Financial accounting for the subsidiaries included in the consolidated financial statements is carried out mainly through the standardized use of SAP software. Since 2010, we have used SAP Business Objects Financial Consolidation (BOFC) as our consolidation software. The local financial accounting data are entered into BOFC and supplemented with additional reporting data. All eliminations in the course of the consolidation process are prepared and entered in the central consolidation software. These include consolidation of investments, elimination of inter-company payables and receivables, elimination of inter-company revenue and expense, and elimination of inter-company profit and loss. The consolidation and elimination entries are documented.

Access restrictions and defined user profiles protect both the original financial accounting data and the consolidation software from unauthorized access, and prevent inappropriate read and/or write access to the systems.

FINANCIAL REPORTING RISKS

Specific financial reporting risks include complex and/or non-recurring accounting issues such as the presentation of changes in the composition of the consolidated Group (business combinations and disposals) and new Group financing measures. The application of management judgment in financial statement preparation, such as in annual impairment testing, harbors increased potential for errors. Potential risks from derivative financial instruments are presented in detail in the notes to the consolidated financial statements.

CONTROL ACTIVITIES TO ENSURE COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Our control activities aimed at ensuring reliability and compliance with generally accepted accounting principles make sure that we present transactions in full, reliably and in a timely manner. Transactions are recorded in the Group's accounts in accordance with legal requirements. The accounts of the entities included in the Group are likewise kept correctly and in full, and in compliance with generally accepted accounting principles. Information on inventories and assets is systematically verified by stocktaking. Other assets and liabilities are recognized and presented correctly and measured appropriately in the financial statements. Each quarter, we use a centrally managed, standardized procedure to verify the accuracy of intra-Group financial and trading balances for the Group companies concerned.

Appropriate control mechanisms are in place to reduce the probability of errors in working procedures and detect any errors that do occur. Selected items are examined for this purpose using analytical methods such as ratio analyses. Our Corporate Internal Audit Department and the external Group auditor promptly review the migration of IT systems and the effects of other changes in the Company, such as from business activities, restructurings and changes in the economic or legal environment. We prepare Klöckner & Co SE's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

The continuously updated Group accounting guidelines ensure that the IFRS are applied uniformly throughout the Group. Our Corporate Finance & Accounting Department prepares and updates the accounting guidelines, which are binding on all domestic and foreign subsidiaries included in the consolidated financial statements. They are supplemented by a standardized Group chart of accounts, which is maintained and updated exclusively by Klöckner & Co SE's Corporate Finance & Accounting Department. A standardized Group reporting package is used for all subsidiaries to ensure the completeness and uniformity of the necessary additional information published in the notes to the consolidated financial statements. We use IFRS checklists to verify the disclosures in the consolidated financial statements.

At the level of the reporting units, plausibility checks integrated into the SAP consolidation software validate the formal consistency of data in all Group reporting packages transferred to the Group accounting software. In addition to this automated quality assurance procedure, the Corporate Finance & Accounting Department carries out substantive checks and arranges for any necessary corrections to be made, or makes corrections centrally. In doing so, it also considers the audit opinions of local auditors.

The Corporate Finance & Accounting and Corporate Controlling Departments carry out annual impairment testing under IAS 36 on a centralized basis. Klöckner & Co thus ensures that all cash-generating units are measured and management judgment is used uniformly. Share-based payment is also determined centrally, with the assistance of an external expert. Pension obligations are computed locally with the assistance of actuarial experts. The calculation parameters are approved by the Corporate Finance & Accounting Department. An additional actuary coordinates the overall process of presenting pension obligations for overall assurance with regard to the quality of the complex calculations and disclosures.

The effectiveness of financial reporting control and management systems is constrained by management judgment and the possibility of mistakes in checking and deliberate criminal circumvention. Through the processes and controls we have put in place, we obtain reasonable assurance that the process of preparing the consolidated financial statements is carried out in accordance with IFRS, the German Commercial Code (HGB) and other financial reporting-related rules and pronouncements. There can, of course, be no absolute guarantee that all items will be fully and correctly included in the consolidated financial statements.

8.7 OVERALL STATEMENT ON THE RISK SITUATION OF THE GROUP

The Management Board believes that Klöckner & Co has recognized sufficient provisions to cover all risks required to be accounted for when preparing the financial statements.

The Management Board also believes that the Group is sufficiently protected by the measures already implemented and those projected, as well as by the business systems outlined to cushion the market risks described. Due to the ongoing economic uncertainty as a result of the sovereign debt crisis in Europe and the USA, however, the market risks are extremely high. Although global economic growth will retain its positive underlying momentum in 2012, the uncertainty stemming from the sovereign debt crisis is contributing to a slowdown in growth, particularly in Western industrialized nations. Because of the measures that have been taken and planned, particularly to ensure liquidity, there are no identifiable risks that raise doubt about the Company's ability to continue as a going concern.

9. FORECAST

Although demand for steel increased substantially in Europe and the Americas – the continents relevant to Klöckner & Co – turnover in 2011 still fell short of the pre-crisis level by around 20% in the European Union and by some 10% in the United States. For 2012, we expect the US market to grow further, whereas in Europe the sovereign debt crisis will have a negative impact on economic output and thus on steel consumption. According to the International Monetary Fund's (IMF) estimates, the global economy will grow by 3.3% in 2012 and by 3.9% in 2013. For the European Union, the IMF forecasts a –0.5% decline in economic output in 2012, through to slight growth of 0.8% in 2013, while it expects the United States economy to grow by 1.8% in 2012 and by 2.2% in 2013. The stronger growth in the global economy as a whole will again mainly be driven by emerging economies, which are expected to grow by 5.4% in 2012 and by 5.9% in 2013.

We anticipate that our most important customer industries in Europe – the construction industry, machinery and mechanical engineering, and the automotive industry – will be unable to escape the uncertainties surrounding the sovereign debt crisis. In our view, the volatility on the financial markets is leading to greater caution in capital expenditures, which could be further intensified by the possibility of a banking credit crunch, especially in peripheral European countries. We believe that even export-driven industries, which are currently still benefiting from high order backlogs, will not be able to decouple from this trend entirely, owing to a reliance on exports to the eurozone. Hence, growth in the European automotive, machinery and mechanical engineering industries can also be expected to slow. This, combined with cautious inventory policies, could, from today's perspective, result in demand for steel falling by up to the mid-single-digit percentage range. In regional terms, we expect a strong north-south divide. Whereas according to current estimates, Germany will continue to grow, southern European countries, in particular, will be worse affected by the cuts.

In the United States, the picture is more positive. All key customer industries remain on course for recovery; even the construction industry has in all likelihood bottomed out. Machinery and mechanical engineering in particular are benefiting from the continued economic recovery, but the automotive industry, which is not so important for us at present, is expanding, too. Based on this, we expect demand for steel in the United States to grow by a mid-single digit percentage range. In addition to the forecast market growth in the United States, our turnover in the Americas segment will benefit notably from the full-year contribution from MSCUSA and Frefer, which have only been included in the consolidated Group since May 1 and June 1, 2011, respectively. We therefore expect Group turnover and sales to increase overall year on year in 2012.

Due to the turnover and price trends expected for 2012 and the acquisitions of MSCUSA and Frefer in Brazil, as well as the early introduction of our profitability action plan, we anticipate a noticeable improvement in operating income. It is not possible at present to quantify the forecast for 2012, due to the expected ongoing cycles in steel prices along with general economic uncertainty. Under the current circumstances, it is not yet realistic to expect the overall Group to achieve the medium-term EBITDA margin target of 6% in 2012, but prospects are good for the Americas segment in this regard. The forecast is based on the expectation that US GDP growth will again be positive in 2012, that European GDP will at worst record a slight decline and that average steel prices at least hold their current level.

In line with the "Klöckner & Co 2020" strategy, the Group already managed to further diversify its sales distribution in 2011. The Americas segment already accounts for 29%, while the proportion of European business is gradually declining. The acquisition in Brazil and the opening of a service center in China laid the foundations for further growth in emerging economies, which currently only account for a small proportion of sales but are targeted to contribute more in the years ahead.

For 2013, we currently expect to increase turnover, sales and earnings again year on year, and to systematically push ahead with our "Klöckner & Co 2020" growth strategy. Should the sovereign debt crisis in Europe prove to have a greater and more long-term impact than is presently generally anticipated, our current financial headroom of €2.2 billion, balanced maturity profile and strong balance sheet with an equity ratio of around 39% mean we are ideally positioned to actively counter any adverse effects, and to develop and implement further courses of action.

Duisburg, February 24, 2012

The Management Board

FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

KLÖCKNER & CO SE

Consolidated statement of income for the 12-month period ending December 31, 2011

(€ thousand)	Notes	2011	2010
Sales	(6)	7,095,361	5,198,181
Other operating income	(7)	52,189	35,822
Change in inventory		3,887	– 7,383
Own work capitalized		10	39
Cost of materials	(8)	– 5,784,590	– 4,054,830
Personnel expenses	(9)	– 588,223	– 486,618
Depreciation and amortization		– 105,373	– 85,783
thereof impairment losses		*– 3,422*	-
Other operating expenses	(10)	– 562,114	– 447,442
Operating result		111,147	**151,986**
Income from investments		-	**5**
Finance income		16,390	8,793
Finance expenses		– 100,631	– 76,443
Financial result	**(11)**	– 84,241	**– 67,650**
Income before taxes		26,906	**84,341**
Income taxes	(12)	– 16,539	– 4,129
Net income		10,367	**80,212**
thereof attributable to			
– shareholders of Klöckner & Co SE		*11,585*	*77,541*
– non-controlling interests		*– 1,218*	*2,671*
Earnings per share	**(13)**		
– basic		0.14	**1.17**
– diluted		0.14	**1.17**

KLÖCKNER & CO SE

Statement of comprehensive income for the 12-month period ending December 31, 2011

(€ thousand)	2011	2010
Net income	**10,367**	**80,212**
Other comprehensive income		
Foreign currency translation	63,171	79,349
Gain/loss from net investment hedges	– 13,851	– 26,360
Gain/loss from cash flow hedges	1,947	– 827
related income tax	– 5,186	2,773
Other comprehensive income	**46,081**	**54,935**
Total comprehensive income	**56,448**	**135,147**
thereof attributable to		
– shareholders of Klöckner & Co SE	*58,663*	*132,431*
– non-controlling interests	*– 2,215*	*2,716*

KLÖCKNER & CO SE

Consolidated statement of financial position as of December 31, 2011

Assets

(€ thousand)	Notes	December 31, 2011	December 31, 2010
Non-current assets			
Intangible assets	(14a)	559,874	227,323
Property, plant and equipment	(14b)	639,481	524,169
Investment property	(14c)	10,486	10,486
Financial assets		2,664	2,721
Other assets	(17)	37,955	32,027
Deferred tax assets	(12)	44,092	59,235
Total non-current assets		**1,294,552**	**855,961**
Current assets			
Inventories	(15)	1,362,191	898,841
Trade receivables	(16)	921,758	703,101
Current income tax receivable	(12)	31,899	34,251
Other assets	(17)	105,203	62,898
Cash and cash equivalents	(18)	986,632	934,955
Assets held for sale	(19)	3,610	1,088
Total current assets		**3,411,293**	**2,635,134**
Total assets		**4,705,845**	**3,491,095**

Equity and liabilities

(€ thousand)	Notes	December 31, 2011	December 31, 2010
Equity			
Subscribed capital		249,375	166,250
Capital reserves		900,759	464,243
Retained earnings		568,803	596,162
Accumulated other comprehensive income		95,799	48,721
Equity attributable to shareholders of Klöckner & Co SE		**1,814,736**	**1,275,376**
Non-controlling interests		28,503	15,118
Total equity	**(20)**	**1,843,239**	**1,290,494**
Non-current liabilities and provisions			
Provisions for pensions and similar obligations	(22)	182,745	174,442
Other provisions and accrued liabilities	(23)	29,060	31,513
Financial liabilities	(24)	1,067,862	1,020,582
Other liabilities	(26)	85,077	54,945
Deferred tax liabilities	(12)	160,500	79,910
Total non-current liabilities		**1,525,244**	**1,361,392**
Current liabilities			
Other provisions and accrued liabilities	(23)	114,091	107,259
Income tax liabilities	(12)	19,014	31,638
Financial liabilities	(24)	377,327	39,578
Trade payables	(25)	749,816	584,614
Other liabilities	(26)	77,114	76,120
Total current liabilities		**1,337,362**	**839,209**
Total liabilities		**2,862,606**	**2,200,601**
Total equity and liabilities		**4,705,845**	**3,491,095**

KLÖCKNER & CO SE

Consolidated statement of cash flows for the 12-month period ending December 31, 2011

(€ thousand)	2011	2010
Income before taxes	26,906	84,341
Financial result	84,241	67,650
Depreciation and amortization	105,373	85,783
Other non-cash expenses/income	4,510	– 836
Gain on disposal of non-current assets	– 8,747	– 1,781
Operating cash flow	212,283	**235,157**
Changes in provisions	11,234	– 35,613
Changes in net working capital		
Inventories	– 124,396	– 168,180
Trade receivables	– 43,326	– 136,724
Trade payables	40,377	108,157
Changes in other operating assets and liabilities	– 53,327	32,598
Income taxes paid	– 36,648	– 207
Cash flow from operating activities	6,197	**35,188**
Proceeds from the sale of non-current assets and assets held for sale	12,833	3,708
Proceeds from the sale of consolidated subsidiaries	4,820	-
Payments for intangible assets, property, plant and equipment	– 55,953	– 26,976
Acquisition of subsidiaries	– 444,417	– 164,480
Cash flow from investing activities	– 482,717	**– 187,748**
Issue proceeds of convertible bond (incl. equity component)	-	183,257
Capital repayment (non-controlling interest)	-	– 1,157
Capital increase		
– issuance of new shares of Klöckner & Co SE	516,103	-
– non-controlling interests	51	-
Dividends paid to		
– shareholders of Klöckner & Co SE	– 19,950	-
– non-controlling interests	– 2,102	– 1,509
Borrowings	646,258	336,934
Repayment of financial liabilities	– 355,396	– 164,325
Repayment of financial liabilities in connection with business combinations	– 195,672	– 57,878
Interest paid	– 61,589	– 48,375
Interest received	14,423	5,027
Cash flow from financing activities	542,126	**251,974**
Changes in cash and cash equivalents	65,606	**99,414**
Effect of foreign exchange rates on cash and cash equivalents	– 13,929	9,024
Cash and cash equivalents at the beginning of the period	934,955	826,517
Cash and cash equivalents at the end of the period	986,632	**934,955**

KLÖCKNER & CO SE

Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings
Balance as of January 1, 2010	**166,250**	**429,493**	**518,621**
Other comprehensive income			
Foreign currency translation			
Gain/loss from net investment hedges			
Gain/loss from cash flow hedges			
Related income tax			
Other comprehensive income			
Net income			77,541
Total comprehensive income			
Capital repayment subsidiary			
Equity component of convertible bond		34,750	
Dividends			
As of December 31, 2010	**166,250**	**464,243**	**596,162**
Balance as of January 1, 2011	**166,250**	**464,243**	**596,162**
Other comprehensive income			
Foreign currency translation			
Gain/loss from net investment hedges			
Gain/loss from cash flow hedges			
Related income tax			
Other comprehensive income			
Net income			11,585
Total comprehensive income			
Change in scope of consolidation*)			– 18,723
Capital increase	83,125	436,516	35
Change of non-controlling interests			– 306
Dividends			– 19,950
As of December 31, 2011	**249,375**	**900,759**	**568,803**

*) Including put option for the non-controlling interests of the Frefer Group (see Note 5)

Accumulated other comprehensive income				
Currency translation adjustment	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	Total
10,994	**– 17,163**	**1,108,195**	**15,068**	**1,123,263**
79,304		79,304	45	79,349
	– 26,360	– 26,360		– 26,360
	– 827	– 827		– 827
– 5,581	8,354	2,773		2,773
		54,890	**45**	**54,935**
		77,541	2,671	80,212
		132,431	**2,716**	**135,147**
			– 1,157	– 1,157
		34,750		34,750
			– 1,509	– 1,509
84,717	**– 35,996**	**1,275,376**	**15,118**	**1,290,494**
84,717	**– 35,996**	**1,275,376**	**15,118**	**1,290,494**
64,168		64,168	– 997	63,171
	– 13,851	– 13,851		– 13,851
	1,947	1,947		1,947
– 8,840	3,654	– 5,186		– 5,186
		47,078	**– 997**	**46,081**
		11,585	– 1,218	10,367
		58,663	**– 2,215**	**56,448**
		– 18,723	17,381	– 1,342
		519,676	15	519,691
		– 306	306	-
		– 19,950	– 2,102	– 22,052
140,045	**– 44,246**	**1,814,736**	**28,503**	**1,843,239**

KLÖCKNER & CO SE

Notes to the consolidated financial statements of Klöckner & Co SE, Duisburg, as of December 31, 2011

(1) COMPANY INFORMATION

Klöckner & Co SE is a listed corporation domiciled in Duisburg, Am Silberpalais 1. Klöckner & Co SE is entered in the commercial register of the Duisburg Local Court under HRB 20486. The consolidated financial statements of Klöckner & Co SE and its subsidiaries ("Klöckner & Co" or "Group") were authorized for issuance to the Supervisory Board by way of resolution of the Management Board on February 24, 2012. 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 the combined market 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, 2011 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" – Handelsgesetzbuch) pursuant to Section 315a para 1 HGB. All binding IFRS and the associated interpretations of the IFRS Interpretations Committee ("IFRIC") as of December 31, 2011 were applied.

The financial statements or interim financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2011, 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

Scope 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 program ("ABS program") a total of five special-purpose entities exist. None of the Group companies holds an equity interest in four of these special-purpose entities. However, they were established for the sole purpose of purchasing and collecting receivables of Klöckner & Co subsidiaries.

As such, 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 currently dormant special-purpose entity of the European program as well as an additional special-purpose entity that is responsible for the acquisition of trade receivables under the American ABS program are 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.

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

The scope of consolidated companies changed as follows:

	2011	2010
Consolidated entities at the beginning of the financial year*)	**96**	109
+ business combinations	**9**	6
+ newly formed/consolidated companies	**3**	2
– mergers	**– 5**	– 19
– disposals and liquidations	**– 1**	– 2
Consolidated entities at the end of the financial year	**102**	**96**
*thereof domestic entities including Klöckner & Co SE**)*	***12***	*15*

*) Including consolidated special-purpose entities.

5 (2010: 6) subsidiaries that do not have a significant impact on the Group's net assets, financial results and results of operations are not consolidated. Net income of these entities represents only 0.06% (2010: – 0.08%) of consolidated net income. The impact on the Group's equity amounts to – 0.76% (2010: – 1.08%). Such subsidiaries are accounted for as financial assets at cost as their fair values cannot be determined reliably.

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

(4) SIGNIFICANT ACCOUNTING POLICIES

Business combinations

Business combinations are accounted for under the purchase method whereby the consideration transferred for the investment is offset against the investee's net assets, which are 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 consideration transferred for the acquired business 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. Non-controlling interests are measured at their proportional share of the fair values of the acquired net assets, i.e., the full goodwill method is not applied. Audit and consulting fees incurred in business combinations are expensed as incurred.

Subsequent changes in interests in consolidated subsidiaries that do not result in a change of the method of consolidation 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 (excluding foreign currency translation of foreign net investments) and liabilities are recognized in the income statement as other operating income or expenses.

Applying the functional currency concept, the annual financial statements of the foreign subsidiaries prepared in foreign currency are translated into euros using the modified closing rate method. 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. Assets and liabilities of subsidiaries are translated at the middle rate on the reporting date while income and expenses 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. Such differences are recognized in net income when the subsidiary is sold.

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

	Closing rate		Average rate	
1 € =	December 31, 2011	December 31, 2010	2011	2010
Brazilian Real (BRL)	**2.4159**	2.2177	**2.3265**	2.3314
Pound Sterling (GBP)	**0.8353**	0.8608	**0.8679**	0.8578
Swiss Franc (CHF)	**1.2156**	1.2504	**1.2326**	1.3803
US Dollar (USD)	**1.2939**	1.3362	**1.3920**	1.3257

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 commissions, 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 legally established.

Share-based payment
The Group's share-based compensation plans are virtual stock option plans with cash settlement ("VSO"). 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. The fair value of the virtual share options is calculated using an option pricing model based on a Monte Carlo simulation using the following parameters:

%	December 31, 2011	December 31, 2010
Risk-free rate or return	**0.0–1.6**	0.0–2.6
Expected volatility	**57.0**	39.0

The expected volatility is based on market-traded options on Klöckner & Co shares.

Earnings per share
Basic earnings per share are calculated by dividing consolidated net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period. The dilutive, potential shares of the outstanding convertible bonds are only included in the calculation of diluted earnings to the extent that such shares are not anti-dilutive.

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 taxes 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 taxes or liabilities are not recognized if the temporary differences arise from goodwill (as long as these differences were not considered for tax purposes) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable profits nor the accounting profits.

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and 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 profits 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 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.

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

Intangible assets
Intangible assets with finite useful lives are carried at cost less accumulated amortization 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 one and 15 years. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rates between four and 15 years.

The useful life is reviewed annually and future expectations are adjusted if necessary. Intangible assets with an indefinite useful life – at Klöckner & Co only goodwill – 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. Administrative costs are capitalized to the extent that they relate to production.

Maintenance and repair costs are expensed as incurred.

Property, plant and equipment subject to depreciation is generally 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 building, factory and warehouse buildings	10–50
Plant facilities similar to buildings	8–33
Warehouse and crane equipment and other technical equipment	2–20
Operating and office equipment	1–15

Leases
For leasing transactions the Company differentiates between finance lease and operating lease transactions. Transactions in which the Klöckner & Co bears all significant risks and benefits are classified as finance leases. All other lease arrangements in which Klöckner & Co is the lessee are accounted for as operating 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 for future lease payments is included in the balance sheet as financial liability. Such liabilities are subsequently accounted for under the effective interest method. Assets held under finance leases are depreciated over their expected useful lives, or where shorter, the term of the underlying lease.

For operating lease arrangements in which Klöckner & Co is lessee, lease payments are recognized as straight-line expense over the lease term.

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 14 (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 its tangible and intangible assets as well as its investment properties 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 cost 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 ("CGU") to which the asset belongs. Where an impairment loss subsequently reverses (unless related to goodwill), 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 if no impairment loss had 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 in business combinations 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. Except for the Becker Stahl-Service group (BSS) the national sub-consolidation groups 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. The value in use represents the discounted cash flow of the asset or cash-generating unit, respectively. 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. For one cash-generating unit the estimated cash flows are derived from a five year business plan. 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.

Government grants and government assistance

Government grants are only recognized when it is reasonably assured that the Company complies with the conditions attaching to them and the grants are actually received. The grants are recognized in net income in the same period in which the respective expenses are recognized.

Government grants related to assets, mainly property, plant and equipment, are deducted from the cost of the asset.

Grants becoming receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognized as other operating income in the period in which they become receivable.

Inventories

Inventories are stated at the lower of cost or net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and estimated cost to make the sale. The manufacturing costs comprise production-related costs calculated on the basis of normal capacity. In addition to the directly attributable costs, adequate 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 (e.g., certain coil inventory) 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.

Financial instruments are initially measured at fair value, incl. 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 mid-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 material 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 also include shares in not consolidated 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”, which 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 bonds are recognized separately as financial liabilities and equity. The fair value of the liability component is 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 as 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 generally measured at amortized cost using the effective interest method.

An exchange of debt instruments with substantially different terms between Klöckner & Co and a lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Taking into consideration qualitative aspects, terms are deemed to be materially different if the discounted present value of the future cash flows under the new terms differs from the discounted present value of the future cash flows under the original terms by more than 10%.

b) Derivative financial instruments

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

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, or hedge of a foreign net investment 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 of 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 at the balance sheet date. In addition, interest rate 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.

c) Hedge accounting
Depending on volume, term and risk structure, the Klöckner & Co Group designates individual derivative financial instruments as cash flow hedges or hedge of a foreign net investment.

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 or the net investment. Information on the fair values of these derivative financial instruments is provided in Note 29 (Derivative financial instruments); changes in the reserve for fair value adjustments of financial instruments within other comprehensive income can be derived from the statement of changes in equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment hedges is recognized in 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, disposal groups 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 or 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 is 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 for unfunded plans in interest expense.

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

Past service cost is recognized in profit and loss 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 a 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. The settlement amount also includes expected future cost increases. 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.

Warranty provisions are accrued based on the expected development of the loss. Provisions for onerous purchase or sales contracts are established when the projected total future costs exceed the expected sales.

Restructuring provisions are only recognized if a detailed formal restructuring plan is established and communicated to the involved parties.

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 statement of financial position and consolidated statement of income

Individual items have been combined in the consolidated statement of financial position and the consolidated statement of income; further information is provided separately in 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 consolidated statement of income 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 more than one period is affected.

For intangible assets and property, plant and equipment, estimates are in particular required for assets arising from business combinations under IFRS 3. In these instances management is required to estimate fair values and expected useful economic lives of such assets. For material business combinations the Company usually obtains actuarial advice. The estimates are accompanied by management's forecasts of the future benefits for the respective assets, which are also reflected in the projections of future cash inflows from the assets.

For each reporting date management is required to assess, for tangible and intangible assets as well as for investment property, whether triggering events that could give rise for an impairment loss exist. If triggering events are identified, the recoverable amount must be estimated. For goodwill an impairment test is required at least an annual basis regardless of the existence of triggering events. The recoverable amount is usually determined using discounted cash flows. The projected cash inflows largely depend on the expected future gross profit margins and turnover under consideration of the general economic development as well as on the assessment of the appropriate discount rates including future growth rates. The discount rates are based on the Capital Asset Pricing Model (CAPM). The main input variables of the CAPM are the riskfree rate of return, the beta factor of the Klöckner & Co share and assumptions with regard to leverage and the market risk premium.

Inventories are to be reported at the lower of cost or net realizable value. To calculate the net realizable value management is in particular required to estimate sales prices and future costs to be incurred to make the sale.

The Group operates in various countries. The Group's income is therefore subject to various tax jurisdictions. For each taxable subject tax assets and tax liabilities, as well as temporary differences and tax losses and the resulting deferred taxes, must be calculated individually. Management is required to make estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that it is probable that they will actually be utilized. The utilization of deferred taxes is in particular dependent on sufficient future taxable profits in the respective tax jurisdiction and tax type. In assessing if sufficient future taxable profits exist, management among other things considers historical earnings, budgets, loss carryforward restrictions and tax planning strategies. If the actual results vary from these projections or if estimates must be revised in future periods, negative implications on the Company's results of operations, financial positions and net assets may arise.

Post employment benefits are accounted for using actuarial methods. The actuarial assumptions include discount rates, mortality rates and, if applicable, expected returns on plan assets. The actual amounts of such assumptions may differ significantly from the projected amounts due to changes in the economies and stock markets and may therefore have a material impact on the benefit obligation and future benefit costs.

Accounting for other provisions embodies assessment of the facts and circumstances, raised claims and estimates of the range of potential settlement amounts, and the probability of occurrence.

New accounting standards and interpretations
In 2011 the Group initially applied the following pronouncements:

Standard/interpretation
Annual Improvements 2010
Amendment to IFRIC 14 (Prepayments of a Minimum Funding Liability)
IAS 24 (rev.) (Related Party Disclosures)
IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments)

The third omnibus standard “Improvements to IFRSs” issued in May 2010 comprised minor adjustments and editorial changes to six standards and one interpretation.

The amendment to IFRIC 14 “Prepayment of a Minimum Funding Requirement” is limited to certain instances in which an entity is subject to minimum funding requirements and issues prepayments fulfilling these requirements. The amendment now permits the recognition of the economic benefits of such payments as an asset.

The revised version of IAS 24 Related Party Disclosures contains modifications for the disclosure requirements for government-related entities and clarifies the definition of a related party.

The interpretation IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments) issued in November 2009 provided guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments (e.g., shares) instead of cash or cash equivalents.

The initial application of the revised standards and interpretation did not have an impact on the Group's financial statements.

In addition, the International Accounting Standards Board (IASB) issued the following standards and interpretations that are applicable for the Group but whose application is not yet mandatory in the reporting period. The Group does not early adopt accounting pronouncements.

In May 2011, the IASB published IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements) and IFRS 12 (Disclosure of Interests in Other Entities).

IFRS 10 provides a consistent definition of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company, thus limiting the scope of consolidated entities. IFRS 11 governs the accounting for joint arrangements in which two or more parties have joint control. A joint arrangement is either a joint venture or a joint operation. The standard addresses inconsistencies and improves comparability in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off balance sheet vehicles.

Also in May, the IASB issued revisions to IAS 27 (Separate Financial Statements) in consequence to the new standards described in the preceding paragraph, which now only contain the unchanged requirements for separate financial statements of an entity and to IAS 28 (Investments in Associates and Joint Ventures).

Furthermore, the IASB issued IFRS 13 standards (Fair Value Measurement) in May replacing the guidance on fair value measurement in existing IFRS pronouncements by a single standard. IFRS 13 defines fair value, provides guidance on its determination and requires disclosure about fair value measurements. However, it does not change the requirements for the items that should be measured or disclosed at fair value.

In June 2011, the IASB published amendments to IAS 1 (Presentation of Financial Instruments). The amendments to IAS 1 modify the presentation of the OCI and income statement in a way that requires separate subtotals for recyclable (e.g., cash flow hedges, foreign currency translation of international subsidiaries) and non-recyclable entries. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements.

By amending IAS 19 (Employee Benefits) – also published in June 2011 – the option to defer the recognition of gains and losses, known as the “corridor method,” was eliminated. The revised standard streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including the requirement of remeasurements to be presented in other comprehensive income. Annual expenses for funded plans will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. Asset returns may therefore no longer be based on expected returns. The revised standard will also enhance disclosure requirements for defined benefit plans.

In December 2011, the IASB issued amendments to IAS 32 und IFRS 7 (Offsetting Financial Assets and Financial Liabilities), which clarify the requirements to offset financial instruments.

The also issued interpretation IFRIC 20 (Stripping Costs in the Production Phase of a Surface Mine) will not have an impact on the Group’s financial statements.

Except for IAS 1, which must be applied effective July 1, 2012, and the amendment to IAS 32, which must be initially applied for fiscal years starting on or after January 1, 2014, the new or revised pronouncements must be applied from the fiscal year starting on or after January 1, 2013. Klöckner & Co is currently evaluating the impact of the new or revised standards on its consolidated financial statements.

(5) ACQUISITIONS AND DISPOSALS

The Group structure changed as a result of the following acquisitions and disposals in financial years 2011 and 2010.

Acquisitions 2011

Macsteel Service Centers USA Inc.

At the end of April, the acquisition of 100% of Macsteel Service Centers USA, Inc. ("MSCUSA") was closed. MSCUSA has 30 locations and is one of the leading metal service center companies in the US. In 2010, MSCUSA generated sales of approximately USD 1.3 billion and had 1,200 employees. Klöckner & Co is strengthening its market position by more than doubling its sales in the US and is expanding its product and service range through expansion of its high value-adding steel service center business. The purchase price adjustment mechanism agreed with the seller was cancelled in September 2011. As such, the purchase price was set to USD 600 million (approximately €404 million). MSCUSA was initially consolidated on May 1, 2011.

Frefer

At the end of May, Klöckner & Co started its planned entry into emerging markets by acquiring a 70% share of the third-largest independent steel and metal distributor in Brazil as part of its "Klöckner & Co 2020" strategy. The Frefer Group is a flat steel-focused distribution and service center company with around 360 employees at 14 locations in Brazil and 2010 sales of approx. BRL 340 million (approx. €150 million). The initial consolidation was carried out on June 1, 2011. For a subsequent transfer of minority interest, put and call options were negotiated. The put option constitutes a financial liability and is subsequently to be measured at fair value through profit and loss. The carrying amount of the liability as of December 31, 2011 amounted to €19 million.

The transactions are deemed to be material business combinations under IFRS 3. The calculation of the fair values of the acquired assets and assumed liabilities, which in part is yet provisional, is as follows:

	Fair values	
(€ million)	MSCUSA	Frefer
Assets		
Goodwill	103.1	40.2
Other intangible assets	158.1	29.4
thereof customer relationships	*129.5*	*27.1*
thereof trade names	*7.8*	*2.0*
Property, plant and equipment	110.7	2.2
Other non-current assets	9.1	3.1
Inventories	276.6	19.3
Trade receivables	137.7	12.5
Other current assets	21.4	1.7
Cash and cash equivalents*)	8.3	32.4
Total acquired assets	**825.0**	**140.8**
Liabilities and provisions		
Non-current financial liabilities	10.4	15.8
Other non-current liabilities and provisions	12.2	0.0
Deferred tax liabilities	82.9	9.9
Trade payables	99.9	4.1
Current financial liabilities	198.9	10.7
Other current liabilities and provisions	16.2	2.3
Total assumed liabilities	**420.5**	**42.8**
Acquired net assets	**404.5**	**98.0**
Non-controlling interests	-	17.4
Consideration*)	**404.5**	**80.6**
thereof paid in cash and cash equivalents	*404.5*	*80.6*
Reconciliation transaction volume		
Assumed financial liabilities	209.3	26.5
Acquired cash and cash equivalents*)	– 8.3	– 32.4
Transaction volume	**605.5**	**74.7**

*) Including capital increase at Frefer.

Goodwill primarily represents future earnings potential and synergies.

The non-controlling interests of the Frefer Group were measured at their share of the fair values of identifiable assets and liabilities (net assets), i.e., the full goodwill method was not applied.

Additional information according to IFRS 3.B64:

(€ million)	MSCUSA	Frefer
Sales contribution since initial consolidation	781.4	58.5
Contribution to net income since initial consolidation	– 9.3	– 6.0
Gross contractual amounts trade receivable	139.1	14.2
Acquisition-related expenses (other operating expenses)	0.9	1.0

Consolidated sales would have been €7,515 million and net income would have been €7 million, if the acquisitions had been consolidated since the beginning of the reporting period. Potential effects from a retrospective valuation of inventories as of January 1 are not included.

Acquisitions 2010

Becker Stahl-Service Group

On March 1, 2010, Klöckner & Co completed the acquisition of 100% of Becker Stahl-Service Group (BSS) with headquarters in Bönen, Germany, and it has been consolidated since then. The transaction was deemed to be a material business combination under IFRS 3. The Becker Stahl-Service Group operates one of the largest and most modern steel service centers in the world. The group has around 500 employees.

The allocation of the purchase price to the acquired assets and liabilities is as follows:

(€ million)	Fair value
Assets	
Goodwill	5.5
Other intangible assets	36.3
Property, plant and equipment	70.4
Other non-current assets	1.3
Inventories	100.1
Trade receivables	73.9
Other current assets	4.0
Cash and cash equivalents	44.0
Total acquired assets	**335.5**
Liabilities and provisions	
Non-current financial liabilities	27.5
Other non-current liabilities and provisions	4.8
Income tax liabilities	8.7
Trade payables	58.8
Current financial liabilities	70.2
Other current liabilities and provisions	11.7
Total assumed liabilities	**181.7**
Acquired net assets	**153.8**
Consideration	**153.8**
thereof paid in cash and cash equivalents	*153.8*
Reconciliation transaction volume	
Assumed shareholder loans	57.9
Assumed financial liabilities	39.7
Acquired cash and cash equivalents	– 44.0
Transaction volume	**207.4**

Acquired other intangible assets related in the amount of €29.6 million to customer relationships and in the amount of €6.3 million to the trade name. Goodwill primarily represents future earnings potential and is expected to be tax deductible. The purchased receivables were based on gross contractual amounts of €76.1 million. BSS contributed €517.0 million to the 2010 Group's net sales and, including one-off effects from the purchase price allocation and real estate transfer tax, €28.1 million to the Group's 2010 net income. Consolidated sales 2010 would have been higher by €89.8 million and net income would have been higher by €4.7 million if BSS had been consolidated since the beginning of 2010. Acquisition-related costs (consulting fees) of €0.4 million were recorded in other operating expenses.

Other acquisitions 2010

Bläsi AG

In January 2010, Klöckner & Co acquired, via its Swiss subsidiary Debrunner Koenig Holding AG, 100% of the interests in the distribution company Bläsi AG, located in Berne, Switzerland. With this acquisition the Swiss subsidiary established a leading position in the greater Berne area for water supply and building technology products. Bläsi's main customers are linked to the construction segment.

Angeles Welding & Mfg., Inc.

In August 2010, the operations of Angeles Welding & Mfg., Inc. (Angeles Welding) and its subsidiary Get Steel, Inc. were acquired via our US subsidiary Namasco Corp. in the form of an asset deal. Angeles Welding conducts business in the segments of job shop steel fabrication, precision fabricated parts and steel service center activity.

Lake Steel Ltd.

In December 2010, Klöckner & Co acquired the distributor Lake Steel Ltd. in Amarillo, Texas (USA) also via its US subsidiary Namasco Corp. By acquiring Lake Steel Ltd., Namasco extended its activities in northern Texas (USA). With two locations and around 100 employees, Lake Steel Ltd. also supplies customers in the surrounding states of New Mexico, Oklahoma, Colorado, Arkansas, Kansas and Louisiana.

The fair values of the acquired assets and liabilities of the other acquisitions were as follows:

(€ million)	Fair value
Assets	
Non-current	32.3
thereof goodwill	*4.6*
Current	46.4
thereof cash and cash equivalents	*6.8*
Liabilities and provisions	
Non-current	6.3
Current	10.7
Acquired net assets	**61.7**
Consideration	**61.7**
thereof paid in cash and cash equivalents	*61.7*

The non-current assets comprised customer relationships of €8.8 million, trade names of €0.7 million and other intangible assets of €1.6 million. Goodwill primarily represents future earnings potential. The fair value of the acquired receivables of the other acquisitions amounted to €8.6 million, which compares to gross contractual amounts of €8.9 million.

The other acquisitions since January 2010 contributed sales of €34.4 million and net income of €1.7 million to the consolidated financial statements. The operations of Angeles Welding were completely integrated into the existing entities. As such no further information for sales and net income contribution pursuant to IFRS 3.B64 (q) could be made subsequent to the acquisition. Sales and net income for 2010 would have been higher by €49.9 million and by €2.0 million, respectively, if Angeles Welding and Lake Steel Ltd. would have been consolidated on January 1, 2010. Acquisition-related costs (consulting fees) of €0.6 million were included in other operating expenses.

Acquisition of non-controlling interests and other changes in controlling interests

2011

By agreement dated May 2, 2011, the Spanish subsidiary Comercial de Laminados S.A., Barcelona acquired the 15% interest in Cortichapa S.A., Valencia, Spain from Hierros Turia S.A. Valencia, a company in which a third party holds a 20% non-controlling interest. With this transaction Cortichapa S.A. is now fully owned by Klöckner & Co.

Disposals

2011

In August 2011, the 100% interest in the Dutch subsidiary Teuling Staal B.V., Barendrecht, the Netherlands, was disposed. As part of the transaction assets and liabilities totaling €8 million and €3 million, i.e., net assets of €5 million were transferred. The purchase price was set to the amount of net assets disposed.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

Due to the business combinations consummated in the fiscal year material variations to the prior year amounts have arisen. As such the comparability to the prior year amounts is limited. For further details refer to Note 5 (Acquisition and disposals).

(6) SALES

The Group's sales are broken down by region as follows:

(€ thousand)	2011	2010
Germany	1,688,542	1,337,168
EU excluding Germany	2,327,024	2,078,691
Rest of Europe	922,268	800,381
North America	1,940,801	884,612
Central and South America	130,964	21,899
Asia/Australia	20,182	22,511
Africa	65,580	52,919
Sales	**7,095,361**	**5,198,181**

(7) OTHER OPERATING INCOME

(€ thousand)	2011	2010
Reversal of provisions	11,640	6,125
Gain on sale of non-current assets and assets held for sale	9,083	2,226
Foreign currency exchange gains	7,491	7,338
Income from written-off receivables	6,494	4,097
Rental income	5,004	5,025
Other income	12,477	11,011
Other operating income	**52,189**	**35,822**

Income from reversal of provisions relate in the amount of €5,572 thousand to provision for litigation with a customer, which was subsequently settled. The gain on sale of non-current assets and assets held for sale relates in the amount of €3,804 thousand to the sale of property no longer required for operation in Germany and in the amount of €3,185 thousand to the sale of retained assets from the sale of the Canadian activities in 2008.

Other income comprises €1,567 thousand (2010: €2,064 thousand) excess customer payments for which the statute of limitation has been exceeded or credits that 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 prolongation 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 €10,399 thousand (2010: €4,345 thousand) and foreign currency exchange losses of €10,919 thousand (2010: €5,831 thousand) were offset against each other.

(8) COST OF MATERIALS

(€ thousand)	2011	2010
Cost of materials, supplies and purchased merchandise	5,776,726	4,047,917
Cost of purchased services	7,864	6,913
Cost of materials	**5,784,590**	**4,054,830**

(9) PERSONNEL EXPENSES

(€ thousand)	2011	2010
Wages and salaries	473,118	388,622
Social security contributions and welfare benefits	98,052	80,560
Retirement benefit cost	17,053	17,436
Personnel expenses	**588,223**	**486,618**

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.

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.

In 2011, the following average staff was employed by Klöckner & Co Group in accordance with Section 314 para 1 no. 4 HGB:

	2011	2010
Salaried employees	6,098	5,209
Wage earners	4,689	4,007
Apprentices	262	254
Employees	**11,049**	**9,470**

(10) OTHER OPERATING EXPENSES

(€ thousand)	2011	2010
Forwarding cost	142,388	108,325
Third-party services	86,234	62,820
Rental and leasing expenses	75,589	68,958
Supplies	53,899	43,415
Repair and maintenance	44,021	37,193
Audit fees and consulting	24,028	15,428
Other taxes	23,629	22,685
Travel expenses	18,685	13,585
Foreign currency exchange losses	11,629	5,186
Bad debt expenses	11,134	10,838
Postal charges and telecommunication	10,684	8,983
Credit insurance	10,198	9,998
Other insurance	9,645	8,867
Advertising and representation expenses	8,737	7,518
Other expenses	31,614	23,643
Other operating expenses	**562,114**	**447,442**

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

(11) FINANCIAL RESULT

(€ thousand)	2011	2010
Income from long-term loans	230	103
Other interest and similar income	16,160	8,690
Interest and similar expenses	– 93,668	– 68,899
Interest cost for post-employment benefits	– 6,963	– 7,544
Financial result	**– 84,241**	**– 67,650**

The increase in net financial expenses is driven due to higher average net financial debt throughout the fiscal year. Included in the financial result are €77,553 thousand (2010: €59,100 thousand) net interest expenses accounted for under the effective interest method.

(12) INCOME TAXES

Income taxes in the income statement

Income tax benefit/expense for the Klöckner & Co Group are broken down as follows:

(€ thousand)	2011	2010
Current income tax expense (+)/benefit (–)	16,000	**23,442**
thereof related to prior periods	*– 2,974*	*526*
Domestic	1,866	4,707
Foreign	14,134	18,735
Deferred tax expense (+)/benefit (–)	539	**– 19,313**
Domestic	10,097	– 18,801
Foreign	– 9,558	– 512
Income tax expense/benefit	16,539	**4,129**

The combined income tax rate amounts unchanged to 30.7%, comprising the corporate income tax (including solidarity surcharge) of 15.8% and trade tax of 14.9%. Foreign tax rates vary between 10.0% and 40.0%.

Deferred tax expenses or benefits, respectively, include the following components:

(€ thousand)	2011	2010
Deferred tax expense (+)/benefit (–)	539	**– 19,313**
thereof from		
- temporary differences	*– 948*	*3,238*
- loss carryforwards (including interest carryforward)	*– 2,050*	*– 22,722*

Deferred tax expense for 2011 includes tax expense debited directly to capital reserves of €3,537 thousand in connection with the capital increase (2010: deferred tax expense in connection with the issuance of a convertible bond: €171 thousand).

Deferred taxes reported in the statement of income related to loss carryforwards and deductible temporary differences relate to the following items (including interest carryforward):

(€ thousand)	2011	2010
Utilization of loss carryforwards	8,926	3,460
Capitalized deferred tax assets on tax losses of the reporting period	– 3,481	– 2,817

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

(€ thousand)	2011	2010
Expected tax rate	30.7%	**30.7%**
Income before taxes	26,906	**84,341**
Expected tax expense/benefit at domestic tax rate	8,260	25,892
Foreign tax rate differential	– 6,122	– 7,785
Tax rate changes	– 159	102
Reduced tax rate	-	244
Tax reduction due to tax free income	– 3,978	– 4,051
Tax increase due to non-deductible expenses	5,964	5,636
Current income tax levied or refunded for prior periods	– 2,974	– 526
Tax reduction due to first-time recognition of deferred tax assets on temporary differences and on loss carryforwards related to prior periods	– 7,910	– 19,544
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 910	– 7,940
Tax increase due to non-capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	23,547	11,942
Other tax effects	821	159
Effective income tax benefit/expense	16,539	**4,129**
Effective tax rate	61.5%	**4.9%**

Taxes recognized directly in equity

Current and deferred taxes are generally recognized as income or expense and are included in the net profit or loss for the period, except to the extent that the tax arises from a transaction or event that is recognized, in the same or a different period, directly in equity.

(€ thousand)	December 31, 2011	December 31, 2010
Change in deferred tax assets and liabilities (net), not affecting net income	– 5,186	**2,773**
thereof reported		
- in other comprehensive income	*– 5,186*	*2,773*

Deferred taxes on the changes in the fair values of derivative financial instruments designated in hedge accounting and on net investment hedges are reported in other comprehensive income.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

(€ thousand)	December 31, 2011	December 31, 2010
Deferred tax assets	44,092	59,235
Deferred tax liabilities	160,500	79,910
Deferred taxes, net	– 116,408	**– 20,675**

Deferred tax assets and liabilities arise from the following:

Deferred tax assets

(€ thousand)	December 31, 2011	December 31, 2010
from temporary differences and consolidations		
Intangible assets	11,759	10,983
Property, plant and equipment	8,836	3,361
Inventories	9,743	559
Receivables and other current assets	10,964	5,459
Provisions for pensions and similar obligations	40,996	22,143
Other provisions and accrued liabilities	9,418	7,460
Liabilities	23,068	18,751
Gross amount	114,784	**68,716**
Valuation allowance	– 15,786	– 14,623
Net amount	98,998	**54,093**
Tax loss carryforwards*)	34,244	32,195
Offsetting	– 89,150	– 27,053
Deferred tax assets	44,092	**59,235**

*) Including interest carryforward.

Deferred tax liabilities

(€ thousand)	December 31, 2011	December 31, 2010
from temporary differences and consolidations		
Intangible assets	76,177	6,157
Property, plant and equipment	73,996	42,017
Financial assets	-	29
Inventories	40,024	24,115
Receivables and other current assets	19,160	11,289
Provisions for pensions and similar obligations	17,318	1,262
Other provisions and accrued liabilities	10,957	12,558
Other liabilities	12,018	9,536
Gross amount	249,650	**106,963**
Offsetting	– 89,150	– 27,053
Deferred tax liabilities	160,500	**79,910**

Deferred tax assets on unused tax loss carryforwards and deductible temporary differences were not recognized because their realization cannot be reliably guaranteed:

(€ million)	December 31, 2011	December 31, 2010
Unrecognized tax losses		
- Corporate income tax	292.7	217.4
- Trade tax and similar taxes	95.1	147.8
- Interest carryforward	115.1	90.4
Temporary differences	51.9	47.6

The major part of the loss carryforwards does not expire under the current tax regulations, unless specific circumstances arise (e.g., change of control). To the extent unrecognized loss carryforwards do expire, this will largely occur according to the following overview:

(€ million)	December 31, 2011	December 31, 2010
until 2016	11.6	7.7
until 2030	60.0	38.7
after 2030	34.3	51.8

Current tax receivables and liabilities

The following current tax receivables and current tax liabilities are reported in the statement of financial position:

(€ thousand)	December 31, 2011	December 31, 2010
Current income tax receivable	31,899	34,251
Income tax liabilities	19,014	31,638

(13) EARNINGS PER SHARE

Earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the period. In accordance with IAS 33.41 18,447 thousand (2010: 9,943 thousand) potential dilutive shares of the convertible bonds were not included in the computation of diluted earnings per share as this would have resulted in higher earnings per share.

		Jan. 1 –Dec. 31, 2011	Jan. 1 –Dec. 31, 2010
Net income attributable to shareholders of Klöckner & Co SE	(€thousand)	11,585	77,541
Weighted average number of shares	(thousands of shares)	85,357	66,500
Basic earnings per share	**(€/share)**	**0.14**	**1.17**
Diluted earnings per share	**(€/share)**	**0.14**	**1.17**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(14) 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 January 1, 2010	157,799	19,121	100,994	277,914
Accumulated amortization and impairments	– 61,658	– 13,358	– 7,913	– 82,929
As of January 1, 2010	**96,141**	**5,763**	**93,081**	**194,985**
Exchange rate differences	7,423	87	7,145	14,655
Additions from business combinations	47,064	304	10,109	57,477
Additions	15	800	-	815
Disposals	– 1	– 8	-	– 9
Depreciation, amortization and impairments	– 37,595	– 3,005	-	– 40,600
Transfers	– 59	59	-	-
As of December 31, 2010	**112,988**	**4,000**	**110,335**	**227,323**
Cost as of December 31, 2010	214,608	20,540	118,248	353,396
Accumulated amortization and impairments	– 101,620	– 16,540	– 7,913	– 126,073
Balance as of January 1, 2011	**112,988**	**4,000**	**110,335**	**227,323**
Exchange rate differences	19,811	2,355	16,143	38,309
Additions from business combinations	171,081	16,392	143,233	330,706
Additions	293	10,479	48	10,820
Disposals	– 534	– 8	-	– 542
Depreciation, amortization and impairments	– 40,977	– 5,765	-	– 46,742
Transfers	– 12	12	-	-
As of December 31, 2011	**262,650**	**27,465**	**269,759**	**559,874**
Cost as of December 31, 2011	396,119	55,083	277,696	728,898
Accumulated amortization and impairments	– 133,469	– 27,618	– 7,937	– 169,024

The following CGU carry material goodwill (i.e., more than 10% of total goodwill):

(€ thousand)	December 31, 2011	December 31, 2010
Americas Segment		
CGU North America	**214,280**	92,993
CGU Brazil	**37,791**	-

The impairment tests performed on cash-generating units (CGU) in the fourth quarter 2011 confirmed the values of all goodwill. As such, like in 2010, no impairments were required.

The goodwill impairment test as well as the general impairment test for property, plant and equipment, both of which are performed using discounted cash flow methods, is based on mid-term planning approved in the fourth quarter. The planning period generally covers a three-year period. For one CGU the planning period was extended to five years to account for the regional market specifics. The last year of the detailed planning period is used to extrapolate the sustainable future cash flows into perpetuity.

Klöckner utilizes a uniform planning model with similar input parameters for all CGUs. Input parameters include among other things macroeconomic data such as expected GDP growth and expected inflation as well as salary trends. The planning also makes reference to expected demand for our products. These references are derived from macroeconomic and sector studies and CGUs specifically modified. A further main driver for profitability is the expected gross profit per ton. The gross profit per ton is projected on normalized gross profit per ton.

For the reporting period pre-tax discount rates between 9.28% and 17.19% (2010: 9.22% to 12.58%), depending on the respective CGU, were used. To calculate sustainable future growth a general growth rate of 1% is used. In one instance the growth rate is set to 2.5% only for our operations in emerging markets.

To monitor potential impairment exposure the Group performs simulations using higher discount rates and declining future operating income (EBITDA) into perpetuity. Based on such simulations a 0.5 percentage point increase in the respective discount rate would result in goodwill impairments of €– 4.7 million. A 5% decline in the projected sustainable EBITDA would lead to goodwill impairment losses of €– 2.5 million.

Management, however, does not expect that negative changes in the material assumptions will occur.

Impairment losses within concessions, similar rights and other intangibles amounting to €1,388 thousand relate to customer relations and trade names resulting from business combinations of the country organization Germany.

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 January 1, 2010	638,086	234,651	218,649	5,396	1,096,782
Accumulated amortization and impairments	– 326,599	– 170,728	– 173,183	– 121	– 670,631
As of January 1, 2010	**311,487**	**63,923**	**45,466**	**5,275**	**426,151**
Exchange rate differences	23,995	3,425	3,822	412	31,654
Additions from business combinations	54,842	24,525	6,750	286	86,403
Additions	4,301	5,964	9,406	6,041	25,712
Disposals	– 440	– 796	– 514	– 7	– 1,757
Depreciation, amortization and impairments	– 15,345	– 16,253	– 12,396	-	– 43,994
Transfers	1,643	2,790	1,398	– 5,831	-
As of December 31, 2010	**380,483**	**83,578**	**53,932**	**6,176**	**524,169**
Cost as of December 31, 2010	736,979	283,656	243,990	6,176	1,270,801
Accumulated amortization and impairments	– 356,496	– 200,078	– 190,058	-	– 746,632
Balance as of January 1, 2011	**380,483**	**83,578**	**53,932**	**6,176**	**524,169**
Exchange rate differences	13,363	5,949	2,489	399	22,200
Additions from business combinations	59,363	40,283	11,616	1,691	112,953
Additions	1,620	12,942	14,906	15,652	45,120
Disposals	– 1,936	– 149	– 516	– 371	– 2,972
Depreciation, amortization and impairments	– 18,979	– 22,960	– 16,692	-	– 58,631
Transfers	1,505	1,859	6,468	– 9,832	-
Reclassification to assets held for sale	– 3,330	– 28	-	-	– 3,358
As of December 31, 2011	**432,089**	**121,474**	**72,203**	**13,715**	**639,481**
Cost as of December 31, 2011	806,629	338,868	279,264	13,715	1,438,476
Accumulated amortization and impairments	– 374,540	– 217,394	– 207,061	-	– 798,995

Property, plant and equipment with a carrying amount of €91,905 thousand (2010: €86,252 thousand) was used as collateral to secure borrowings of the Group.

In 2011, impairment losses of €2,034 thousand were incurred in 2011 (2010: none), which relate to the close-down of a location in the UK and crane installations in North America.

Assets held under finance leases

The Group holds various assets under finance leasing contracts, the majority of which contain purchase options. As of the reporting date, the carrying amounts of capitalized assets were as follows:

	Carrying amounts	
(€ thousand)	December 31, 2011	December 31, 2010
Real estate		
Spain (Valencia, Catalayud, Épila)	10,693	10,933
Austria		
- Vienna	740	874
- Neumarkt	-	556
Technical equipment and machinery	280	410
Vehicles	45	27
Total	**11,758**	**12,800**

Upon completion of the lease term, assets under finance lease arrangement for which title passes to Klöckner & Co are reclassified from assets under finance leases to the respective asset class within property, plant and equipment. In mid-2011 the title of the property Neumarkt, Vienna was transferred to Klöckner & Co.

c) Investment property

Investment property is only related to a Valencia premise. An official permit to now use the property for other than only industrial use was obtained. The appraised fair value of the premise amounts to €29.5 million and is based on a third-party appraisal. There was no rental income due to the fact that the building was demolished in 2010. The disclosed cost exclusively relate to land. Operating expenses attributable to the premises were neither incurred in 2011 nor in 2010.

(15) INVENTORIES

(€ thousand)	December 31, 2011	December 31, 2010
Raw materials and supplies	324,930	153,417
Work in progress	5,401	3,256
Finished goods and merchandise	1,026,269	741,432
Advance payments	5,591	736
Inventories	**1,362,191**	**898,841**

Raw materials also include coils of steel service centers.

Of the inventories recognized as of December 31, 2011, €363,702 thousand (2010: €341,471 thousand) is stated at net realizable values. Allowances for write-downs to the net realizable value amount to €56,639 thousand (2010: €44,013 thousand). The amount expensed for inventory is equivalent to the cost of materials.

In addition to customary reservations of title, inventories with a carrying amount of €517,298 thousand (2010: €117,712 thousand) serve as collateral for financial liabilities as of December 31, 2011 of €52,875 thousand (2010: €31 thousand).

(16) 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 statement of financial position. The risks inherent to these receivables reside with Klöckner & Co.

The refinancing of the purchased receivables by the SPEs is therefore reported in the consolidated financial statements as loans from the conduits.

The carrying amount of the receivables of the Group companies participating in the ABS programs as of December 31, 2011 amounts to €596 million (2010: €386 million).

For further information to the ABS programs see Note 24 (Financial liabilities).

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

Trade receivables

(€ thousand)	Of which not overdue as of the reporting date	Of which overdue by days as of the reporting date: 1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Write-downs	Carrying amount
December 31, 2011								
959,058	730,974	147,640	32,808	9,545	5,875	32,216	– 37,300	**921,758**
December 31, 2010								
738,350	557,180	121,557	23,753	6,926	6,335	22,599	– 35,249	**703,101**

As of December 31, 2011 trade receivables in the amount of €5,698 thousand (2010: €4,151 thousand) of entities that do not participate in the Group's ABS programs were used as collateral for bank loans.

(17) OTHER ASSETS

(€ thousand)	December 31, 2011 Current	December 31, 2011 Non-current	December 31, 2010 Current	December 31, 2010 Non-current
Other financial assets				
Fair value of derivative financial instruments	164	-	779	1,471
Other non-financial assets				
Receivables from insurance companies	4,862	299	2,105	-
Commission claims	49,369	-	31,634	-
Reinsurance claims for pension obligations	-	4,315	-	4,420
Prepaid pension cost	-	24,207	-	23,281
Claims for other taxes	23,991	-	7,347	-
Prepaid expenses	11,618	77	8,269	166
Miscellaneous other assets	15,199	9,057	12,764	2,689
Other assets	**105,203**	**37,955**	**62,898**	**32,027**

Commission claims are primarily due to refunds and discounts from suppliers of inventory.

Miscellaneous other current assets include debit balances in accounts payable of €4,522 thousand (2010: €2,139 thousand).

(18) CASH AND CASH EQUIVALENTS

Cash and cash equivalents predominantly include cash bank balances and short term deposits. As of the reporting date none of these funds were restricted.

(19) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include assets no longer used in operations:

(€ thousand)	December 31, 2011	December 31, 2010
Europe Segment		
- Land and buildings	1,677	79
- Technical equipment and machinery	1	-
Americas Segment		
- Land and buildings	1,932	890
- Technical equipment and machinery	-	119
Total	3,610	1,088

Land and buildings of the Europe segment of €79 thousand presented in 2010 were reclassified to property, plant and equipment in 2011 because a sale is no longer intended.

In the Americas segment land and buildings as well as machinery with a net gain of €3,199 thousand were sold in 2011 (2010: €784 thousand).

(20) EQUITY AND NON-CONTROLLING INTERESTS

a) Subscribed capital

Effective with registration on June 8, 2011, the Company's subscribed capital was increased from €166,250,000 by €83,125,000 to €249,375,000. The increase from authorized capital was achieved by issuance of 33,250,000 no-par-value shares with a calculated pro rata share of the capital stock of €2.50 per share with full dividend rights from January 1, 2011. The issue price for the new shares amounted to €15.85 per share, resulting in gross issue proceeds of about €528 million.

After deduction of issuance cost (including deferred taxes of €3.5 million) of €8.0 million the net increase amounted to €520 million of which €437 million were attributed to capital reserves.

Acquisition of treasury stock

By resolution of the 2010 Annual General Meeting the Management Board is permitted, until May 25, 2015, to acquire up to 10% of the existing subscribed capital at the date of the Annual General Meeting or – in case the amount is lower – the existing subscribed capital as of the date the permission is exercised. The permission may be exercised in full or in part, in one single or multiple installments by the Company or subsidiaries or by third parties on behalf of the Company or its subsidiaries. The permission may be exercised for any legal purpose; trading with treasury stock is prohibited. With this permission the Company is empowered to use the acquisition of treasury stock as an additional source of financing to react quickly and flexibly. No use of this permission has yet been made.

Conditional capital

By resolutions of the Annual General Meetings in 2007 to 2011, the Company's share capital was conditionally increased as follows, whereby the conditional capital established by the Annual General Meeting 2008 was revoked by resolution of the Annual General Meeting held on May 26, 2010:

Conditional capital 2007
The conditional capital 2007 established by the Annual General Meeting held on June 20, 2007 in the amount of €11,625,000 and 4,650,000 shares, respectively, was modified by resolution of the Annual General Meeting held on May 26, 2010 so that the share capital is now conditionally increased by up to €16,625,000 by issue of up to 6,650,000 no-par-value shares.

Conditional capital 2009
Also by resolution of the Annual General Meeting on May 26, 2010, the conditional capital 2009 established by the Annual General Meeting in 2009 in the amount of €11,625,000 and 4,650,000 shares, respectively, was adjusted so that the share capital is now conditionally increased by €16,625,000 by issue of up to 6,650,000 no-par-value shares.

Conditional capital 2010
The Annual General Meeting on May 26, 2010 also resolved that the subscribed capital was conditionally increased by €33,250,000 by issue of up to 13,300,000 no-par-value shares. By resolution of the Annual General Meeting on May 20, 2011, Klöckner & Co's conditional share capital 2010 was modified to the extent that the conditional increase was reduced to up to €16,625,000 by issuance of up to 6,650,000 newly registered no-par-value shares entitled to profits from the beginning of the business year in which they were issued.

Conditional capital 2011
The Annual General Meeting on May 20, 2011 also resolved that the share capital was conditionally increased up to €33,250,000 by issue of up to 13,300,000 newly registered no-par-value shares.

The new no-par-value shares 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 or were issued by the Company or a Group company in accordance with the authority of the respective Annual General Meeting of the Company.

Authorized capital
The authorized capital of €83,125,000 previously in Section 4 para 5 a) of the statutes was fully utilized by the increase of the subscribed capital in 2011.

Information pursuant to Sections 21 para 1, 22 para 1 Securities Trading Act (WpHG – Wertpapierhandelsgesetz)
As of the date the financial statements were authorized for issuance, the following shareholdings in Klöckner & Co SE were held as per notifications received in accordance with Sections 21 para 1, 22 para 1 Securities Trading Act (WpHG):

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
Dimensional Holdings, Inc.	Austin, Texas, USA	3.06*)	February 2, 2012
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	3.040*)	December 29, 2011
Amundi S.A.	Paris, France	3.008*)	December 5, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH	Frankfurt am Main	3.02*)	January 26, 2012

*) Partly attributed holding.

A full listing of notifications of increase over or decrease below threshold in accordance with Section 21 para 1 and Section 22 para 1 Securities Trading Act (WpHG) is attached as appendix to the notes to the consolidated financial statements.

b) Capital reserves
As of December 31, 2011 the capital reserves amount to €900,759 thousand (2010: €464,243 thousand). The variance is due to the capital increase, net of transaction costs and deferred taxes.

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

d) Accumulated other comprehensive income
Accumulated other comprehensive income comprises foreign currency translation adjustments resulting from the translation of the financial statements of foreign subsidiaries as well as net investments hedges in foreign subsidiaries and changes in the fair value of cash flow hedges, net of deferred taxes.

e) Non-controlling interests
Non-controlling interests represent third-party interest in consolidated subsidiaries.

f) Profit allocation
The Management Board and Supervisory Board propose to the Shareholder's Meeting to allocate the 2011 unappropriated surplus of €13,484 thousand calculated in accordance with the German Commercial Code (HGB) to other revenue reserves.

The development of the individual components of controlling and non-controlling interests for the period from January 1, 2011 to December 31, 2011, and from January 1, 2010 to December 31, 2010, is presented in the summary of changes in equity.

(21) SHARE-BASED PAYMENTS

In 2006, the Group established share-based payment programs. Eligible for share-based payment are Management Board members as well as certain members of the senior management. The Group's plans are cash-settled virtual stock option plans.

Management Board program
Under the Management Board programs a total of 782,700 virtual stock options are outstanding as of December 31, 2011 (2010: 602,700). The Management Board program is classified in three variants:

Variant I (VSO I) originally introduced in 2006 covered five annual tranches. The strike price for the first tranche was set to the IPO price in June 2006 of €16/share. The strike price for each subsequent tranche is generally increased by 5% over the previous year's strike price. The individual strike price is reduced by dividends and is adjusted to reflect potential dilutive effects of rights issues. After modification to comply with the regulations of the Act on the Appropriateness of Management Board Remuneration (VorstAG) VSO I also contains waiting periods for the initial third, the second and the remaining third of a tranche of three, four and five years from the issue date, respectively. 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. The settlement amount is capped at maximum amount of €37 per option.

Variant II (VSO II) also initially covered five annual tranches, which have been allocated annually since January 1, 2009. The virtual stock options of each tranche of VSO II can be exercised after a 30-day trading period after the Annual General Meeting of the allotment year of the respective tranche. Subsequent to the waiting period, the options of the relevant tranches may be exercised in full or in part at any time. The VSOs of variant II allotted on or after January 1, 2011 (tranches three to five) also contain waiting periods of three to five years and are therefore identical to VSO III. VSO II accounts for a cap of €25 per option. The strike price was initially based on the non-weighted average closing price of Klöckner & Co shares over the last 30 consecutive trading days prior to issuance.

Variant III (VSO III) is largely identical to the tranches 3 to 5 of VSO II and is including waiting periods of 3 to 5 years. The additional 180,000 VSOs issued due to the enlargement of the Management Board generally correspond to variant III.

Senior management programs
In addition to the Management Board programs 151,500 (2010: 122,000) virtual stock options for 2011 were granted and allotted to certain members of the senior management throughout the Group during the first half-year of 2011. The exercise conditions are largely identical to the Management Board program VSO I and VSO III of Klöckner & Co SE.

The total number of outstanding rights developed as follows:

(Number of virtual stock options)	Management Board programs	Other executives	Total
Outstanding at the beginning of the year	**602,700**	**188,000**	**790,700**
Granted	180,000	151,500	**331,500**
Exercised	-	– 21,500	**– 21,500**
Outstanding at the end of the reporting period	**782,700**	**318,000**	**1,100,700**
thereof vested	*60,000*	*54,500*	***114,500***

During the 2011 financial year, 21,500 (2010: 178,100) virtual stock options were exercised. Payments for share-based compensation amounted to €161 thousand (2010: €1,333 thousand). The pro rata provision for share-based payments to the Management Board and senior management amounts to €1,540 thousand (December 31, 2010: €2,660 thousand), the intrinsic value of the rights exercisable as of the reporting date amount to €366 thousand. Due to the declining value of the underlying Klöckner & Co share price the reversal of the provision resulted in gains of €959 thousand (2010: expense €1,143 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 in January 2008. The instruments are accounted for at fair value through profit or loss in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). At the beginning of 2011, the remaining options were settled at a settlement gain of €188 thousand (2010: positive fair value changes of hedging instruments amounted to €2,215 thousand) and were offset against personnel expenses.

(22) 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 plans 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 2011 amounted to €37,668 thousand (2010: €29,615 thousand). Included therein are employers' contributions to the statutory pension schemes in the amount of €33,735 thousand (2010: €25,865 thousand).

Most of 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:

2011

%	Germany	Austria	Switzer-land	The Nether-lands	United Kingdom	France	United States
Discount rate	4.50	4.50	2.50	4.50	4.90	4.50	3.76–4.47
Salary trend	2.50	3.00	1.50	2.00	3.10	2.00	3.50
Pension trend	2.00	2.25	0.00	1.20	3.00	1.25*)	0.00
Expected return on plan assets	4.50	-	4.50	4.30	6.80–7.00	4.00	6.50–7.50

2010

%	Germany	Austria	Switzer-land	The Nether-lands	United Kingdom	France	United States
Discount rate	4.70	4.70	2.90	4.70	5.40	4.70	5.37–5.75
Salary trend	2.50	3.00	2.00	2.50	3.80-4,30	2.00	3.50
Pension trend	2.00	2.25	0.50	1.20	3.30	1.25*)	0.00
Expected return on plan assets	4.50	-	4.50	4.00	6.60–7.20	4.00	6.50–7.00

*) Depending on the respective pension plan.

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 plans. 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 eurozone.

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.

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)	December 31, 2011	December 31, 2010
Defined benefit obligation of unfunded plans	174,085	154,588
Defined benefit obligation of fully or partly funded defined benefit plans	703,489	581,021
Fair value of plan assets	– 609,134	– 555,460
Unrecognized actuarial gains (+) and losses (–)	– 109,815	– 28,953
Unrecognized past service cost	– 87	– 35
Fair value of the reimbursement rights	– 4,315	– 4,420
Net amount recognized	**154,223**	**146,741**
thereof:		
– Other assets in connection with pension obligations*)	28,522	27,701
– Provisions for pensions and similar obligations	182,745	174,442

*) Also includes reimbursement rights recognized as assets.

The reconciliation of the defined benefit obligation is as follows:

(€ thousand)	2011	2010
Defined benefit obligation as of January 1	735,609	**615,584**
Service cost	16,715	14,200
Interest cost	30,589	28,857
Employee contributions	15,999	12,667
Actuarial gains and losses	46,633	30,933
Benefits paid	– 40,907	– 33,961
Past service cost	– 7,107	2,330
Curtailments and settlements	– 504	– 493
Change in scope of consolidation/other transfers	59,381	5,690
Foreign currency exchange rate differences	21,166	59,802
Defined benefit obligation as of December 31	877,574	**735,609**

The fair values of the plan assets developed as follows:

(€ thousand)	2011	2010
Fair value of plan assets as of January 1	**555,460**	**450,307**
Expected return	29,107	23,602
Employee contributions	15,999	12,667
Employer contributions	15,397	12,840
Actuarial gains and losses	– 39,316	15,047
Benefits paid	– 30,729	– 23,769
Change in scope of consolidation/other transfers	46,679	5,334
Foreign currency exchange rate differences	16,537	59,432
Fair value of plan assets as of December 31	**609,134**	**555,460**

The current allocation of plan assets is as follows:

(€ thousand)	December 31, 2011	December 31, 2010
Shares	221,849	205,750
Bonds	201,866	182,964
Real estate	131,668	124,116
Other assets	53,751	42,630
Fair value of plan assets as of December 31	**609,134**	**555,460**

Plan assets do not comprise financial instruments issued by the plan sponsor; own-used real estate and other assets used by the Company amounted to €16,205 thousand (2010: €16,094 thousand).

Changes in reimbursement rights were as follows:

(€ thousand)	2011	2010
Reimbursement rights as of January 1	**4,420**	**4,397**
Expected return	194	190
Actuarial gains and losses	-	84
Benefits paid	– 299	– 299
Additions from business combinations	-	48
Reimbursement rights as of December 31	**4,315**	**4,420**

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

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

(€ thousand)	2011	2010
Service cost	– 16,715	– 14,200
Interest cost for funded plans	– 23,626	– 21,313
Expected return on plan assets	29,107	23,602
Expected return on reimbursement rights	194	190
Amortization of actuarial gains and losses	– 8,935	– 2,530
Past service cost	7,229	27
Curtailments and settlements	475	435
Effects of limitation of asset ceiling as per IAS 19.58 (b)	-	1,173
Interest cost for unfunded plans	– 6,963	– 7,544
Net periodic benefit expense for defined benefit plans	**– 19,234**	**– 20,160**

The actual gain on plan assets amounted to €– 10,209 thousand in 2011 (2010: €38,649 thousand). The actual return on reimbursement rights totaled €194 thousand (2010: €274 thousand).

The funded status of defined benefit plans is as follows:

(€ thousand)	2011	2010	2009	2008*)	2007
Defined benefit obligation	877,574	735,609	615,584	564,975	558,529
Fair value of plan assets	609,134	555,460	450,307	398,319	464,622
Funded status	**268,440**	**180,149**	**165,277**	**166,656**	**93,907**

*) Comparative amounts restated due to the initial application of IFRIC 14.

Experience adjustments to the present value of pension rights and the fair values of plan assets were as follows:

(€ thousand)	2011	2010	2009	2008*)	2007
Defined benefit obligation	– 16,448	2,760	8,871	– 3,585	2,428
Fair value of plan assets	– 38,686	15,047	18,953	– 98,363	20,022

*) Comparative amounts restated due to the initial application of IFRIC 14.

The employers’ contributions to the plan assets for 2012 are expected to be €16,439 thousand.

(23) OTHER PROVISIONS

The provisions developed as follows:

(€ thousand)	As of January 1, 2011	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2011
Other provisions							
Other taxes	2,300	2,203	-	– 2,367	– 445	717	**2,408**
Personnel-related obligations							
– early retirement schemes	4,616	2,634	-	– 3,334	– 3	-	**3,913**
– anniversary payments	10,347	325	281	– 425	-	95	**10,623**
– other	24	56	-	-	– 24	-	**56**
Onerous contracts	6,628	4,737	-	– 4,828	-	105	**6,642**
Restructuring expenses	4,248	5,380	-	– 2,965	– 119	– 219	**6,325**
Litigation and other risks	15,355	1,555	-	– 703	– 1,737	126	**14,596**
Miscellaneous provisions	20,397	5,126	107	– 3,969	– 7,360	181	**14,482**
	63,915	**22,016**	**388**	**– 18,591**	**– 9,688**	**1,005**	**59,045**
Other accrued liabilities							
Personnel-related obligations	49,685	34,451	-	– 34,766	– 992	8,653	**57,031**
Outstanding invoices	24,482	16,710	-	– 18,174	– 960	4,012	**26,070**
Miscellaneous accrued liabilities	690	933	-	– 1,016	– 1	399	**1,005**
	74,857	**52,094**	**-**	**– 53,956**	**– 1,953**	**13,064**	**84,106**
Other provisions and accrued liabilities	**138,772**	**74,110**	**388**	**– 72,547**	**– 11,641**	**14,069**	**143,151**

*) Change in scope of consolidation, foreign currency adjustments, reclassification and transfers to/from third parties.

The reversal of miscellaneous provisions of €5,572 thousand relate to provision for litigation with a customer that was subsequently settled.

Reconciliation to balance sheet amounts:

	December 31, 2011		December 31, 2010	
(€ thousand)	Non-current	Current	Non-current	Current
Other provisions				
Other taxes	-	2,408	-	2,300
Personnel-related obligations				
– early retirement schemes	3,511	402	4,463	153
– anniversary payments	10,623	-	10,347	-
– other	-	56	-	24
Onerous contracts	550	6,092	732	5,896
Restructuring expenses	-	6,325	1,169	3,079
Litigation and other risks	9,475	5,121	9,728	5,627
Miscellaneous provisions	4,901	9,581	5,074	15,323
	29,060	29,985	31,513	32,402
Other accrued liabilities				
Personnel-related obligations	-	57,031	-	49,685
Outstanding invoices	-	26,070	-	24,482
Miscellaneous accrued liabilities	-	1,005	-	690
	-	84,106	-	74,857
Other provisions and accrued liabilities	29,060	114,091	31,513	107,259

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.

Miscellaneous provisions include an amount of €1,569 thousand (2010: €1,607 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 €37,594 thousand (2010: €34,627 thousand) and accrued vacation and accrued overtime of €16,646 thousand (2010: €13,426 thousand).

(24) FINANCIAL LIABILITIES

The details of financial liabilities are as follows:

	December 31, 2011				December 31, 2010			
(€ thousand)	up to 1 year	1–5 years	Over five years	Total	up to 1 year	1–5 years	Over five years	Total
Bonds	332,241	247,199	-	579,440	5,511	527,774	-	533,285
Liabilities to banks	36,769	301,924	2,394	341,087	29,874	248,883	7,628	286,385
Promissory notes	5,625	340,742	-	346,367	2,061	144,396	-	146,457
Liabilities under ABS programs	431	173,014	-	173,445	72	87,159	-	87,231
Finance lease liabilities	2,261	2,589	-	4,850	2,060	4,742	-	6,802
Total	**377,327**	**1,065,468**	**2,394**	**1,445,189**	**39,578**	**1,012,954**	**7,628**	**1,060,160**

Of the above financial liabilities an amount of €27,373 thousand (2010: €30,498 thousand) is secured by mortgages. Furthermore, inventories listed in Note 15 (Inventories) serve as collateral as well as trade receivables under the ABS programs.

Transaction costs that are directly attributable to the issue of financial liabilities in the amount of €12,839 thousand (2010: €11,669 thousand) were offset against the respective liabilities.

Bonds

In addition to the convertible bonds issued in 2007, 2009 and 2010, for which detailed information is provided in the following paragraphs, bonds also include so-called "Dêbentures" in the amount of €20.2 million assumed in the 2011 Frefer acquisition.

The obligor under the convertible bonds is Klöckner & Co Financial Services S.A., a wholly owned Luxembourg subsidiary. Payments under the bond are guaranteed by Klöckner & Co SE. The bonds are convertible into existing or new shares of Klöckner & Co SE.

Convertible bond 2010

On December 22, 2010 Klöckner & Co issued a senior unsecured convertible bond with a volume of €186.2 million to institutional investors outside of the US only.

The bond has a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond are entitled to require early redemption after five years at the principal amount plus accrued interest. Klöckner cannot call the bond within the first five years. After five years Klöckner & Co may call the bond if the Klöckner share price (over a certain period) exceeds 130% of the then prevailing conversion price. The original conversion price was set at €28.00, which represented a premium of 35.07% above the reference price of €20.73. The conversion price was reduced to €25.10 as a result of the 2011 capital increase and a dividend payment.

For accounting purposes the bond was bifurcated into an equity and a liability component. The equity component, net of issuance costs of €0.6 million and deferred taxes of €0.2 million, amounted to €34.8 million and was credited to capital reserves.

Convertible bond 2009

In June 2009, Klöckner & Co issued a bond with a nominal value of €97.9 million with an original maturity of five years and a coupon of 6.0% per annum. The initial conversion price was adjusted to €16.47 as a result of the subsequent capital increases and dividend payments. The bond cannot be called by the issuer for the first three years, and is callable thereafter when Klöckner & Co's share price (over a certain period) exceeds 130% of the conversion price.

Convertible bond 2007

In July 2007, the Company issued a convertible bond with an aggregated nominal value of €325 million with an original maturity of five years and a coupon of 1.5% per annum. The conversion price is €63.95 after adjustment due to the capital increases. Klöckner & Co is entitled to call the bond if Klöckner & Co's share price (over a certain period) exceeds 130% of the conversion price. The convertible bond is due in July 2012 and is therefore classified as current financial liability.

Liabilities due to banks

The syndicated loan with a volume of €500 million, provided by a syndicate of 13 banks, was early extended in March 2011 until May 28, 2014. The terms were gradually modified to allow for more flexibility with regard to priority debt to be incurred in connection with future acquisitions.

The balance sheet-oriented financial covenant concept introduced in 2009 was maintained. Under the terms gearing (i.e., net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 28, 2010) may not exceed 150% and the equity attributable to shareholders of Klöckner & Co SE less goodwill from business combinations subsequent to May 28, 2010 may not decrease below €500 million. Violation of such financial covenants would not automatically result in an event of default but would require repayment of all outstanding amounts. Subsequent drawings would then be available when the covenants are again met. Throughout the fiscal year 2011, the Group consistently complied with all covenants.

The long-term financing of the MSCUSA acquisition was hedged with cross-currency swaps of USD 300 million. Hedge accounting is applied for these instruments.

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

Promissory notes

During the second quarter of 2011, Klöckner & Co issued promissory notes with a total volume of €198.0 million. The instruments' time to maturity is ranging between 3 and 5 years. The terms and conditions predominately comply with the promissory notes issued during the previous year and are also based on balance sheet-oriented covenants. Throughout the fiscal year 2011, the Group consistently complied with all covenants.

Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group operates a European ABS program. In March 2011, the program was modified and an extension of one year was agreed. The program volume of €420 million remained unchanged. The European ABS program is also based on balance sheet-related covenants. The US ABS program has a maximum volume of USD 200 million (€155 million).

At the end of the reporting period, the utilization of the programs of €175 million including interest breaks down as follows:

(€ million)	December 31, 2011	December 31, 2010
European program		
– utilization	20	20
– maximum volume	420	420
American program		
– utilization*)	155	68
– maximum volume*)	155	94

*) Translated at closing exchange rate.

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 under finance leases have the following terms:

(€ thousand)	December 31, 2011	December 31, 2010
Due within one year	2,360	2,199
Due between one and five years	2,677	5,008
Future minimum lease payments	**5,037**	**7,207**
Due within one year	99	139
Due between one and five years	88	266
Interest included in future minimum lease payments	**187**	**405**
Due within one year	2,261	2,060
Due between one and five years	2,589	4,742
Total present value of future minimum lease payments	**4,850**	**6,802**

(25) TRADE PAYABLES

(€ thousand)	December 31, 2011	December 31, 2010
Advance payments received	2,241	3,722
Trade payables	747,482	579,053
Bills payable	93	1,839
Trade payables	**749,816**	**584,614**

(26) OTHER LIABILITIES

	December 31, 2011		December 31, 2010	
(€ thousand)	Non-current	Current	Non-current	Current
Other financial liabilities				
Negative fair value of derivative financial instruments	62,376	5,114	50,147	3,819
Put option from business combinations	19,137	-	-	-
Other non-financial liabilities				
Social security contributions	128	12,719	285	11,662
Customers with credit balances	-	11,143	-	10,356
Liabilities to employees	-	2,486	-	5,719
Value-added tax liabilities	-	32,634	-	24,532
Other tax liabilities	-	6,610	-	5,734
Contingent consideration for business combinations	-	14	-	-
Miscellaneous other liabilities	3,436	6,394	4,513	14,298
Other liabilities	**85,077**	**77,114**	**54,945**	**76,120**

For a potential subsequent transfer of the minority interest in Frefer put and call options were negotiated. The put option constitutes a financial liability and is subsequently to be measured at fair value through profit and loss.

Negative fair values of derivative financial instruments of €63,869 thousand (2010: €51,965 thousand) are attributable to cross-currency swaps designated as net investment hedges and interest rate swaps designated as cash flow hedges for which fair value changes to the extent attributable to the effective portion of the hedging relationship are directly recognized in equity and thus do not effect net income.

OTHER INFORMATION

(27) 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 financial debt to equity attributable to shareholders of Klöckner & Co SE as stated in the statement of financial position less goodwill from business combinations subsequent to May 28, 2010. Net financial debt is calculated as the difference between financial liabilities (adjusted for transaction costs) and cash and cash equivalents reported on the statement of financial position. The Group's target is to maintain a gearing below 150% in order to be able to obtain finance at reasonable conditions.

Further information with regard to minimum equity capital requirements are provided in Note 24 (Financial liabilities).

Gearing – based on consolidated equity attributable to shareholders of Klöckner & Co SE – is calculated as follows:

(€ thousand)	December 31, 2011	December 31, 2010	Variance
Financial liabilities	1,445,189	1,060,160	385,029
Transaction cost	12,839	11,669	1,170
Liquid funds	– 986,632	– 934,955	– 51,677
Net financial debt (before deduction of transaction cost)	**471,396**	**136,874**	**334,522**
Consolidated shareholders' equity	1,843,239	1,290,494	552,745
Non-controlling interests	– 28,503	– 15,118	– 13,385
Goodwill from business combinations subsequent to May 28, 2010	– 160,775	– 4,623	– 156,152
Adjusted shareholders equity	**1,653,961**	**1,270,753**	**383,208**
Gearing	**29%**	**11%**	

The variance of the gearing ratio results primarily from the increased net working capital and cash outflows under the continued strategy of external growth.

(28) 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, 2011

		Measurement in accordance with					
		IAS 39			IAS 17		
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial assets							
Financial assets	*2,664*	*2,664*	-	-	-	-	*2,664*
Loans and receivables	295	295	-	-	-	-	295
Financial assets available for sale	2,369	2,369	-	-	-	-	2,369
Other non-current assets	*37,955*	*9,433*	-	-	-	*28,522*	*9,433*
Loans and receivables	9,433	9,433	-	-	-	-	9,433
Not covered by the scope of IFRS 7	28,522	-	-	-	-	28,522	-
Current financial assets							
Trade receivables	*921,758*	*921,758*	-	-	-	-	*921,758*
Loans and receivables	921,758	921,758	-	-	-	-	921,758
Other current assets	*105,203*	*80,894*	*164*	-	-	*24,145*	*81,058*
Loans and receivables	80,894	80,894	-	-	-	-	80,894
	164	-	164	-	-	-	164
Not covered by the scope of IFRS 7	24,145	-	-	-	-	24,145	-
Liquid funds	*986,632*	*986,632*	-	-	-	-	*986,632*
Loans and receivables	986,257	986,257	-	-	-	-	986,257
Financial assets available for sale	375	375	-	-	-	-	375
Total	**2,054,212**	**2,001,381**	**164**	**-**	**-**	**52,667**	**2,001,545**

Financial liabilities as of December 31, 2011

		Measurement in accordance with					
		IAS 39			IAS 17		
(€ thousand)	Carrying amount	Amortized costs	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial liabilities							
Non-current financial liabilities	*1,067,862*	*1,065,273*	-	-	*2,589*	-	*1,086,630*
Liabilities measured at amortized costs	1,065,273	1,065,273	-	-	-	-	1,084,041
Liabilities under finance leases	2,589	-	-	-	2,589	-	2,589
Other non-current liabilities	*85,077*	*3,436*	*19,548*	*61,965*	-	*128*	*84,949*
Liabilities measured at amortized costs	3,436	3,436	-	-	-	-	3,436
Derivative financial instruments not designated in hedge accounting (held for trading)	19,548	-	19,548	-	-	-	19,548
Derivative financial instruments designated in hedge accounting	61,965	-	-	61,965	-	-	61,965
Not covered by the scope of IFRS 7	128	-	-	-	-	128	-
Current financial liabilities							
Current financial liabilities	*377,327*	*375,066*	-	-	*2,261*	-	*381,203*
Liabilities measured at amortized costs	375,066	375,066	-	-	-	-	378,942
Liabilities under finance leases	2,261	-	-	-	2,261	-	2,261
Current trade liabilities	*749,816*	*749,816*	-	-	-	-	*749,816*
Liabilities measured at amortized costs	749,816	749,816	-	-	-	-	749,816
Other current liabilities	*77,114*	*20,024*	*3,210*	*1,905*	-	*51,975*	*25,139*
Liabilities measured at amortized costs	20,024	20,024	-	-	-	-	20,024
Derivative financial instruments not designated in hedge accounting (held for trading)	3,210	-	3,210	-	-	-	3,210
Derivative financial instruments designated in hedge accounting	1,905	-	-	1,905	-	-	1,905
Not covered by the scope of IFRS 7	51,975	-	-	-	-	51,975	-
Total	**2,357,196**	**2,213,615**	**22,758**	**63,870**	**4,850**	**52,103**	**2,327,737**

Financial assets as of December 31, 2010

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial assets							
Financial assets	*2,721*	*2,721*	*-*	*-*	*-*	*-*	*2,721*
Loans and receivables	290	290	-	-	-	-	290
Financial assets available for sale	2,431	2,431	-	-	-	-	2,431
Other non-current assets	*32,027*	*2,854*	*1,471*	*-*	*-*	*27,702*	*4,325*
Loans and receivables	2,854	2,854	-	-	-	-	2,854
Derivative financial instruments not designated in hedge accounting (held for trading)	1,471	-	1,471	-	-	-	1,471
Not covered by the scope of IFRS 7	27,702	-	-	-	-	27,702	-
Current financial assets							
Trade receivables	*703,101*	*703,101*	*-*	*-*	*-*	*-*	*703,101*
Loans and receivables	703,101	703,101	-	-	-	-	703,101
Other current assets	*62,898*	*54,463*	*779*	*-*	*-*	*7,656*	*55,242*
Loans and receivables	54,463	54,463	-	-	-	-	54,463
Derivative financial instruments not designated in hedge accounting (held for trading)	779	-	779	-	-	-	779
Not covered by the scope of IFRS 7	7,656	-	-	-	-	7,656	-
Liquid funds	*934,955*	*934,955*	*-*	*-*	*-*	*-*	*934,955*
Loans and receivables	934,801	934,801	-	-	-	-	934,801
Financial assets available for sale	154	154	-	-	-	-	154
Total	**1,735,702**	**1,698,094**	**2,250**	**-**	**-**	**35,358**	**1,700,344**

Financial liabilities as of December 31, 2010

(€ thousand)	Carrying amount	Measurement in accordance with IAS 39: Amortized costs	IAS 39: Fair value recognized in profit and loss	IAS 39: Fair value recognized in equity	IAS 17: Amortized costs	Not covered by the scope of IFRS 7	Fair value
Non-current financial liabilities							
Non-current financial liabilities	*1,020,582*	*1,015,840*	-	-	*4,742*	-	*1,114,527*
Liabilities measured at amortized costs	1,015,840	1,015,840	-	-	-	-	1,109,785
Liabilities under finance leases	4,742	-	-	-	4,742	-	4,742
Other non-current liabilities	*54,945*	*4,513*	*377*	*49,770*	-	*285*	*54,660*
Liabilities measured at amortized costs	4,513	4,513	-	-	-	-	4,513
Derivative financial instruments not designated in hedge accounting (held for trading)	377	-	377	-	-	-	377
Derivative financial instruments designated in hedge accounting	49,770	-	-	49,770	-	-	49,770
Not covered by the scope of IFRS 7	285	-	-	-	-	285	-
Current financial liabilities							
Current financial liabilities	*39,578*	*37,518*	-	-	*2,060*	-	*39,578*
Liabilities measured at amortized costs	37,518	37,518	-	-	-	-	37,518
Liabilities under finance leases	2,060	-	-	-	2,060	-	2,060
Trade payables	*584,614*	*584,614*	-	-	-	-	*584,614*
Liabilities measured at amortized costs	584,614	584,614	-	-	-	-	584,614
Other current liabilities	*76,120*	*28,483*	*1,624*	*2,195*	-	*43,818*	*32,302*
Liabilities measured at amortized costs	28,483	28,483	-	-	-	-	28,483
Derivative financial instruments not designated in hedge accounting (held for trading)	1,624	-	1,624	-	-	-	1,624
Derivative financial instruments designated in hedge accounting	2,195	-	-	2,195	-	-	2,195
Not covered by the scope of IFRS 7	43,818	-	-	-	-	43,818	-
Total	**1,775,839**	**1,670,968**	**2,001**	**51,965**	**6,802**	**44,103**	**1,825,681**

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, 2011 for the respective financial instruments. 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.

Fair values by fair value hierarchy levels

(€ thousand)	December 31, 2011	Level 1	Level 2	Level 3
	Fair value measurement at the end of the reporting period by hierarchy:			
Financial assets measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	164	-	164	-
Total	**164**	**-**	**164**	**-**
Financial liabilities measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	22,758	-	3,621	19,137
Designated in hedge accounting	63,870	-	63,870	-
Total	**86,628**	**-**	**67,491**	**19,137**

(€ thousand)	December 31, 2010	Level 1	Level 2	Level 3
	Fair value measurement at the end of the reporting period by hierarchy:			
Financial assets measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	2,250	-	2,250	-
Total	**2,250**	**-**	**2,250**	**-**
Financial liabilities measured at fair value (derivative financial instruments)				
Not designated in hedge accounting	2,001	-	2,001	-
Designated in hedge accounting	51,965	-	51,965	-
Total	**53,966**	**-**	**53,966**	**-**

Financial instruments for which the fair value is obtained from quoted prices for similar instruments are classified as Level 1. If fair values are derived from directly observable market inputs, those instruments are included in Level 2. Financial instruments for which the fair values are not based on observable market data are assigned to Level 3. The put option agreed in connection with the Frefer acquisition as in Note 5 (Acquisitions and disposals) is classified as a Level 3 financial instrument.

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 2011, a net loss of 13,787 thousand (2010: 20,687 thousand) was incurred.

Net income for "Other liabilities" consists of foreign currency exchange gains and losses. In financial year 2011, a net loss of €5,244 thousand (2010: net gain €2,388 thousand) was incurred.

There were no impairment losses for non-current financial assets in 2011. The impairment loss for trade receivables amounted to €8,709 thousand (2010: €6,237 thousand) in 2011.

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 business, 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 statement of financial position. Klöckner & Co counters the credit risk with its own credit management and with credit insurance. In 2011, approximately 57% (2010: 64%) of the trade receivables were covered by credit insurance.

(29) 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 Corporate 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 instruments. These risks encompass among others credit risk, market risk and liquidity risk.

Information with regard to credit risk is provided in Note 28 (Additional information for financial instruments).

Information on interest rate risk

Klöckner & Co is exposed to interest rate changes due to the use of financial instruments. The hedging policy is designed to cover interest rate changes of variable interest rate bearing financial liabilities. The Group is facing interest rate exposure with regard to its central financing instruments in the eurozone as well as to bilateral lines of credit of its US company. In addition, interest rate risks relate to the short-term deposits of liquid funds at banks. The central finance department monitors and controls the exposure of financial liabilities by using derivative interest rate financial instruments.

Long-term financing needs in the eurozone are primarily refinanced by capital market instruments, such as convertible bonds with fixed coupons. Under the Group's hedging policy variable interest bearing loans used for long-term financing are synthetically converted to fixed rate using interest rate swaps. Due to their term and volume these instruments qualify for cash flow hedge accounting.

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 bonds and the fixed rate bilateral credit arrangements as of December 31, 2011, approximately 51% or €759.5 million (2010: €685.9 million) of the 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 financial indebtedness before deduction of transaction costs amounts to approximately 66%.

Due to the measures implemented during the financial crisis for liquidity protection a significant liquidity reserve was built up by short-term deposits at banks with first-class credit ratings. If interest rates increase, the temporary liquidity reserves will lead to improved interest income.

Under IFRS 7 interest rate risk and chances are assessed using sensitivity analyses in which the impact of interest rate changes on interest income and expense and equity as of the end of the reporting period is assessed. Interest rate risk is measured as cash flow risk.

The Group assesses equity and income statement effects with sensitivity analyses in which parallel shifting of the euro and US dollar yield curves are assumed. The cash flow impact from the parallel shifting only refers to interest income and interest expense in the following reporting period.

If interest rate levels for the relevant foreign currencies as of December 31, 2011 had been higher by 100 basis points, the financial result driven from financial liabilities and hedging instruments for the following year would have been impacted negatively by €5.6 million. Likewise, the value of derivative financial instruments designated as cash flow hedges would have been positively increased by €5.9 million, which would have been reflected in equity in the reserve for fair value adjustments of financial instruments.

With regard to the liquidity reserves a higher market interest rate would result in a positive income effect of €9.9 million for an assumed term of one year.

Information on foreign currency exchange risk

Klöckner & Co 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 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. With regard to forecasted transactions compensating effects resulting from operating measures or market developments – so-called natural hedging – are taken into consideration when defining the hedging strategy.

At the end of the reporting period no material foreign currency exchange risks from the operating business or acquisitions were identified.

Foreign exchange risk in financing arises from foreign currency loans and net investments of the holding companies. As part of the central Group financing, these loans denominated in pounds sterling and US dollars with a volume of €633.2 million (2010: €312.1 million) were granted to subsidiaries at year-end and were fully hedged.

Due to the volume of three US dollar financing arrangements (net investments) were hedged using cross-currency swaps, designated as net investment hedge. This also includes the long-term financing of the MSCUSA acquisitions in the amount of 300 million US dollars. The cross-currency swaps are designated as net investment hedges.

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

The impact of changes of foreign currency rates 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 transaction.

Cross-currency swaps designated as net investment hedge may 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 subsidiary.

Information on liquidity risk

The demand for liquidity is constantly monitored by the Corporate Finance department to ensure appropriate levels of liquidity for the Klöckner & Co Group. During the past business year, the financing structure was further optimized by prolongation of the existing financing instruments and issuance of new ones thereof. In March 2011, the syndicated loan (Multi Currency Revolving Credit Facility) was early extended until May 28, 2014. Simultaneously, the loan conditions were adjusted to increase the flexibility for financing measures regarding acquisitions. Also in March 2011, the European ABS program was extended until March 2013 by also adjusting the conditions.

In May and June 2011, Klöckner & Co issued additional promissory notes with a total value of €198 million. The terms and conditions mainly comply with those promissory notes issued the previous year. Their maturity varies between three and five years.

Along with the MSCUSA acquisition a restructuring of the American credit facilities took place and the credit volume was increased to a total of 450 million US dollars of which 200 million US dollars is attributed to the ABS facility and 250 million US dollars to the ABL facility. A maturity of five years was agreed with the banks involved for both financing instruments.

In order to stabilize the capital structure to support the acquisition as well as the growth strategy, a capital increase of Klöckner & Co SE was performed effective June 8, 2011. By the issuance of 33,250,000 no-par-value shares of the authorized capital, net proceeds of approximately €516 million were achieved, strengthening the liquidity reserves for future acquisitions subsequent to the acquisitions of MSCUSA and Frefer.

Liquid funds are invested as short-term deposits with the Group's core banks. The solvency of these financial institutions is monitored on a regular basis.

Including the convertible bonds with nominal amounts of €609 million (2010: €609 million) and finance leasing of approximately €5 million (2010: €7 million) the Group has facilities of approximately €2.7 billion (2010: €2.2 billion). Financial liabilities before deduction of transaction costs amounted to €1,458 million, (2010: €1,072 million) representing 55% (2010: 48%) of the credit facilities. This amount includes among bilateral credit facilities also the convertible bonds and drawings under the syndicated loan, for which hedge accounting is applied in accordance with IAS 39.

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, 2011		Cash outflows			
(€ thousand)		Less than 1 year	1–5 years	More than 5 years	Total
Bonds	Nominal values	325,000	284,100	-	609,100
	Interest	15,404	25,697	-	41,101
	Total	**340,404**	**309,797**	**-**	**650,201**
Other bonds	Nominal values	9,934	9,934	-	19,868
	Interest	2,457	1,023	-	3,480
	Total	**12,391**	**10,957**	**-**	**23,348**
Promissory notes	Nominal values	-	343,000	-	343,000
	Interest	15,604	39,616	-	55,220
	Total	**15,604**	**382,616**	**-**	**398,220**
Bank loans	Nominal values	34,861	307,724	2,394	344,979
	Interest	9,707	13,568	75	23,350
	Total	**44,568**	**321,292**	**2,469**	**368,329**
ABS	Nominal values	-	174,571	-	174,571
	Interest	3,769	13,389	-	17,158
	Total	**3,769**	**187,960**	**-**	**191,729**
Finance lease liabilities	Nominal values	2,261	2,589	-	4,850
	Interest	99	88	-	187
	Total	**2,360**	**2,677**	**-**	**5,037**
Total financial liabilities		**419,096**	**1,215,299**	**2,469**	**1,636,864**
Cash outflows from derivative financial instruments designated in interest hedging relationships		7,224	12,262	4	19,490

December 31, 2010

		Cash outflows			
(€ thousand)		Less than 1 year	1–5 years	More than 5 years	Total
Bonds	Nominal values	-	609,100	-	609,100
	Interest	15,404	41,143	-	56,547
	Total	**15,404**	**650,243**	**-**	**665,647**
Promissory notes	Nominal values	-	145,000	-	145,000
	Interest	**6,587**	**18,502**	**-**	25,089
	Total	**6,587**	**163,502**	**-**	**170,089**
Bank loans	Nominal values	28,836	254,476	7,628	290,940
	Interest	8,173	15,441	205	23,819
	Total	**37,009**	**269,917**	**7,833**	**314,759**
ABS	Nominal values	-	88,175	-	88,175
	Interest	1,014	814	-	1,828
	Total	**1,014**	**88,989**	**-**	**90,003**
Finance lease liabilities	Nominal values	2,060	4,742	-	6,802
	Interest	139	266	-	405
	Total	**2,199**	**5,008**	**-**	**7,207**
Total financial liabilities		**62,213**	**1,177,659**	**7,833**	**1,247,705**
Cash outflows from derivative financial instruments designated in interest hedging relationships		7,730	12,860	– 10	20,580

Included are all financial instruments for which payments have already been fixed as of the end of the reporting period; 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 end of the reporting period. 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)	December 31, 2011 Not designated in hedge accounting	December 31, 2011 Designated in hedge accounting	December 31, 2010 Not designated in hedge accounting	December 31, 2010 Designated in hedge accounting
Nominal values				
Forward exchange transactions	198.2	-	88.4	-
Interest rate swaps	8.1	447.4	8.1	671.1
Other interest rate hedging instruments	15.0	-	15.0	-
Cross-currency swaps	-	435.0	-	223.7
Fair values				
Forward exchange transactions	– 3.0	-	0.6	-
Interest rate swaps	– 0.4	– 16.7	– 0.4	– 18.7
Other interest rate hedging instruments	0.0	-	0.0	-
Cross-currency swaps	-	– 47.1	-	– 33.3

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

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. The fair value calculation also considers the counterparty risk. If fair values exist, they correspond to the amount third parties will pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in value in the underlying transactions.

Forward exchange transactions with a nominal amount of €198.2 million (2010: €88.4 million) have a remaining term of less than one year. To hedge its foreign currency exposure of net investments Klöckner & Co SE entered into cross-currency swaps maturing in May 2013, in December 2014 and in May 2016, respectively. With regard to the financing volume of USD 635 million, the principal swap at the beginning and at 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 the compensation of foreign exchange risks of the net investments the cross-currency swap qualifies as a net investment hedge under IAS 39.

The interest rate swaps designated in a hedging relationship relate to forward interest rate swaps and on an interest rate swap on a volume of €223.7 million and a swap interest rate between 4.30% and 4.60% p.a. 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.

To the extent attributable to the effective portion of the fair value changes of hedging instruments designated in hedge accounting, such fair value changes are recognized directly in other comprehensive income. For the period ending December 31, 2011, these fair value changes amounted to €– 11.9 million (2010: €– 27.2 million). Fair value changes of net investment hedges included therein amounted to €– 13.9 million (2010: €– 26.4 million).

The other interest rate hedging instruments not designated in hedge accounting with a nominal amount of €23.1 million (2010: €23.1 million) refer to two interest swaps and one interest cap of BSS. The instruments are used to hedge variable bilateral credits.

(30) PENDING LITIGATION, COMMITMENTS AND CONTINGENT LIABILITIES

The Group is currently not subject to pending litigation that may have a material effect on the Group's net assets and results of operation. Despite the comprehensive set of compliance measures, it can, however, not be ruled out that isolated violations may arise or that there are yet undetected historic violations.

The liabilities on bills amount to €28 thousand (2010: €31 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.

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

(€ thousand)	December 31, 2011	December 31, 2010
Due within one year	**61,550**	52,172
Due between one and five years	**139,828**	115,252
Due after five years	**60,278**	60,842
Future minimum lease payments (nominal amounts)	**261,656**	**228,266**

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €3,896 thousand as of December 31, 2011 (2010: €2,785 thousand).

(31) 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 of the Management and Supervisory Board is presented in detail and individually in the compensation report, which is included in the management report. The compensation of members of the Management Board of Klöckner & Co SE for their activities in 2011 amounted to:

(€ thousand)	2011	2010
Fixed components	**1,320**	1,080
Variable components	**1,027**	978
Other remunerations	**90**	80
Share-based payment	**594**	– 205
Total	**3,031**	**1,933**

Statutory pension provisions for a former Management Board member amount to €1,432 thousand (2010: €1,507 thousand).

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

In the 2011 financial year, remuneration for the Supervisory Board amounted to €344 thousand (2010: €382 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.

Also a related party in accordance with IAS 24 is the pension fund of the Debrunner & Acifer Group, Switzerland. The pension fund leases premises to the Swiss subsidiaries. Rental expenses for such premises amount to €1,349 thousand (2010: €1,154 thousand).

(32) SUPPLEMENTAL CASH FLOW INFORMATION

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

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

Cash flow from operating activities

Cash inflows from operating activities amounted to €6 million in the financial year 2011, which is lower than in the prior year (2010: €35 million). This is especially an effect of the decreasing operating cash flow as a result of the decreasing operating income. The additional tie up of funds in net working capital was limited by a continuously stringent trade receivable collection and inventory management.

Net working capital increased net of foreign currency exchange effects and changes in the scope of consolidation as follows:

	Variance	
(€ thousand)	2011/2010	2010/2009
Inventories	**124,396**	168,180
Trade receivables*)	**43,326**	136,724
Trade payables	**– 40,377**	– 108,157
Net working capital	**127,345**	**196,747**

*) Including trade receivables sold under ABS programs.

Cash flow from investing activities

Cash outflows for the acquisitions of the reporting period of €444 million and capital expenditure for property, plant and equipment and intangible assets of €56 million proceeds from the sale of property, plant and equipment and non-current assets (€18 million) led to net outflows from investing activities to €– 483 million.

Cash flow from financing activities

Cash flow from financing activities is driven by proceeds from the capital increase of €516 million and from the issuance of promissory notes (€196 million), each net of transaction costs. These cash inflows were partly offset by dividend payments to controlling and non-controlling interests of €22 million and repayments of assumed debt in business combinations of €196 million. Including net drawings of financial liabilities of €95 million and (net) interest payments of €47 million, cash inflows from financing activities amount to €542 million (2010: €252 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 €987 million as of December 31, 2011. Cash and cash equivalents include bank balances of €13,322 thousand (2010: €24,693 thousand) relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the European ABS program.

(33) SEGMENT REPORTING

(€ thousand)	Europe 2011	Europe 2010	Americas*) 2011	Americas*) 2010
Sales	5,043,106	4,311,469	2,052,256	886,712
– of which with third parties	5,043,105	4,311,469	2,052,256	886,712
– of which with other segments	1	-	-	-
Capital expenditure for intangible assets, property, plant and equipment	40,943	23,556	8,863	2,331
Segment result (EBITDA)	166,645	222,618	80,694	33,040
Earnings before interest and taxes (EBIT)	111,540	161,416	31,693	9,753
Amortization and depreciation of intangible assets and property, plant and equipment	52,449	61,196	48,234	23,287
Impairment losses for intangible assets and property, plant and equipment	2,655	-	767	-
Other non-cash expenses/income	– 8	– 32	-	-
Income taxes	– 10,383	– 5,960	– 1,426	2,006

	Europe December 31, 2011	Europe December 31, 2010	Americas*) December 31, 2011	Americas*) December 31, 2010
Net working capital (€ thousand)	957,700	850,827	576,710	158,228
Employees at year-end	8,236	8,187	3,019	1,381

*) In 2011, the segment was extended for the business acquired in South America and was renamed accordingly.

Headquarters		Consolidation		Total	
2011	2010	2011	2010	2011	2010
29,880	18,460	– 29,881	– 18,460	7,095,361	5,198,181
-	-	-	-	7,095,361	5,198,181
29,880	18,460	– 29,881	– 18,460	-	-
6,134	641	-	-	55,940	26,528
– 30,819	– 17,884	-	-	216,520	237,774
– 32,086	– 19,177	-	– 1	111,147	151,991
1,268	1,299	-	– 1	101,951	85,781
-	-	-	-	3,422	-
– 4,502	868	-	-	– 4,510	836
– 4,730	– 175	-	-	– 16,539	– 4,129

Headquarters		Consolidation		Total	
December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
– 277	8,281	-	– 8	1,534,133	1,017,328
126	131	-	-	11,381	9,699

The earnings before interest and taxes (EBIT) can be reconciled to the consolidated net income before taxes as follows:

(€ thousand)	2011	2010
Earnings before interest and taxes (EBIT)	111,147	151,991
Financial result (Group)	– 84,241	– 67,650
Income before taxes (Group)	**26,906**	**84,341**

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. The internal reporting compiles information at the level of the reportable segments Europe and Americas, which include all entities domiciled in those regions. Central functions that are not assigned to a segment, as well as the consolidation effects, are reported separately. In 2010, the segment Americas only comprised the North American entities.

The segments use the same accounting policies described in Note 4 (Significant accounting policies), except for effects of intragroup transactions (e.g., profit distributions and impairments on consolidated affiliated companies), which are eliminated within the individual segments.

The external sales comprise all sales generated with customers. Sales between segments are disclosed separately to allow reconciliation to consolidated sales. Intersegment sales – only deliveries from the central purchasing entity Klöckner Global Sourcing GmbH, Duisburg – are invoiced at arms' length. EBITDA as a key performance indicator is defined as earnings before interest, taxes, depreciation and amortization and reversals of impairments of intangible assets and property, plant and equipment.

Net working capital comprises inventories and trade receivables less trade liabilities.

Non-cash income and expenses mainly relate to changes in fair values of derivative financial instruments.

Non-current assets by regions

Intangible assets, property, plant and equipment, investment property and non-current investments and securities are broken down by regions as follows:

(€ thousand)	2011	2010
Germany	139,829	144,412
Switzerland	189,933	187,162
United States	603,511	213,451
Brazil	65,584	-
France	58,743	61,593
Spain	58,968	62,079
Other regions	95,937	96,002
Total	**1,212,505**	**764,699**

(34) SUBSEQUENT EVENTS

There were no subsequent events that would require disclosure in the notes to the consolidated financial statements.

(35) FEES AND SERVICES OF THE AUDITOR OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, and affiliated companies in the financial year:

	2011		2010	
(€ thousand)	Total	thereof KPMG AG	Total	thereof KPMG AG
Audit of financial statements	1,689	856	1,826	861
Other assurance services	689	413	355	173
Tax advisory services	134	130	183	119
Other services	414	411	171	126
	2,926	1,810	2,535	1,279

The fees for auditing primarily include the audit of the consolidated IFRS financial statements and audits of the stand-alone financial statements of the entities included in the consolidated financial statements. Other assurance services include reviews of interim financial statements and fees in the context of the capital increase.

The fees for tax advisory services relate to advice for individual matters and recurring consulting regarding tax returns as well as other national and international tax issues.

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

(36) APPLICATION OF SECTION 264 PARA 3 AND SECTION 264B HGB

In 2011, the following domestic subsidiaries made use in part of the exemption clause included in Section 264 para 3 and Section 264b of the German Commercial Code (HGB):

- Becker Besitz GmbH, Duisburg
- Becker Stahl-Service GmbH, Duisburg
- Kloeckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner Global Sourcing GmbH, Duisburg
- Umformtechnik Stendal UTS GmbH & Co KG, Stendal

(37) DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATIONS ACT (AKTG – AKTIENGESETZ)

On December 15, 2011, the Management Board and Supervisory Board issued the declaration of compliance in accordance with Section 161 German Stock Corporations Act (AktG) and made it permanently publicly available to the shareholders on the Klöckner & Co Web site.

Duisburg, February 24, 2012

Klöckner & Co SE

The Management Board

Gisbert Rühl Chairman of the Management Board	Ulrich Becker Member of the Management Board	William A. Partalis Member of the Management Board

INDEPENDENT AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Klöckner & Co SE, Duisburg, and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2011.

Management's Responsibility for the Consolidated Financial Statements

The management of Klöckner & Co SE is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to Section 315 a para 1 HGB [Handelsgesetzbuch: German Commercial Code], to 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 company's management is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Pursuant to Section 322 para 3 sentence 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315 a para 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2011 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying Group management report of Klöckner & Co SE for the business year from January 1 to December 31, 2011. The management of Klöckner & Co SE is responsible for the preparation of the Group management report in compliance with the applicable requirements of German commercial law pursuant to Section 315 a para 1 HGB [Handelsgesetzbuch: German Commercial Code]. We are required to conduct our audit in accordance with Section 317 para 2 HGB and German generally accepted standards for the audit of the Group management report promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit of the Group management report to obtain reasonable assurance about whether the Group management report is consistent with the consolidated financial statements and the audit findings, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 para 3 sentence 1 HGB, we state that our audit of the Group management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and Group management report, 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.

Düsseldorf, February 24, 2012
KPMG

Wirtschaftsprüfungsgesellschaft

Philippi
Wirtschaftsprüfer

Zeimes
Wirtschaftsprüfer

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, February 24, 2012

The Management Board

Gisbert Rühl	Ulrich Becker	William A. Partalis
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

INDIVIDUAL FINANCIAL STATEMENTS OF KLÖCKNER & CO SE

KLÖCKNER & CO SE

Income statement
for the period from January 1 to December 31, 2011

(€ thousand)	2011	2010
Other operating income	34,608	18,043
Personnel expenses	– 19,587	– 17,354
Depreciation of intangible assets and property, plant and equipment	– 374	– 315
Other operating expenses	– 53,263	– 22,328
Income from participations	183,239	62,152
Income from long-term loans	12,652	-
Other interest and similar income	31,071	36,052
Impairment of investments	– 89,944	-
Interest and similar expenses	– 82,394	– 29,317
Result from ordinary activities	**16,008**	**46,933**
Extraordinary income	925	383
Extraordinary result	**925**	**383**
Income taxes	– 3,449	89
Other taxes	-	– 53
Net income	**13,484**	**47,352**
Unappropriated profits carried forward	47,352	17,700
Dividends	– 19,950	-
Appropriation to other revenue reserves	– 27,402	– 17,700
Unappropriated profits	**13,484**	**47,352**

KLÖCKNER & CO SE

Balance sheet as of December 31, 2011

Assets

(€ thousand)	December 31, 2011	December 31, 2010
Intangible assets	8,126	508
Property, plant and equipment	777	647
Financial assets	1,282,619	258,328
Fixed assets	**1,291,522**	**259,483**
Trade receivables	57	176
Receivables from affiliated companies	511,341	1,064,132
Other assets	14,286	18,057
Cash and cash equivalents	844,238	9
Current assets	**1,369,922**	**1,082,374**
Prepaid expenses	51,827	73,630
Total assets	**2,713,271**	**1,415,487**

Equity and liabilities

(€ thousand)	December 31, 2011	December 31, 2010
Equity		
Subscribed capital	249,375	166,250
Capital reserves	917,601	473,100
Other revenue reserves	103,095	75,693
Unappropriated profits	13,484	47,352
Equity	**1,283,555**	**762,395**
Provisions for pensions and similar obligations	95,183	9,018
Provisions for taxes	2,259	333
Other provisions	44,064	8,481
Bonds	609,100	609,100
Liabilities to banks	575,532	-
Trade payables	3,577	529
Liabilities to affiliated companies	95,414	21,913
Other liabilities	4,587	3,718
Total equity and liabilities	**2,713,271**	**1,415,487**

KLÖCKNER & CO SE

Movements in intangible assets, property, plant and equipment and non-current investments in 2011 (annex to the notes)

	Cost				
(€ thousand)	As of December 31, 2010	Addition through merger	Additions	Disposals	As of December 31, 2011
I. Intangible assets					
1. Concessions, industrial rights and similar rights and licenses in such rights	1,105	-	7,665	-	**8,770**
2. Prepayments	-	-	164	-	**164**
II. Property, plant and equipment					
1. Buildings	216	-	60	-	**276**
2. Other equipment, operating and office equipment	829	-	233	– 1	**1,061**
III. Non-current investments					
1. Investments in affiliated companies	258,328	499,123	284,830		**1,042,281**
2. Investments in other participations	-	7	-	-	**7**
3. Loans to affiliated companies	-	63,694	211,268	-	**274,962**
	260,478	**562,824**	**504,220**	**– 1**	**1,327,521**

	Accumulated amortization and depreciation				Carrying amounts	
	As of December 31, 2010	Current year amortization and depreciation	Disposals	As of December 31, 2011	Book value as of Dec. 31, 2010	Book value as of Dec. 31, 2011
	597	211	-	808	508	7,962
	-	-	-	-	-	164
	57	31	-	88	159	188
	341	132	– 1	472	488	589
	-	89,944	-	89,944	258,328	952,337
	-	-	-	-	-	7
	-	-	-	-	-	330,275
	995	90,318	– 1	91,312	259,483	1,291,522

KLÖCKNER & CO SE, DUISBURG

Notes to the financial statements for the 12-month period ending December 31, 2011

1. GENERAL INFORMATION

Klöckner & Co SE (the “Company”) is the parent company of the Klöckner & Co Group. It is the largest mill-independent distributor of steel and metal products and one of the leading operators of steel service centers in the combined European and American market. The distribution of steel and non-ferrous metals as well as the operation of steel service centers in approximately 290 locations is the core business of the Klöckner & Co Group.

Klöckner & Co SE acts as the management company of operations of the Klöckner & Co Group. Subsequent to a merger of various intermediate holding companies, the Company directly controls the majority of the management companies of the domestic and foreign country operations and selected operating companies of the Group.

The shares of Klöckner & Co SE have been listed on the regulated market (Regulierter Markt) 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.

The statutory and the consolidated financial statements will be published in the electronic Federal Gazette.

2. MERGER OF INTERMEDIATE HOLDING COMPANIES ON AND INTO KLÖCKNER & CO SE

To streamline the corporate structures, the following intermediate holding companies were retroactively merged in a multi-step merger process into their respective parent company and ultimately into Klöckner & Co SE with effect of January 1, 2011:

- Multi Metal Beteiligungs GmbH, Duisburg
- Klöckner & Co International GmbH, Duisburg
- Klöckner & Co Verwaltung GmbH, Duisburg

Upon execution of this transaction, Klöckner & Co SE is now also in charge of the Group’s financing, which until then was operated through Klöckner & Co Verwaltung GmbH.

Due to the merger the comparability of the balance sheet and income statement to the prior year is limited. The following table depicts the major effects as of January 1, 2011:

(€ thousand)	As previously reported	Merger	Post merger
Fixed assets	259,483	562,824	**822,307**
Receivables from affiliated companies	1,064,132	– 660,803	**403,329**
Miscellaneous receivables and other assets	18,233	5,935	**24,168**
Cash and cash equivalents	9	804,268	**804,277**
Prepaid expenses	73,630	1,237	**74,867**
Total assets	**1,415,487**	**713,461**	**2,128,948**
Equity*)	762,395	925	**763,320**
Provisions for pensions and similar obligations	9,018	88,050	**97,068**
Other provisions	8,814	35,348	**44,162**
Bonds	609,100	-	**609,100**
Liabilities to banks	-	373,951	**373,951**
Liabilities to affiliated companies	21,913	213,867	**235,780**
Miscellaneous liabilities	4,247	1,320	**5,567**
Total equity and liabilities	**1,415,487**	**713,461**	**2,128,948**

*) Including merger gain of €925 thousand.

3. ACCOUNTING POLICIES

The financial statements for the financial year from January 1 to December 31, 2011 were compiled in accordance with the German Commercial Code (HGB – Handelsgesetzbuch) amended by the BilMoG and the German Stock Corporations Act (AktG – Aktiengesetz) as required for large corporations. Klöckner & Co SE compiles consolidated financial statements under International Financial Reporting Standards (IFRS) as adopted by the EU.

The presentation of the financial statements adheres to Sections 266–278 German Commercial Code (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. The option to capitalize internally developed intangible assets is not elected. Moveable property, plant and equipment subject to depreciation are amortized on a straight-line basis. Low-value assets are expensed on acquisition. Extraordinary depreciations are recognized if the carrying amount exceeds the 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 average exchange rate at the reporting date. Section 253 para 1 sentence 1 and Section 252 para 1 no. 4 HGB will not be applied on receivables with a remaining maturity of less than 12 months.

Equity and liabilities

Provisions for pensions are measured using the projected unit credit method in analogy to IAS 19. In accordance with the requirements of BilMoG the parameters for valuation were 2.5% for salary increase and 2.0% for pension increase. Unchanged, the biometrical parameters are based on Professor Dr. Klaus Heubeck's guidelines 2005 G. The obligation is discounted with the average market rate that is based on an assumed 15-year maturity and is published by the German Central Bank (Deutsche Bundesbank). At the reporting date this interest rate is 5.14%. Assets will be offset against the corresponding liability if they are excluded from the access of creditors and exclusively used to fulfill pension obligations.

Other accrued expenses account for all identifiable and pending risks. They are recorded at their settlement amount that is estimated with due care and diligence of a prudent businessman. Provisions with a maturity of more than one year are discounted on the reporting date. The average market rates of the previous seven years according to the corresponding maturity of the provisions published by the German Central Bank are used as discount rates.

Liabilities are generally stated at their settlement amount. Liabilities in foreign currencies with a maturity of up to one year are generally converted by the average rate on reporting date. Liabilities in foreign currency with a longer maturity are converted by the rate at initial issue or the higher average rate on the reporting date.

Derivative financial instruments are accounted for at fair value, i.e., they are either based on quoted market prices obtained from banks or are calculated using financial models similar to those used by banks. To the extent market values are available they reflect the amount for which third parties would be willing to assume the obligations under the financial instruments. The fair values as of the reporting date do not take into consideration changes in the underlying instruments. Positive fair values are reported as other assets; negative fair values are included in other liabilities.

Financial instruments, which due to volume and timing compensate risks of an underlying, are accounted for as a valuation unit in accordance with Section 254 of the German Commercial Code (HGB).

Income statement

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

Interest cost on pensions is stated in net interest income.

4. FIXED ASSETS

The development of fixed assets in the reporting period is presented in the movement schedule.

To strengthen the funding of the Spanish Klöckner Participaciones S.A., Madrid, Spain, a capital injection of €75,000 thousand was made in the reporting period. Given the sustained negative economic situation an other than temporary impairment of €85,187 thousand was identified and recorded.

Likewise, an other than temporary impairment for Klöckner Metalsnab AD, Sofia, Bulgaria of €4,757 thousand was posted.

On June 1, 2011 Kloeckner Metals (Changshu) Co., Ltd., Changshu, China was formed to enter into the Chinese steel market. The interest of Klöckner & Co SE in this company is 100%.

The loans to affiliated companies are granted to Klöckner USA Holding Inc., Wilmington, Delaware, USA and to Klöckner Netherlands Holding B.V., Barendrecht, the Netherlands.

A listing of all subsidiaries is presented in the appendix.

5. ACCOUNTS RECEIVABLE AND OTHER ASSETS

(€ thousand)	2011	2010
Trade receivables	57	176
Receivables from affiliated companies	511,341	1,064,132
Other assets	14,286	18,057
	525,684	**1,082,365**

Receivables from affiliated companies relate to the European cashpooling, profit transfer agreements, financial services as well as to the current clearing and current loans.

All receivables fall due in less than one year.

Other assets of €4,226 thousand (2010: €0 thousand) have a remaining maturity of more than one year and relate to reinsurance claims.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances.

7. PREPAID EXPENSES

The discounts on issuance of the convertible bonds of €124,394 thousand were capitalized as prepaid expenses in 2007, 2009 and 2010, respectively, and are amortized over the remaining maturity of the bonds. In 2011, amortization expenses included in interest expense amounted to €24,735 thousand (2010: €12,559 thousand). The remaining unamortized discounts stood at €48,225 thousand (2010: €19,885 thousand) at the end of the financial year 2011.

In addition, prepaid expenses include prepaid rents.

8. EQUITY

Effective with registration on June 8, 2011, the Company's subscribed capital was increased from €166,250,000 by €83,125,000 to €249,375,000. The increase to 99,750,000 shares from authorized capital was achieved by issuance of 33,250,000 no-par-value shares with a calculated pro rata share of the capital stock of €2.50 per share with full dividend rights from January 1, 2011. The issue price for the new shares amounted to €15.85 per share, resulting in gross issue proceeds of about €528 million of which €445 million were attributed to capital reserves.

The authorized capital per Section 4 para 5 a of the Articles of Association of the Company was completely used for the capital increase.

The revenue reserves are not subject to dividend blocking constraints according to Section 268 para 8 HGB.

The previous year's retained earnings of €47,351,522 less a dividend of €19,950,000 were allocated to the revenue reserves.

9. PROVISIONS FOR PENSIONS

As part of the merger of the intermediate holding companies, pension obligations and plan assets of the merged Klöckner & Co Verwaltung of €88,511 thousand and €461 thousand, respectively, were assumed by Klöckner & Co SE.

The pension obligations of Klöckner & Co SE amounted to €102,258 thousand as of December 31, 2011 (2010: €14,149 thousand).

Plan assets exclusively consist of reinsurance claims for which the acquisition costs are equal to their fair values (€7,075 thousand). They are measured at the asset value of the reinsurance policy. Plan assets accounted for at fair value are offset against the respective pension obligation (net presentation).

Expenses from the accretion of pension liabilities of €5,120 thousand were offset against interest income from plan assets of €42 thousand.

10. OTHER PROVISIONS

Other provisions consist of:

(€ thousand)	2011	2010
Onerous contracts	17,668	-
Warranties	9,389	-
Personnel expenses	5,421	6,710
Outstanding invoices	1,694	1,108
Miscellaneous other provisions	9,892	663
	44,064	8,481

The provision for onerous contracts relates to currency and interest hedges. The provision for warranties relates to subsequent cost from the sale of the trading activities in 2000. Miscellaneous other provisions include an amount of €9,326 thousand with regard to a debtor warrant bond for Klöckner Stahl- und Metallhandel GmbH, Duisburg, as part of the ABS program. These provisions are taken over from Klöckner & Co Verwaltung GmbH due to the merger.

11. LIABILITIES

		thereof falling due		
(€ thousand)	2011	Less than 1 year	1–5 years	2010
Bonds	609,100	325,000	284,100	609,100
Liabilities to banks	575,532	7,532	568,000	-
Trade payables	3,577	3,577	-	529
Liabilities to affiliated companies	95,414	95,414	-	21,913
Other liabilities	4,587	4,490	97	3,718
	1,288,210	436,013	852,197	635,260

In July 2007, Klöckner & Co issued via its wholly owned subsidiary Klöckner & Co Finance International S.A. a convertible bond with an aggregated nominal value of €325 million. Payments under the bond are guaranteed by Klöckner & Co SE. The bond, which is convertible into shares of Klöckner & Co SE, has a maturity of five years and is repayable in July 2012. It has a coupon of 1.5% per annum. The conversion price in connection with the capital increase was adjusted to €63.95. The bond carries 5,083 thousand options for conversion.

On June 9, 2009, Klöckner & Co issued a further convertible bond with an aggregated nominal value of €97.9 million, which was issued by Klöckner & Co Financial Services S.A. and is also convertible into shares of Klöckner & Co SE. The maturity of this bond also amounts to five years. The bond has a coupon of 6.0% per annum and – adjusted for the 2011 capital increase and subsequent dividend payments – a conversion price of €16.47. The bond carries 5,945 thousand options for conversion.

On December 22, 2010, Klöckner & Co Financial Services S.A. issued a senior unsecured convertible bond with a volume of €186.2 million to institutional investors outside of the US only. This bond is also granted by Klöckner & Co SE.

The bond has a maturity of seven years. The coupon of the bond was fixed at 2.50% per annum. Holders of the bond are entitled to require the early redemption of the bonds after five years at the principal amount including accrued interest. Klöckner & Co cannot call the bond within the first five years. After five years Klöckner & Co may call the bond if the Klöckner share price (over a certain period) exceeds 130% of the then prevailing conversion price. The conversion price was initially set to €28.00, which represented a premium of 35.07%. The conversion price was subsequently adjusted for the 2011 capital increase and dividend payment to €25.10. The bond carries 7,419 thousand options for conversion.

Liabilities to banks consist of €226,160 thousand (thereof with a maturity of less than one year: €1,160 thousand) of drawings under the syndicated loan (Multi Currency Revolving Credit Facility), which was early extended to May 28, 2014 with modified covenants in March 2011. The adjusted covenants especially increase the flexibility with respect to future borrowings for acquisitions (so-called "priority debt").

In addition to the promissory notes placed in 2010, the Company issued further notes of €198.0 million in the second quarter of 2011, so that the total volume now amounts to €343.0 million. The terms and conditions predominately comply with the promissory notes issued during the previous year. The instruments' times to maturity range between three and five years.

Other liabilities include:

(€ thousand)	2011	2010
Tax liabilities	**4,375**	3,673
Social security contributions	**110**	41

12. DERIVATIVE FINANCIAL INSTRUMENTS

The nominal values and fair values of the derivative financial instruments as of December 31, 2011 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	167.3	– 3.0
Interest rate swaps	671.1	– 16.7
Cross-currency swaps	435.0	– 47.1

Klöckner & Co SE assumed the Group's financing activities from Klöckner & Co Verwaltung GmbH through the merger of the holding companies. Klöckner & Co SE is exposed to foreign currency risks due to the use of the financial instruments taken over. They result from loans in foreign currencies, lent to Group companies in the course of the central Group financing that are fully hedged. The necessary derivative financial instruments were also taken over from Klöckner & Co Verwaltung GmbH. Among others, this also included the derivative financial instruments. Until the merger Klöckner & Co SE had no own derivative financial instruments. Therefore, the table does not include previous year's amounts.

Derivative financial instruments and the corresponding hedged transactions can be treated as a single valuation unit, if evidence of a clear hedge relationship can be provided. The clear relationship exists for forward exchange transactions as well as cross-currency swaps with a maturity up to 2016. In these cases the hedged transactions are recognized at the contractually agreed hedge rates and the derivative financial instruments are not recorded separately.

The interest rate hedges do not meet the criteria to establish a valuation unit. In case of negative market values a provision for onerous contracts will be recorded in the amount of the fair values. As of December 31, 2011, provisions of €–17.7 million were recorded.

Klöckner & Co SE only uses derivative financial instruments linked directly to hedged transactions.

The following methods are used to determine the fair value:

Foreign currency hedges
The fair value of foreign currency forward contracts is calculated on the basis of the average spot exchange rates applicable as at the financial statement date, adjusted for time-related premiums or discounts for the respective remaining term of the contract, compared to the contracted forward rate and adjusted for the counterparty risk.

Interest rate hedges and cross-currency swaps
The fair value of interest and cross-currency swaps is determined by discounting the future cash flows based on the interest rates applying for the remaining term of the contracts. In addition, the valuation of interest/cross-currency swaps takes into consideration the exchange rates of the foreign currencies of the cash flows as well as the counterparty risk.

13. COMMITMENTS

Future minimum lease payments for long-term operating leases relate in the amount of €3,745 thousand (2010: €3,705 thousand) to 2012 and in the amount of €15,622 thousand (2010: €15,368 thousand) to financial years 2013 until 2016. In periods subsequent to 2017 the obligations amount to €0 thousand (2010: €4,250 thousand).

14. OTHER OPERATING INCOME

Other operating income contains income attributable to prior periods of €1,743 thousand (2010: €608 thousand).

15. PERSONNEL EXPENSES

(€ thousand)	2011	2010
Wages and salaries	**16,750**	13,248
Social securities	**1,388**	1,175
Retirement benefit cost	**1,446**	2,919
Welfare	**3**	12
	19,587	**17,354**

Average number of employees:

	2011	2010
Salaried employees	121	116
Wage earners	2	3
	123	119

The compensation model of the Management and Supervisory Boards is presented in detail and individually in the compensation report, which is included in the management report. The compensation of members of the Management Board of Klöckner & Co SE for their activities in 2011 amounted to:

(€ thousand)	2011	2010
Fixed components	1,320	1,080
Variable components	1,027	978
Other remunerations	90	80
Share-based payment	594	– 205
	3,031	1,933

The 2011 share-based payment corresponds to 180,000 options.

Statutory pension provisions for a former board member amount to €1,432 thousand (2010: €1,507 thousand).

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

The contracts with the members of the Management Board allow for an extraordinary termination right if a change of owner of ownership of more 30% of the voting rights is incurred. If exercised, the Management Board members are entitled to receive the annual target remuneration (including a target bonus) until the end of their contract term. The payment is limited to the triple annual compensation received in the year of termination.

16. OTHER OPERATING EXPENSES

In the 2011 financial year, remuneration for the Supervisory Board amounted to €344 thousand (2010: €382 thousand).

Other operating expenses also include fees incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf. Detailed information on audit fees can be obtained from Note 35 to the consolidated financial statements.

Other operating expenses of €507 thousand (2010: €374 thousand) relate to prior periods.

17. INCOME FROM INVESTMENTS

(€ thousand)	2011	2010
Income from profit transfer agreements	72,079	62,152
Dividends received from affiliated companies	111,160	-
	183,239	62,152

Dividends from affiliated companies include dividends from Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands, Debrunner Koenig Holding AG, St. Gallen, Switzerland, Klöckner Distribution Industrielle S.A., Aubervilliers, France and dividends from reserves made prior to the fiscal unity Becker Stahl-Service GmbH, Duisburg. The income from profit transfer agreements results from contracts with Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Klöckner Global Sourcing GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg and Becker Besitz GmbH, Duisburg.

18. INTEREST INCOME, NET

(€ thousand)	2011	2010
Income from long-term loans		
– affiliated companies	12,652	-
Other interest and similar income		
– affiliated companies	17,278	36,052
– other interest and similar income	13,793	-
Interest and similar expenses		
– affiliated companies	– 18,474	– 11,274
– interest on provisions	– 5,078	– 107
– other interest and similar expenses	– 58,842	– 17,936
	– 38,671	6,735

The increase in interest income from affiliated companies and income from long-term loans resulted from the takeover of the Group financing. In the previous year, an amount of €33,984 thousand was included, which related to a loan granted to Klöckner & Co Verwaltung GmbH.

19. EXTRAORDINARY RESULT

The extraordinary result exclusively comprises the merger gain resulting from the merger of the intermediate holding companies. Prior-year amounts related to adjustments effecting net income to other provisions in connection with the initial application of BilMoG.

20. TAXES

(€ thousand)	2011	2010
Income taxes	3,449	– 89
Other taxes	-	53
	3,449	**– 36**

Income taxes only relate to the operating result.

The calculation of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 para 1 sentence 2 HGB the Company did not elect to recognize the net deferred tax asset. Therefore, the tax expenses do not include deferred taxes. The unrecognized net deferred tax asset results from tax losses of €12,774 thousand (2010: €10,441 thousand) and deductible temporary differences of €16,236 thousand (2010: €15,869 thousand), which are only partly offset by taxable temporary differences of €168 thousand (2010: €2,139 thousand).

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. Taxable temporary differences predominately relate to provisions for early retirement programs.

The calculation is based on a combined tax rate for corporate income tax including solidarity surcharge and trade tax of 30.7%.

21. CONTINGENT LIABILITIES

(€ thousand)	2011	2010
Liabilities from guarantees	12,974	429,734
Liabilities from warranty contracts	8,816	-
	21,790	**429,734**

The liabilities from guarantees and from warranty contracts exclusively relate to credit lines of foreign Group companies as well as guarantees and credit lines taken over from Klöckner & Co Verwaltung GmbH and granted for indemnification of financing of affiliated companies.

It is expected that all Group companies will meet their obligations. As such, we do not expect that the guarantees will be called in.

In the previous year, contingent liabilities in the amount of €417,240 thousand related to guarantees for Klöckner & Co Verwaltung GmbH to indemnify the Group financing that perished in the course of the merger.

22. OTHER INFORMATION

Information pursuant to Section 160 para1 No. 8 German Stock Corporations Act (AktG)
In accordance with Section 21, para 1 and Section 22, para 1 Securities Trading Act (WpHG) the Company was notified as follows:

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
Dimensional Holdings, Inc.	Austin, Texas, USA	3.06*)	February 2, 2012
Templeton Investment Counsel, LLC	Wilmington, Delaware, USA	3.040*)	December 29, 2011
Amundi S.A.	Paris, France	3.008*)	December 5, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH	Frankfurt am Main	3.02*)	January 26, 2012

*) Partly attributed holding, not cumulative.

A full listing of notifications when a threshold was met in accordance with Section 21 para 1 and Section 22 para 1 Securities Trading Act (WpHG) is attached as an annex to the notes to the consolidated financial statements.

Corporate bodies
A listing of the members of the corporate bodies is attached as an appendix.

Declaration of compliance with the German Corporate Governance Code
On December 15, 2011, the Management Board and Supervisory Board issued the declaration of compliance in accordance with Section 161 German Stock Corporations Act (AktG) and made it permanently available to the shareholders on the Klöckner & Co SE Web site.

Profit distribution proposal
The Management Board and the Supervisory Board propose to the Annual General Meeting to fully allocate the 2011 unappropriated surplus of €13,483,967 to the other revenue reserves.

Duisburg, February 24, 2012
Klöckner & Co SE
The Management Board

Gisbert Rühl
Chairman
of the Management Board

Ulrich Becker
Member
of the Management Board

William A. Partalis
Member
of the Management Board

INDEPENDENT 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 its report on the position of the Company and the Group prepared by Klöckner & Co SE, Duisburg, for the business year from January 1 to December 31, 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation 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 the supplementary provisions of the articles of incorporation 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.

Düsseldorf, February 24, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Philippi	Zeimes
Wirtschaftsprüfer	Wirtschaftsprüfer

DECLARATION OF THE MANAGEMENT BOARD

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

Duisburg, February 24, 2012

The Management Board

Gisbert Rühl	Ulrich Becker	William A. Partalis
Chairman	Member	Member
of the Management Board	of the Management Board	of the Management Board

Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner & Co SE
Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent	
1	Klöckner & Co SE, Duisburg, Germany		
I.	**Consolidated affiliated companies**		
2	Klöckner & Co Financial Services S.A., Luxembourg	100.00	
3	Klöckner S.à r.l., Luxembourg	100.00	
4	Klöckner Investment SCA, Luxembourg	96.77	
		3.23	
5	Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany	100.00	
6	Klöckner Global Sourcing GmbH, Duisburg, Germany	100.00	
7	Klöckner Metalsnab AD, Sofia, Bulgaria	99.77	
8	Kloeckner Metals (Changshu) Co., Ltd., Changshu, China	100.00	
9	Klöckner Stahl- und Metallhandel GmbH, Duisburg, Germany	100.00	
10	Dobbertin Drahthandel GmbH, Hamburg, Germany	100.00	
11	Edelstahlservice Mágocs Nemesacélfeldolgozó Kft, Mágocs, Hungary	100.00	
12	Klöckner Romania S.R.L., Bucharest, Romania	99.87	
		0.13	
13	Klöckner Stal i Metal Polska Sp. z o.o., Poznań, Poland	99.99	
		0.01	
14	UAB Klöckner Baltija, Klaipeda, Lithuania	100.00	
15	Klöckner Stahl und Metall Ges.m.b.H, Vienna, Austria	100.00	
16	Metall- und Service-Center Ges.m.b.H. Nfg. KG, Vienna, Austria	51.00	
17	Klöckner Stahlhandel CZ, s.r.o., Prague, Czech Republic	100.00	
18	Becker Stahl-Service GmbH, Duisburg, Germany	100.00	
19	Becker Stahl GmbH, Bönen, Germany	100.00	
20	Becker Transport GmbH, Duisburg, Germany	100.00	
21	Becker Besitz GmbH, Duisburg, Germany	100.00	
22	Umformtechnik Stendal UTS GmbH & Co. KG, Stendal, Germany	100.00	
23	Umformtechnik Stendal UTS Verwaltung GmbH, Stendal, Germany	100.00	
24	Debrunner Koenig Holding AG, St. Gallen, Switzerland	100.00	
25	Debrunner Acifer AG, St. Gallen, Switzerland	100.00	
26	Debrunner Acifer AG Wallis, Visp, Switzerland	100.00	
27	Molok (Valais) SA, Siders, Switzerland	100.00	
28	Debrunner Acifer SA Giubiasco, Giubiasco, Switzerland	100.00	
29	Debrunner Acifer SA Romandie, Crissier, Switzerland	100.00	
30	Debrunner Koenig Management AG, St. Gallen, Switzerland	100.00	
31	Klöckner Stahl AG, St. Gallen, Switzerland	100.00	
32	Koenig Feinstahl AG, Dietikon, Switzerland	100.00	
33	Metall Service Menziken AG, Menziken, Switzerland	100.00	

1) Profit and loss transfer agreement.
2) Stub period from October 1 until December 31, 2011.

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	1	EUR	2,494,434.65	308,683.19		-
	1	EUR	12,500.00	-		-
	1	EUR	182,609.99	– 58,959.07		-
	3					
	1	EUR	160,025,000.00	-	1)	-
	1	EUR	85,787.86	-	1)	33,864,308.76
	1	BGN	4,644,612.89	– 3,656,959.42		37,449,547.85
	1	CNY	15,641,012.42	– 5,292,191.58		1,181,721.32
	1	EUR	77,403,293.71	– 5,805,720.90		1,119,683,227.20
	9	EUR	42,277.30	3,215.91		-
	9	HUF	95,639,562.00	27,577,132.00		295,289,657.00
	9	RON	1,617,489.53	– 3,817,863.83		39,633,852.65
	10					
	9	PLN	7,616,023.03	– 14,589,949.05		169,745,181.98
	10					
	9	LTL	2,411,177.00	715,563.00		25,104,506.00
	9	EUR	1,981,101.15	1,719,644.49		-
	15	EUR	8,333,646.88	2,684,674.80		72,614,380.68
	9	CZK	20,636,936.04	– 13,968,931.46		505,031,115.42
	1	EUR	256,473,763.44	-	1)	755,759,372.04
	18	EUR	597,887.48	82,746.72	2)	-
	18	EUR	72,652.29	5,075.05		829,973.18
	1	EUR	25,000.00	-	1)	-
	18	EUR	3,699,816.79	237,714.36	2)	3,306,889.36
	22	EUR	3,227.71	632.18	2)	-
	1	CHF	185,627,771.39	62,346,698.84		-
	24	CHF	122,566,132.46	26,983,940.99		674,366,495.05
	24	CHF	10,373,984.56	1,544,876.34		59,779,956.51
	26	CHF	388,156.46	4,613.00		-
	24	CHF	7,904,740.68	1,139,344.41		39,749,699.12
	24	CHF	32,083,491.91	7,986,090.05		194,078,238.13
	24	CHF	3,893,077.96	665,084.14		-
	24	CHF	111,913.17	2,170.24		-
	24	CHF	16,233,411.70	202,462.43		72,045,191.27
	24	CHF	9,478,663.54	1,076,366.25		101,379,046.34

No.	Entity	Interest in percent	
34	Bläsi AG, Bern, Switzerland	100.00	
35	Klöckner Netherlands Holding B.V., Barendrecht, The Netherlands	100.00	
36	Klöckner & Co Financial Services B.V., Rotterdam, The Netherlands	100.00	
37	ODS B.V., Rotterdam, The Netherlands	100.00	
38	ODS Metals N.V., Antwerp, Belgium	100.00	
39	O-D-S N.V., Antwerp, Belgium	99.50	
		0.50	
40	O-D-S Transport B.V., Barendrecht, The Netherlands	100.00	
41	ODS do Brasil Sistemas de Medicao LTDA, Campinas, São Paulo, Brazil	80.00	
42	Kloeckner Burlington Limited, Burlington, Ontario, Canada	100.00	
43	Kloeckner Alberta Limited, Calgary, Alberta, Canada	100.00	
44	Klöckner UK France Holding Ltd., Leeds, United Kingdom	100.00	
45	ASD Limited, Leeds, United Kingdom	100.00	
46	ASD metal services Ltd., Leeds, United Kingdom	100.00	
47	ASD Interpipe Ltd., Leeds, United Kingdom	100.00	
48	Klöckner Metal Services Ltd., Leeds, United Kingdom	100.00	
49	ASD Multitubes Ltd., Leeds, United Kingdom	100.00	
50	ASD Westok Limited, Leeds, United Kingdom	100.00	
51	Richardsons Westgarth Ltd., Leeds, United Kingdom	100.00	
52	Armstrong Plate Ltd., Leeds, United Kingdom	100.00	
53	Berry Hill Group Ltd., Leeds, United Kingdom	100.00	
54	James & Tatton Ltd., Leeds, United Kingdom	100.00	
55	Gardiner, Barugh & Jones Ltd., Leeds, United Kingdom	100.00	
56	Grange Steels Ltd., Leeds, United Kingdom	100.00	
57	Hilton Steels Ltd., Leeds, United Kingdom	100.00	
58	Humber Steel Stockholders Ltd., Leeds, United Kingdom	100.00	
59	John O. Holt & Sons Ltd., Leeds, United Kingdom	100.00	
60	Armstrong Steel Ltd., Leeds, United Kingdom	100.00	
61	JRS Steel Stockholders Ltd., Leeds, United Kingdom	100.00	
62	Organically Coated Steels Ltd., Leeds, United Kingdom	100.00	
63	Parkin Steel Stockholders Ltd., Leeds, United Kingdom	100.00	
64	Peterborough Steels Ltd., Leeds, United Kingdom	100.00	
65	RW Doncaster Ltd., Leeds, United Kingdom	100.00	
66	RW Project Metals Ltd., Leeds, United Kingdom	100.00	
67	Westgarth Aberdeen Ltd., Bathgate, United Kingdom	100.00	
68	Klöckner Distribution Industrielle S.A., Aubervilliers, France	96.77	

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	24	CHF	21,831,830.79	3,392,601.63		45,890,542.01
	1	EUR	84,746,858.21	– 1,441,112.56		-
	35	EUR	19,700,583.97	359,465.55		-
	35	EUR	31,177,597.00	– 7,083,465.00		2,486,024,626.00
	37	EUR	989,230.59	128,853.98		8,855,428.34
	37	EUR	2,604,096.67	326,728.99		4,597,285.97
	35					
	37	EUR	18,000.00	-		-
	37	BRL	3,639,783.48	468,386.25		3,976,461.90
	35	CAD	– 3,593,987.42	2,337,578.69		-
	35	CAD	– 142,707.00	182,755.01		-
	1	GBP	27,977,712.00	– 2,158,061.37		-
	44	GBP	36,480,048.00	4,631,553.69		310,716,840.94
	45	GBP	2.00	-		-
	44	GBP	121,000.00	-		-
	44	GBP	11,738,000.00	-		-
	44	GBP	1,799,000.00	-		-
	44	GBP	10,289,606.00	66,410.00		14,904,272.80
	44	GBP	17,379,253.00	-		-
	51	GBP	– 584,019.00	-		-
	51	GBP	1,872,067.00	-		-
	53	GBP	2,096,520.00	-		-
	51	GBP	1,561,971.00	-		-
	51	GBP	558,489.00	-		-
	51	GBP	– 83,890.00	-		-
	51	GBP	2,371,118.00	-		-
	51	GBP	249,843.00	-		-
	59	GBP	35,968,957.00	2,373,807.68		85,413,234.36
	51	GBP	– 762,236.00	-		-
	51	GBP	2,803,828.00	-		-
	51	GBP	343,591.00	-		-
	51	GBP	– 370,622.00	-		-
	51	GBP	– 319,199.00	-		-
	51	GBP	46,299.00	-		-
	51	GBP	– 116,022.00	-		-
	1	EUR	108,501,000.00	13,371,000.00		-

No.	Entity	Interest in percent	
69	KDI S.A.S, Aubervilliers, France	100.00	
70	KDI Export S.A.S., Cergy-Pontoise, France	100.00	
71	KDI Immobilier S.A.S., Aubervilliers, France	100.00	
72	Prafer SNC, Woippy, France	100.00	
73	KDI Davum S.A.S., Le Port, La Réunion, France	100.00	
74	AT2T S.A.S., La Grand Croix, France	100.00	
75	KDI Authentic S.A.S., Aubervilliers, France	100.00	
76	Reynolds European S.A.S., Rueil Malmaison, France	100.00	
77	Buysmetal N.V., Harelbeke, Belgium	99.99	
		0.01	
78	Klöckner Participaciones S.A., Madrid, Spain	100.00	
79	Comercial de Laminados S.A., Barcelona, Spain	100.00	
80	Hierros Del Turia S.A., Valencia, Spain	80.00	
81	Perfiles Aragón S.A., Zaragoza, Spain	100.00	
82	Cortichapa S.A., Valencia, Spain	100.00	
83	Comercial de Laminados Cobros S.L., Madrid, Spain	100.00	
84	Klöckner USA Holding Inc., Wilmington, Delaware, USA	100.00	
85	Temtco Steel, LLC, Wilmington, Delaware, USA	100.00	
86	Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA	100.00	
87	Namasco Corporation, Wilmington, Delaware, USA	100.00	
88	Lake Steel LTD, Amarillo, Texas, USA	100.00	
89	Lake Operations L.L.C. Amarillo, Texas, USA	100.00	
90	NC Receivables Corporation, Wilmington, Delaware, USA	100.00	
91	Macsteel Service Centers USA Inc., Wilmington, Delaware, USA	100.00	
92	Macsteel Service Centers P.R. Inc., Wilmington, Delaware, USA	100.00	
93	California Steel & Tube LLC,Wilmington, Delaware, USA	100.00	
94	Macsteel Service Centers de Mexico S.A. de C.V., Apodaca, Mexico	100.00	
95	Macsteel Productos de Acero S.A. de C.V., Apodaca, Mexico	100.00	
96	Frefer Metal Plus S.A., São Paulo, Brazil	70.00	
97	Frefer Metal Plus Estruturas Metalicas Ltda., São Paulo, Brazil	99.99	
98	Rede Metal Plus Assessoria e Gestao Empresarial Ltda., São Paulo, Brazil	99.90	

3) Amounts included in No. 88.
4) Amounts included in No. 94.
5) Financial statements as of December 31, 2010.

Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
68	EUR	89,265,000.00	– 20,727,000.00		798,253,000.00
69	EUR	1,486,000.00	258,000.00		59,695,000.00
69	EUR	73,570,544.09	7,455,989.74		-
69	EUR	3,795,343.61	191,491.13		10,222,198.00
69	EUR	4,625,000.00	348,000.00		23,671,000.00
69	EUR	5,241,000.00	– 1,875,000.00		79,641,000.00
69	EUR	8,477,000.00	– 63,000.00		277,000.00
68	EUR	18,367,000.00	2,215,000.00		127,264,000.00
68	EUR	16,947,511.75	1,397,212.67		47,115,401.40
69					
1	EUR	76,466,516.94	3,706,542.00		-
78	EUR	47,066,319.31	– 8,966,218.73		248,709,585.25
79	EUR	15,213,284.54	– 1,080,779.53		47,655,268.61
79	EUR	6,016,613.86	– 1,955,233.33		35,705,030.96
79	EUR	8,084,100.81	– 2,162,102.20		56,866,900.91
79	EUR	3,006.00	-		-
1	USD	285,958,351.29	– 5,320,621.94		-
84	USD	200,628,484.70	7,324,462.29		289,934,730.39
84	USD	296,086,638.47	15,275,000.00		-
86	USD	371,400,912.97	23,798,036.68		1,347,080,994.44
87	USD	40,385,283.09	– 141,959.61		63,238,941.88
87	USD	-	-	3)	-
87	USD	2,314,518.43	8,949.19		-
84	USD	568,521,957.60	– 15,778,304.99		1,031,463,189.60
91	USD	1,325,431.56	– 255,014.44		5,694,052.60
91	USD	5,759,822.80	130,092.57		21,281,925.02
91	MXN	77,622,577.97	– 10,458,745.00		637,564,004.43
91	MXN	-	-	4)	-
35	BRL	23,429,000.00	11,068,000.00	5)	325,391,000.00
96	BRL	– 1,468,825.86	– 265,934.69		318,092.43
96	BRL	498,777.80	163,931.91		279,303.53

No.	Entity	Interest in percent	
II.	**Non-consolidated affiliated companies**		
99	Sammi Klöckner International GmbH, Duisburg, Germany	100.00	
100	Umformtechnik Stendal UTS s.r.o., Skalica, Slovakia	100.00	
101	Richardson Westgarth Employees Trustees Ltd., Leeds, United Kingdom	100.00	
102	Klöckner Steel Company Ltd., Leeds, United Kingdom	100.00	
103	KDI Courtages SARL, Paris, France	100.00	
III.	**Associates**		
104	Birs-Stahl AG, Birsfelden, Switzerland*)	50.00	
IV.	**Participations over 20%**		
105	GIE Mer, La Réunion, France	20.00	

*) Accounted for at amortized cost.

	Held by entity no.	Local currency	Equity in local currency	Net income in local currency		Sales in local currency
	1	EUR	– 14,129,180.57	-		-
	22	EUR	91,098.00	8,938.00		35,101.08
	51	GBP	1.00	-		-
	1	GBP	61,266.00	-		-
	68	EUR	13,218.00	– 2,286.00	5)	-
	25	CHF	755,570.18	64,692.77		1,537,141.56
	73	EUR	11,037.00	3,037.00	6)	15,000.00

5) Financial statements as of December 31, 2010.
6) Financial statements as of December 31, 2008.

Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner & Co SE
Information pursuant to Section 160 para 1 No. 8 German Stock Corporations Act (AktG)

Notifying institutions	Domicile	Voting interest in percent	Date on which threshold was met
Increase over threshold			
Amundi S.A.[1]	Paris, France	3.03	January 3, 2011
Amundi S.A.[1]	Paris, France	3.003	January 28, 2011
Norges Bank (Central Bank of Norway)[2]	Oslo, Norway	3.78	June 3, 2011
Deutsche Bank Aktiengesellschaft	Frankfurt am Main, Germany	18.44	June 8, 2011
JPMorgan Chase & Co	New York, New York, USA	13.41	June 8, 2011
Norges Bank (Central Bank of Norway)[2]	Oslo, Norway	5.58	June 17, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH[1]	Frankfurt am Main, Germany	3.09	November 11, 2011
Amundi S.A.[1]	Paris, France	3.008	December 5, 2011
Templeton Investment Counsel, LLC[*]	Wilmington, Delaware, USA	3.040	December 29, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH[1]	Frankfurt am Main, Germany	3.02	January 26, 2012
Dimensional Holdings Inc.[1]	Austin, Texas, USA	3.06	February 2, 2012
Decrease below threshold			
Amundi S.A.[1]	Paris, France	2.98	January 20, 2011
Norges Bank (Central Bank of Norway)[2]	Oslo, Norway	4.09	May 12, 2011
Norges Bank (Central Bank of Norway)[2]	Oslo, Norway	1.84	May 16, 2012
JPMorgan Chase & Co	New York, New York, USA	0.08	June 9, 2011
Deutsche Bank Aktiengesellschaft	Frankfurt am Main, Germany	0.00	June 10, 2012
Amundi S.A.[1]	Paris, France	2.99	October 24, 2011
Allianz Global Investors Kapitalanlagegesellschaft mbH[1]	Frankfurt am Main, Germany	2.91	November 17, 2011
Norges Bank (Central Bank of Norway)[2]	Oslo, Norway	4.17	February 1, 2012
Norges Bank (Central Bank of Norway)[2]	Oslo, Norway	2.87	February 21, 2012

1) Partly attributed holding.
2) State of Norway.

KLÖCKNER & CO SE

Additional information concerning the consolidated and individual financial statements

Additional mandates of the Members of the Management Board of Klöckner & Co SE (Section 285, no. 10 German Commercial Code (HGB – Handelsgesetzbuch))

Gisbert Rühl
Chairman of the Management Board, CEO/CFO

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Klöckner Participaciones S.A., Madrid, Spain
- Comercial de Laminados S.A., Barcelona, Spain
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner Distribution Industrielle S.A., Aubervilliers, France
- ODS B.V., Rotterdam, The Netherlands
- Klöckner Investment S.C.A., Luxembourg
- Klöckner USA Holding Inc., Wilmington, Delaware, USA
- Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA
- Macsteel Service Centers USA, Inc., Wilmington, Delaware, USA (since August 4, 2011)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Walter Services Holding GmbH, Ettlingen, Member of the Shareholders' Committee and the Supervisory Board (until April 11, 2011)
- RWE Power AG, Essen, Member of the Supervisory Board (since February 17, 2011)

Ulrich Becker
Member of the Management Board, COO

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Klöckner Participaciones S.A., Madrid, Spain
- Comercial de Laminados S.A., Barcelona, Spain
- Debrunner Koenig Holding AG, St. Gallen, Switzerland
- Klöckner Distribution Industrielle S.A., Aubervilliers, France
- ODS B.V., Rotterdam, The Netherlands
- Klöckner USA Holding Inc., Wilmington, Delaware, USA (until June 30, 2011)
- Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA (until August 3, 2011)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Wickeder Westfalenstahl GmbH, Wickede (Ruhr), Member of the Advisory Board

William A. Partalis, since October 1, 2011
Member of the Management Board

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies
- None

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies
- None

Additional mandates of the Members of the Supervisory Board of Klöckner & Co SE (Section 285 no. 10 HGB)

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

- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]
- Ernst & Young AG, Member of the Advisory Board[2)]
- HDI-Gerling-Industrie Versicherung AG, Member of the Advisory Board[2)]
- Bertelsmann Stiftung, Chairman of the Board of Trustees[2)] (until November 14, 2011)
- denkwerk GmbH, Member of the Advisory Board[2)]

Dr. Michael Rogowski, Deputy Chairman
former Chairman of the Management Board, Voith AG, Heidenheim

- HDI V.a.G./Talanx AG, Member of the Supervisory Board[1)]
- Carl Zeiss AG, Member of the Supervisory Board[1)]
- Vattenfall Europe AG, Member of the Supervisory Board[1)]
- Freudenberg & Co., Deputy Chairman of the Shareholders' Committee[2)]
- Deutsche Bank AG, Member of the Central Advisory Board[2)]
- Adolf Würth GmbH & Co. KG, Honorary Member of the Advisory Board[2)]

Robert J. Koehler
Chairman of Management Board, SGL Carbon SE, Wiesbaden

- Heidelberger Druckmaschinen AG, Chairman of the Supervisory Board[1)] (Chairman since July 28, 2011)
- Demag Cranes AG, Member of the Supervisory Board[1)] (until September 23, 2011)
- Lanxess AG, Member of the Supervisory Board[1)]
- Benteler International AG, Chairman of the Supervisory Board[2)]

Frank H. Lakerveld until May 20, 2011
former Member of the Management Board Sonepar S.A., Paris, France until March 31, 2011

- Aliaxis S.A., Member of the Supervisory Board[2)]

Until March 31, 2011:

- Sonepar Nederland B.V., Chairman of the Supervisory Board[2),]
- Encon Safety Products, Inc., Chairman of the Supervisory Board[2)]
- Hagemeyer North America, Inc., Chairman of the Supervisory Board[2)]
- Hagemeyer PPS Ltd., Chairman of the Supervisory Board[2)]
- Vallen Corporation, Chairman of the Supervisory Board[2)]
- Sonepar Holding S.A., Chairman of the Supervisory Board[2)]
- Sonepar Canada, Inc., Chairman of the Supervisory Board[2)]
- Sonepar Nordic A/S, Chairman of the Supervisory Board[2)]
- Sonepar USA Holdings, Inc., Chairman of the Supervisory Board[2)]
- Otra N.V., Member of the Supervisory Board[2)]
- S.I.F. S.A.S. à CA, Member of the Supervisory Board[2)]
- Lawrence & Hanson Group Pty Ltd., Member of the Supervisory Board[2)]
- Sonepar Iberica S.A., Member of the Supervisory Board[2)]
- Sonepar France S.A., Member of the Supervisory Board[2)]
- Supermoon Holding Ltd., Member of the Supervisory Board[2)]
- Sonepar Italia SpA, Member of the Supervisory Board[2)]
- Sonepar Mexico S.A. de C.V., Member of the Supervisory Board[2)]
- Foshan Shunching Supermoon Trading Co., Ltd. Foreign Invested JV, Member of the Supervisory Board[2)]
- Hite Electric Technology Co., Ltd., Member of the Supervisory Board[2)]
- CEBEO S.A., Member of the Supervisory Board[2)]
- Elektroskandia Nordic AB, Member of the Supervisory Board[2)]
- KVC Industrial Supplies SDN BHD, Member of the Supervisory Board[2)]

Dr. Dr. h. c. Jochen Melchior
former Chairman of the Management Board
of the former STEAG AG, Essen

- National-Bank AG, Member of the Supervisory Board[1)]
- Ernst & Young AG, Member of the Advisory Board[2)]
- Universitätsklinikum Essen AöR, Chairman of the Supervisory Board[2)]
- Schauenburg Technology SE, Deputy Chairman of the Administrative Board[2)]
- Schauenburg-Gruppe, Member of the Administrative Board[2)]

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

- MEDION AG, Deputy Chairman of the Supervisory Board[1)] (until December 14, 2011)
- Athens International Airport S.A., Member of the Board of Directors[2)]
- HAPIMAG AG, Member of the Administrative Board[2)] (until April 20, 2011)
- DEMATIC Group S.à r.l., Member of the Board of Directors[2)]
- OWA Odenwald Faserplattenwerk GmbH, Member of the Advisory Board[2)] (until December 31, 2011)
- Universitätsklinikum Essen AöR, Member of the Supervisory Board[2)]

Hauke Stars since May 20, 2011
Managing Director of Hewlett-Packard GmbH (Switzerland), Dübendorf, Switzerland

- GfK SE, Member of the Supervisory Board[1)]

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).

GLOSSARY

Asset-Backed Securitization Programs (ABS Programs)
Group finance programs under which Klöckner trade receivables are converted into cash. Asset-backed securities are generally issued by a special-purpose entity, which are collateralized by an asset portfolio (i.e., Klöckner trade receivables). Within the program specified trade receivables are sold to special-purpose entities that are established for this purpose. The sole purpose of the special-purpose entities is to purchase receivables of Klöckner Group companies and to refinance such purchases by issuance of securities. As the programs do not meet criteria under the respective accounting standards, the legally transferred receivables are not derecognized from the Group's balance sheet, but the funds received are presented as loans due to the purchasers of the receivables.

Asset-Based-Lending
Loan agreement under which the credit default risk is secured by the lender's assets (generally accounts receivable, inventory or property, plant and equipment).

Cap
With a cap derivative financial instrument floating rate interest payments on bond liabilities can be limited to a defined maximum rate. If the maximum amount is exceeded, compensating payments in the amount of the difference between the maximum interest rate and the actual interest rate are made to the holder of the instrument.

Cash Flow Hedge
A hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognized asset or liability, such as all or some future interest payments on variable rate debt or a highly probable forecast transaction that could affect profit or loss. If the hedge is considered highly effective, income effects of such instruments can be directly recorded in equity bypassing the income statement.

Conduits
Conduits are special-purpose entities of banks in ABS programs that refinance themselves on the money market based on the purchase of receivables.

Counterparty risk
Counterparty risk is the risk that a professional market participant defaults, i.e., is not paying its obligation when they become due. In addition to the regular credit risk it also includes in particular default risks of derivative financial instruments.

Cross Currency Swap
Foreign exchange agreement between two parties to exchange a principal amount and the respective periodic interest payment of one currency for another and, after a specified period of time, to transfer back the original amounts swapped.

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 that combines a spot foreign exchange transaction and a forward foreign exchange transaction.

Goodwill
Goodwill represents the amount by which an acquirer of a business is willing to pay in excess of all tangible and intangible less identifiable liabilities taking into consideration further earning potential.

Impairment
Additional depreciation or amortization for non-current assets with definite useful lives or only an acceptable method to reduce (“impair”) the value of assets with indefinite useful lives in case of other than temporary decline of value. See also “Impairment Test.”

Impairment Test
Test to assess the recoverable value for long-lived assets including goodwill. IFRS requires periodic assessment as to whether there are indications for other than temporary declines in value of long-lived assets. An impairment test is to be performed if internal or external indications for impairment arise. Regardless of such indications goodwill must be tested annually. In an impairment test the carrying amount of an asset is compared with its recoverable amount. If the recoverable amount is below the asset’s carrying amount an impairment is recognized for the amount of the difference.

Interest Collars
Combination of floor and cap. Derivative financial instrument that 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 their financial statements. Those standards encompass the statements issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) and the respective interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as well as the interpretations of the former Standing Interpretations Committee (SIC).

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).

Multi-currency Revolving Credit Facility
Line of credit that 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.

Net investment hedge
A net investment hedge is used to hedge a net investment including long-term loans in a foreign operation.

Option
The right to buy or sell an underlying asset (e.g., securities) on a specific day or during a specified period of time at a predetermined price from or to a counterparty or seller.

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.

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 30-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.

IMPORTANT ADDRESSES

GLOBAL HEADQUARTERS

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307-0
Fax: +49 203 307-5000
Management Board:
– Gisbert Rühl (Chairman)
– Ulrich Becker
– William A. Partalis

OPERATIVE COMPANIES

Austria
Metall- und Service-Center GmbH
Nfg. Co KG
Percostr. 12
1220 Vienna
Telephone: +43 1259 463 625
Fax: +43 1259 463 639
Management:
– Marcus Oberhofer

Belgium
Buysmetal N.V.
Keizerstraat 50
8530 Harelbeke
Telephone: +32 56 2680 80
Fax: +32 56 2680 01
Management:
– Philippe Buysschaert

Brazil
Frefer Metal Plus S.A.
Corporate Headquarters
Rua Dianópolis, 122 - 1o andar
03125-100 - Pq. Da Mooca
Telephone: +55 2065 3399
Management:
– Christiano Freire

Bulgaria
Klöckner Metalsnab AD
119 Illiyantsi Blvd.
Sofia 1220, Illientsi
Telephone: +359 2 926 9868/+359 2 931 1246
Fax: +359 2 931 0304/+359 2 926 9865
Management:
– Metody Ignatov (Spokesman)
– Waldemar Wollny
– Valeria Georgiewa

China
Kloeckner Metals (Changshu) Co., Ltd.
2nd Floor, 36 Xinggang Road,
Changshu Economic & Technological Development Zone
Changshu 215513
Jiangsu Province
Telephone: +86 512 5219 1600
Fax: +86 21 2302 5152
Management:
– Thomas Krümmer

Czech Republic
Klöckner Stahlhandel CZ, s.r.o.
K Podlesí 550
261 01 Příbram
Telephone: +420 318 618 078
Fax: +420 318 694 887
Management:
– Libor Novák

France
KDI S.A.S.
173–179, bd Félix-Faure
93537 Aubervilliers Cedex
Telephone: +33 1 4839 7777
Fax: +33 1 4839 7778
Management:
– Marc Frustié (Spokesman)
– Jean Coeur

Germany
Klöckner Stahl- und Metallhandel GmbH
Am Silberpalais 1
47057 Duisburg
Telephone: + 49 203 307-0
Fax: + 49 203 307-5245
Management:
– Ralf Moysig (Spokesman)
– Dr. Markus Berkenheide

Becker Stahl-Service GmbH
Weetfelder Str. 57
59199 Bönen
Telephone: +49 2383 934-0
Fax: +49 2383 934-209
Management:
– Ulrich Lollert
– Ralf Graß
– Peter Daub

Lithuania/Baltic States
UAB Klöckner Baltija
Pramones 8
Klaipeda, 94102
Telephone: +370 46 4162 62
Fax: +370 46 4162 63
Management:
– Zubavicius Rimantas

Poland
Klöckner Stal i Metal Polska Sp. z o.o.
Ul. 28 Czerwca 1956r 223-229
61-485 Poznań
Telephone: +48 61 8358 200
Fax: +48 61 8358 210
Management:
– Marceli Kawka (Spokesman)
– Magdalena Jagiello

Romania
S.C. Klöckner Romania S.R.L.
Blvd. Metalurgiei, Nr. 78
Sector 4, Bucuresti, cod. 041836
Telephone: +40 21 6830 935
Fax: +40 21 6830 905
Management:
– Christian Paval

Spain
Comercial de Laminados S.A.
Avda. de Bruselas, 38
28108 Alcobendas
Telephone: +34 91 3697 410
Fax: +34 91 4297 010
Management:
– Oliver Bosse (Spokesman)
– Enrique Gallar Romero

Switzerland
Debrunner Koenig Holding AG
Hinterlauben 8
9004 St. Gallen
Telephone: +41 71 2272 990
Fax: +41 71 2272 972
Management:
– Philippe Dietziker (Spokesman)
– Heinz Rohrer

The Netherlands
ODS B.V.
Donk 6
2991 LE Barendrecht
Telephone: +31 180 640 911
Fax: +31 180 640 275
Management:
– Hans Sinnige (Spokesman)
– Jörg Müller

United Kingdom
ASD Limited
Valley Farm Road, Stourton
Leeds LS10 1SD
Telephone: +44 113 254 0711
Fax: +44 113 254 1314
Management:
– Kaha Avaliani (Spokesman)
– Nichola Skelton

USA
Namasco Corporation
Corporate Headquarters
500 Colonial Center Parkway, Suite 500
Roswell, GA 30076
Telephone: +1 678 259 8800
Fax: +1 678 259 8873
Management:
– Bill Partalis (Spokesman)
– Kirk A. Johnson
– Mark Breckheimer
For inquiries regarding Macsteel Service Centers USA, please contact Namasco Corporate Headquarters.

FINANCIAL CALENDAR 2012

March 7, 2012	Annual financial statements 2011 Financial statement press conference Analyst conference
May 9, 2012	Q1 interim report 2012 Conference call with journalists Conference call with analysts
May 25, 2012	Annual Generel Meeting 2012, Düsseldorf
August 8, 2012	Q2 interim report 2012 Conference call with journalists Conference call with analysts
November 7, 2012	Q3 interim report 2012 Conference call with journalists Conference call with analysts

Subject to subsequent changes

CONTACT/IMPRINT

Contact

KLÖCKNER & CO SE

Dr. Thilo Theilen
Head of Investor Relations & Corporate Communications
Telephone: +49 203 307-2050
Fax: +49 203 307-5025
E-mail: ir@kloeckner.de

Imprint

PUBLISHER

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307-0
Fax: +49 203 307-5000
info@kloeckner.de
www.kloeckner.de

CONCEPTION, DESIGN AND TYPESETTING
CD Werbeagentur GmbH
www.cdonline.de
Produced in-house using FIRE.sys

PHOTOGRAPHY
Frank Beer, Düsseldorf, Germany

PRINT
creo Druck & Medienservice GmbH,
Bamberg

FSC
MIX
Paper
FSC® C084635

DISCLAIMER

This report (particularly the "Forecast" section) contains forward-looking statements that are based on the current estimates of the Klöckner & Co SE management with respect to future developments. They are generally identified by the words "expect," "anticipate," "assume," "intend," "estimate," "target," "aim," "plan," "will," "endeavor," "outlook" and comparable expressions, and include generally any information that relates to expectations or targets for economic conditions, sales or other performance measures.

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Klöckner & Co's control. Among the relevant factors are the impact of important strategic and operating initiatives, including the acquisition or disposal of companies. If these or other risks or uncertainties materialize, or if the assumptions underlying any of the statements prove incorrect, Klöckner & Co's actual results may be materially different from those stated or implied by such statements. Klöckner & Co SE can offer no assurance that its expectations or targets will be achieved.

Without prejudice to existing legal obligations, Klöckner & Co SE does not assume any obligation to update forward-looking statements to take information or future events into account or otherwise.

In addition to the figures prepared in line with IFRS or HGB (Handelsgesetzbuch – German Commercial Code), Klöckner & Co SE presents non-GAAP financial performance measures, e.g., EBITDA, EBIT, net working capital and net financial debt.

These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS or HGB. Non-GAAP measures are not subject to IFRS or HGB or to other generally accepted accounting principles. Other companies may define these terms in different ways.

Rounding
There may be rounding differences in the percentages and figures in this report.

Variances to the German version
Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this Annual Report and the format submitted to the electronic Federal Gazette (Bundesanzeiger). In this case, the version submitted to the electronic Federal Gazette shall be binding.

This English version of the Annual Report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Klöckner & Co SE
Am Silberpalais 1
47057 Duisburg
Germany
Telephone: +49 203 307-0
Fax: +49 203 307-5000
www.kloeckner.de